



January 27, 2025

The Honorable Jason Smith
Chairman - Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member - Ways and Means
Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

RE: January 14, 2025 Hearing entitled, “The Need to Make Permanent the Trump Tax Cuts for Working Families”

Dear Chairman Smith and Ranking Member Neal:

Democrats Abroad is the official arm of the Democratic Party engaging with the millions of Americans living outside the United States. Democrats Abroad has country committees – throughout Europe, the Americas, the Middle East, Africa, and Asia – that keep Americans abroad informed of their rights and help them participate in the U.S. political process.

Estimates of the number of U.S. citizens living abroad – constituents in all congressional districts – range between five and nine million.¹ Americans abroad are not a uniform group, and include both active military and veterans; individuals living abroad for work, school or family reasons; retirees; small business owners; etc. Contrary to what is sometimes assumed, very few of them are high-net-worth individuals: 80% of tax returns coming from overseas in 2021 had an Adjusted Gross Income of \$100,000 or less.

An important part of our work as Democrats Abroad is non-partisan advocacy for fair and proportionate application of tax rules applying to Americans living abroad, since these rules apply equally to all Americans abroad.

Regarding the Tax Cuts and Jobs Act 2.0, the two main challenges affecting American taxpayers abroad that we would like to see addressed are residency-based taxation for Americans abroad and eliminating the GILTI tax for American owned small- and medium-size businesses abroad:

¹ The Federal Voter Assistance Program estimated 4.8 million in 2018 <https://www.fvap.gov/info/interactive-data-center/overseas> while the State Department estimated 9 million in 2019 <https://travel.state.gov/content/dam/travel/CA-By-the-Number-2020.pdf>

Regarding residency-based taxation (RBT) for Americans abroad:

- The U.S. is the only country in the world that applies citizenship-based taxation.
- This means in practice that Americans abroad file taxes both in their country of residence and in the U.S., with the result that they are often confronted with conflicting tax rules and consequences of those rules. This makes tax planning exceptionally difficult and also results in paying very high fees to get the specialist advice they need because of this complex situation.
- Because of these conflicting tax rules, many Americans abroad are unable to save in their country of residence for retirement because the U.S. does not clearly recognize the tax-exempt status of their local retirement accounts. Or they are unable to build savings in the country where they reside through investments, such as mutual funds and ETFs, because the U.S. punitively taxes these investments.
- To address this, we support residence-based taxation for Americans abroad, which would allow them to elect to be treated as non-residents for tax purposes but continue to be taxed in the U.S. on U.S.-sourced income. These and other provisions are part of H.R. 10468, the Residence-Based Taxation for Americans Abroad Act, introduced in the 118th Congress. We urge you to consider including the bill's provisions in any new tax legislation this year.

The effect of the TCJA's GILTI tax provisions on American small-business owners abroad also requires urgent attention:

- The TCJA's provisions taxing global intangible low-tax income, also known as GILTI, are designed to prevent large U.S. corporations from dodging U.S. taxes by moving intangible assets, like intellectual property, to foreign tax entities with low corporate tax rates.
- Unfortunately, these rules are having a devastating effect on American-owned small businesses abroad.
- We advocate for the establishment of a threshold for GILTI reporting that would exempt small businesses abroad operated by U.S. citizens..

Residency-based taxation and the GILTI tax are two priority areas where we ask you to act to ensure that Americans abroad are treated fairly. In both cases, we urge you to address the far-reaching unintentional negative effects of current U.S. tax legislation for the millions of Americans abroad, and to remember them while drafting the new tax package this year, in order to avoid additional unintended negative consequences.

Sincerely,

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