

Resolution in support of Residency-Based Taxation and other

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Whereas, the United States taxes its citizens and residents on their worldwide income, unlike all other industrialized countries that tax income based on a principle of territoriality;

Whereas, the United States is the only country in the developed world which taxes the foreign source income of citizens living outside the country based on a principle of citizenship-based taxation (CBT);

Whereas, the overwhelming majority of Americans living abroad have the same sorts of jobs as their friends and families in the United States and pay taxes on their earnings in their countries of residence;

Whereas, the United States policy of CBT requires citizens living abroad to report income using extremely complex forms that force many to engage expensive tax professionals with both local and U.S. tax filing knowledge and experience;

Whereas, an October 2017 survey by Democrats Abroad¹ suggests U.S. that citizens living outside the country incur tax preparation costs of \$500 on average, greatly exceeding the average \$200 incurred by U.S.-based citizens. Further, the filings of citizens living outside the country often indicate that no tax is owed. When filings of citizens living outside the country do indicate that tax is owed, they are taxed twice on the same dollar of income – first by their country of residence and next by the U.S.;

Whereas, double-taxation and onerous tax preparation and compliance costs puts American job seekers abroad at a significant disadvantage to non-American workers;

Whereas, tax equalization increases costs associated with hiring overseas American workers causing multinational corporations, including those headquartered in America, to hire fewer Americans abroad and thus decreasing American exports;

Whereas, due to unintended adverse Internal Revenue Code treatment, citizens living outside of the U.S. are subjected to double or punitive tax treatment on these types of income: foreign retirement savings plans, capital gains, non-qualified non-U.S. pension plans, social welfare payments from foreign governments and bequests to surviving foreign spouses. CBT, therefore, is a system that hurts all citizens living abroad and not just the wealthy and privileged;

Whereas, in 2010 the Foreign Account Tax Compliance Act (FATCA) was enacted into law to identify and apprehend U.S. taxpayers illegally avoiding paying taxes in the United States by moving untaxed earnings and assets into offshore accounts;

Whereas, FATCA, implemented in furtherance of CBT, has had serious negative consequences such as:

- Financial institutions, both U.S. and foreign, denying access to banking and other financial services to overseas Americans;

¹ 'Can we please stop paying twice? Reforming the U.S. Tax Code for Americans abroad' 2017, *Democrats Abroad*, October, available at https://d3n8a8pro7vhnmx.cloudfront.net/democratsabroad/pages/13975/attachments/original/1507632642/Can_We_Please_Stop_Paying_Twice_DEMOCRATS_ABROAD.pdf?1507632642.

- Loss of job and business partnership opportunities for citizens living abroad due to FATCA reporting requirements extending to accounts on which Americans hold signatory authority;
- Stress and conflict between citizens living abroad and their non-American spouses caused by the requirement to report joint accounts, sometimes resulting in financially vulnerable Americans being removed from joint accounts.

Whereas, the FATCA legislation has the unintended consequence of treating the many millions of honest Americans living outside the United States who are not trying to hide from taxation on an unfair par with tax evaders;

Whereas, the Foreign Bank Account Report (FBAR) is mandated under rules established by the Currency and Foreign Transactions Reporting Act of 1970;

Whereas, an American living overseas has a legitimate need for local banking services within his/her own country of residence;

Whereas, Democrats Abroad fully supports efforts by the U.S. federal government to prevent financial crimes, including money laundering and tax evasion;

Whereas, the cost of enforcing CBT far exceeds the revenues it generates;

Whereas, all other industrialized countries use residence-based taxation (RBT) to tax the income of their citizens and residents, thereby avoiding both double taxation and the need to engage foreign powers in tax enforcement of citizens living abroad;

Whereas, the findings of an October 2017 survey by Democrats Abroad of U.S. citizens of all political preferences residing abroad indicate that 84% of survey participants support a switch from Citizenship Based Taxation to Residency Based Taxation;²

Whereas, RBT's perceived threats to the First and Seventeenth Amendment rights of citizens living abroad to vote in federal elections are overwhelmed by the fact that citizenship based taxation pre-dates voting rights for citizens abroad and the endorsement by Congress which passed UOCAVA³ to simplify and protect federal voting regulations for citizens living abroad;

Whereas, a system of Residency Based Taxation would not impact the taxation of the U.S.-sourced income of citizens living abroad, which they would continue to report;

Whereas, the Internal Revenue Service has well-established guidelines for determining that an American is a bona fide resident of a foreign country;

Whereas, according to witness testimonies before a congressional hearing in April of 2017, being subjected to taxation by two jurisdiction and banking service discrimination are the main reasons for Americans living abroad renouncing U.S. citizenship;

Be it resolved that, Democrats Abroad supports ceasing taxation based on citizenship and supports the universally accepted notion of taxation based on the residence of the taxpayer;

² 'Can we please stop paying twice? Reforming the U.S. Tax Code for Americans abroad' 2017, *Democrats Abroad*, October, available at https://d3n8a8pro7vnm.cloudfront.net/democratsabroad/pages/13975/attachments/original/1507632642/Can_We_Please_Stop_Paying_Twice_DEMOCRATS_ABROAD.pdf?1507632642.

³ Uniform and Overseas Citizen Access to Voting Act.

Be it further resolved that Democrats Abroad calls on the Democratic National Committee to recognize the serious taxation problems faced by Americans living abroad and to call on Congress to

- 1) amend the Internal Revenue Code to abolish taxation based on citizenship and instead adopt Residency-Based Taxation, a system in which Americans living outside the U.S. would continue to declare income generated in the U.S. but would be exempted from reporting to the Internal Revenue Service (IRS) income earned in their country of residence,
- 2) exempt U.S. citizens residing outside the United States from FATCA reporting of accounts in their countries of residence, and
- 3) reform to FBAR regulations for Americans abroad, especially by reducing the out-of-proportion penalties for non-willful non-compliance.

