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A 2022 Update on Tax and Financial Access Issues of Americans Abroad

November 30, 2022

DEMOCRATS ABROAD
Taxation Task Force

EXECUTIVE SUMMARY

The U.S. State Department estimates there are 9 million Americans living abroad. If this number is indeed accurate, the problems described in this report impact a constituency greater than the population of all but 11 states.

Americans move abroad primarily for family, work, or school, and then remain. Many have also elected to retire overseas due to lifestyle and/or lower costs of living.

The vast majority of Americans Abroad are not high net worth, but individuals with modest incomes. Many are small business owners incorporated under local business regulations.

Americans abroad file tax declarations in the country in which they live and are also required to file U.S. tax returns. Americans abroad report that tax policies intended to prevent tax evasion and overseas financial crimes have caused tremendous hardships in their day-to-day affairs.

In April 2022, Democrats Abroad conducted an anonymous survey on the tax and financial-access issues facing Americans living outside of the United States. From nearly 7,000 responses, we found that the top concerns regarding taxes and financial access were:

1. More complicated and more expensive U.S. tax filings for Americans abroad compared to Americans in the U.S.
    - 78% of those who had previously filed a tax return before moving abroad said filing from abroad was "more" or "much more" complex. 98% of respondents stated they shouldn't have to file a U.S. tax return when no U.S. tax is due.
    - Dealing with this complexity often requires the services of expat specialist accountants, which are more expensive due to the specialist knowledge required. Because of the more expensive services required – and the complexity of filing itself – 27% reported spending $201-500 filing their taxes in 2021; 30% reported spending $501-1,000; and $31% reported spending $1,001-5,000.
    - Only 33% said they owed any U.S. tax so 67% of respondents paid for the cost of information compliance only. These compliance costs are compounded by the fear of onerous penalties even for inadvertent non-compliance.
2. The potential – and actuality – of double taxation (paying taxes on the same income in two jurisdictions) due to extraterritorial taxation
    - Although most Americans abroad are not double-taxed, survey respondents expressed concern because there are areas of the tax code which do in fact result in double taxation, such as on non-U.S. retirement accounts, scholarships

for students, and small businesses income. Tax treaties explicitly exclude U.S. citizens from many of the provisions designed to eliminate double taxation.
    - Respondents expressed that extraterritorial taxation feels especially unfair since our expat peers (from other nations) do not have these issues.
3. Financial-access barriers caused by U.S. law
    - Many respondents reported restrictions in banking locally due to the Foreign Account Tax Compliance Act (FATCA); difficulties in opening and maintaining U.S.-based financial accounts due to the USA PATRIOT Act; and an inability to save or invest for retirement due to the IRS tax treatment of local financial products. This leaves the population unusually unbanked or underbanked.
    - Americans abroad need to be able to open bank accounts where they live if only to pay normal household bills, especially since some countries require that salary be paid into, or bills paid from, a local account.

The survey results confirm the tax discrimination and financial-access issues experienced by Americans abroad have gotten worse, not better. Since Democrats Abroad started surveys in 2012, the compounding effect of tax discrimination, unintended consequences, and banking rules and regulations has imposed a substantial burden on Americans abroad.

The government response to these issues has been woefully inadequate

- While the IRS provides multiple programs for assistance with filing a tax return stateside, even with the additional complexity and expense of filing from abroad, the IRS provides less assistance for international taxpayers: funding was cut and all IRS Taxpayer Assistance Centers abroad were closed in 2013; there is no funding for Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) programs outside the U.S., like there are inside the country; communication with the IRS is limited to phone and mail, which are severely limiting for those outside the U.S.
- Americans abroad retain Congressional representation and vote based on their last U.S. address. Respondents noted that when they attempted to contact their Congressional representatives, offices often mistakenly log their communication as non-constituent contact. Since overseas constituents are unfortunately not always top of mind for Congressional leaders, tax and financial-access issues have continued to worsen as unintended consequences compound with every tax bill passed.

Legislative action is required to remedy most of these issues which includes but is not limited to taxing based on residency and source, exempting Americans abroad from FATCA, and reviewing past and ongoing legislation to ensure no further unintended consequences occur for Americans abroad.

ABOUT DEMOCRATS ABROAD

As the largest Americans abroad organization in the world with 200,000 members, Democrats Abroad is the official Democratic Party arm for the estimated 9 million Americans living outside the United States. It strives to provide Americans abroad a Democratic voice in our government and mobilize their votes to elect Democratic candidates.

Democrats Abroad has 48 country committees throughout Europe, the Americas, the Middle East, Africa, and Asia. These country committees keep Americans abroad informed of their rights and help them participate in the U.S. political process. Members live in more than 200 countries around the globe and vote in every U.S. state and Congressional district.

Democrats Abroad is officially recognized as a "state" party by the Democratic National Committee (DNC) and is represented on the DNC by eight voting members, as well as at the quadrennial Democratic National Convention.

Our online voter registration tool - votefromabroad.org - makes it easy to request a ballot in order to vote absentee from any place on the planet.

ABOUT THE DEMOCRATS ABROAD TAXATION TASK FORCE

The Democrats Abroad Taxation Task Force (TTF) consists of volunteers researching U.S. tax policy as it affects Americans living outside the U.S. and considering, developing, and executing initiatives aimed at enacting reforms that resolve adverse impacts.

We undertake research-based advocacy to describe the problems that U.S. taxation causes Americans abroad and to garner large-scale support for our reform recommendations.

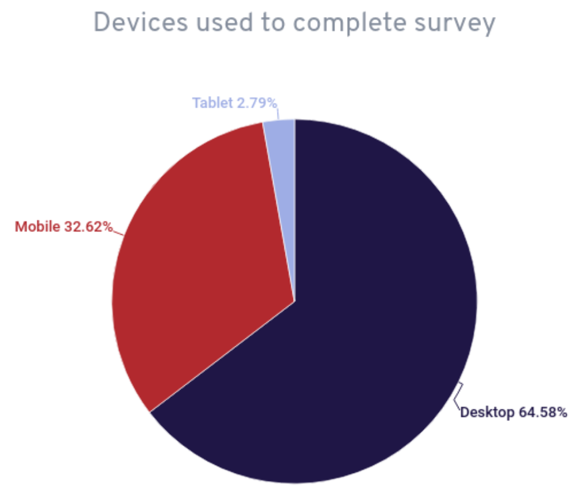
We call on the United States to tax based upon residency and source, exempting Americans abroad from FATCA reporting, and fixing the tax code to eliminate tax discrimination for Americans abroad.

Go to democratsabroad.org/taxation to read about our latest work on our blog, sign up for the mailing list to stay up to date, view the tax library, attend upcoming events, donate, or volunteer to help the cause.

ABOUT THE SURVEY

The 2022 Tax Survey of Americans Abroad was open for responses from April 1 to April 30, 2022. It was designed to collect up-to-date information on how Americans living outside the U.S. experience U.S. taxation and financial access. Democrats Abroad conducted previous tax and financial-access surveys in 2012, 2014, 2017, and 2019. Questions from the survey were based on an analysis of focus groups in 2021. The survey was conducted anonymously to ensure respondents were comfortable sharing personal tax and financial information. To increase the reliability of the resulting data, answers to questions were randomized where possible.

The survey was conducted on typeform.com, a well-known website for creating a survey form that is easy for respondents to complete. It was shared with Democrats Abroad's 200,000 members via email; Americans abroad and expat Facebook groups and other social media channels including Twitter, Instagram, and Reddit; and occasional press or news websites. To reach beyond our immediate network, we relied on word-of-mouth (snowball) distribution. The content of the survey was intended to be – and, we believe, succeeded in being – non-partisan.



The initial survey page was viewed 15,155 times, resulting in 9,084 starts and 6,903 completions (for an average completion rate of 76.1%). Completion time averaged 43 minutes and 37 seconds.

We acknowledge the following strengths and limitations of the survey, results, and analysis:

- Only those with an Internet connection (see pie chart above) were able to participate – no offline option was available – so those without an Internet connection were excluded.
- Shorter surveys produce higher response rates and thus more reliable data, and this survey was longer than we would have preferred. This resulted in skewing the results towards older individuals who remained committed to the survey's completion.
- Despite the length of the survey, the high completion rate speaks to the importance of the topic.
- Nevertheless, the survey likely does not capture the view of the average American abroad, but rather that of those who were made aware of the online survey and wanted their voice to be heard, perhaps because they have experienced the most difficulty.

AMERICANS ABROAD ARE JUST LIKE ANY OTHER AMERICANS

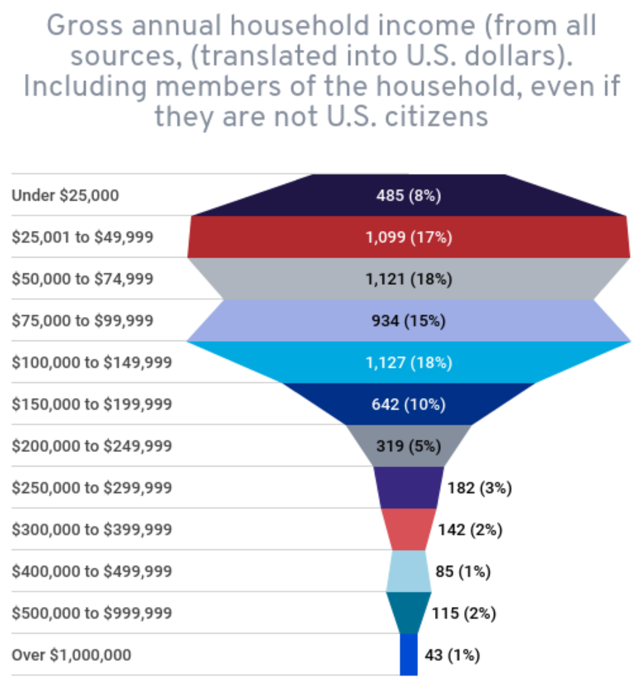
The following is a summary of demographic characteristics of the 6,903 respondents. To participate in the survey, they had to confirm they were a U.S. citizen living outside of the United States.

