



February 7, 2022

The Honorable Bill Pascrell
Chairman, Subcommittee on Oversight
House Committee on Ways and Means
1102 Longworth HOB
Washington, DC 20515

The Honorable Tom Rice
Ranking Member, Subcommittee on Oversight
House Committee on Ways and Means
1139 Longworth HOB
Washington, DC 20515

Re: Hearing with the National Taxpayer Advocate on Challenges Facing Taxpayers

Dear Chairman Pascrell, Ranking Member Rice, and Members of the Subcommittee:

Democrats Abroad greatly appreciates your holding this important hearing. We recognize the enormous challenges facing the Internal Revenue Service (IRS) in this COVID-19 era, but the IRS is required to assist Americans living abroad just as it does Americans living in the U.S. Our recommendations would help alleviate problems faced by taxpayers living abroad while also helping to increase tax compliance.

Democrats Abroad strongly supports the National Taxpayer Advocate’s recommendations to reform the inequitable tax code which currently affects an estimated nine million U.S. citizens residing abroad,¹ the overwhelming majority of whom are working or middle class.²

Democrats Abroad has long advocated for common-sense solutions to many of the issues raised in this year’s Purple Book and those from previous years. Despite years of recommendations from IRS watchdogs – and despite the proposed solutions being revenue-neutral or revenue-positive – aspects of the current tax code run counter to the widely-accepted Taxpayer Bill of Rights and continue to result in harm to taxpayers.

¹ The U.S. Department of State’s Bureau of Consular Affairs. (2020, January). Consular Affairs By The Numbers. Retrieved February 6, 2022, from <https://travel.state.gov/content/dam/travel/CA-By-the-Number-2020.pdf>

² Democrats Abroad. (2019, March 1). *Tax filing from abroad - 2019 Research on Non-Residents and US Taxation*. Page 4. Retrieved February 7, 2022, from <https://democratsabroad.atlassian.net/wiki/download/attachments/4257416635/Tax%20filing%20from%20abroad%20-%202019%20Research%20on%20Non-Residents%20and%20US%20Taxation.pdf?api=v2>

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Due to at least 23 discriminatory provisions in the tax code, filers residing abroad are faced with greater complexity, harsher penalties, and more ambiguity relating to tax filings. The average cost of preparation for a tax return filed from abroad ranges from \$500 to \$1000,³ an amount that often exceeds any taxes owed.

Democrats Abroad strongly supports the recommendations shown below stemming from the *National Taxpayer Advocate 2022 Purple Book*, which also has the support of the Government Accountability Office, the National Taxpayer Advocate, and the IRS Taxpayer Advocacy Panel:

Legislative Recommendation #8

Harmonize Reporting Requirements for Taxpayers Subject to Both the Report of Foreign Bank and Financial Accounts [FBAR] and the Foreign Account Tax Compliance Act [FATCA / Form 8938] by Eliminating Duplication and Excluding Accounts Maintained by U.S. Persons in the Countries Where They Are Bona Fide Residents

Legislative Recommendation #14

Allow Additional Time for Taxpayers to Request Abatement of a Math Error Assessment Equal to the Additional Time Allowed to Respond to a Notice of Deficiency When the Math Error Notice Is Addressed to a Person Outside the United States

Legislative Recommendation #15

Amend IRC § 6212 to Provide That the Assessment of Foreign Information Reporting Penalties Under IRC §§ 6038, 6038A, 6038B, 6038C, and 6038D Is Subject to Deficiency Procedures

Legislative Recommendation #38

Modify the Definition of "Willful" for Purposes of Finding Report of Foreign Bank and Financial Accounts Violations and Reduce the Maximum Penalty Amounts

Adopting these recommendations would provide substantial relief to the millions of Americans residing abroad.

Such Purple Book recommendations are intended to provide targeted relief that improves taxpayer rights while respecting the intentions of the tax code. More substantive reforms will ultimately be necessary to address more systemic issues facing Americans residing abroad, such as:

1. Unavailability of financial services, caused largely by conflicts between U.S. laws and the laws of the countries that Americans reside in. U.S. based financial institutions routinely refuse service to Americans abroad while local providers also overwhelmingly have "No U.S. Persons" policies that are used to justify account refusals and shutdowns.

³ Ibid.

2. Disproportionately high tax-preparation costs and excessive compliance risks associated with information reporting harm ordinary taxpayers who are unable to afford sophisticated tax advice or bespoke financial planning.
3. Double taxation –due to misalignment of tax systems that cannot be mitigated using the Foreign Earned Income Exclusion (FEIE), Foreign Tax Credit (FTC), or existing Tax Treaties

Americans have been effectively barred from saving for retirement, starting a small business, or sharing finances with their spouses, resulting in inability to retire, forced closure of small businesses, divorce from non-American spouses, and even suicide.

Americans abroad have pleaded for relief for over a decade, with no meaningful legislative response from Congress. Democrats Abroad and virtually every other organization representing Americans abroad agree that implementing the above reforms would:

- Substantially improve the well-being of Americans abroad
- Improve the administrability of the Internal Revenue Code and facilitate greater tax compliance
- Reduce strain on an Internal Revenue Service that has expressed that the burden associated with American taxpayers abroad is disproportionate to the miniscule tax revenue raised.

We would encourage an additional hearing this year specific to the tax and financial-service problems faced by Americans abroad. We would also welcome engagement with individual Members of the Ways & Means Committee to discuss opportunities to introduce such reforms.

Democrats Abroad plans to release updated research on Americans abroad and their tax situations this summer and we look forward to sharing our result and analysis with the Committee to review it then.

Thank you for the opportunity to provide this testimony.

Please do not hesitate to contact Rebecca Lammers of our Taxation Task Force on taxadvocacy@democratsabroad.org with any questions about the information and recommendations provided.

Sincerely,

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