



Tax Advocacy Webinar

DEMOCRATS ABROAD TAXATION TASK
FORCE

September 2017



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Introduction

- Tax advocacy work of DA
- Taxation Task Force (TTF)
- Resources of Taxation Task Force – wiki.democratabroad.org
 - Position papers
 - Campaign materials
 - FAQs on FATCA and RBT
- www.democratabroad.org/taxation - sign up to receive more regular communication from the TTF on our tax advocacy work.

Disclaimer: DA cannot provide individual tax advice. We are not tax lawyers, accountants or advisers. Please consult a professional tax adviser /accountant/ return preparer when addressing your personal tax matters. We recommend the ACA Tax Return Preparer Directory to find a service provider who meets your needs and budget, though buyers need always beware.



Status of Tax Reform

- 27 September Tax Reform Blueprint (see Appendix 1)
 - generous to corporations , the wealthy; less to middle class. No TTFI or RBT.
 - Elimination of itemised deductions expected to impact Upper Middle class.
 - Senate Republicans target - \$1.5T in tax cuts over 10 years*. House Republicans are saying they want revenue neutrality.
- Process – budget reconciliation – bill can pass with simple majority in the senate.
 - Pass a budget resolution; tax reform proposal cannot add to the budget deficit beyond the 10 year budget window.
 - How to make up the \$1.5T in lost revenue. Expect –
 - aggressive estimates of economic growth
 - budget gimmicks - comparison against current baseline policy (all current tax rules remain, even those expiring)
 - Who knows?

* Nonpartisan Committee for a Responsible Federal Budget estimated the tax cut at \$2.2T.

Status of Tax Reform, Cont

- Target Timeline -
 - Slowly disclose the offsets/taxes added back (avert lobbyist feeding frenzy)
 - Agree to a budget and tax package (without Democratic participation)
 - Pass a budget resolution incl tax reform package (without Democratic votes)
 - Prepare legislative text
 - Pass a bill and have it on Trump's desk before the end of the year.
- Politics
 - Control the Freedom Caucus and deficit hawks worried about increases in the deficit – to ensure tax reform passes via budget reconciliation process. (So far they say they are happy, but they are asking for details.)
 - If that fails, blame Democrats, in advance of the 2018 midterms, for preventing Americans from bringing back jobs, cutting taxes, raising pay, helping America win, making America great again – pressure Senate Democrats to vote for the bill.

Non-resident Tax Advocacy efforts

- Democrats Abroad

- Democrats Abroad has supported Residency Based Taxation (RBT) for decades.
- See Appendix 2 for the language of the RBT plank from the Democrats Abroad 2016 Platform
- RBT Campaign – CallStorm, email/mail campaign; RBT campaign materials
- Taxation Survey – the basis for a Tax Reform (incl RBT) grassroots campaign

- American Citizens Abroad – in collaboration with AARO and FAWCO

- Working towards the establishment of a revenue-neutral RBT proposal.
- Has lobbied on Capitol Hill for many years in support of tax reform.

- Republicans Overseas

- Campaign in support of Territorial Taxation for Individuals (TTFI) – mirroring the policy for corporations (included in Tax Reform Blueprint)
- TTFI - tax-free treatment of overseas income for Americans living in the US, as well as tax-free treatment of income non-residents earn outside the US; vulnerable to exploitation by tax avoiders.



DA Tax Reform Criteria

Our support for any package of tax reforms will depend on how it aligns with our **Democratic Party values**.

We will support common sense reforms that clarify and **simplify filing** and make the tax code fairer for all Americans.

The provisions of the tax package must **help reduce inequality, boost opportunity** and raise revenue predominantly from those with the greatest ability to pay.

The advantages of changing from Citizenship Based Taxation to **RBT must primarily benefit ordinary Americans living and working abroad**.

The policy must include straightforward criteria for Americans abroad to use in establishing eligibility and should not obstruct freedom of movement.

RBT should **not significantly add to the federal deficit**.

RBT must not open tax avoidance loopholes or otherwise include avenues for high net worth taxpayers to abuse for the purposes of tax avoidance.

We will not support reforms that re-structure the federal government by starving programs that are important to national, community or individual well-being.



