



AMERICAN CITIZENS ABROAD

EDUCATE, ADVOCATE AND INFORM

Senate Committee on Finance
Attn. Editorial and Document Section
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HOW U.S. INTERNATIONAL TAX POLICY IMPACTS AMERICAN WORKERS, JOBS, AND INVESTMENT

March 25, 2021

Statement of American Citizens Abroad, Inc.

American Citizens Abroad, Inc. appreciates the opportunity to submit this statement.

American Citizens Abroad, Inc. (ACA) is a qualified section 501(c)(4) non-profit membership organization, which advocates on behalf of Americans abroad. Its sister organization, American Citizens Abroad Global Foundation (ACAGF), is a qualified section 501(c)(3) tax-exempt public charity, which identifies subjects that affect Americans abroad, develops information about these subjects and provides such information to Congress, Treasury Department and other relevant persons. ACA and ACAGF (collectively, ACA) favor a balanced approach to subjects, supporting efforts that provide tangible results and practical solutions. ACA is the premier thought-leader on issues affecting US citizens living and working overseas.

Overwhelmingly, attention to the subject of US international tax policy and the statutory and regulatory rules that surround this subject focuses on corporations and other business entities. Individuals, in particular American citizens residing outside the United States, are almost always ignored. In the early 1960s, when Congress was enacting Subpart F for corporations, it tinkered a bit with rules for individuals that had sat in the Code since 1926. When it did work on rules for Americans abroad it focused almost



solely on the foreign earned income exclusion¹, which helps US corporations that employ expats under agreements to provide for tax equalization. This explains why at hearings on the foreign earned income exclusion (section 911) witnesses typically represented oil and gas, construction and aircraft companies. The day-to-day plight of ordinary Americans living and working abroad was not so much front and center.

The 2017 Tax Cuts and Jobs Act is a prime example. The focus was entirely on moving to rules that would more favorably tax foreign source income of US corporations. Broadly speaking, this is referred to as a territorial approach. In the final moments of enactment, the absence of any action on US individuals was flagged, but it was too late to do anything other than say it was something to come back to.²

The territorial approach for taxing US companies, not taxing or lightly taxing foreign income, is the same thing as residence-based taxation (RBT) for individuals. RBT would generally not tax the foreign income of individuals truly resident outside the U.S. They would remain taxable on US income, and they would remain in the tax system, filing returns and being subject to examination.

Residence-based taxation is the approach, we believe, followed by every other country in the world except for hard-put-upon Eritrea. Certainly, all other industrialized countries apply RBT.

Congress should enact RBT. RBT can be made revenue-neutral, extraordinarily tight against abuse, and such that no one is worse off under RBT than he or she is under current citizenship-based taxation (CBT).

¹ Section 911, Internal Revenue Code.

² The following House floor colloquy on Nov. 16, 2017 makes the point:

REPRESENTATIVE GEORGE HOLDING: ***As companies begin to see the benefits of this new territorial system, I look forward to continue to work with the Chairman to explore ways to move towards a residency-based taxation system to ensure that American citizens have a level playing field around the globe as well. ***

CHAIRMAN KEVIN BRADY: Mr. Holding, I want to thank you for your leadership on this issue. In particular, about international competitiveness for our workers. So residence-based taxation is an idea we should continue to explore. We'll continue to work on this issue with you as leadership, and with that I yield back.

<https://www.c-span.org/video/?c4692161/user-clip-congressman-holdings-comment-rbt>



ACA has described in detail a roadmap of "vanilla" approach to how taxing US citizens resident overseas based on residence might be structured.³

ACA, with the help of District Economics Group, has analyzed this so-called "vanilla" RBT approach.⁴

On behalf of Americans living abroad, ACA hereby requests that this Committee hold a hearing on taxation of Americans abroad and what it would mean to adopt residence-based taxation. Ask the Treasury Department what it thinks about this as a matter of tax policy. Ask the economists at Treasury Department and Joint Committee on Taxation what the historical and background information is and what is the baseline data affecting this subject. How many Americans abroad are there? How many are filing federal tax returns and owe a significant amount of tax? What are the income and assets profiles of these individuals? How might RBT be structured to be revenue neutral? How might it be made very tight against abuse? What are the implications for the US's approach to tax havens? What are the implications for exchanges of information? How do Americans abroad contribute to the creation of jobs in the US and the export of goods and services from the US?

Congress, ACA believes, will want soon to revisit portions of TCJA. This means the door is ajar for considering residence-based taxation for individuals. In the distant past, Congress has always at least taken some action with respect individuals when dealing with corporations. Congress should not again ignore the Americans abroad.

Thank you for your attention to this statement.

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³ <https://www.americansabroad.org/media/files/page/60567bc4/residency-based-taxation-aca-side-by-side-comparison-current-law-and-vanilla-approach-180420-1600.pdf>;
<https://www.americansabroad.org/media/files/files/8c367212/Residency-Based Taxation Vanilla Approach 171015.pdf>.

⁴ ACA and DEG continue to update and examine further the baseline data.
https://www.americansabroad.org/media/files/files/dc1e1c4e/DEG_short_memo_on_RBT_proposal_11.06.2017.pdf.