- 84% reported obtaining U.S. citizenship at birth in the U.S.; 7% being naturalized; and 9% being born outside the U.S. to one or two U.S.-citizen parents (2% said they had never lived in the U.S.).
- 59% identified as female, 39% as male, and 2% preferred not to say or reported "other" (including non-binary, transgender male, transgender female, or intersex).
- 79% identified as heterosexual or straight, 8% as gay or lesbian and 5% as bisexual. 9% preferred not to say.
- The survey had responses from every age group, but the age of respondents skewed older, with the most responses coming from people 55-74 years old.
- The mean (average) reported years lived outside the U.S. was 22.7 years; mode 20 years; and median 20 years.
- When it came to family, 58% had children while 67% were married or in a legally recognized partnership, 15% were single, 9% divorced, 5% widowed, and 2% separated.
- 44% completed a master's degree/law degree, 30% a bachelor's degree, 14% PhD, 5% some college but no degree, 2% high diploma school or equivalent, 2% associate's degree, 3% other or prefer not to say.
- 85% identified as White; 3% as Hispanic or Latino/Latina/Latinx; 2% as Asian or Pacific Islander; 2% as Black; and 0.4% as American Indian, Alaska Native, or Indigenous. 7.6% were other or preferred not to say.
- 8% reported having a disability.
- Respondents reported having last lived in each of the 50 states (and DC), with the top 5 states, in order, 1) California, 2) New York, 3) Massachusetts, 4) Pennsylvania, and 5) Florida.
- The top 5 countries of reported residence were 1) Canada, 2) United Kingdom, 3) Germany, 4) France, and 5) Netherlands.
- Over half (57%) of all respondents reported being a dual citizen. Top dual citizenships were 1) Canada, 2) United Kingdom, and 3) France.
- 83% reported being members of Democrats Abroad.
- 0.2% (12 responses) reported being on active duty in the U.S. Armed Services and 5.3% (360 responses) identified as being a veteran.
- The top 5 reasons people reported for having chosen to reside abroad were 1) life choice/lifestyle change/better standard of living; 2) marriage/partnership; 3) employment; 4) study; and 5) lower healthcare costs.

- The top 5 reasons people reported remaining abroad were 1) life choice/lifestyle change/adventure; 2) marriage/partnership); 3) lower healthcare costs; 4) employment; and 5) disapproving of U.S. policies, politics, or social positions.
- 47% reported that they do not plan to return to the U.S. to live; 43% didn't know if they would return; and 10% reported planning to return.

Cultural preferences

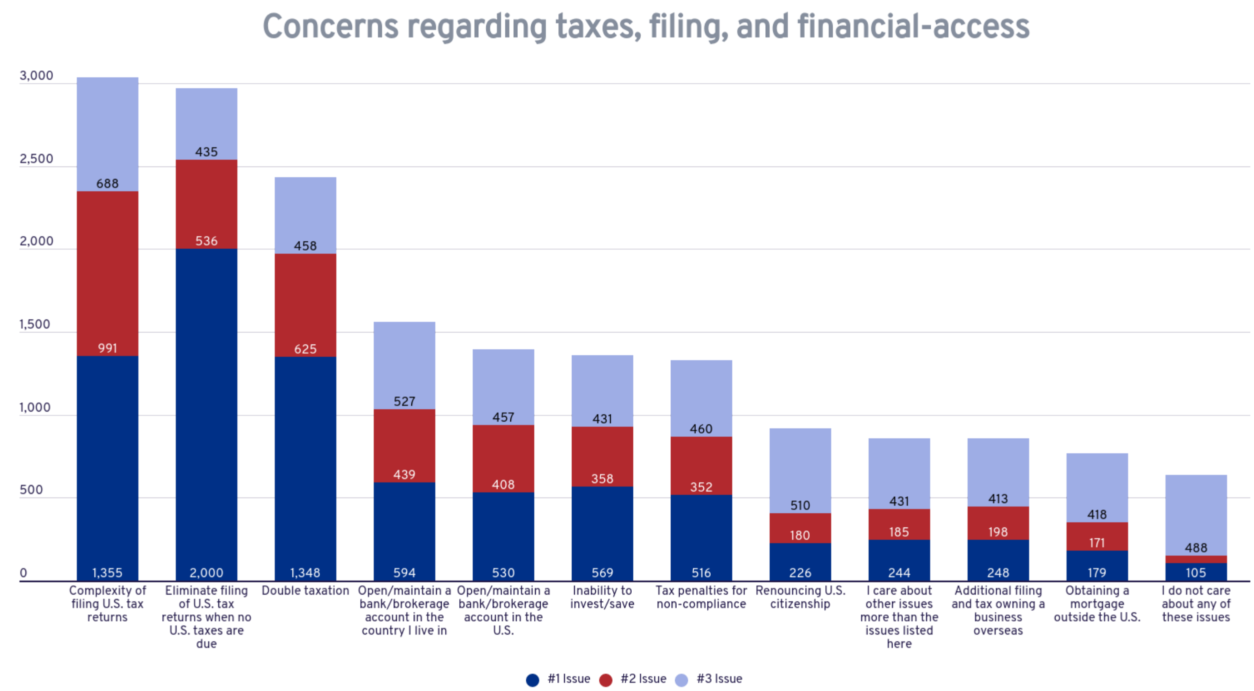
- The top 3 terms respondents identified as were 1) U.S. citizen 2) American abroad, and 3) Dual or multi-citizen. Throughout the report we aimed to use "American abroad."
- The top 3 ways respondents reported maintaining ties or connections to the U.S. while living abroad were 1) following U.S. news and media; 2) visiting friends and/or family in the U.S.; and 3) celebrating American holidays.



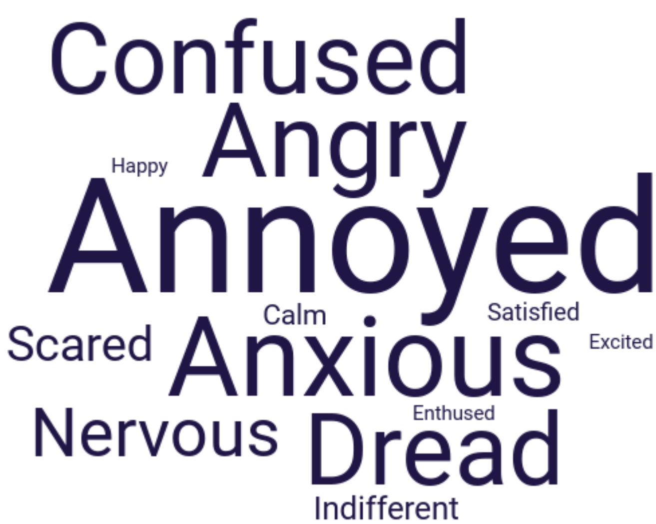
Top concerns

Asked to rank their top 3 concerns regarding taxes, filing, and financial access, the top 3 reported by a majority were (multiple choice options):

1. Extremely complicated U.S. tax returns, especially for Americans abroad (100% of responses)
2. Filing requirement even when no U.S. taxes are due (97%)
3. Double taxation, i.e., paying taxes on the same income in two jurisdictions (80%)

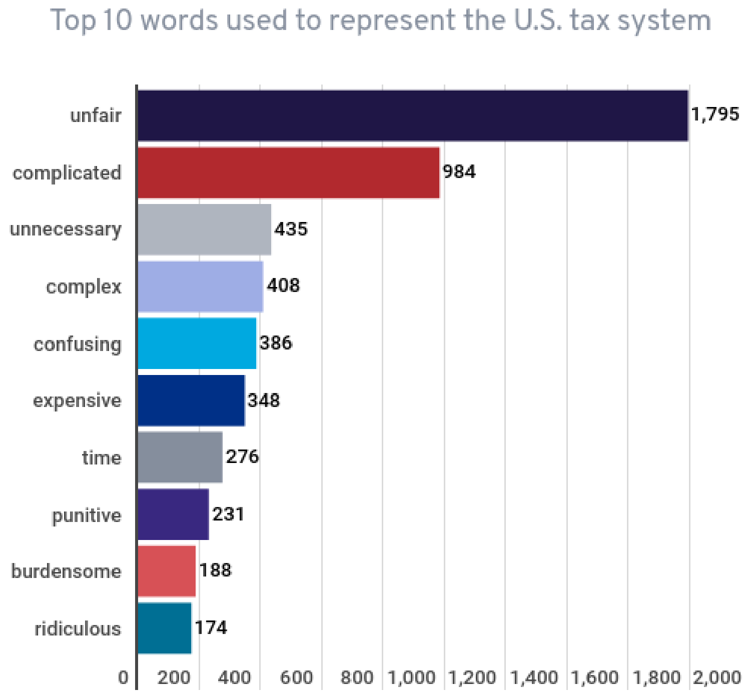


As will become clear throughout the report, Americans abroad suffer from what they perceive as unfairly difficult tax-filing requirements. We have incorporated quotes from the survey throughout the report in an attempt to illustrate, in their own words, the problems participants experienced. Note that quotes have been lightly edited for clarity and consistency. It is especially this complexity that causes frustration, as demonstrated in the freeform word cloud to the left.



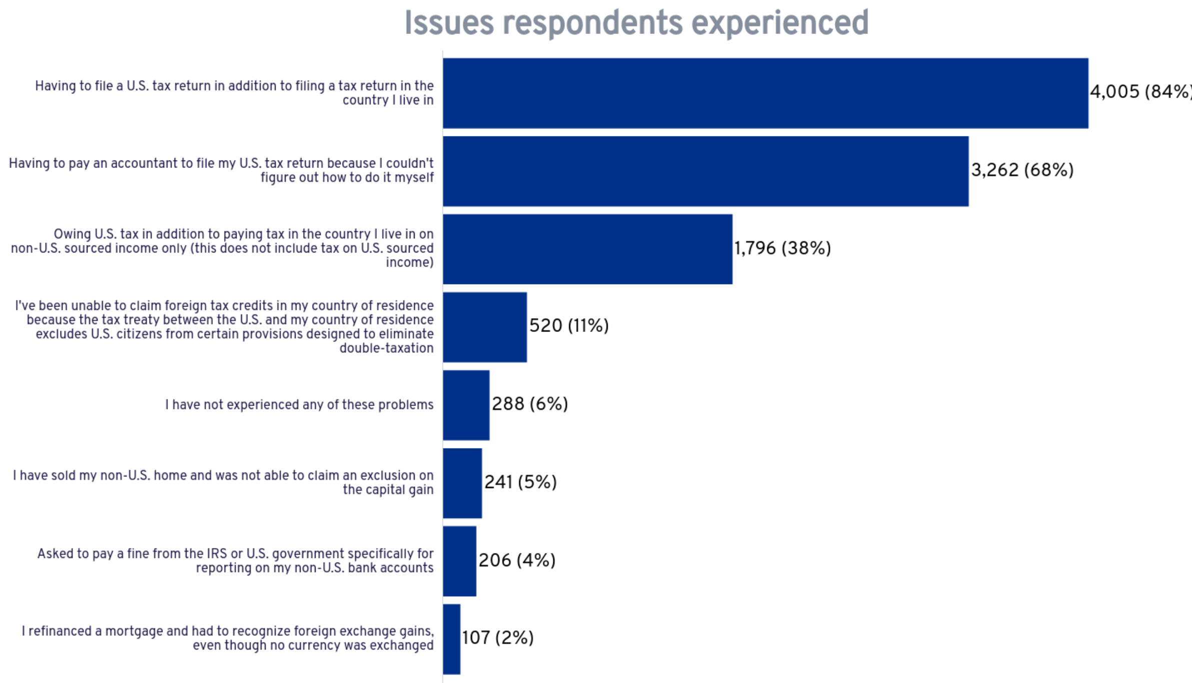
Respondents were asked to indicate how – from among a set list of emotions, of which they could select as many or as few as they wanted – they would complete the statement: "When I think about my U.S. tax situation, I feel…". The size of words in the word-cloud indicates more responses.

