

# 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.