



# AMERICAN CITIZENS ABROAD

EDUCATE, ADVOCATE AND INFORM

American Citizens Abroad submission of testimony to  
**Senate Finance Committee Hearing on the IRS, The President's Fiscal Year 2023  
Budget and the 2022 Filing Season with IRS Commissioner Rettig**  
April 7, 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).

In testimony presented to the Senate Finance Committee hearing of April 7, 2022, on the IRS, the President's 2023 Budget and the 2022 tax season, IRS Commissioner Rettig discussed the customer service challenges posed by resource constraints and paper filing. An overwhelming proportion of non-resident taxpayers file paper tax returns due to the inaccessibility of IRS online accounts and free filing. \$2.2bn in new funding for the IRS and focused efforts by staff to eliminate the backlog of paper filings have helped to reduce the to-be-processed 2021 paper tax returns to 2.7 million. Those will need to be processed before the IRS can turn its attention to 2022 paper filings, which currently number 2.3 million. It is astonishing that in 2022, processing of paper returns still requires manual transcription. Indications by Commissioner Rettig that the IRS received funding in the March spending package for scanning technology using a 2D barcode were undermined by his non-specific comments that challenges to the implementation of that technology remain.

Commissioner Rettig acknowledged that it is unacceptable for the IRS to remain paper-based in a digital world. However, until online accounts are available to U.S. citizens abroad, those without the resources to hire professional tax return preparers will be forced to file the paper returns that accumulate in those backlogs. Identity verification using the ID.me website and data security concerns remain obstacles for creating an IRS online account for U.S. citizens abroad.

Perhaps the most astonishing IRS customer service failure is the 11% response rate to taxpayer calls to the IRS helpline, which Commissioner Rettig testified reached 1,500 calls per second in the 2021 tax filing season. IRS helpline inaccessibility is compounded for non-resident filers: the helpline cannot be dialed from some foreign countries; the calls are not toll-free; lengthy wait times are frustrating as well as expensive; and customer service representatives frequently lack the technical expertise to address problems common to non-resident filers.

During the hearing Senator Thune made this comment regarding the challenges the IRS has in meeting the customer service needs of all U.S. citizen taxpayers:

"The timely processing of returns and the ability to speak to an IRS representative are cornerstones to good tax administration. Many taxpayers are trying in good faith to comply with tax laws, and they deserve a responsive IRS. It is critical ... to establish the trust of the American people and having a responsive tax collection service is key to that."

Of course, non-resident taxpayers, who present special complications for the IRS, deserve no less. The U.S. can continue to struggle to meet the needs of the Americans abroad community or consider a change to the treatment of this taxpayer cohort.

## 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.<sup>1</sup> 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 (and are denied access to programs available for small businesses through the U.S. tax code such as the Employee Retention Tax Credit and Paycheck Protection Program which were discussed by Senator Cardin).

## 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), a 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, one of a kind, 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 the Senate Finance Committee with 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) 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

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<sup>1</sup> 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.

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 Senate Finance 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 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 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, 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 paper return backlogs, taxpayer helpline accessibility, under-resourcing at the IRS, and the technological issues with IRS systems affect U.S. citizens living and working overseas, as well as how the current citizenship-based tax regime affects these citizens, are all reasons why the Senate Finance Committee 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 Senate Finance Committee for the opportunity to submit this testimony and commentary. For more information, please visit the ACA website [www.americansabroad.org](http://www.americansabroad.org) or telephone +1 202 322 8441 and/or email [marylouise.serrato@americansabroad.org](mailto:marylouise.serrato@americansabroad.org).