Respondents were also asked “What three words most accurately represent your views on the U.S. tax system as an American abroad?” as a freeform question. The top 10 words suggested by respondents are displayed in the bar chart below.



All responses were also put into a word cloud to display the breadth and depth of reactions to this question.

95% of respondents reported having experienced at least one of the problems below (respondents could select zero or as many as they preferred).



BARRIERS, BARRIERS, BARRIERS: AMERICANS ABROAD STRUGGLE TO FULFILL THEIR OBLIGATIONS

84% of respondents confirmed that they filed U.S. tax returns last year while living abroad, but 80% of them “disagreed” or “strongly disagreed” that “filing requirements and definitions are easy to understand,” while 70% disagreed or strongly disagreed that “the amount of time I spend to file is reasonable.” And, as noted above, there is limited assistance available to Americans abroad, yet if we fail to file correctly, we can be heavily fined.

Limited or no support from the U.S. government and IRS

One of the biggest barriers for Americans abroad is the inadequate communication channels with the IRS. Within the U.S., taxpayers can sign up for an online account on IRS.gov to access basic information about their account. Historically, Americans abroad have been unable to access or set up an account due to geo-blocking restrictions on the site, though in November 2021 the IRS removed geo-blocking, enabling Americans abroad for the first time to set up an online account. As of our survey (April 2022), 87% of respondents either were not aware that they could now set up an IRS.gov online account or were aware but hadn’t tried. 66% of those who did know that they could set up an account reported nevertheless being unable to do so, due to not having a U.S. address or phone number. It is actually possible to set up an online account from abroad without a U.S. address or phone number, but the set-up process makes it very difficult for the average American not savvy with the various IRS online processes. Early reports from Americans abroad have also indicated that it was difficult to complete the identity verification process.

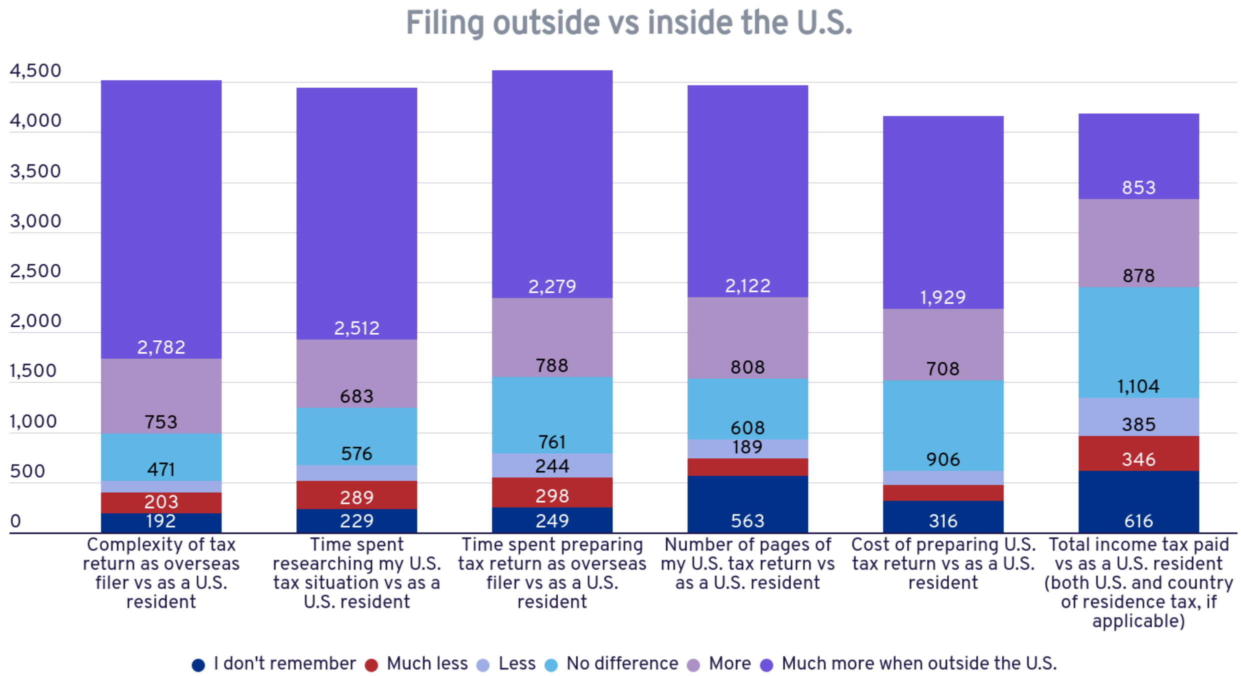
Although the IRS recognizes Americans abroad as an underserved community,[1] communication with the IRS is restricted to phone, fax, and traditional postal mail, which is severely limiting for those outside the U.S. who, along with the rest of the world, use e-mail and Internet communications as standard forms of communication. Respondents indicated that they had no means to communicate with the IRS and didn't know how to contact the agency. Those who reported that they were able to call the IRS, either received a message that all lines were busy and to call back at another time, were put on hold for extended periods of time only to be hung up on, and/or not be able to get a resolution to their issue. This comes as a great expense due to being forced to call a U.S. number from abroad. For those who said they were able to speak with the IRS on the phone, they expressed it was challenging to find an agent who is knowledgeable about Americans abroad issues. Letters which are sent from the IRS are often lost in the mail or received past the deadline required for action as noted on the letter, during which penalties and interest accrue. Since a response must be in writing, this creates a back-log of paper documents that the IRS is months, if not years, behind in answering.

Respondents reported that electronic file software is inadequate for preparing even standard tax filings required by Americans abroad. Very few, if any, programs exist that support Americans abroad.

Filing outside vs inside the U.S.

We asked respondents a series of questions comparing their experience of filing a U.S. tax return while living in the U.S. versus filing while living abroad. On nearly every question, respondents confirmed that they spent more time preparing, researching, and spent more money compared to when they lived in the U.S. Additionally, the complexity and number of pages of the return increased. Thus even when Americans abroad seek to comply fully with their filing obligations, the difficulty and expense of doing so are substantially greater than for Americans living in the U.S.

[1] As stated on page 63 in The Taxpayer First Act Report to Congress, January 2021. https://www.irs.gov/pub/irs-pdf/p5426.pdf



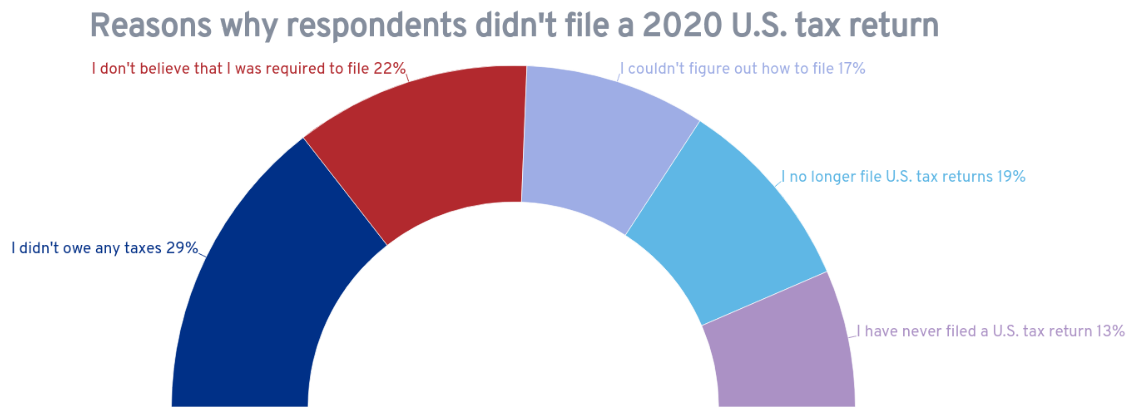
Non-filers do not know they should be filing, don't know how to file, and/or can't find affordable tax preparation services

> *"It is too complicated and I can't find anyone to help me."* - American from California living in the United Kingdom
>
> *"My US accountant stopped responding to my messages. I didn't feel comfortable attempting to file them on my own because of the severe consequences. I felt lost as to who to ask for help."* - American from Washington state living in Norway
>
> *"I did not know at the time that I was required to file."* - American from Florida living in France
>
> *"Costs too much to file and I don't make enough to owe any taxes in the U.S."* - American from Connecticut living in Germany
>
> *"I have zero clue if I'm tax-compliant at the moment."* - American from California living in France

We were unable to ascertain how many Americans abroad are both aware of their U.S. tax-filing obligation and successfully able to file versus how many are aware but were unable to figure out how to file; and how many were simply not aware of their obligations and therefore do not file. 15% of respondents reported using a U.S. address to file, while IRS statistics put Americans abroad into an "other" category along with residents of U.S. territories, so public data isn't clear.

But what is clear is that there are many barriers hindering Americans abroad from complying with filing requirements.

It is not for lack of trying. – Even under the present system of extraterritorial taxation– Americans abroad fail to understand why they must file tax returns when no U.S. tax is owed.



CONFUSION ABOUNDS ABOUT FBARS

Almost 30% of respondents were unaware they are also likely required by U.S. law to file an FBAR (Foreign Bank Account Report) annually. Although FBARs are a reporting requirement put in place to prevent the funding of financial crimes (i.e. money laundering, terrorism, OFAC (Office of Foreign Assets Control) violations, etc.) all Americans, including Americans abroad, are required to file an FBAR if they have an account in a country outside the United States. This means that Americans abroad are required to file an FBAR for accounts that, for them, are not foreign but domestic accounts. The FBAR penalties are punitive regardless whether non-compliance was willful or non-willful. FBAR goes not to the IRS but to FinCEN (the Financial Crimes Enforcement Network), leaving many Americans abroad wondering why they're required to file multiple reports when they are going about their everyday financial activities while using a bank around the corner from where they live.

