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15th April 2015

For the attention of:

United States Senate Committee on Finance
International & Individual Tax Working Groups

Dear Senators Hatch and Wyden and other members of the Finance Committee,

First of all let me thank you for providing an opportunity to comment on what I, and many other American citizens living abroad, feel is a very important issue. While there are many significant challenges facing our nation sensible tax reform, focusing on how best to overhaul the nation's tax code to make it simpler, fairer, and more efficient, should be a priority as we emerge from the long recession and seek to put America back on a path of strong and sustainable growth.

Having lived and worked abroad for the last 15 years, I would in particular like to draw your attention to the extremely difficult tax situation that the American expatriate community faces. At the root of the issue is the fact that the United States is one very few countries (alongside Eritrea) to impose taxes on individuals based on citizenship rather than residency. In practice this exposes expatriate Americans to an almost untenable state of affairs in which they are under the jurisdiction of both the tax system of their foreign country of residence as well as that of the United States. Given that tax codes everywhere are complex and in no way harmonised, this leads to an onerous and unfair outcome in many cases, which hugely disadvantages American expats in both economic terms and also through imposition of a massive administrative and compliance burden, which only continues to grow thanks to new regulations such as FATCA. Some examples of the many tax-related issues faced by expats include:

- Exposure to double-taxation
  - There are obviously significant differences between the US tax system and that of other countries in terms of the tax treatments of different income streams, at a very basic level in terms of tax rates but also in terms of the nature of the taxation and also the timing of payment. These differences create many situations which expose American expats to double-taxation, despite the existence of foreign tax credits and other relief measures.
  - To provide an example based on my own personal experience, I have spent my entire time abroad living in France and the UK, jurisdictions that in principle have substantially higher taxes than the US. However, despite this over the last 5 years alone I have paid approximately $24k in US income taxes, and all of this was double taxation on income that had already been duly declared and fully taxed in my country of residence. In 2014 alone I faced a $14k US tax bill despite being taxed at an all-in rate of c. 50% by France, where I am now a resident.
  - Another specific example that I now face in France, is that while overall individual taxes are high they are split into 'income taxes' and 'social charges'. The actual income tax rates in France are high enough and on top of that the social charges are high (c. 20-23% of gross income). However, as the US tax system does not consider the French 'social charges' to be taxes, I cannot get a tax credit for these and am thus double-taxed on that portion of my income. This amounted to $5-6k of double-taxation in the last year in my case.
- A hugely onerous and costly administrative burden
  - Compared to the other tax systems to which I have been exposed (the UK and France), the US tax code is particularly complex and filing is complicated and time consuming. For those of us living abroad the job is made exponentially more challenging due to the sheer volume of forms and information we are required to provide, as well as the additional complexity involved in trying to reconcile both foreign and US tax positions.
  - As a result of the almost insurmountable complexity of compliance, many expats have no recourse but to seek professional help. This creates another additional layer of cost beyond double-taxation.

In my own case I have had to spend around $18k on tax preparation fees over the last 5 years (i.e. >$3.5k/year), and from the many conversations I have had it has become clear that my costs are very much are in-line with those of other American expats I know.

- Difficulty in saving for retirement
  - In my experience many very common tax-advantaged foreign savings schemes are not recognised as such by the US tax code. Conversely, US retirement savings schemes (IRAs, etc) are often not recognised abroad. This puts American expats in a highly disadvantageous position with regard to building up a cushion of savings in general and in particular in regard to their efforts to save for retirement or other significant life events such as college tuition for children.
- An unfair playing field that renders US citizens hugely uncompetitive abroad
  - Many countries, particularly in Asia and the developing world, have much lower tax rates as their social, healthcare and retirement systems are less developed than those of the US or Western Europe. As a result gross salaries are also much lower than they might be for a similar role in a developed economy. An example of this would be Singapore, where the tax rate is c. 10% and as a result salaries are c. 20-40% lower than for an equivalent position in the US (despite a cost of living that is similar to a major city such as New York or London).
  - Americans with an opportunity to move to one of these countries face the choice of either negotiating a tax-equalisation package with their employer (increasingly difficult in today's tough economic climate, not to mention being financially burdensome for the employer) or accepting a 'local' pay package and paying US taxes on it – essentially doing the same work as their local colleagues but for less take-home pay. Not surprisingly, employers are tempted to hire non-American staff for such positions as the extra cost associated with Americans is prohibitive.

While all of these issues are highly problematic for many US expats, they also raise a wider strategic point that I think is vitally important to consider. America's citizenship-based tax system renders its citizens hugely uncompetitive abroad and is making life increasingly difficult for expatriates, particularly in countries where there are the most opportunities for American businesses as well as the most need for American expertise. This is forcing many of us to return to the US, and is dissuasive to those who might otherwise want to work abroad for at least part of their career. The extra cost also makes American companies think twice about sending staff abroad. As someone who believes that America has a lot to share with the world in terms of its values, culture and expertise, my fear is that the current tax system is making it increasingly hard for America to do this through exporting its human capital. Our ability to send Americans to work in other countries is both vital in terms of helping American businesses develop abroad (doubly important given the tough economic climate) and also in order for them to serve as ambassadors for our culture and values. In doing so we increase our connections with the rest of the world and, I believe, also bring a great deal of valuable experience back to the US when we return (as most of us will do).

An additional, and particularly troubling, consideration is that as the complexity and invasiveness of the US tax system mounts with each passing year, and with it the economic cost in terms of compliance and double-taxation, increasing numbers of Americans who have built their lives abroad are being driven to renounce their citizenship as they see no other alternative. This is a particularly regrettable unintended consequence of the current tax system.

While I am sure that the existing tax code is not expressly meant to penalise those of us living abroad, or to put America at a strategic disadvantage in terms of exporting its own human capital, values and expertise, it has the effect of doing so. This is both highly prejudicial for the expat community and for American interests more broadly. However, the situation could very easily be remedied by simply switching to a residency-based (i.e. territorial) system of individual taxation rather than the current citizenship-based system. This would create a fair tax situation for American expatriates and, I believe, would be strategically beneficial to America in the long term, and I urge the members of the Senate Finance Committee to include this as a core part of an urgent and long-overdue overhaul of our nation's tax code.

Yours sincerely,



Nicholas Hirschi