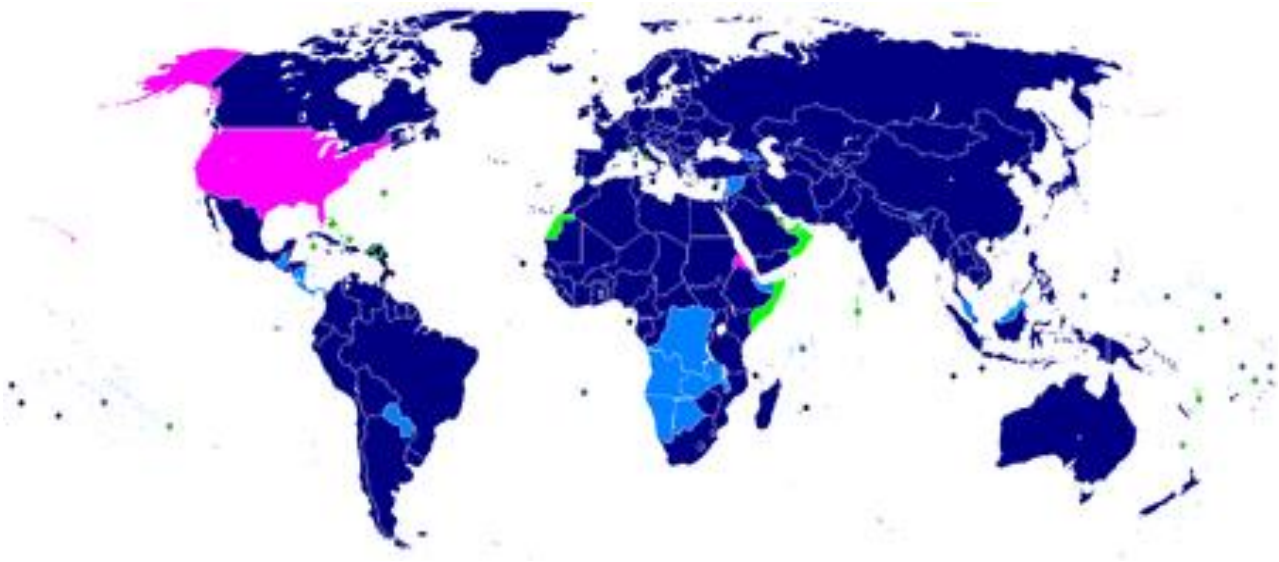
Finance Committee
United States Senate

Re: Individual Income Tax; American Overseas – Input to Senate Finance Committee

Individual Income Tax - Individual@finance.senate.gov



Systems of taxation on personal income:

No income tax on individuals | Territorial | Residential | Citizenship-based
(Source: http://en.wikipedia.org/wiki/International_taxation)

Ladies and Gentlemen,

Thank you very much for your solicitation of input from Americans on how to address fundamental issues in our individual taxation system for United States Citizens and Residents.

A picture speaks a thousand words. For the sake of conciseness please be informed I completely support ACA's (American Citizens Abroad) 2015 Tax Reform Proposal (notably the replacement of Citizen-based taxation (CBT) with Residence-based taxation (RBT)) presented recently to the Senate Finance Committee and cited by the Republican Staff of the Senate Finance Committee in its recent recommendation for "comprehensive tax reform". I am joining a copy of ACA's proposal for your information.

I am also attaching a pdf document written by a regular contributor on the "Isaac Brock Society" website who goes by the name of "Shadow Raider". It is an excellent, well-written, well-researched and documented piece of work that not only also supports the thesis that CBT should be replaced by RBT but actually provides alternative scenarios as to how this might be done. I entirely share his point of view and strongly recommend implementing his recommendations.

My Personal Situation :

I am a 53-years old US citizen by birth, born in Copenhagen, Denmark having lived essentially all my life in Geneva, Switzerland. I have never lived in the US (besides on and off during my undergraduate years I spent in Vermont in the early 1980s).

My last visit to the US was in May 1994 when I visited for one week. I have never worked in the US and never earned a dime of earned or unearned income from any US domestic activities and/or investments. I currently have no presence in the US of any nature whatsoever; physical, financial, professional, personal, residential or any other. I do not currently have plans to return to the US to live in the foreseeable future, although as a free citizen I do not exclude this possibility.

Although I consider myself fully a US citizen at heart, I am not affiliated to any political party and therefore my comments and recommendations are to be considered entirely non-partisan.

<u>How US tax laws (CBT) and FATCA have damaged and continue to damage my life:</u>

My experience with FATCA (and citizenship-based taxation in general) has been traumatic, very costly and often humiliating.