There is no age restriction on FBAR filing requirements, so if a U.S. citizen child has an account in their name and it meets the FBAR reporting threshold, then the child is required to file the form as well. It's astonishing that even on FinCEN's website it goes into detail to explain how a child should file the form and, if they can't do it themselves, a parent or legal guardian must do it for them.[2]

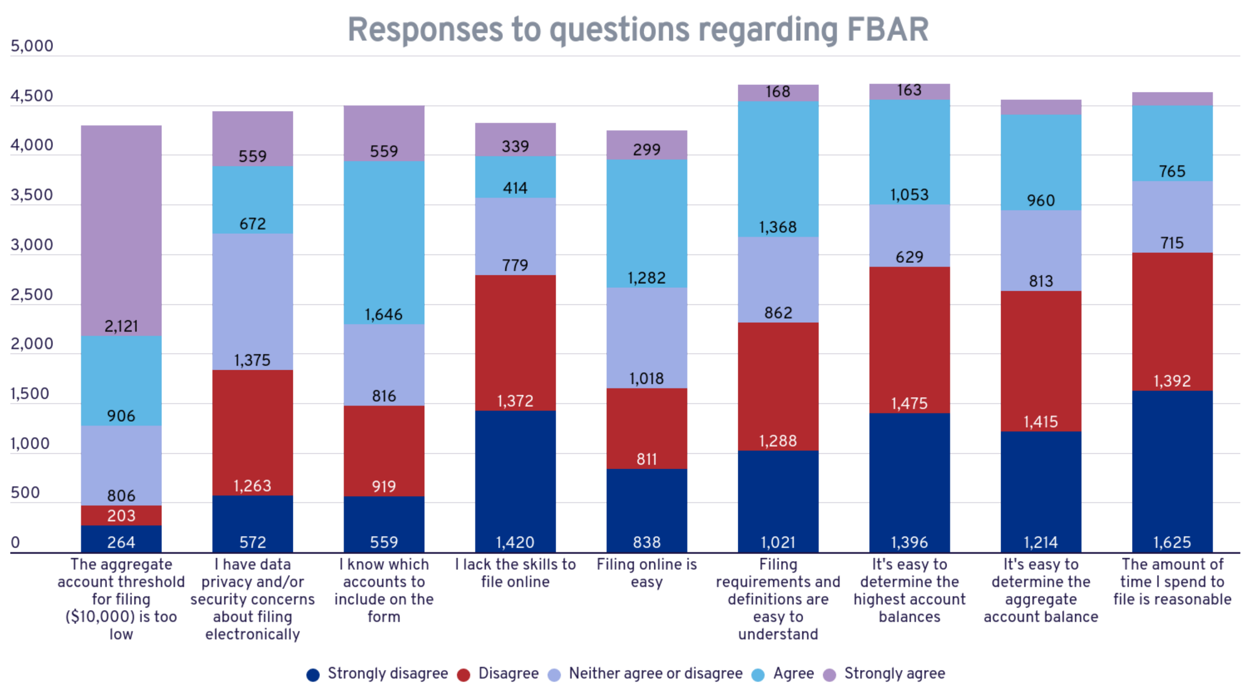
[2] https://www.fincen.gov/sites/default/files/shared/FBAR%20Line%20Item%20Filing%20Instructions.pdf

We have also received reports from seniors who struggle to file this form, who struggle to file given there is no paper file option and it has to be e-filed. Therefore, they have to pay an accountant to file the FBAR for them, and in some cases we've heard of accountants charging $100 per account, imposing an enormous burden on our most vulnerable citizens.

Some incremental reforms that Democrats Abroad advocates for FBAR are:

- increasing the filing threshold and – given that it has been $10,000 since implementation in 1970 – indexing it to inflation
- exempting Americans abroad
- allowing a paper-file option
- reducing duplicate reporting by consolidating the FBAR with FATCA reporting to the IRS[3] [4]
- exempting everyday accounts for Americans abroad (often referred to as same country exemption)

Changing the U.S. tax code to taxing based on residency and source could include an exemption from FBAR reporting for those living abroad.[5]



[3] Some accounts are exempt from FATCA reporting that are reported on the FBAR.

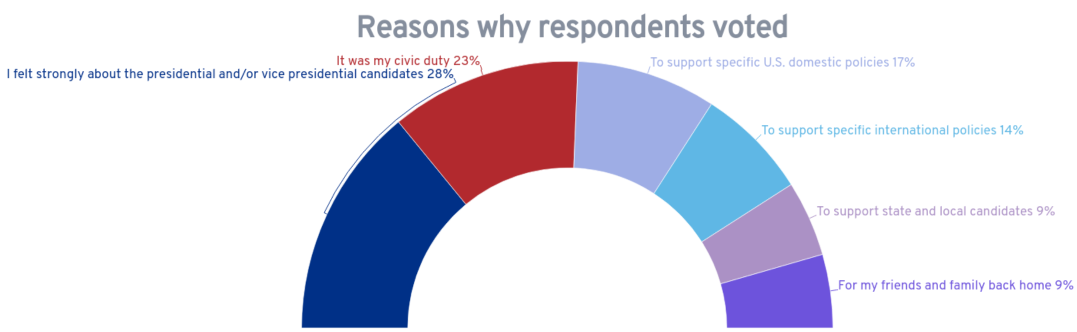
[4] The National Taxpayer Advocate has also recommended eliminating this duplication in the 2017, 2019, 2020, and 2022 Purple Book. https://www.taxpayeradvocate.irs.gov/reports/

[5] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2510544

TAXES AND VOTING

In the 2020 presidential election, the number of votes from abroad was the margin of victory in both Arizona and Georgia. And in fact, votes from abroad have become increasingly important in tight U.S. elections at both federal and state levels. This is one of many reasons that Democrats Abroad advocates for Americans abroad to vote in U.S. elections. But we have heard from many Americans abroad that they fear voting in U.S. elections due to a longstanding myth of casting a ballot possibly connected to U.S. tax policies, so we wanted to better understand their concerns.

It is currently estimated that 6.5 million Americans abroad are of voting age,[6] only 1.2 million of whom voted in 2020.[7]



The right to vote in federal elections is protected under the 24th Amendment of the U.S. Constitution, which states that voting can't be conditional on paying a tax. The right to vote from abroad is also protected under The Overseas Citizens Voting Rights Act of 1975, but even after the Act was passed, many Americans abroad still initially refrained from voting because they feared tax consequences. In 1978, Congress modified the Act to make clear that voting in a federal election could not by itself cause any local, state, or federal tax consequences, but still we have the low participation rate mentioned above.

Democrats Abroad then helped convince Congress to pass the Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA) of 1986, which laid the legal basis for a vast expansion of access to voting by Americans residing abroad. Each year more local barriers are removed as the federal legislation is enforced at the state and local level. This breakthrough legislation has swept away almost all important legal obstacles to absentee voting by Americans abroad.

Given that Democrats Abroad's primary mission is getting Americans abroad to vote, we wanted to better understand what tax barriers existed that prevented people from voting. Of the 405 respondents reported not voting at all in 2020, 24% said they were worried about the

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[6] https://www.academia.edu/35468104/Access_to_electoral_rights_United_States_of_America
[7] https://www.eac.gov/sites/default/files/document_library/files/2020_EAVS_Report_Final_508c.pdf

tax implications of voting or registering to vote. Even with federal protections in place for decades, it's clear from the survey that taxes are a barrier for Americans abroad exercising their right to vote.

As noted, some Americans abroad also don't vote in state or local elections for fear of state tax consequences. State tax liability depends on several factors. First, not all states even allow "down ballot" voting (i.e., in state and local elections) from abroad in any case. While the right to vote from abroad in federal elections is protected by law, voting in state and local elections is determined by each state's laws.[8] 365 respondents reported only receiving a federal election ballot in 2020.

On the other hand, 9 states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, Tennessee, New Hampshire) do not have a state income tax, so voting in any of these states cannot subject one to state tax.

But each state has its own definition of a resident, therefore liability for state tax is dependent on state law, not UOCAVA. Ultimately, it depends on personal circumstances whether an individual living abroad might be subject to state tax. Out of those who did vote, but didn't vote down ballot, 144 (9%) said it was due to tax concerns. Clearly taxes remain a concern for voting.

"Why did you vote?"

"Because if you don't vote, you can't complain about who won!" - American from Florida living in France

"It is a right I value." - American from Texas living abroad

"It is my right and duty." - American from Arizona living in France

"It is my right as a citizen." - American from California living in New Zealand

"Because political decisions and… socioeconomic realities in the United States have a disproportionately large knock-on effect around the world." - American from Utah living in Finland

"U.S. policies have an outsized effect on the whole world." - American from New Mexico living in Spain

[8] https://www.votefromabroad.org/faqs/ST1

SUBSTANTIAL BARRIERS EXIST TO OPENING AND MAINTAINING BANK ACCOUNTS, BOTH ABROAD AND IN THE UNITED STATES

Americans abroad face pervasive discrimination by banks and brokerage firms, both in their country of residence (due to FATCA, the Foreign Account Tax Compliance Act) and in the United States (due to the USA PATRIOT Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act). This lack of financial access is unique to Americans abroad: Citizens of no other country - not even Cuba, Iran, or North Korea - face this type of global discrimination.

Why do Americans abroad face discrimination when opening a bank account?

Most Americans abroad have become familiar with FATCA, which was part of the Hiring Incentives to Restore Employment (HIRE) Act passed in 2010. It was intended to generate revenue to be used to pay for tax breaks to incentivize businesses to hire unemployed workers. FATCA requires that non-U.S. financial institutions report on the assets held by their U.S. customers or be subject to withholding. Bizarrely, it is enforced on foreign entities, both non-U.S. banks and foreign countries themselves.

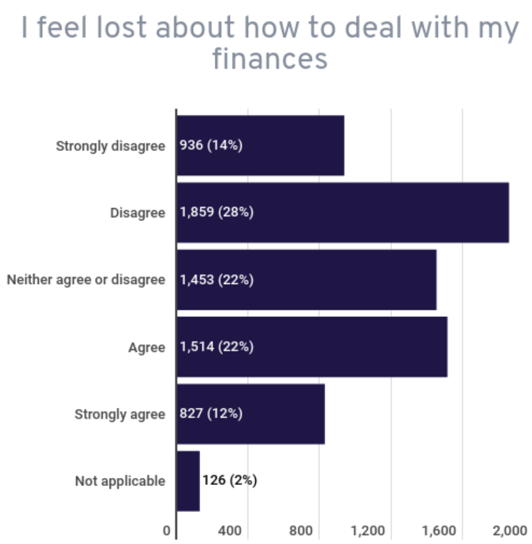
FATCA was passed with the expectation of preventing overseas tax evasion and money laundering by stateside Americans, but the unintended consequences have impacted Americans living and working abroad. Rather than complying with FATCA reporting requirements, many non-U.S. financial institutions have chosen to refuse new U.S.-citizen customers and close down pre-existing accounts held by U.S. citizens.

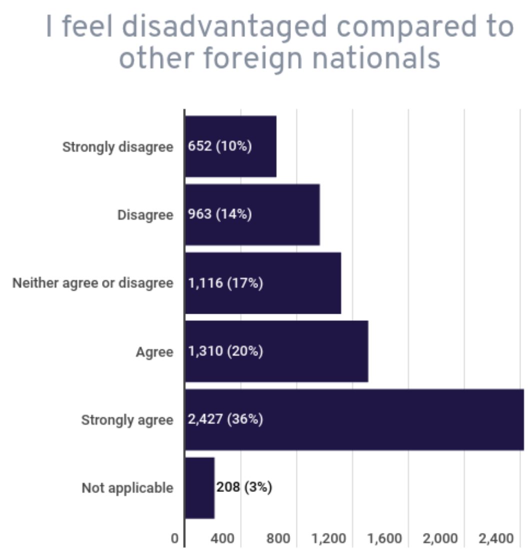
As a result, it's difficult to impossible for U.S. citizens to open a local bank account in their country of residence. Americans abroad need to be able to open bank accounts where they live if only to pay normal household bills, especially since some countries require that salary be paid into, or bills paid from, a local account. Americans abroad often can't live a normal life without one. An "offshore account" from the point of view of the U.S. is actually a "local account" for an American living abroad. This is particularly true if the person is an “accidental American” where they may not even have a social security number.

