To: The Senate Individual Tax Working Group

From: Kenneth J. Gibson

Re. Taxation of Americans Living Abroad

I am a US citizen born in Buffalo, New York. I have been a Canadian resident since I graduated from university in Canada in 1971. I have a US passport and vote in US elections.

It was not until the late 1990's that I discovered that I had an obligation to file US taxes. I had assumed, incorrectly, that because Canadians who lived permanently outside of Canada did not have to file Canadian taxes, that this was the norm in other countries as well. I have since been informed that the US is one of only two countries in the world that require non-residents to file taxes each year.

I would like to add my voice to those of other non-resident Americans, requesting that the United States change to a system of resident-based taxation rather than citizen-based taxation.

The current system imposes significant administrative and financial costs upon me and discourages me from investing in America. I am not a burden on the US, not having lived in America for 44 years. The only benefits I obtain from my citizenship (although not insignificant) are my passport and the right to vote. I am not entitled to social security, Medicare or any other US benefits.

The following is a listing of the difficulties the US tax system imposes upon me:

1. The complexity, ever-changing requirements and fear of substantial penalties have forced me obtain professional accounting assistance to complete my tax filings. The cost is around $1200.00 per year, or more than $16,000 since I started filing US taxes in the year 2000.
2. As I can generally apply Canadian taxes paid against any US tax owing, the IRS only receives about $30-60 per year in tax from me. Thus, it has cost me over $16,000 to return about $500 to the IRS.
3. I can completely eliminate my tax owing to the US, if I eliminate any US source income. As a retired person, my US source income comes in the form of modest dividend payments from American investments. Of course, whether or not I have taxes owing, I still must incur the costs to file my taxes annually.
4. Ironically, the system provides a disincentive for me, as an American, to invest in the US. It provides no such disincentive to my Canadian wife. She has tax deducted at source on any US-based income and simply claims a credit for that tax on her Canadian tax return. I would be entirely satisfied if that system applied to me. I have no US-based tax deducted at source, but must file a complete tax return each year to determine any tax owing. A system of resident-based rather

than citizen-based taxation would place me on an equal footing with my Canadian spouse and eliminate the disincentive to invest in America.

5. I must file my Canadian taxes first to determine my foreign tax credit. Then I complete my US taxes. If I have any tax owing to the US, I must amend my Canadian taxes to claim a credit for the US taxes or I end up paying taxes twice on the same income. This is an additional administrative burden.
6. In 2014, due to one-time capital gain on a Canadian investment, I would have been subject to an Affordable Care Act tax. This was the case despite the fact that I am not eligible, as a non-resident, to benefit from the Affordable Care Act health benefits. Furthermore, this additional tax is not eligible for a tax credit in Canada, resulting in double taxation for a benefit I cannot receive. I was only able to avoid this tax by making a joint filing with my Canadian spouse in order to increase my deductible. So now my Canadian spouse is unhappily filing US taxe forms and this has increased our accounting fees by one-third to $1600 per year.
7. In addition to the filing of a US tax return, I am required to file reports to the IRS and the Treasury Department describing all bank and investment accounts and the highest amount held in each account during the preceding year. These reports are virtually identical but have to be completed and filed separately.
8. Mutual funds are a common form of investment for retired middle class individuals such as myself. However, I have been advised that the IRS considers Canadian mutual funds to be foreign trusts and requires detailed information regarding the structure of the trusts that is not easily obtained. My accountant has advised me avoid these investments as his fees for filing the reports would be prohibitive for someone in my income level.
9. I do not know the cost to the IRS of collecting the small amount of taxes from me, but it is quite possible that it exceeds the amount of tax revenue remitted.

In conclusion, I propose that some way be found to eliminate these demanding tax requirements on ex-patriot Americans such as myself, either through a shift to resident-based taxation or the establishment of sufficiently high filing threshold (e.g. $500,000 annual income) so that I no longer have to make annual filings.

Yours sincerely,

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