DA Taxation Survey findings

RESPONSES

- 4,500 submissions from voters living in 94 different countries, voting in every state plus 1 from Guam

CHALLENGES TO MAINTAINING TAX COMPLIANCE

- 80% of respondents - complexity of filing
- 2/3 - stress of filing
- 63% - cost of filing
 - 59% pay a tax return preparer/adviser
 - 57% of them paid \$500 or more for tax services
- Nearly 1/3 – IRS support is inaccessible and/or unhelpful
- 3% had no complaints

PARTICIPANTS – ordinary, middle class Americans

- 63% - married
- 59% - income of \$20-\$99,000
- 61% - live in a home they own or are buying
- 70% - employed or self-employed, full time or part time



DA Taxation Survey findings, cont

NON-RESIDENT STATUS

- 69% - have lived outside the US for 10 or more years
- 66% - have no plans to return to the US to live

TAX ISSUES OF NOTE

- 48% - taxation of long-term savings and retirement plans
- 45% - reduced access to financial products and services
- 26% - Capital Gains Tax treatment of non-US property sales
- 23% - PFIC rules on non-US investment funds

OTHER

- 25% - over age 65 (largest Age group)
- 59% - female
- 37% - Mandatory financial account reporting on the online FBAR

CBT v RBT

- 84% in favor of switching from CBT to RBT
- 7% - no view/Don't know



DA Tax Reform Grassroots Campaign - starting next week

We are responding to the ‘Big Six’ Tax Reform Blueprint :

- Protect middle class and vulnerable Americans, at home and abroad
- Prevent loopholes that enable tax avoidance, at home and abroad
- Support a clearer, simpler tax code, fairer to all Americans
- Include Residency Based Taxation in the tax reform proposal.

1. Grassroots outreach to Congressional tax reform policy writers (October)

- Materials for Committee CallStorm and email campaign
- Report, Datapack, Storypack on resident tax research outcomes

2. Grassroots outreach to elected representatives (October/November)

- Materials for Congressional CallStorm and email campaign
- Summary of non-resident tax research outcomes



Questions

Thanks for attending.

Thanks for your on-going interest in DA Tax advocacy.

Please support our Tax Reform grassroots campaign when it comes out next week.

To receive regular updates from the DA Taxation Task Force please sign up at www.democratsabroad.org/taxation

Contact the Taxation Task Force at any time with questions
TaxationTF@democratsabroad.org



Appendix 1

Big 6 Tax Reform Blueprint (1)

- Individuals
 - **Collapses the number of tax brackets** from 7 to 3 (12%, 25%, 35%). No advice on the brackets themselves. Possibly an additional top rate coming.
 - **“Zero Tax Bracket” doubled** - \$12k for individuals, \$24k for marrieds.
 - Elimination of dependent exemption; increase in Child Tax Credit.
 - **Elimination of itemised deductions** except home mortgage interest and charitable donations; no deduction for state and local taxes, student loans, out of pocket business expenses, medical expenses.
 - Elimination of Alternative Minimum Tax – built to ensure the wealthy don’t tax structure themselves out of paying tax entirely.
 - Pass-through tax rate of 25% - expected to incentivise many higher paid workers to disguise themselves as small business to take advantage.
 - **Elimination of estate tax**

Appendix 1

Big 6 Tax Reform Blueprint (2)

- Corporations
 - Tax rate decreased from 35% to **20%**
 - **Immediate write off** of capital investments (5 years)
 - New limits for business interest expense deductions
 - Repeal or limitation of “numerous other special deductions and exclusions.”
 - “Modernisation” of special tax regimes created for certain industries and sectors “to ensure that ... such rules provide little opportunity for tax avoidance.”
 - **Territorial taxation of global American companies** – 100% exemption for dividends from foreign subsidiaries.
 - **Lower tax rate for repatriated foreign earnings** that have accumulated overseas, with the tax liability spread out over time.
 - **Reduced “global rate” on foreign profits of US multinational companies.**

Appendix 2

Democrats Abroad 2016 Platform

Residency Based Taxation Plank (1)

RESIDENCE BASED TAXATION

A long-standing system of Citizenship Based Taxation (CBT) requires U.S. citizens to file annual U.S. tax returns in addition to meeting tax requirements in their countries of residence. With very few and extremely limited exceptions, all other nations apply the alternative system of Residence Based Taxation (RBT) in which individuals are taxed only on income and for goods and services provided in their countries of residence.

CBT creates unnecessary and unfair costs, stress, and hardship on the estimated 6+ million tax-liable Americans living abroad, some of whom have never resided in the U.S. The complex tax codes of two separate jurisdictions are only partially, and inadequately, addressed by IRS Section 911 Earned Income Exemption and various foreign tax treaties. Duplicated filing requirements impact all income types, and standards are often more stringent for overseas filers than for their domestic counterparts. Competing tax treatments result in double taxation for certain income types.

The adoption of Residence-Based Taxation would recognize the legitimate participation of U.S. citizens in other economies, while not impacting the taxation of their U.S.-sourced income and would provide positive outcomes for the U.S. economy.

(over)

Appendix 2

Democrats Abroad 2016 Platform

Residency Based Taxation Plank (2)

We:

URGE the Senate Finance Committee, the House Ways and Means Committee, and relevant U.S. tax bodies to include an in-depth focus on overseas Americans in the ongoing bi-partisan discussion of U.S. tax code reform.

URGE the adoption of Residence-Based Taxation on the foreign-sourced income and assets of U.S. citizens who are bona fide residents of a foreign country.



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