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ACA study confirms that Residence-Based Taxation can be adopted without the US Treasury losing revenue.

American Citizens Abroad (ACA) today released a new economic analysis of residence-based taxation (RBT). The study is based on an analysis prepared by District Economics Group (DEG) for American Citizens Abroad Global Foundation (ACAGF), ACA's sister organization.

The DEG analysis, based upon publicly available information, finds that residence-based taxation (RBT) can be made revenue-neutral, without the US Treasury losing revenue. Long-term American residents abroad could seamlessly move from citizenship-based taxation, the current set of rules, to RBT. No one would be forced to do this. No one would be made worse off, as the existing foreign earned income exclusion rules would remain for those wishing to use them. Under RBT, US citizens residing overseas would not be subject to US tax on foreign income. They would remain taxable on US income. This was recently made the general rule for US companies, and now it would become the rule for individuals.

The ACA study supports ACA's lobbying for enactment of RBT. US citizens living abroad strongly support RBT. A broad coalition of organizations, chambers of commerce and individual businesses have committed to changing from citizenship-based-based (CBT) to RBT. Residence-based taxation is the approach followed by almost all other countries.

Resulting from over 10 months' work, the ACA study is the most comprehensive nongovernmental economic analysis of RBT. The underlying model, created by DEG, draws upon publicly available tabulations of tax returns from the IRS, projections of the US economy from the Congressional Budget Office, US Social Security Administration statistics and Census data. These data are augmented with publicly available IRS studies on US non-filers of tax returns and Federal Reserve Board studies of the distribution of wealth in the US, and then integrated with annual United Nations estimates of US migrants residing outside of the US.

The Joint Committee on Taxation, the Congressional Budget Office, and the Office of Tax Analysis each have their own model for estimating economic effects, which include protected tax-return data. The ACA study uses publicly available tabulations of tax-return and non-tax data.

The study presents estimates of, among other things, how many US citizens there are overseas (excluding US military and government employees); how many US citizens are on overseas tax returns; the income profile of overseas filers; and the projected utilization of one approach to RBT. Considered are such things as birth and mortality rates and the return to the US of some Americans during the COVID-19 pandemic.

Employing the DEG model, it is possible to make unofficial projections of revenue effects of RBT proposals. These projections can be modified according to defined parameters, such as, the number of individuals resident in "tax havens" or other low-tax jurisdictions who might be ineligible; the number of long-term residents of a foreign country who would be "grandfathered", meaning made automatically eligible for RBT; the number of individuals who might be required to meet a *bona fide* residency test for the most recent X number of years prior to moving abroad.

This study released today is the second ACA study. It revises the RBT model developed during 2017-2018 by expanding the number of countries in a key feature of the model, so as to refine estimates of US citizens residing overseas, individuals resident in several categories of foreign jurisdictions, US tax filers, and the like. The original model having been updated, the model is adjusted to account for effects of the Tax Cuts and Jobs Act (enacted in December 2017) and the COVID-19 pandemic, and revises income profiles from the IRS's Statistics of Income and Federal Reserve Board publications. It then estimates possible static budget effects and behavioral responses to one possible approach to RBT. This is the so-called "vanilla approach" detailed in ACA's Side-by-Side Analysis of Current Law and RBT. It is not a legislative proposal. Congress will decide the shape of RBT.

While the data and unofficial estimates in this study are believed to be very useful, it should be emphasized that revenue estimates are solely within the purview of the Joint Committee on Taxation.

District Economics Group is a non-partisan economic consulting firm, which provides specialized economic analysis and insights into federal and state budget, legislative and regulatory policymaking processes. It conducted the first RBT study for ACA in 2017-2018 and, in connection with that, made presentations, with ACA, to a range of Congressional and Treasury Department staffs.

ACA, which regularly advocates on Capitol Hill, expects to present the results of the study to key Congressional offices and staffs at the Treasury Department, as it did with its prior study. "From our recent meetings on Capitol Hill and with the Administration, we believe they will be very interested in this new and expanded analysis. ACA also looks forward to working with other groups interested in our work on RBT" said Marylouise Serrato, Executive Director, ACA.

This latest ACA study was funded with tax-deductible contributions to ACAGF by hundreds of contributors, many of whom are ACA members. Learn more about these organizations by visiting their websites.

ACAGF intends to license the information contained in the ACA study. Interested parties should contact us at marylouise.serrato@americansabroad.org. Additionally, ACAGF will continue periodically to refine and update the underlying model.

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