- I have been denied 2 major job opportunities because I am a US citizen. I was told in one instance quite literally, "we do not hire US citizens as they represent a potential risk and high internal legal cost"
- I have been denied the increase of my life insurance policy (linked to my retirement plan) because I am a US person
- I have had my pension plan transfer account terminated because of my US citizenship ("La Bâloise Assurances Vie" Insurance Group has taken the decision to terminate its relationships with US clients). I am joining a copy of the notification for your perusal. It is in French but I'm sure you'll find someone who speaks sufficient French to confirm the contents.
- As a US citizen my bank (UBS) will not allow me to invest in US securities (Equities and funds). I am therefore severely limited in my choice of long-term investment options which has caused me severe opportunity losses over the years with the consequences this will have on my future financial situation, particularly my retirement savings. If I remember correctly this policy was introduced by the bank close to 15 years ago.
- I have an existing secondary residence mortgage which I have been told I can keep for the moment (UBS) but was also told that it would be a challenge to obtain new mortgage facilities (either an increase or a new loan) because of my tax status as a "US person".
- I have had to close all my relationships with banks except two, notably because of administrative hassle, warnings that the accounts would in all likelihood have to be closed in the future as well as exorbitant US tax-reporting costs (the tax accountant charges USD 100 minimum per account even if it is at a zero balance).
- My only remaining bank (UBS) tells me that they are unsure whether they will continue to accept me as a client. Where else would I go? I have to live with this sword of Damocles over my head 24/7, a source of permanent stress and anxiety.
- My annual US tax declaration bill is currently around USD 700, all for nothing as I don't owe and have never owed the US any taxes. Life in Switzerland is very expensive and my income is not very high. I simply don't have the luxury to throw that amount of money out the window each year for no added value to anyone, except to the tax accountant.
- In order to become tax compliant it cost me over CHF 14'000 (a little more than USD 14'000) to do three years of declarations! I have a very simple tax situation; single, no kids, no exotic investments, sources of income or capital gains, etc. I was in a vulnerable position and was

clearly abused. But I had to get the job done and didn't know where to turn to for help. As it turns out, I didn't owe any taxes to the US. USD 14'000 down the drain for nothing, literally!

- Besides the issue of cost, the non-compatibility of the US tax system with foreign tax systems means that many of the tax deductions are only partially effective. Furthermore, the US tax system does not take into account cost of living. It doesn't adjust the foreign income exclusion to inflation. If it did since inception the amount would be at least twice as high today.
- Because of currency rate fluctuations and the fact that US tax declarations are in expressed in USD, taxpayers often end up being taxed on phantom capital gains. I have been affected by this in the past and continue to be, since the US Dollar has been on a steady fall over the years..
- The administrative nightmare of filing US tax declarations for nothing can be illustrated as follows. My Swiss tax declaration can be completed online with the help of a software program that is available for free. In all, the declaration itself is about 10-12 pages long. The US declaration can only realistically be prepared by a professional given the risk of huge penalties in case of omissions and errors. My US declaration is 63 pages long! All that for nothing! A huge waste of time, money, energy, resources, and most importantly my freedom and personal well-being.

A few closing remarks on Swiss financial institutions and US clients:

- A few Swiss banks accept new tax compliant US clients (Von Tobel and Hyposwiss notably), but only those with substantial assets (USD 500K to USD 1 million and above). To my knowledge no Swiss banks or financial institutions (life insurances included) are actively welcoming new US tax compliant retail clients.

- For these institutions, US clients are considered too risky and are demonstrably too expensive to administer (from a legal and compliance standpoint), therefore the risk / return ratio is simply not worth it for them. That is why US clients, especially retail clients, are considered "toxic" and are barely tolerated at best.

<u>Conclusion:</u>

The current US global fiscal inquisition is tantamount to nuking the ocean to catch a few great white sharks. The lives of millions of legitimate overseas Americans are being seriously affected. The system currently considers and treats them as acceptable collateral damage in an otherwise legitimate hunt for deliberate tax evaders who for the most part actually physically reside in the US not abroad.

Unlike other countries where tax systems are pragmatically set up, the US tax system is founded on the arbitrary concept of patriotic emotion. It is no wonder that the system is dysfunctional. Of the 244 tax-raising jurisdictions existing in the World today (sovereign countries, territories, dominions, non-recognized or only partially-recognized countries), 242 (all but two, well over 99%) use residence-based taxation or (for a minority of countries) its close alternative known as territorial-based taxation. The US has to join the rest of the world in adopting RBT and immediately relieve its foreign-residing citizens from the serfdom-like obligation of filing Federal income taxes when they have no connection with the US other than their citizenship. This relief can be provided very easily by changing the definition of US persons for tax purposes, by specifically excluding bone fide foreign-residing US citizens from the scope of taxation. Nonetheless, the only true effective and definitive remedy to the problem is the abandonment of CBT.

When considering the situation of US citizens living abroad (especially long-term foreign residents), one must always have the following facts in mind. These US citizens:

- ☞ Don't partake in US society (in many cases, never have)
- ☞ Don't cost US society anything
- ☞ Don't ask US society for anything
- ☞ Don't benefit from any notable services and advantages offered to stateside Americans
- ☞ Are not represented in Congress as a distinct group

The US has no business forcing its authority on its citizens who have left the country legally. Doing so constitutes an act of authoritarianism that is by all standards of measure shameful for a country that claims to be the leader of the free world.

I have heard and read supporters of CBT saying that overseas US citizens should simply renounce their US citizenship instead of changing the system. Their solution to the problem on the blackboard is not to reform the system but to get rid of its victims!

I trust I am addressing myself to people who have the compassion and integrity to do what is right and just and I thank you in advance for your kind interest and efforts in finding a lasting solution to our plight.