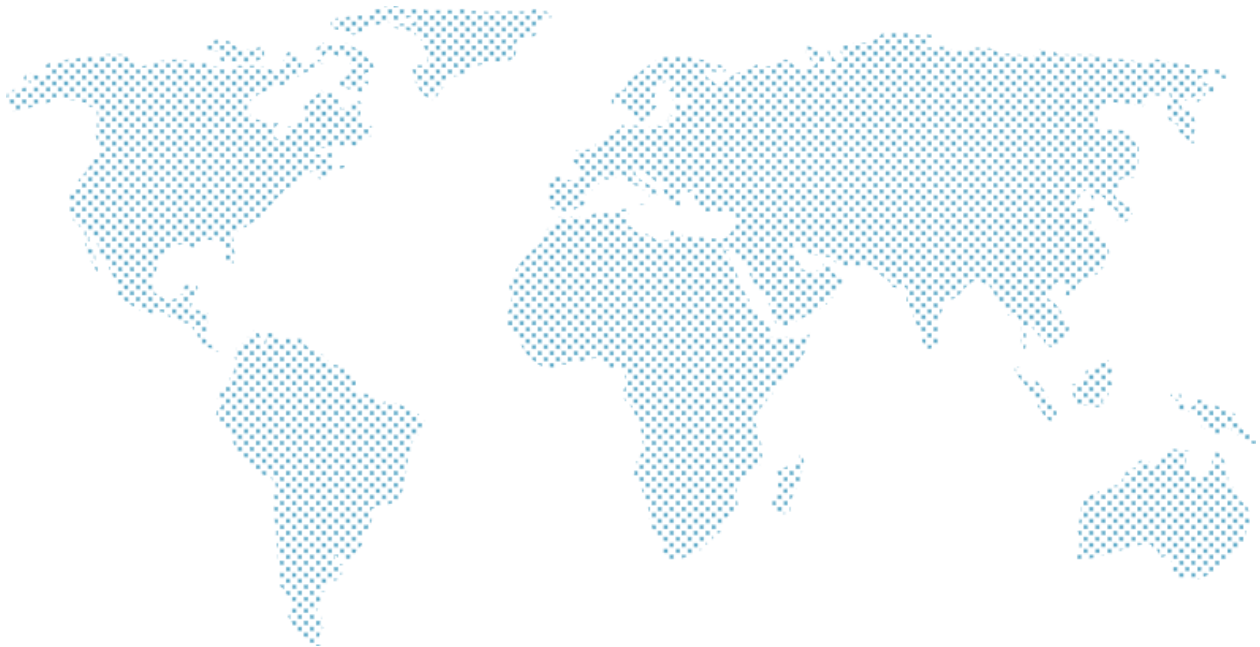


TAX FILING FROM ABROAD

RESEARCH ON NON-RESIDENT AMERICANS AND U.S. TAXATION

SUMMARY OF FINDINGS

March 2019



The majority of us aren't making millions or trying to hide our money in secret Swiss bank accounts. We just want to live simple, ordinary lives. The amount of stress that comes along with the U.S. tax system is overwhelming. It is extremely complicated and expensive to navigate. We live with a real burden that Americans living in the U.S. simply don't understand. – Michigan voter living in the UK



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Organizations representing Americans abroad have been working for decades to persuade Congress to enact remedies addressing the serious problems they face being subjected to U.S. taxation while living and working outside of the U.S. This research project was designed to describe the Americans abroad community and the genuine financial and personal challenges they face due to U.S. tax, financial account reporting, banking, securities and other laws, many of which were developed without due consideration for the impact they would have on non-resident citizens¹.

From Monday, January 21, 2019 through Sunday, February 2, 2019 Democrats Abroad invited Americans abroad to participate in research into their experience complying with a range of laws and regulations that impact them uniquely because they reside outside of the United States. This is a summary of the findings established from the analysis of 9,885 submissions from Americans from all U.S. states living in 123 countries across six continents.

1. **Americans living outside the U.S. are not a lot different from Americans living in communities across the United States**

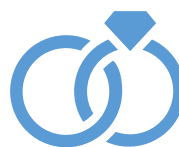
when it comes to age, marital status, employment and household income. They are ordinary, middle class Americans - 71% employed, 61% with household income of less than \$100k, 72% married (71% to non-U.S. spouses), 63% own their own home.

As 32% left the U.S. for marriage or a relationship, 25% left the U.S. to pursue employment/work and 64% say they have no plans to move back to the U.S., it is fair to conclude that the majority were motivated to move abroad by love or opportunity and then they decided to stay.

2. **Americans living outside the U.S. bear onerous tax compliance responsibilities**

comprised of income declarations to tax authorities in their country of residence as well as to the U.S. IRS, plus foreign financial account disclosures to the U.S. Financial Crimes Enforcement Network as well as, depending on account balances, to the IRS. More than 80% of respondents noted their concerns about the cost, stress and complexity of filing from abroad.

