

November 6, 2017

District Economics Group summary of analysis of a basic Residence Based Taxation (RBT) proposal.

The District Economics Group has analyzed a legislative proposal that would allow a qualified U.S. citizen resident overseas to be taxed the same way that non-resident aliens are taxed today by electing to be subject to U.S. individual income tax on their U.S. sourced income. To qualify, a U.S. citizen must show that they have established residence in a foreign country that has an individual income tax greater than a de minimis amount, that they were resident in that country for a five-year period prior to the election, and that they filed all required U.S. income tax returns for the five-year period. It is the intention that electors would be subject to individual income tax in their resident country on non-U.S. sourced income, and not the intention that a U.S. citizen resident overseas could avoid any income tax liability on such income. Moreover, only persons fully compliant with U.S. income tax law would be eligible to make the election.

Persons with total assets greater than \$3 million would be subject to a departure tax as under current law section 877 of the internal revenue code. In addition, a processing fee of \$2,350 would be required to grant the election. In general treaty provisions would apply to persons making the election, but section 871(h) (and 871(k) to the extent that RIC dividends are for interest income) would no longer apply. Persons who can verify that they established residence overseas for at least 3 years prior to the date of enactment would not be subject to either the departure tax or the processing fee.

With these basic parameters, we estimate that it would be possible to reach a revenue neutral budget score within the ten-year congressional budget window of 2018 through 2027. Our analysis assumes that abusive elections would be prevented by requiring vigorous certification of foreign residence and annual substantiation of foreign residence. Treasury would be granted broad authority to prevent elections for residence in certain countries whose residency rules or tax laws are either too lax, or abusive of the intent of the RBT status. For example, were a country to allow a residence to be established with a minimum of days present in country, such as 90 days, then the Treasury could block RBT elections to that country. In addition, were a country to grant a special tax status that would allow a resident to not pay the individual income tax even if the country maintained an individual income tax, the Treasury could block those elections as well.

Our analysis does not account for additional federal income taxes that may be paid by the nearly 2 million persons who are resident overseas who currently do not file income tax returns. Under the RBT system some of these persons might decide to comply, file and pay U.S. income taxes for prior years, and establish the 5-year overseas residence requirement so that they would be eligible to elect RBT status.