

Americans Abroad, US Taxation and Financial Account Reporting

December 9, 2020

Summary

Democrats Abroad is seeking relief for the 9 million Americans who live abroad through updates to the IRC and regulations to end double taxation, remove barriers to banking, saving, and investing and simplify tax filing from abroad.

We are seeking a **same country exemption from FATCA filing** to eliminate all reporting of accounts in the country of residence, because no one hides assessable income in accounts in a country where they are already declaring income and paying tax.

From the IRS we seek a **restoration of IRS support to non-resident citizens** and the expansion of overseas taxpayer assistance resources. We also seek a **communication channel with Treasury regulators** to provide them with the information they need to understand the impacts abroad on legislation including TCJA Repatriation and GILTI taxes.

Issues for individuals

- While the *Foreign Earned Income Exclusion* and *Foreign Tax Credits* provide some protection from double taxation, there are many types of income that fall outside those provisions and are **double taxed**. These include income types associated with retirees and with vulnerable citizens living on foreign government social welfare. While some U.S. tax treaties protect savings in statutory retirement accounts from double taxation, most do not.
- Punitive tax treatment (PFIC) for non-U.S. investing and saving vehicles combined with provisions in securities, national security and banking laws make **saving for retirement or the family's future very expensive and inefficient, if not impossible.**^[ii]
- Even the family home is at risk. Americans abroad are entitled to no deduction for interest on a home mortgage, nor favourable capital gains treatment on sale. In fact, they are at risk of a capital gains tax liability should fluctuations in the value of currency create an artificial gain.
- Filing from abroad is **inordinately complex**, forcing most Americans abroad to seek the services of expensive tax return preparers who understand the tax systems of both the U.S. and the country where they reside. Americans abroad pay more than twice what U.S.-based filers pay for tax preparation.^[i] Therefore, most are **paying heavily to maintain U.S. tax compliance even though they owe no tax** to the U.S. government.

Issues for employers and small business owners

- U.S. taxation puts job-seeking Americans abroad pursuing tax equalization at a **competitive disadvantage in the job market** as it makes these potential employees 40% more expensive for companies to hire than those of other nationalities.
- Financial account reporting requirements make Americans **unacceptable as business partners** to those averse to sending their business's financial information to the U.S. government.
- The Repatriation Tax and GILTI taxes in the **Tax Cuts and Jobs Act are causing serious financial problems** for Americans who own small to medium sized businesses abroad. While the reforms that ushered in these new taxes have been beneficial for American companies with profits in overseas subsidiaries, they have had the reverse effect on Americans abroad - retirement savings held in their business are being drained to pay Repatriation tax and future earnings are double-taxed by GILTI; as a result, SME are being forced to either re-structure those businesses at considerable cost or close them.

Americans abroad - the numbers

- There are an estimated 9 million American civilians living abroad. Survey results indicate: [iv]
 - 61% have household income of less than \$100,000
 - 72% are married, 71% to non-U.S. spouses
 - 63% own their own home
 - 32% moved abroad for marriage or a relationship
 - 25% left the U.S. for work/employment
 - 64% have made their home abroad and have no plans to return to the U.S.

Democrats Abroad Taxation Task Force

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