



AMERICAN CITIZENS ABROAD  
EDUCATE, ADVOCATE AND INFORM  
AMERICAN CITIZENS ABROAD  
*global foundation* FOR EDUCATION AND RESEARCH

American Citizens Abroad submission of testimony to  
Government Operation Subcommittee of the  
House Committee on Oversight and Reform  
Hearing entitled “IRS: Is it Ready?” with IRS Commissioner Rettig  
and National Taxpayer Advocate Erin Collins  
April 21, 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 before the Government Operations Subcommittee hearing of April 21, 2022, IRS Commissioner Charles Rettig responded to questions by committee members about performance of the IRS and the IRS service experienced by their constituents during the 2021 and 2022 filing seasons. During this period, 8 in 10 calls to IRS helplines went unanswered. From this period there remains 5 million paper filings awaiting IRS attention.

These outcomes were attributed to, in brief –

- Annual decreases in IRS funding from 2010 through 2019,
- 30% decrease in staff numbers from 2010 to 2019,
- Antiquated IT,
- 4.5x increase in the number of calls during the COVID pandemic; and
- the expansion of the burden placed on the IRS by CARES Act aid programs.

The collapse in IRS service experienced by Americans in Congressional districts across the U.S. in 2021 and 2022 has been the typical IRS experience for U.S. citizens living abroad. There are no longer IRS field offices located outside the U.S. IRS helplines are often not accessible from abroad. When they are accessible, they are not toll-free. Americans abroad who succeed in reaching the IRS by phone are routinely on hold for lengthy, extensive periods of time. When an IRS customer service agent is finally reached, they often lack an adequate understanding of the unique issues affecting non-resident filers and so fail to provide much-needed support.

The closing statement of Subcommittee Chair Gerald Connolly has particular resonance for Americans living abroad:

*As all of us have stories today, Republicans and Democrats, we get [contacted by] constituents who still have trouble getting [IRS] access and **that creates enormous stress when you owe tax or think you might owe taxes or when you deserve a refund or just want to know the status of something.***

Enormous stress is the chronic experience of Americans living abroad trying to comply with U.S. taxation.

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 2.4 million. Those will need to be processed before the IRS can turn its attention to 2022 paper filings, which currently number 2.6 million.

It is astonishing that in 2022, processing of paper returns still requires manual transcription. Indications by Commissioner Rettig that the IRS will use funding in the March 15 Appropriations Omnibus for 2D barcode scanning technology were undermined by testimony by Taxpayer Advocate Collins that 2D barcoding is only suitable for software-prepared tax returns.

Commissioner Rettig acknowledged that it is unacceptable for the IRS to remain paper-based in a digital world. However, until free file systems and IRS 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.

During the hearing, Rep. Andrew Clyde commented, “The American people deserve a sensible system of taxation. A fair system of taxation.”

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 U.S. tax system as it relates to 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

---

<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. See: <https://www.americansabroad.org/news/aca-district-economics-group-analysis-of-revenue-effects-of-residence-based-taxation/>

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 for over six years has 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, 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 House Committee on Oversight and Reform 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 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 Oversight and Reform 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 Committee on Oversight and Reform 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 Government Operations Subcommittee 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 +1 202 476 0741 and/or email [charles.bruce@americansabroad.org](mailto:charles.bruce@americansabroad.org).