



AMERICAN CITIZENS ABROAD

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American Citizens Abroad submission of testimony to the
House Ways & Means Subcommittee on Oversight
Hearing on the 2022 filing seasons and IRS operations with IRS Commissioner Rettig
March 17, 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).

Commissioner Rettig in his testimony at the March 17th hearing investigating the current 2022 filing season and IRS operations, acknowledged the challenges that the IRS has in meeting the customer service needs of all US citizen taxpayers. US citizens taxpayers living and working overseas present special complications for the IRS: creation of online accounts, call center assistance, on-site clinics, and free filing, all are not optimized for this community of taxpayers.

The Taxpayer First Act has identified US 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 US citizens living and working overseas.¹ Tax filing for US citizens living and working overseas 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-114), unfair with regard to application of certain tax credits (Child Tax Credit and the Earned Income Credit), exposes filers to double taxation with the Net Investment Income Tax (NIIT), and involves wading through many regulations that overlap with US corporate international tax. This is just a sampling of problems on the individual side of reporting, not taking into consideration the filing requirements for small business operations run by US citizen overseas that need to deal with the Transition Tax and Global Intangible Low-Taxed Income (GILTI) regimes.

The complex and confusing tax filing requirements for US citizens living and working overseas makes for a good argument for tax reform. Alleviating the tax filing requirements for US citizens living and working overseas would also free up IRS resources that are desperately needed to address not only the current tax filing season, but the understaffing at the IRS in general, both today and in the future. The United States is the outlier in global norm for taxation, being 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.

only OECD nation to adhere to a system of taxation based on citizenship rather than residence. Other countries, applying residence-based taxation, don't tax foreign – non-home country – source income, only domestic – home country – source income.

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](#) which shows where in the current tax code changes could be made to move to a system of taxation based on residence (excludes from US 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 US citizens living and working overseas. This data, one of a kind, supports our position that RBT can be adopted, no one will be any worse off, the US Treasury would not lose revenue and it would be tight against tax abuse.

It is time for this research work, along with documents and testimony from ACA and other stakeholders, to be put on record with the House Ways & Means Committee with hearings. There are currently three pieces of legislation introduced in Congress that address some of the tax compliance problems of US citizens overseas; [H. R. 5800 \(The Commission on Americans Living Abroad Act\)](#) and [H.R. 5799 \(The Overseas Americans Financial Access Act\)](#) 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 US citizens living and working overseas, and ACA echoes this call to action.

Never in the history of the US Congress have hearings been held to address the specific issues facing US citizens living and working abroad, not only tax issues but other concerns related to Social Security, Medicare, voting and representation. The 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 US 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 US laws, such as FATCA, 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.

The concerns over how the current tax filing season, the understaffing at the IRS, the technological issues with IRS systems affect US citizens living and working overseas, as well as how the current citizenship-based tax regime affects these citizens, are all reasons why the House Ways & Means Committee needs to hold hearings on the tax and compliance issues of US citizens overseas and consider legislation such as residence-based taxation to alleviate the problems.

ACA would like to thank the House Ways & Means Subcommittee on Oversight 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.