

TAX AND THE OVERSEAS AMERICAN

MAY 2017

U.S. State Department estimates suggest approximately 9 million U.S. citizens reside outside the country. Globalisation and economic integration are causing that number to grow. This despite the inherent – though inadvertent – ways the U.S. tax code discriminates against those who move abroad. The U.S. has a citizenship-based taxation system which obligates non-resident citizens to file tax returns on income generated in the U.S. and abroad, and also to report the financial accounts they have in foreign financial institutions. The U.S. is alone in the world (with the possible exception of impoverished Eritrea) that taxes its citizens on their worldwide income.

Reporting overseas income is very complex, even for ordinary earners who have only employment related income and retirement savings to report (no complex investment or other revenue streams). It is therefore both expensive and stressful. Many believe it is also inherently unfair, as many types of income are double taxed.

Because the United States is the only country that taxes its citizens on their worldwide income, even when those citizens live abroad, and no matter how long they live abroad, the current system of citizenship based taxation is motivating taxpayers to renounce their U.S. citizenship as a last resort for managing their household finances economically and with stability and certainty.

Residency-Based Taxation

Democrats Abroad supports a shift to residency-based taxation. It is in our Democrats Abroad platform going back to at least 1996. We have been speaking to Congress about a change from citizenship-based to residency-based taxation for decades. With Congress now having serious discussions about comprehensive tax reform we believe we have an opportunity to generation attention in and support for residency-based taxation.

Financial Account Reporting

Americans with more than \$10,000 in aggregate accounts in foreign financial institutions are required to report them to the IRS on the Report of Foreign Bank and Financial Assets. Americans living abroad with more than \$200,000 in aggregate in foreign financial institutions are *also* required, under the Foreign Account Tax Compliance Act (FATCA), to report the same financial account information on the Form 8938. FATCA is a law designed to catch citizens using foreign accounts for money laundering and tax evasion; it was not designed to collect information about U.S. citizens who use the accounts in their foreign country of residence to pay bills and save for the future.

Because of difficulty and cost to foreign financial institutions of FATCA compliance - and the enormous penalties for FATCA compliance failures – overseas banks are refusing service to Americans. In addition to the loss of access to a diversified supply of banking and investment products, FATCA reporting is making it harder for Americans to find jobs, start business partnerships and maintain stress-free domestic relationships with non-Americans who object to their joint accounts being shared with the IRS.

Democrats Abroad supports H.R. 2136 the Overseas Americans Financial Access Act. It exempts from FATCA reporting the foreign financial institution accounts of tax-compliant Americans who reside legally outside the U.S.