TAX REFORM FOR AMERICANS ABROAD:  
A MODEL FOR RESIDENCY BASED TAXATION

Residency Based Taxation is a system of taxation where a nation imposes tax on income generated within its borders. Citizens of a nation with Residency Based Taxation pay tax on income in the place where their income was generated. If they live and generate income abroad then their offshore income is taxed abroad and not taxed by the nation of their citizenship.

All developed nations have a system of Residency Based Taxation except the United States. Non-resident Americans face taxation by the U.S. regardless of where their income is generated, no matter where they live and regardless of whether they are also taxed on the same income in their country of residence. Congress would need to make changes to many areas of the Internal Revenue Code in order to address the complexity, cost and fear faced by Americans filing from abroad. Instead, Americans abroad are asking Congress to reform the tax code with a switch from the current system of Citizenship Based Taxation to Residency Based Taxation which would address these problems all at once.

We are asking for:

- An exemption from reporting income generated in our countries of residence;
- Straightforward criteria for establishing eligibility for the exemption;
- No overly punitive exemption application processes or costs;
- Provisions to prevent high net worth migrants from using offshore residency as a tax avoidance mechanism;
- Anti-tax avoidance provisions that might include: delayed eligibility for those moving abroad; and means-tested Departure Tax assessment.
- Provisions to protect long-term non-residents from financial penalty in claiming the exemption that might include: Departure Tax exemptions, payment deferrals, or payment suspensions.

Under Residency Based Taxation Americans living abroad exempted from reporting income generated in their country of residence would still report their US-source income.

Our colleagues in this advocacy, American Citizens Abroad, have engaged District Economics Group to prepare a proposal to transition from Citizenship Based Taxation to Residency Based Taxation that is revenue neutral to the federal budget and provisioned with both anti-abuse rules and protections for affected non-resident Americans. Their high quality, rigorous analysis work broadens our conviction in the merit of this urgently needed remedy.

Democrats Abroad has published research undertaken in September 2017 with data and testimonies that demonstrate the hardship Citizenship Based Taxation causes for Americans abroad. Please see our report, “Can We Please Stop Paying Twice? – Reforming the U.S. Tax Code for Americans Abroad” at www.democratsabroad.org/taxation. It underscores the importance to these ordinary American families and small business owners living outside the U.S. of the inclusion in the 2017 tax reform package of a switch from citizenship based taxation to residency based taxation.

Further, Democrats Abroad reaffirms its request for the establishment of a Commission on Americans Abroad to study and reform laws and regulations that have unintended adverse consequences for us (HR 2710) and for an exemption for Americans abroad from reporting on the financial accounts we hold in our country of residence (HR 2136).

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