



July 27, 2023

American Citizens Abroad Statement for the Record to Senate Finance Committee
Subcommittee on Taxation and IRS Oversight
hearing entitled “25 Years of the Child Tax Credit (1997-2022)”
July 13, 2023

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).

THE CHILD TAX CREDIT AND BENEFICIARIES ABROAD

ACA is grateful to the Senate Finance Committee and its Subcommittee on Taxation and IRS Oversight for their public hearings exploring the proposal to re-establish and make permanent the ARPA Expanded and Advance Child Tax Credit. U.S. parents living abroad benefit from the Child Tax Credit (CTC) in the same ways that parents living in the U.S. do. They can afford more childcare which enables them to work more hours and better provide for their families. They can better manage household budgets and so avoid pay-day loans or other expensive credit arrangements to manage lumpiness of household income. And, overall, the reduction in financial distress results in less family distress.

We are disappointed, however, that the CTC proposal in S. 1992 – *Working Families Relief Act of 2023* (as well as H.R. 3899 - *American Family Act*) replicates the CTC provisions in the American Rescue Plan Act that deny CTC beneficiaries living abroad access to full refundability and advance payments. This is disappointing and upsetting for non-resident parents who already bear an inordinately costly and complex U.S. tax filing burden.¹

Research published in 2022 about the U.S. citizens living abroad includes gross household income data that indicates 76% qualify for the whole of the CTC. Up to 96% would be eligible for some portion². Inflationary pressures persist in nations around the world, making this a time of considerable financial distress for middle income U.S. families regardless of where

¹ Ordinary, middle-class taxpayers filing from abroad need to understand the IRC’s arcane provisions for non-resident filers and, further, are required to navigate the convergence of U.S. tax rules and the tax rules of the country where they live, including provisions in the U.S. tax treaty.

² Once Uncomfortable, Now Suffocating: A 2022 Update on Tax and Financial Access Issues of Americans Abroad, Democrats Abroad, November 2022. https://www.democratsabroad.org/2022_report_data



they reside. This cohort of U.S. citizens, already identified as under-served by the IRS, is no less deserving of government assistance and is in genuine need of support.

We ask that the Senate Finance Committee reconsider the U.S. residence requirement included in the bill's eligibility criteria for full CTC refundability. It is not clear to us why, from an equity or a tax administration point of view, the choice was made to include it in S. 1992. We recommend the new IRS portal for administering the CTC enable CTC beneficiaries living abroad to register with their non-U.S. addresses, phone numbers and bank accounts, thus eliminating any obstacle to beneficiaries abroad receiving the CTC advance payments. Providing U.S. parents abroad access to CTC full refundability and advance CTC payments in S. 1992 and H.R. 3899 by removing the U.S. residency requirement fulfills the obligation of the Congress to observe equal protection provisions in making and implementing law.

Filing From Abroad

As noted, tax-related stress is not new to U.S. families abroad. Organizations representing U.S. citizen abroad have been speaking to Congress for decades about the need for relief from discriminatory tax filing and financial account reporting rules. Complex, costly and confusing tax filing for U.S. citizens living and working outside the U.S. results in onerous taxation of foreign investments considered Passive Foreign Investment Companies (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), exposes filers to double taxation with the Net Investment Income Tax (NIIT), involves wading through many regulations that overlap with U.S. corporate international tax and, due to legislation like S. 1992 and H.R. 3899, is unfair with regard to the application of certain tax credits for non-residents (CTC and Earned Income Credit).

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 abroad that need to deal with the Transition Tax and Global Intangible Low-Taxed Income (GILTI) regimes (and are denied access to programs available for small businesses through the U.S. tax code such as the Employee Retention Tax Credit and the CARES Act Paycheck Protection Program).

Residence Based Taxation

ACA has long advocated that the real solution to the problems of overseas taxpayers is the adoption of Residence-based taxation (RBT) which would tax US citizens overseas on the basis of where income is earned, therefore excluding foreign earned income from US taxation and only taxing US sourced income. 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. 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, asset and taxation



of U.S. citizens living and working overseas. This data, one of a kind, supports our position that RBT can be adopted and be revenue neutral and tight against abuse.

ACA's research studies provide invaluable data on the community of U.S. citizens living and working overseas and most importantly, gives Congress an accurate number for the size of the community of US citizens living and working overseas, which ACA estimates at approximately 4 million (excluding US military).³ Unfortunately, many in Congress continue to source the US State Department figure of 9 million which ACA, through the FOIA, has requested the methodology in calculating (request made 2 years ago with an expected delivery in 2025). The 9 million estimate severely distorts not only government estimates for a change in tax policy but the very nature of the community, putting in question why there are so many citizens living abroad and so few tax returns, further cementing the optic that U.S. citizens overseas are tax evaders.

Congressional Hearings on Taxation and U.S. Citizens Abroad

ACA believes that the time has come for the Congress to hold hearings on the issues affect this very important group of U.S. citizens. ACA has presented our research and data to all the Tax Writing Committees on Capitol Hill, but the time has come for our data and knowledge, and that of other organizations and individuals, be put on official record with Congress. Recently Congresswoman Titus introduced H. R. 2729 which would call for the creation of a commission to begin investigating the concerns of this community.⁴ This Commission would be an excellent start to the process of holding hearings which would provide invaluable information and data to help in crafting remedies to some of the problems highlighted in our letter today.

ACA would like to thank the Senate Finance Committee for the opportunity to submit this statement. For more information, please visit the ACA website www.americansabroad.org.

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³ 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.

⁴ H.R.2729 - 118th Congress (2023-2024): Commission on Americans Living Abroad Act of 2023 | [Congress.gov](https://www.congress.gov) | Library of Congress (The Commission on Americans Living Abroad Act)