These factors drive 55% of non-resident tax filers to engage the support of a professional tax return preparer; 61% incur a tax filing preparation cost of over \$500 - *at least twice what U.S. based Americans spend on average.*



32% moved abroad for marriage or a relationship



25% moved abroad for work or employment



64% are living abroad indefinitely



97% have serious problems filing



55% hire tax return preparation help



61% pay over \$500 for tax filing services

¹ See Section 3.1 for the example of the “transition taxes” in the 2017 Tax Cuts and Jobs Act.

3. **Americans abroad face the potential for a higher overall tax burden** due to Internal Revenue Code provisions that discriminate against them by double taxing or punitively taxing the types of income and investments common to non-resident citizens. One in three Americans abroad say they suffer serious harm because of U.S. tax rules that discriminate against non-residents.

The 30% of Americans abroad who receive some sort of social welfare (aged, indigent, disability, unemployment, childcare) payment from their host government would be considered the most vulnerable. Their income is commonly untaxed locally, but fully taxed by the U.S.



One in three are harmed by discriminatory tax rules



30% get foreign social welfare payments (fully taxable by U.S.)

4. **Americans abroad endure on-going difficulty obtaining even ordinary financial products and services** from foreign financial institutions, especially products that help customers save for the future. These difficulties arose as a response by foreign financial institutions to the account disclosure mandate imposed upon them by the Foreign Account Tax Compliance Act. 30.7% of survey participants have been refused products or services from foreign financial institutions. 24.5% have been denied retirement savings or investment products.

Further, some have challenges with U.S.-based financial institutions, certainly if they have no U.S. address, a de facto requirement for having a U.S. financial account under banking and securities rules. 27.6% have been refused U.S. investment/brokerage products and 15.2% have been denied U.S. retirement savings products.



31% have been refused essential foreign financial products



28% have been denied U.S. investment/brokerage products

5. **Americans abroad who are majority shareholders in a foreign registered company, such as a family-run business, are subjected to two new taxes enacted as part of the 2017 Tax Cuts and Jobs Act. As a result, many of their businesses may no longer be viable.** This research indicates that these new taxes directly impact 1.9% of research participants (and may indirectly impact 2% more). Extrapolating this figure to the estimated 6.5 million voting age Americans living abroad suggests up to 130,000 individuals could be impacted; they may be forced to close their businesses or incur significant cost to re-structure them.

6. **Retired Americans abroad who have spent a part of their life working for employers outside the U.S. and the U.S. Social Security system will find that their Social Security benefits have been cut by up to 40%** because of a provision in the Social Security Act known as the Windfall Elimination Provision (WEP). More than 20% of survey participants receive U.S. Social Security benefits. One in six of these beneficiaries say the benefits they receive are reduced due to the WEP. Of those impacted by WEP reductions more than 56% say their payments are reduced by more than 25% and more than 57% say this makes a modest to very big impact on their household budget.
7. **“Accidental Americans”, those either born in the U.S. to foreign parents and moved away as infants/young children (401 respondents) or born outside the U.S to at least one U.S. parent (268 respondents) and who have no legal or cultural connection to the U.S., also bear U.S. tax compliance obligations.** 38% of these 669 respondents self-identify as “Accidental Americans” (equal to 2.5% of all survey participants). Many Accidentals were unaware of these obligations before their banks started asking FATCA-related questions. More than 50% of the surveyed Accidentals said they were interested in renouncing their U.S citizenship, but most of them require a renunciation mechanism available at a reasonable cost and effort.

Included throughout the full report are statements, such as those below, made by research participants in their survey submissions. The voices of the Americans abroad impacted so seriously by U.S. taxation add important context and feeling to the data produced by this research.

Minnesota voter living in Germany - There is not just a financial but a political and psychological aspect of this issue, which I would like to point out: Americans who live abroad are all ambassadors for our country and we help others understand us and our nation better. The double taxation declaration system as it stands is unique to the United States. Filing taxes from abroad is a serious financial burden and it feels like punishment.

Michigan voter living in the UK - Americans who live abroad are not obscenely wealthy people hiding money in off-shore accounts. We are regular people. The burden of being tax compliant is so unreasonably complicated that many of us can't do it without professional help, but also can't afford that help.

Texas voter living in Australia - Americans abroad should be huge advocates for America and American business. Instead the U.S. government makes it difficult to save for retirement, puts onerous reporting requirements on that mean that most foreign (and in some cases U.S.) entities won't hire you if signatory authority is required. I know of at least one large U.S. tech firm that has simply stopped hiring Americans abroad - too difficult and expensive for both the company and the employee. I'm watching two friends try to figure out how to comply with the GILTI tax without completely destroying their small businesses. How is any of that good for American business or employment of Americans?