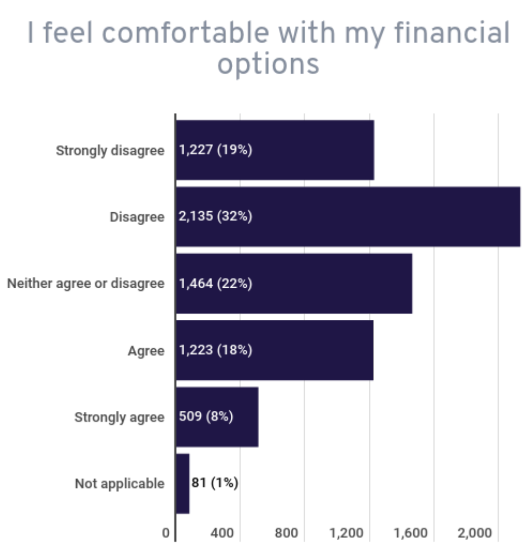
Perversely enough, other legislation has clamped down on access to U.S. accounts for Americans abroad. Under the USA PATRIOT Act, U.S. banks must also comply with anti-money laundering and Know Your Customer (KYC) regulations; in order to reduce risk, they often won't accept U.S. citizens without a U.S. address and telephone number, further limiting, if not eliminating, banking and investment options.

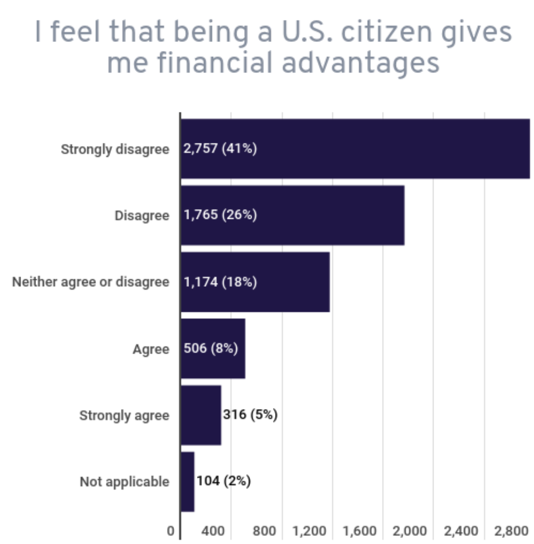
Democrats Abroad has received copies of letters and screenshots of notices from both U.S. and non-U.S. banks in which Americans abroad are being rejected from opening an account, having an account closed due to their U.S. citizenship, or having their account restricted. Most do not know where else to go in order to find a bank that will accept them as a customer.

Democrats Abroad has been told in past Congressional meetings that it would be just a matter of time before implementation of FATCA would settle down and financial access would no longer be a problem. Although both Congressional leaders and Treasury are already aware of the issue, we wanted to assess if financial access was still a significant problem.









To avoid these problems, Americans abroad sometimes rely on their non-U.S. spouses or partners by:

- removing the U.S. citizen's name from a joint account to avoid having to file FBAR;
- opening a bank account or obtaining a mortgage to buy a home only under the non-U.S. partner's name; or
- putting a business under the name of the non-U.S. partner – sometimes even when the partner has nothing to do with the business – to avoid having to file and pay GILTI tax.

Thus 1,228 respondents stated that "All non-U.S. assets are or will be in my non-U.S.-citizen partner's name due to the U.S. tax liability," and 1,084 respondents stated that their "non-U.S. partner has or will have full title to our home to avoid unfavorable U.S. capital gains treatment when we sell our home."

Americans abroad are then left feeling insecure, unable to hold accounts or assets in their own name, and at a disadvantage in not having full autonomy to make financial choices. It also puts a burden on the non-U.S. partner in having to take all of the financial liability for the couple.

Throughout the COVID-19 pandemic, increased domestic abuse was documented around the world. Anecdotal evidence from Americans-abroad Facebook groups and Reddit during 2020-21 suggest, tragically, that there was an increase in the number of American women living abroad who experienced domestic abuse and admitted that – given that they did not have a bank account in the country they lived in (due to FATCA) – they had no financial means to leave the abusive relationship. Among our respondents, 38 reported that domestic abuse worsened since they were unable to open a bank account in their own name.

Survey results for opening U.S. and non-U.S. bank or brokerage accounts[9]

We asked respondents "In the last 2 years, did you attempt to open a bank and/or brokerage account in your country of primary residence?" 38% said "yes". We then asked "Were you successful in opening the account?" 22% of those who had tried said "no". We then asked the "no" respondents to tick as many boxes as applicable for reasons why they were unable to open a bank account. "I was refused due to my U.S. citizenship" was the reason given by the overwhelming majority. This suggests that 1 out of 5 Americans abroad who attempted to open a bank or brokerage account in the country where they live during the last 2 years may have been unable to do so because of discrimination based on their U.S. citizenship.

[9] By bank account we mean a checking, savings, current, or any other basic bank account. By brokerage account, we mean an investment or retirement account such as an IRA, not a non-U.S.-employer or government pension account.

Meanwhile, 12% of survey respondents have had a foreign bank or brokerage account involuntarily closed or restricted in the past 2 years, and 10% have been asked to close a U.S. account because they do not maintain a U.S. residential address or U.S. telephone number.

There is no other immigrant population that is so widely discriminated against when opening bank accounts, even those from countries subject to OFAC sanctions. When an American goes to a bank in their country of residence – or attempts to open a bank account online – the bank asks if they are a U.S. citizen or "U.S. person" and often refuses them on that basis. If they then seek to open an account in the U.S. – unless they have a U.S. address and phone number – they will also be refused. We are therefore locked out from banking everywhere in the world.

> *"It is very difficult to find a bank that accepts Americans because of FATCA. My bank account is linked to my spouse's account."* - American from Nebraska living in France
>
> *"I only have basic checking and savings accounts and a few credit cards. Had I been younger, I would have perhaps chosen to have a brokerage account here, but U.S. tax laws made that too much of a worry and I believe that I would have been denied if I had tried to open one due to U.S. Treasury reporting requirements."* - American from Pennsylvania living in the United Kingdom
>
> *"We have a bank account, but we cannot open an investment account, because we are U.S. citizens. We have to transfer any money we want to invest back to the U.S. Banks in general don't want to deal with us."* - American from Texas living in Germany

That said, 97% of respondents said they already have a bank or brokerage account in their country of primary residence. This is a much higher percentage than we had expected, perhaps because the average respondent had lived abroad for 20 years, starting before FATCA came into existence.

Americans abroad are frequently disallowed from accessing retirement and saving plans

Americans abroad are caught between regulatory regimes in their host countries (particularly in Europe) – which disallow investments in U.S. mutual funds and ETFs – and the IRS, which penalizes investments in non-U.S. mutual funds and ETFs.

European regulators have implemented a scheme known as MiFID II (Markets In Financial Instruments Directive II) which aims to protect residents of Europe regardless of their nationality. MiFID has disclosure requirements that U.S.-based investment firms do not comply with. Consequently, most U.S. mutual funds and ETFs are approved for distribution only in the

United States. This has contributed to the closure of U.S. brokerage accounts for Americans abroad.

Non-U.S. retirement plans invest in securities which are approved for distribution in their host country. The IRS often classifies these local retirement investments as PFICs (Passive Foreign Investment Companies) – subjecting Americans abroad whose retirement savings are allocated to them to punitive tax rules and complex disclosure requirements. Non-U.S. retirement plans generally do not fit the IRS definition of a retirement plan, and therefore do not qualify for tax deferral.

Yet many Americans employed outside the U.S. are offered or even required to pay into an employee-funded retirement plan, governed by the requirements of their country of residence. They may have little if any control over how the funds are invested. There is often a legal requirement for the retirement fund to use local (i.e., non-U.S.) investment products.

Many Americans abroad are completely unaware of PFIC regulations when they invest, but they get hit with having to file Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), which the IRS estimates takes approximately 49 hours to complete.[10] Most Americans abroad are unable to cope with filing this form by themselves, so they end up paying an (expensive) accountant to file it for them.

U.S. tax rules thus make it impossible for Americans to invest where they live, yet investments in the U.S. are prohibited by local regulations. This leaves Americans overseas severely underbanked.

Nearly twice as many respondents said they'd been denied opening a brokerage account versus a bank account abroad, or had such an account involuntarily closed or restricted, which 11% of respondents reported. Many didn't understand why they were refused, and explanations from banks are often inadequate.

Opening a U.S. bank or brokerage account

77% of respondents said they maintain a bank account in the U.S., sometimes using their non-U.S. address, but often relying on using the U.S. address of a family member or friend; only 45% reported having a brokerage account.

9% of respondents said they'd had a U.S. bank or brokerage account closed in the last two years. We asked them what happened next: of those respondents 189 reported opening another

[10] https://www.irs.gov/pub/irs-pdf/i8621.pdf

account in the U.S., while 171 were unable to do so. 90 reported being exposed to a substantial U.S. tax liability due to liquidation of the account.

