



AMERICAN CITIZENS ABROAD

EDUCATE, ADVOCATE AND INFORM

American Citizens Abroad submission of testimony to
**The Annual Testimony of the Secretary of the Treasury
on the State of the International Financial System**

April 6, 2022

American Citizens Abroad, Inc, and its sister organization, American Citizens Abroad Global Foundation hereby submit our Statement for the record.

American Citizens Abroad, Inc. (ACA) is a leading advocacy organization representing Americans living and working overseas. Headquartered in Washington, DC, ACA is nonpartisan, non-profit (section 501 (c)(4)), with a 40-plus-year history of advocating on behalf of the community of Americans living and working overseas. Alongside ACA is its sister charitable (section 501(c)(3)) research and educational organization, American Citizens Abroad Global Foundation (ACAGF).

ACA thanks the House Committee on Financial Services for publishing the Annual Testimony of the Secretary of the Treasury on the State of the International Financial System presented on April 6, 2022. Financial Services Committee members referenced policy with important implications for Americans living abroad. There was discussion of Treasury work on a digital identification framework, to be used by all government agencies in delivering service to citizens. Treasury administers a range of public benefits to Americans abroad, including tax refunds and pandemic aid. Online accounts for accessing information and services are often inaccessible to Americans abroad because of identification confirmation difficulties, resulting in service delays or denials. A digital ID solution that will coordinate services across the government and accommodate Americans living outside the U.S. will greatly improve government service delivery to this underserved community. ACA is grateful for the Financial Service Committee's stewardship of this Treasury initiative.

In addition, Secretary Yellen was questioned by several Committee members about the overdue implementation of the Corporate Transparency Act (CTA). Once implemented, the CTA will force the disclosure of beneficial ownership information. A critical barrier to the government's use of the FATCA foreign financial account disclosure regime to fight financial crimes is the absence of information about individuals with a beneficial interest in offshore accounts. FATCA causes enormous problems for Americans living abroad in obtaining even ordinary banking products from their local banks. Non-U.S. banks seeking to avoid FATCA compliance have chosen to limit or to entirely exclude service to U.S. citizens.

Meanwhile, anonymous shell companies enable tax evaders and other financial criminals to use foreign financial accounts for nefarious purposes with no concern whatsoever for FATCA disclosure. Mandatory disclosure of beneficial interest information will at last enable FATCA to spotlight bad actors using foreign accounts in nefarious schemes to commit financial crimes - and not just inconvenience ordinary, law-abiding Americans abroad who use foreign financial accounts to pay their bills and save for the future. ACA joins CTA sponsor and Americans Abroad Caucus co-chair Rep. Carolyn Maloney in her calls for urgent action by Treasury to complete its work on the CTA implementation rules. ACA also encourages the Financial Services Committee to support Rep. Maloney's Overseas Americans Financial Access Act, which would eliminate all FATCA reporting for the accounts of Americans living abroad in the country where they live.

TAXATION AND AMERICANS ABROAD

The Taxpayer First Act has identified U.S. citizens living and working overseas as an underserved community and the IRS is working to create systems and provide support to these taxpayers. This cannot come fast enough for the estimated 3.9 million U.S. citizens living and working abroad.¹ Tax filing for U.S. citizens living and working outside the U.S. is complex, costly and confusing, results in onerous taxation of foreign investments considered Passive Foreign Investment Company (PFICs), involves duplicate reporting regimes like the Foreign Account Tax Compliance Act (FATCA) Form 8938 and the Financial Bank Account Report (FBAR)(FinCEN Form 114), is unfair with regard to the application of certain tax credits for non-residents (Child Tax Credit and Earned Income Credit), exposes filers to double taxation with the Net Investment Income Tax (NIIT), and involves wading through many regulations that overlap with U.S. corporate international tax.

This is just a sampling of the problems on the individual side of reporting, not taking into consideration the filing requirements for small business operations run by U.S. citizens overseas that need to deal with the Transition Tax and Global Intangible Low-Taxed Income (GILTI) regimes.

RESIDENCE-BASED TAXATION

ACA has throughout its 40-plus year history advocated for the adoption of residence-based taxation (RBT) and has produced key documents and research that support the move to RBT, which can be made revenue neutral and tight against abuse. ACA was the first organization to develop a side-by-side analysis that indicates where in the current tax code changes could be made in a move to a system of taxation based on residence (excludes from U.S. taxation foreign earned income). ACA has fielded two research projects on the subject with District Economics Group (DEG), Washington, DC-based economic consulting firm – one in 2017 and one in 2022 that provide valuable information on the income, assets and taxation of U.S. citizens living and working overseas. This data supports our position that RBT can be adopted and no one will be any worse off, the U.S. Treasury would not lose revenue and the provisions would be protected against tax abuse.

CONGRESSIONAL HEARINGS ON TAXATION AND AMERICANS ABROAD

It is time for this research work, along with documents and testimony from ACA and other stakeholders, to be put on record with Congressional hearings. There are currently three pieces of legislation introduced in Congress that address some of the tax compliance problems of U.S. citizens overseas; H. R. 5800 (The Commission on Americans Living Abroad Act) and H.R. 5799 (The Overseas Americans Financial Access Act, referenced earlier) both introduced by Congresswoman Carolyn Maloney, and H.R. 6057 (The Tax Simplification for Americans Abroad Act), introduced by Congressman Donald Beyer. These legislators have asked Chairman Neal to address the tax and compliance issues of U.S. citizens living and working overseas, and ACA echoes this call to action for the Financial Services Committee.

Never in the history of the U.S. Congress have hearings been held to address the specific issues facing U.S. citizens living and working abroad, not only tax issues but other concerns related to banking, Social Security, Medicare, investing, voting and representation. The

¹ ACA and District Economics Group estimate that the total number of Americans abroad at present, excluding members of the military and other government employees and contractors, is approximately 3.9 million individuals.

Americans Abroad Caucus with Co-Chairs Carolyn Maloney, Dina Titus and Maria Elvira Salazar, are hearing from constituents in their districts about the growing concerns of citizens who chose to live and work overseas. If U.S. citizens are to engage in a global economic marketplace, they need the tools to help them compete for jobs and have full access to financial and banking services. Some U.S. laws, such as FATCA as previously noted, are hampering this and the Committee needs to hear and understand these issues and problems, in order that proposals, such as the adoption of residence-based taxation, can be carefully examined.

Obstacles to banking and to accessing U.S. government information and services from abroad, as well as how the current citizenship-based tax regime affects non-resident citizens, are all reasons why Congress needs to hold hearings on the tax and compliance issues of U.S. citizens overseas and consider legislation such as residence-based taxation to alleviate the problems.

ACA would like to thank the Financial Services Committee for the opportunity to submit this testimony and commentary. For more information, please visit the ACA website www.americansabroad.org or telephone +1 202 322 8441 and/or email marylouise.serrato@americansabroad.org.