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United States Senate Finance Committee
Washington DC, USA

Subject: Tax Reform for USA Citizens Living Overseas; Submission to Individual Income Tax, Savings & Investment and International Tax Working Groups

To Whom It May Concern:

Almost 24 years ago, my wife and I moved to New Zealand for a 2-year work assignment. For numerous reasons, we ended up living long term in the southern hemisphere, with the past 19 years spent in Australia. I am employed by a large Australian company on a local staff basis and do not received company assistance regarding my US tax obligations. Given that we have lived overseas long term, more than 90% of our assets are within Australia and we do not maintain a US address. While in New Zealand, we started our family and have raised two children, now young adults, who are also American citizens.

We have always diligently complied with our taxation obligations. When American Citizens Abroad informed us that the Finance Committee was soliciting feedback on taxation from the public, I felt it was important to share our experiences with the large number of challenges we have and, continue to face, as long term US expatriates seeking to comply with citizenship-based taxation as mandated by US tax code. Citizenship-based (as opposed to residence-based) taxation is rather unique in the world and presents significant challenges to American expatriates far in excess of those faced by the great majority of US citizens who reside within America. These challenges include:

1. Substantially increased complexity over US domiciled taxpayers leading to significant compliance difficulties and costs
2. Double Taxation
3. Impediments to participating in the financial investment industry to provide long term security for our family and ensure a self-funded retirement

In the remainder of this submission, I would briefly like to elaborate further on each of these challenges.

1. Tax Reporting Complexity & Compliance Difficulties and Costs

Citizenship-based taxation adds considerable complexity to preparing our annual tax returns, increasing compliance difficulties and costs. The great majority of our income is derived from Australian employment and investments, where Australia works to a financial year (June to June) reporting period. Australia has a higher personal income tax regime than the USA, with my tax bracket approaching 50%. For many years, I self-prepared our tax returns, spending many weekends working to re-characterise our income to US tax

code requirements. For example, Australian financial statements are prepared for Australian tax code and financial year reporting conditions so the reports may not characterise income correctly or in the correct time frames so that I can take advantage of, say, long term capital gains tax discounts.

I also must convert Australian currency to US dollars where income might be increased or decreased due to exchange rate vagaries. This is frankly irrelevant to my actual income given I earned salary and participated in the Australian economy rather than the US economy. The end result was that I often spent more than 40 hours preparing tax forms to owe zero tax in the USA. As my income and savings towards retirement grew, I reached the point that I no longer felt confident with self-preparation and was forced to employ professional US based tax preparers; still taking many hours of my time and increasing compliance costs. The tax complexities have reached the point where, despite using tax professionals, the returns are becoming too complex for our US based tax preparer.

2. Double Taxation

Citizenship-based taxation has also unfairly exposed us to double taxations. As previously stated, I am highly taxed at a top ~50% tax rate which is in excess of US income tax rates. Two examples include: 1) Net Investment Income Tax which, apparently through poor drafting of the tax code, is applied after the Foreign Tax Credit, which leads to double taxation in the USA on Australian investment income that I have already paid a high tax rate within Australia; and 2) Difference is tax treatment of retirement investment accounts. In the USA, retirement accounts like 401(K) accounts allow pre-tax contributions, incur tax free growth but become fully taxable on withdrawal. On the other hand, Australian compulsory superannuation retirement accounts have concessional tax rates for contribution and growth but provide tax free withdrawal. To the best of my knowledge (barring tax treaty provisions), the US will treat the Australian distribution as taxable, negating the tax advantages intended for all Australian residents.

One effect of citizenship-based taxation is that the many legit tax deductions, benefits and incentives provided in Australia or USA tax codes are not generally recognised by the other country which disadvantages my family in regards to other Australian or US citizens. It is possible that some relief may be available through USA–Australia tax treaties; however, I have found them to be inaccessible to a layman such as myself and I am struggling to obtain affordable professional advice.

3. Impediments to Providing Financial / Retirement Security

As a long term Australian resident who earns an income and participates in the Australian economy, the US tax codes presents formidable challenges to save for a self-funded retirement. In addition to the double taxation discussed previously, US tax code throws up many challenges such as Passive Foreign Investment Corporation (PFIC) rules that discourages US citizens from owning Australian based passive investment funds through the application of punitive tax rates on disposal. This is further complicated by the fact that most US Investment companies (ie Fidelity, etc.) decline to open US domiciled accounts for us given we do not maintain a US residence. This results in a Catch-22 situation where our investment options are limited.

In closing, we love the life we have developed in Australia and remain proud citizens and ambassadors of the USA. The taxation treatment of US citizens abroad is inequitable and unnecessary for people such as us who virtually do not participate in the US economy or receive benefits or services from the United States. The current approach creates stress, fear and inequitable costs.

I would like to encourage the Senate Finance Committee to consider the plight of millions of US citizens who live overseas. The many inequalities of citizenship-based taxation are unfair to those of us living overseas and increasingly alienate us from our much loved country of birth. I would also encourage members of the Working Groups to read the recent survey-based research by Dr. Amanda Klekowski von Koppenfels, University of Kent, on US citizens living overseas: Univ Kent study brief and US citizenship renunciation Kent study summary.

I look forward to hearing how the Finance Committee proposes to address the unfair and inequitable taxation issues faced by millions of US citizens living overseas. Thank you for reading this submission and for your consideration.

Kind Regards,



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