"We have to lie and PRETEND we live in the U.S." - American from California living in France

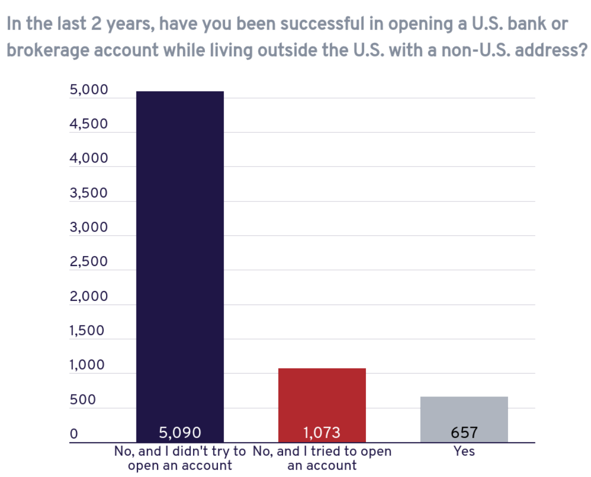
"It always seems vaguely uncomfortable, since we use other people's addresses, and some bankers have advised us under the table to say we live at those addresses." - American from Texas living in Germany

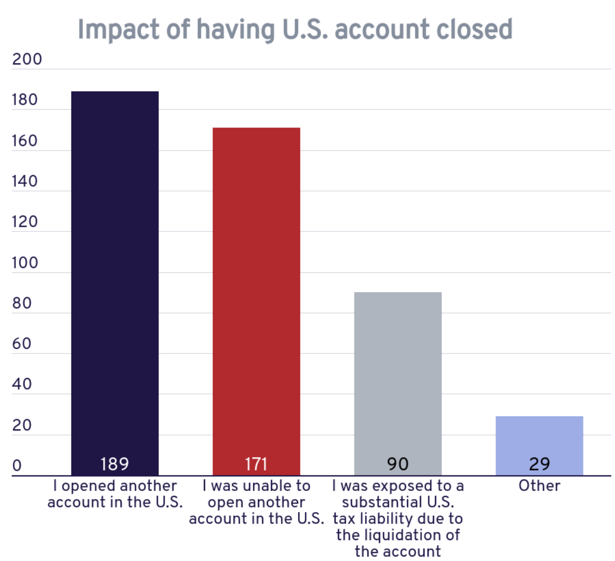
"U.S. investment companies do not wish to do business with Americans abroad (using a foreign address). This puts us at a major financial disadvantage." - American from Alabama living in Germany

"We are being treated as criminals by the U.S. federal government just for maintaining a life outside of the U.S." - American from Arizona living in Germany

"Because I am living abroad, several of my investment accounts in the States only barely tolerate my "presence". I am allowed to leave my money with them, but add to my accounts? Forget it : I am a pariah whom they wish would go away." - American from Illinois living in Austria

"Americans overseas are at a significant disadvantage in opening banking and brokerage accounts. We are in a no- man's land because U.S. institutions often refuse to serve U.S. citizens without U.S. addresses, and foreign (non-U.S.) institutions refuse to serve U.S. citizens due to compliance burdens. This effectively leaves us facing limited to no choices and at a disadvantage to our peers from other countries." - American from California living in Luxembourg





Additional financial-access issues: difficulty in designating a beneficiary or obtaining a mortgage

4% of respondents said they'd been denied designating a beneficiary on a U.S. bank or brokerage account because the beneficiary – most often their non-U.S. citizen spouse – lives outside the U.S. 2.5% of respondents said they'd been refused a mortgage in their country of residence due to being a U.S. citizen.

> *"I cannot designate my [non-U.S. citizen] husband as beneficiary or inheritor for my U.S. bank account, as he has no social security or U.S. tax number. He is, as the IRS so nicely states, a non-resident alien."* - American from Colorado living in Germany
>
> *"My British wife is prevented from opening a new bank account or being added to my U.S. bank account unless we personally visit a U.S. branch of the bank and prove identity and it is unclear whether that would be successful in obtaining a U.S. bank account in her name."* - American from North Carolina living in the United Kingdom
>
> *"I am aware of some U.S. banks that allow foreign address[es] and/or non-U.S. beneficiaries, but they are expensive. Such brokerage accounts are even more expensive and the options are very limited."* - American living in the Netherlands
>
> *"I couldn't open a U.S. account for my daughter because we both live abroad (although we're both U.S. citizens). Also, when my mother died, with me & a CA-based sister as equal beneficiaries, Merrill Lynch would not give us access to her IRA account. They said I had to waive my rights as a beneficiary since I lived abroad. We fought them for months; they finally let us transfer the funds…"* - American from New York living in Finland

ECONOMIC STIMULUS PAYMENTS

Between 2020 and 2021, Americans, both inside the U.S. and abroad, were eligible for three economic stimulus payments to help economically survive the pandemic. Although eligibility varied slightly per payment, for the most part individuals with income under $75,000 qualified for the full amount. 74% of respondents said they qualified for the payments, and we asked about their experience.

55% said even though they qualified they still haven't received a single payment. 677 respondents received a payment by U.S. check. 283 received a direct deposit to their U.S. bank account.

We asked how they would have preferred to receive payments: an overwhelming majority would have preferred payments to be paid into a U.S. bank account, followed by a non-U.S. bank account. Receiving the payment by U.S. check or VISA debit card were the least desirable options. 5% reported that, even though they received a U.S. check, they hadn't been able to cash it.

We heard from a number of non-dual citizen Americans abroad during the pandemic who were not eligible for similar coronavirus relief in their country of residence, so the economic stimulus payments were welcome, but with mixed feelings. Many expressed that they would have gladly given up the payments in exchange for the U.S. to only tax based on residency and source. Others, who had not been filing, filed for the first time in order to receive the payments. It is unknown how many Americans abroad came into compliance due to the economic stimulus payments.

CHILDREN

> *"I am unable to have my name on or hold educational savings accounts for my children on either side of the border, and so I am punished by losing out on the tax benefits offered for educational savings in both Canada and the U.S."* - American from Massachusetts living in Canada

57% of respondents reported that they had at least one child. Some maintained a connection with the U.S. for their children by sending them to school there (3.7%) or having their child attend a school with an American curriculum (2.7%). But there was mixed sentiment about passing on U.S. citizenship.

Obtaining U.S. citizenship for children born abroad

16% of respondents with children indicated that they had not registered their children as U.S. citizens. Why? Top responses were "I believe my child isn't a U.S. citizen [i.e., wouldn't qualify]" (36.2%) and "Due to U.S. tax liability" (31%); the remainder didn't know about the need to register or didn't believe it was necessary.

Of those who believed their child wouldn't qualify as a U.S. citizen, 31% were likely correct, as the demographic data we collected seemed to indicate that they hadn't met the U.S. residency requirement – and were therefore unable to pass on U.S. citizenship at birth to their children. However, 69% had been born in the U.S. and over half had lived in the U.S. for 10 years or more. Although the requirements for passing on U.S. citizenship at birth varies depending on personal circumstances (e.g., year of birth, born in wedlock or not, whether one or both parents are U.S.

citizens, and depending on whether the mother or father is the U.S. citizen), it was clear that these respondents were unaware they may have passed on U.S. citizenship to their children without knowing they had done so.

> *"I tried to register my child, but was told I couldn't. I took them to the U.S. Embassy, and they told me that a retrospective law meant I had to prove I had been on U.S. soil for 3 years after the age of 14. I was, but there is no way to prove it as a child. The embassy wanted me to prove every day with credit card receipts etc. It's ridiculous. I have to file taxes in the U.S. but I cannot get my daughter a U.S. passport. Makes me furious. What am I paying taxes for?"* - American living in the United Kingdom from Arizona

The Child Tax Credit: Benefits available to Americans abroad aren't understood

It appears that the majority of American families abroad are not aware that they are eligible for up to $1,400 per child per year in Child Tax Credit which would be refunded from the IRS (if they file a U.S. tax return and have income below a certain level). This credit "helps families with qualifying children get a tax break."[11] For families living in the U.S., it generally brings down the amount of tax due. But for American families abroad who usually owe no U.S. tax, the credit can be a welcome bonus for going through the hassle of filing a U.S. tax return.

In 2021 and 2022, Democrats Abroad hosted two online webinars[12] on how to obtain the Child Tax Credit and Economic Stimulus Payments for families hit hardest during the pandemic. A family of two U.S.-citizen adults and two U.S.-citizen children could have been eligible for up to $17,000 in payments during that period. Most webinar participants were unaware of the Child Tax Credit.

To claim the credit, one must provide the child's social security number on the tax return. We asked parents if they had obtained a social security number for their child. 95% reported having done so. The top reported reason for not doing so was because they didn't know how it could be useful.

We received reports that parents were unable to register new births and/or to request social security numbers during the pandemic, so they were unable to file their tax return and receive the Child Tax Credit. Many were then unsure what to do, as they were unable to get advice from their local embassy, Social Security Administration, or the IRS.

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[11] https://www.irs.gov/credits-deductions/individuals/child-tax-credit

[12] https://www.youtube.com/watch?v=J6chFkBQPuk and https://www.youtube.com/watch?v=GNnEtbvYjEE

Most parents abroad believe they should not have to file or pay U.S. taxes

The American Rescue Plan Act of 2021 included what was referred to as the extended and advanced Child Tax Credits, which increased the credit to $250/month for children under 18 and $300/month for those under 6. However, residence in the U.S. for at least 6 months in the year was required. Democrats Abroad wrote to the IRS and Treasury Department[13] requesting equal treatment of American families abroad with respect to these credits.

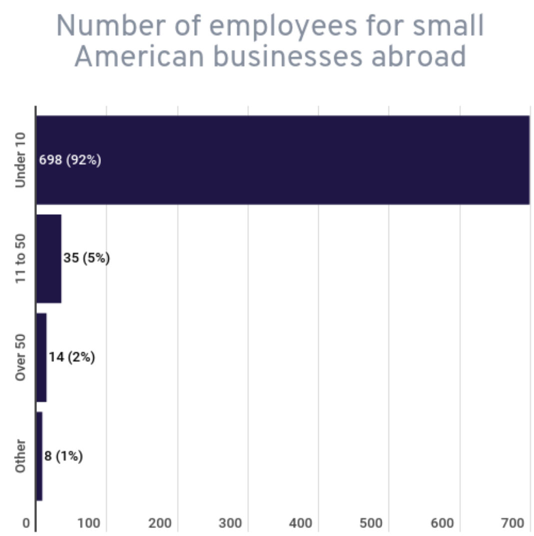
On the other hand, in response to our survey question: "Do you think American families abroad should be entitled to the same benefits and tax credits as American families living in the U.S.?" 46.6% responded "No, if we live abroad we should not have to file or pay U.S. taxes and therefore should not get any benefits or tax credits." Meanwhile, 34.8% responded: "Yes, because we are still American and should be entitled to the same treatment as Americans in the U.S."

