CAN WE PLEASE STOP PAYING TWICE? – Reforming the U.S. Tax Code for Americans Abroad

The United States of America is the only developed nation with a system of citizenship-based taxation, taxing its citizens on overseas income earned while they live abroad. A wide range of tax filing complexities arise when an individual is subjected to taxation by two countries. Further, a litany of Internal Revenue Code provisions discriminate against the six million plus tax-liable Americans living abroad because the impact on them was not duly considered prior to implementation. Filing U.S. taxes from abroad, therefore, is complicated, inefficient and causes grave financial uncertainty for ordinary Americans living outside the U.S. It not only hurts families managing their household budgets and saving for the future, it also disadvantages Americans seeking employment, running or wanting to start businesses abroad.

Research on the tax filing experience of Americans abroad published in the October 2017\textsuperscript{1} report “Can We Please Stop Paying Twice? Reforming the U.S. Tax Code for Americans Abroad” shows that Americans abroad are ordinary, middle-class citizens: 68% are married; 70% have an income of less than $100,000; 70% are employed or self-employed, working part time or full time; and 61% live in a home they own or are currently buying.

These Americans are burdened not only with increasingly complex tax forms, they are also obliged to submit reports on their foreign accounts and other financial assets. Many incur unreasonably high costs to make these inordinately lengthy filings - nearly 60% report that they pay a tax return preparer to make their U.S. tax filings and 57% of them pay $500 or more for those services - and some have been double taxed on income they and their families rely on to make ends meet.

84% of the thousands of survey respondents support abolishing the current system of citizenship-based taxation and replacing it with a fairer one based on country of residence. Regardless of political party affiliation, Americans abroad stand united in calling for urgent reform to remedy the myriad problems they face in complying with the current system.

Americans abroad need Congress to understand that they are proud, hard-working, middle class American citizens living abroad because this is where life brought them. Filing U.S. taxes from abroad is complicated, frightening, costly and harmful to families and business owners. Rather than wrestling separately with the individual tax code provisions that require fixes, Congress can solve most all the issues at once by reforming the Internal Revenue Code to exempt the reporting of non-US income of Americans resident abroad. (Their U.S. sourced income would still be reported and assessable.) A range of anti-tax avoidance provisions exist to ensure this reform does not open a loophole to exploit this exemption.

\textsuperscript{1} http://www.democratsabroad.org/can_we please_stop_paying_twice_tax_reform_for_americans_abroad

Congress can introduce a straightforward system of residency-based taxation and, with minimal effort, both alleviate the hardship suffered by Americans abroad and remove a provision that is difficult to enforce and yields little to the U.S. Treasury.