> *"Because I have to pay a huge amount of money to an accountant to file (out of fear of doing something wrong), I do need the tax credits etc. if I didn't have to do this, I do agree in principle that I shouldn't benefit as I pay no taxes in the U.S. If I did not have to file at all, I'd happily give up those benefits."* - American from California living in the United Kingdom
>
> *"I believe if we have to file taxes every year (regardless of owing or being owed) we should get the benefits. Ideally though we wouldn't have to file and I'd be fine without getting benefits."* - American from California living in Canada
>
> *"Either we shouldn't have to pay U.S. taxes, or we should qualify for the same benefits and tax credits. I'm not sure how that isn't obvious to our elected officials."* - American from Oregon living in France
>
> *"If we have to file U.S. tax returns, we should get the same benefits and credits."* - American from Pennsylvania living in New Zealand

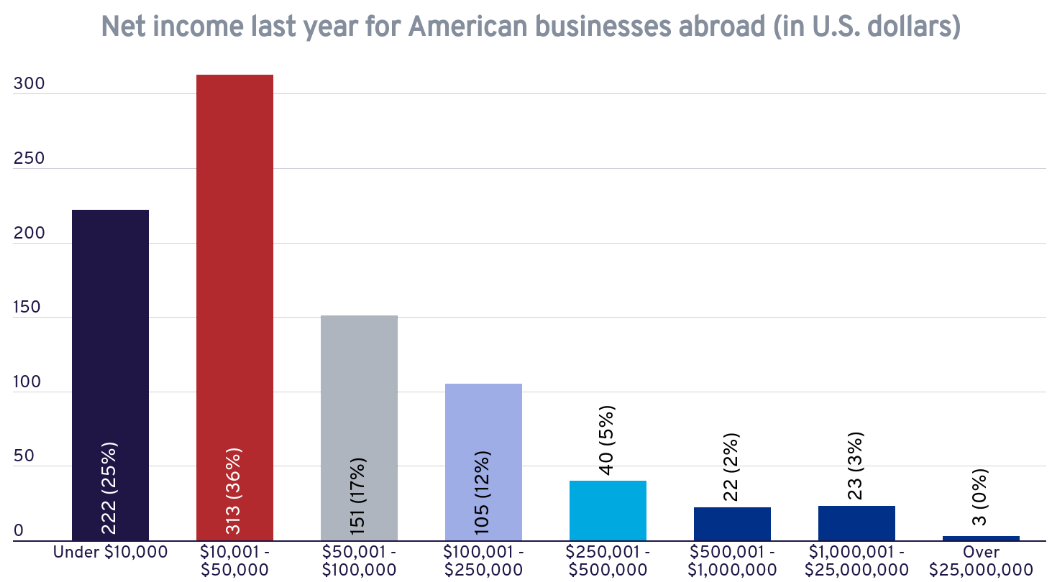
[13] https://assets.nationbuilder.com/democratsabroad/pages/28939/attachments/original/1647589575/Child_Tax_Credits_for_U.S._Parents_Living_Abroad.pdf?1647589575

SELF-EMPLOYMENT AND OWNING A BUSINESS ABROAD

Similar to results from our earlier surveys (in 2017[14] and 2019[15]), one-third of respondents reported first moving abroad for employment. Many Americans abroad also turn to self-employment, i.e., start their own business. 17% of respondents confirmed they were self-employed. The overwhelming majority of these respondents had fewer than 10 employees (93%), and a majority of the free responses said that they were one-person businesses, meaning these are truly small businesses.



The top 3 business sectors were in Professional, Scientific, and Technical Services (28%), Arts, Entertainment, and Recreation (18%), and Educational Services (14%). Finance and Insurance ranked 7th with 3% of responses. Among our respondents, one-person (or "mom and pop") businesses earning under $50,000 a year predominated (61%).



14 https://assets.nationbuilder.com/democratsabroad/pages/28939/attachments/original/1660988568/Can_We_Please_Stop_Paying_Twice_-_Reforming_the_U.S._Tax_Code_for_Americans_Abroad_%281%29.pdf?1660988568

15 https://democratsabroad.atlassian.net/wiki/download/attachments/4257416635/Tax%20filing%20from%20abroad%20-%202019%20Research%20on%20Non-Residents%20and%20US%20Taxation.pdf?api=v2

But extraterritorial taxation – and the complex U.S. tax code it entails – put American abroad businesses at a competitive disadvantage because of the additional filing burden and potential double taxation, which may prevent them from even considering starting a business in the first place.

Having navigated the complexities of setting up a business in a foreign country – which is a feat in itself – Americans abroad are often dumbfounded by the complex U.S. filing burden (and sometimes punitive taxation) placed on them, and question why. 37% of respondents reported having seriously considered becoming self-employed or starting a business, and when we asked why they didn't do so, 23% said due to U.S. tax-filing requirements, 19% due to U.S. tax liability. In stark contrast, top reasons given by potential entrepreneurs in the U.S. for not starting a business are lack of funding or benefits such as healthcare.[16]

In freeform responses, it was clear that people were attempting to comply with the U.S. tax code, but struggled. Those who were able to create and maintain a business structure and maintain self-employment expressed frustration with the complexity of filing a U.S. tax return. And some that had attempted self-employment, gave up and went back to regular employment because the tax filing was too difficult for them to continue.

"I have worked as a self-employed contractor. It's an incredible pain taxwise since I earn very little but have to pay an accountant to help me navigate the U.S. and Swiss tax regulations. [I] have never started my own [larger] business as I wouldn't know how to start. It's daunting." - American from New York living in Switzerland

"I was self-employed after I left my former employer… the U.S. tax-filing requirements for my UK limited company (which was required for the type of consulting work I was performing) were onerous to say the least." - American from Missouri living in the United Kingdom

Others remained in regular employment only because they couldn't figure out the U.S. filing requirements for self-employment. Some commented that they could have earned more working freelance, but again, the complexity of U.S. tax filing and potential tax liability deterred them. Again, these barriers are created by the uniqueness of U.S. extraterritorial taxation and are not faced by other expats in our countries of residence.

"I provide occasional coaching services and am also working as a temporary consultant for a Swiss organization. However, I have asked them to hire me as a temporary employee (rather than as an external consultant) because I don't fully understand the U.S. tax implications of

[16] https://zapier.com/blog/potential-entrepreneurs-report/

self-employment - other than that they appear to be punitive. I could earn more as an external consultant (even when accounting for the Swiss social security contributions, etc. I would have to cover), but the hassle of having to deal with the additional self-employment requirements when filing my U.S. tax return is more trouble than it's worth to me." - American from Arizona living in Switzerland

"I wouldn't say that I have a business, as such. I'm merely trying to earn a bit of income while I continue to search for a permanent position. Doing project work is actually part of my job search…. However, since the threshold for filing self-employment income is so low ($600), I found myself having to struggle through a whole new set of tax-filing instructions…" - American from Arizona living in Switzerland

GILTI and Transition Taxes

GILTI (Global Intangible Low-Taxed Income) and Transition Taxes – enacted as part of the Tax Cuts and Jobs Act of 2017 to tax profits kept abroad by subsidiaries of large U.S. multinational corporations so that they would invest the funds back into the U.S. – were implemented first by applying a one-time retroactive tax (the Transition Tax) on profits retained in the company going back to 1986 (this hit retroactively in 2017 or 2018 depending on the company's accounting year end), and, second, by applying an annual tax (the GILTI tax) on foreign earnings from 2018 on.

This put in place a system of territorial ("residence-based") taxation for corporations, a change that Americans abroad have long hoped would apply to individuals. But implementation favored multinational corporations while punishing small American business owners abroad. So while the business taxation moved to territorial taxation the U.S. shareholder taxation is still extraterritorial. Meaning that the company is taxable only in the countries it derives business from or where it is registered, but the shareholder, if American, is taxed on the profits of their company in two countries with no treaty protection, even where there is no income derived from the U.S.

It is estimated that there are tens of thousands of American small businesses abroad hit by the Transition Tax in 2018 and now subject to GILTI. To comply with local regulations, Americans abroad often incorporate their small businesses where they live. But if an American owns over 50% of a foreign corporation, it is deemed a Controlled Foreign Corporation (CFC) under the U.S. tax code and is thus subject to GILTI (and was also subject to the Transition Tax). The American business owner must report their share of the CFC's profits on their personal tax filing and pay tax on the CFC's deemed profits at the individual's tax rate.

95 respondents reported owning over 50% of a foreign corporation, of whom 5% reported having been subject to the Transition Tax in 2017 or 2018. Of those, 60% thought they were not subject to GILTI– quite possibly mistakenly, given the difficulty of understanding and keeping up with the changing tax code – while another 15% were unsure.

Large corporations using the "Participation Exemption" could avoid the Transition Tax by repatriating foreign earnings to the U.S. But American small business owners abroad didn't have this possibility so were taxed on any undistributed profits via their individual U.S. tax return.

Earnings retained in their businesses were not owned by a parent company in the U.S. but were intended to be reinvested in the business abroad or saved for the owner's retirement. The American small business owner abroad was now unexpectedly and unfairly taxed on savings from the hard work they had put into their business from 1986 to 2017. This unequal treatment was exacerbated by the fact that most of these businesses had nothing to do with the U.S., other than being owned by an American.

Moreover, under the GILTI tax, corporations are eligible for a 50% exclusion plus an 80% foreign tax credit as well as other offsets and deductions, resulting in their often not paying any GILTI tax at all. The 50% exclusion will fall to 37.5% after 2025 making the situation even worse for Americans.

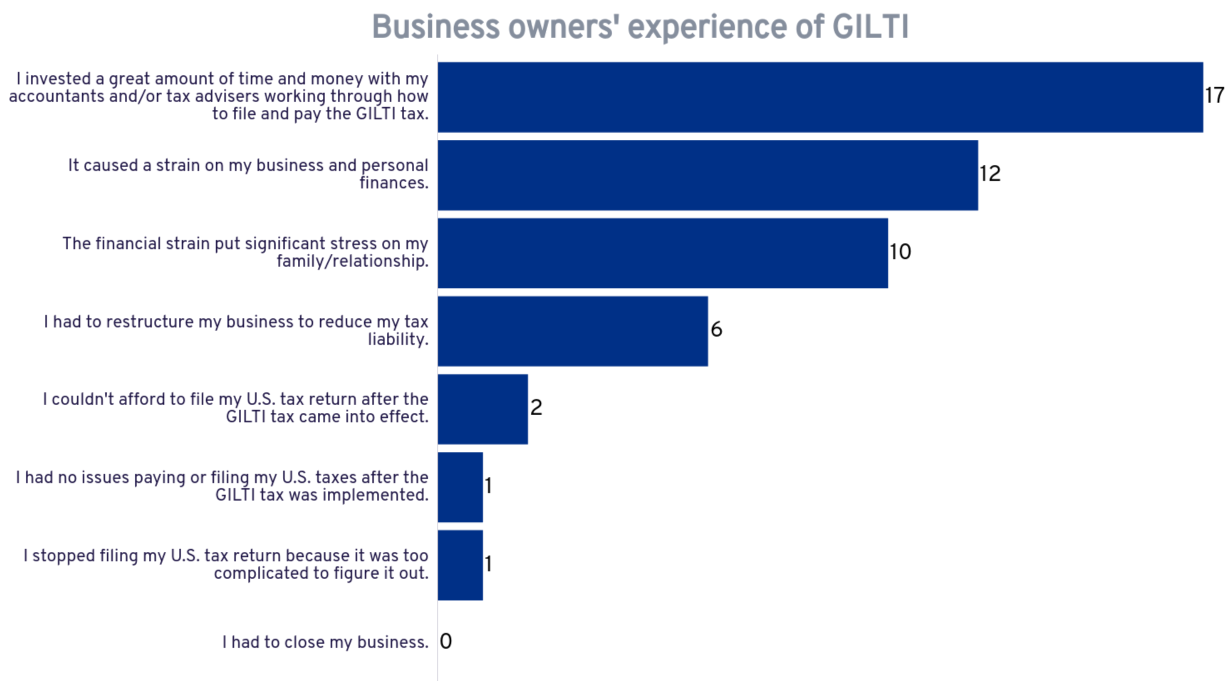
But American small business owners abroad are taxed as individuals and not eligible, at least initially, for the exclusion or foreign tax credits. The Treasury later changed the regulations, allowing individuals (under the 962 election) to be treated as corporations and therefore eligible for the 50% exclusion and 80% foreign tax credit. However, this subjects the individual to further taxation if – at some point in the future – they take a dividend from the business, resulting in a second layer of taxation (or third, including foreign corporate tax).
Respondents reported trying to comply with U.S. tax-filing requirements, but the tax code as written and implemented is far too complicated and onerous. It's not as if these businesses aren't already paying tax either: All are subject to taxation in their country. The GILTI and Transition Taxes present a clear case of double taxation that violates the spirit of tax treaties between the U.S. and many other countries and makes it hard for American-owned small businesses abroad to compete and succeed.

As a final insult to injury, if an American citizen was unaware of their tax filing requirement and upon learning of the requirement sought to use the Streamlined Foreign Offshore Procedures to come into compliance they cannot just go back three years, as is the standard, but need to go all the way back to 2017 or 2018 (depending on their accounting period) meaning that in 2022 the U.S. citizen would have to go back five years.

The GILTI and Transition Taxes have devastated American small business owners abroad

Besides being hit with additional taxes, many small business owners abroad who attempted to comply with the law saw their U.S. tax-filing bill soar. The IRS estimates that it takes 38 hours just to prepare Form 5471 – required for reporting a CFC – not including any supporting schedules. (Many specialist expat tax accountants – required for complying with GILTI – operate as small businesses and are thus subject to the tax themselves.)

In a Democrats Abroad survey of American small business owners abroad conducted in September 2021,[17] 86% of respondents reported that their accounting costs had increased because of GILTI. Many shut down their businesses, and many others are non-compliant due to erroneous filings, the cost of filing, and the exorbitant tax payment required. The GILTI and Transition Taxes have had a negative impact not just on the business but also on their personal and family lives.



[17] https://democratsabroad.atlassian.net/wiki/download/attachments/6731497642/Democrats%20Abroad%202021%20GILTI%20Tax%20Research.pdf?api=v2

“Can you tell us anything else about your experience with the GILTI tax?”

“I have had to make additional provisions for it as well as the tax I have to pay here in Aus[tralia].” - American business owner from Colorado living in Australia

“It sucks and is the most gross overreach yet by the U.S. government.” - American business owner from Arizona living in Australia

“These tax policies limit the ability of small business owners living abroad to build and safeguard their businesses. It's unAmerican.” - American business owner from California living in Canada

“It’s been super-frustrating and I’ve spent many hours with accountants trying to work around this and avoid paying in both countries.” - American business owner from Arizona living in Australia

“I really don’t understand it. I just know it’s something else I have to hire someone to figure out for me.” - American business owner from Oregon living in the Netherlands

“Totally unnecessary work. Makes no sense. Kills business initiative.” - American business owner from New York living in France

“My business has no economic connection to the U.S. so GILTI is unfair.” - American business owner from Florida

“My American CPA in France, who was not sufficiently savvy in the GILTI tax, did not give me sufficient information… resulting in a very heavy tax that it was too late to avoid. Following this event, he decided to drop me as a client, because, and I am quoting him from an email, "Your situation has become more complicated since the decision to retain profits in your company, and it is not something we’re equipped to advise on.” - American business owner from Maryland living in France

“It’s been a total nightmare. I don’t feel like I’m able to plan for the future because I don’t know what else is randomly going to be thrown at me. I’ve suddenly had half of my retirement savings completely wiped out for no reason.” - American business owner from Kentucky living in the United Kingdom

“Where to begin. It's ridiculously unfair.” - American business owner from California living in Japan

"Every year the requirements increase, and the tax professionals argue about how to interpret the rules. I have no idea whether or not it applies to me. I assume it does as the downside exceeds the benefit of not paying (some tax professionals have told me that it should not apply)." - American business owner from Massachusetts living in Estonia

"…I am appalled that as an individual owner of an operating business in my country of residence I pay more tax than a multi-national owning that same business would pay. As a result, I had to restructure my business and set up a U.S. holding company to hold my shares in the business." - American business owner from New York living in Singapore

"It's completely insane. it should be targeting wealthy, not middle-class people like me who start a small business." - American from New York living in Canada

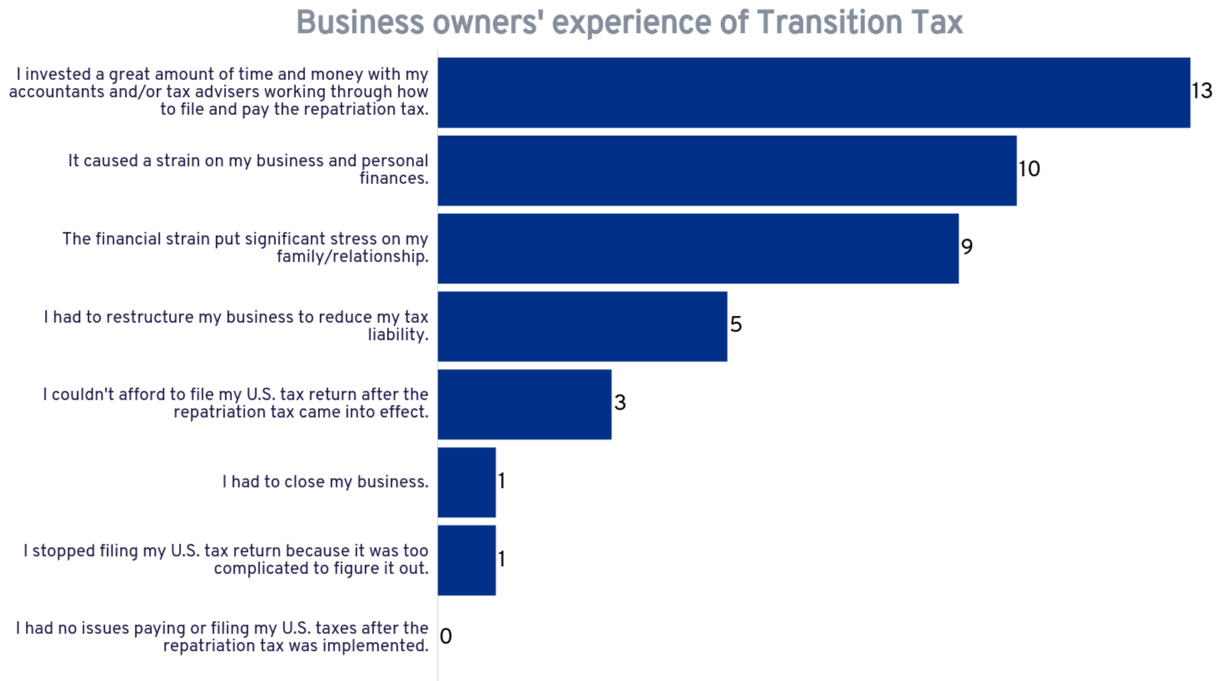
"Totally unfair and thoughtless." - American from New Jersey living in United Arab Emirates

"These ridiculous tax regulations, that appear from nowhere, are driving more law-abiding taxpayers to seek other avenues. It's impossible to keep up with the rules and the costs are killing small businesses. While all the other countries are enjoying simple basic tax regulations, we Americans are being put in a position of unfair disadvantage." - American business owner from California living in Thailand

"Nightmare!" - American business owner from Texas living in Italy

"Hell" - American business owner from Massachusetts living in Italy

"It's incredibly unfair for people living abroad." - American business owner from Florida living in the United Kingdom



“Can you tell us anything else about your experience with the Transition Tax?”

“I was able to manage my tax position to minimize the impact but it was not optimal.” - American business owner from Colorado living in Australia

“My business does not and has never had an economic connection to the U.S., making the TT unfair.” - American business owner from Florida

“I was heavily hit and have been paying for the past 4 years, with 4 more years to go. Along with the repatriation tax, I am eating away at my savings that I expected to need when I will retire this year. I considered not filing anymore and not paying my taxes, but was too afraid of the consequences, notably if I were to visit family in the U.S., or someday decide to live there.” - American business owner from Maryland living in France

“It’s wiped out my retirement savings. I was planning on being retired by now, but now I don’t know when I’ll be able to stop.” - American business owner from Kentucky living in the United Kingdom

“This has caused an incredible filing burden and tax debt.” - American business owner from Iowa living in Canada

"I have nothing good to say. Either tax everyone - individuals and corporates - globally or territorially." - American business owner from Massachusetts living in Estonia

"We had to restructure our family-run small business. It is now completely run and owned by my foreign spouse. I had to cut all ties (after filing 965 and paying Transition tax in 2017). Very difficult to go back to salaried work after having been self-employed for 15 years, but the price of compliance surrounding GILTI makes any ventures highly unprofitable." - American business owner from Massachusetts living in France

"Absolutely unfair, could have bankrupted me, causes double taxation as it is written with no regard to tax treaties and the timing of foreign tax credit. Shame on the U.S."- American business owner from Massachusetts living in Italy

"Illegal!" - American business owner from Minnesota living in Czech Republic

CONCLUSIONS

The impact of the current extraterritorial taxation system has gone from uncomfortable to suffocating, growing worse with each modification to the tax code, not better. Americans abroad face greater complexity in filing than stateside Americans and struggle to communicate with the IRS to ask questions or resolve issues. Even highly educated individuals are not capable of understanding how to correctly file their own taxes.

Americans abroad have been caught up in efforts to catch tax evaders or money launderers, yet the result is actually that those who wish to evade taxes find loopholes which is why legislation such as FATCA has failed to generate revenues, and Americans abroad suffer the high costs of compliance. Because U.S. law is enforced globally, foreign countries and their banking systems react negatively toward U.S. citizens. It is now difficult for Americans abroad to open a bank account with which to conduct normal household finances. They are sometimes forced to put themselves and their families at risk by putting accounts and property under their non-U.S. partner's name. They are subject to punitive taxation of many forms of "foreign" financial products which renders Americans abroad unable to responsibly save and invest for their future, while American small business owners abroad are unable to compete in local markets due to being treated the same as multinational corporations under the tax code.

It may be possible for the Treasury and IRS to alleviate some of these problems through regulatory change, such as targeted exemptions from certain reporting requirements for Americans abroad. A system that taxes based on residency and source – similar to that of nearly every other country in the world – can be a solution. Congress should enact legislation to eliminate extraterritorial taxation, simplifying filing requirements, and exempting Americans abroad from FATCA and FBAR reporting.

To reiterate some of the key conclusions from this research: A majority of Americans abroad are working- or middle-class, but – even though they usually owe no U.S. tax – are subject to more complex filing requirements and more punitive tax treatment than if they lived in the U.S. They suffer from unfair and outdated stereotypes that we moved abroad to evade paying U.S. taxes; many actually live in higher tax jurisdictions, and most moved abroad for family or work. Americans abroad want to do their part and follow the law, but when the law is too difficult to comply with, then legislative change is clearly required.

Democrats Abroad will continue working to advocate for Congress to legislate a change in the tax code to tax based on residency and source, but Americans abroad should also contact their Members of Congress and tell them about the tax and financial-access problems they experience abroad, and – if they're not sympathetic – to vote for ones who will be.