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Expats Lobby For Tax on Residence, Not Worldwide Income

U.S. citizens and permanent residents pay tax to the IRS on their worldwide income. Of late, that rule has gotten many into hot water. American expats living abroad have been hit especially hard, as have dual U.S. and Canadian citizens. See [U.S. Tax Crackdown Hits Canadian Residents](#). See [Expats Call For FATCA Repeal](#). In fact, dual citizens of the U.S. and Canada seem positively outraged. See [Oh Canada! Hating FBARs And FATCA](#).



Actually, there have been significant failures to report worldwide income across the board. There's been an even bigger failure to disclose the existence and details of foreign bank and other financial accounts. See [New IRS Offshore Amnesty Announced: Third Time's A Charm](#). Treasury Form [TD F 90-22.1](#), also known as an [FBAR](#), may be ubiquitous today, but even 3 years ago it was largely unnoticed. See [Primer For First Time FBAR Filers](#).

As a result of all this, disquiet is inevitable. American Citizens Abroad ([ACA](#)), which represents U.S. citizens living abroad, has announced a tax reform proposal. It advocates a residence-based tax instead of one based on citizenship. It also proposes various other reforms. See [Alternative to](#)

[citizenship-based taxation with major economic advantages for U.S.](#) and [Eleven proposals for tax reforms required and applicable within the framework of citizenship-based taxation.](#)

Is this proposal likely to go anywhere? It seems a long shot. ACA representatives met with House and Senate tax staffs and, perhaps more important with staff from the Joint Committee on Taxation. It's true that some in Congress think residence-based taxation would be better than our current system. The "leveling the playing field" metaphor is frequently invoked.

The U.S. is the only industrialized country in the world to impose citizenship-based taxation. See [IRS Watchdog Critiques Offshore Tax Amnesty](#). This rule has taken serious hits, at least some of which have come to light in the implementation of FATCA, the Foreign Account Tax Compliance Act. FATCA imposes extensive extra-territorial reporting requirements on banks worldwide, and final regulations have still not been issued by the IRS.

Yet as noted [here](#), the U.S. made great strides in placating the anti-FATCA movement by getting five key nations to join hands with the U.S. That doesn't mean these nations will change their own tax systems, of course, but it does suggest that the biggest resistance to FATCA may be faltering. It also suggests that the Obama administration cares enough to go on the FATCA campaign trail.

Although some banks overseas are closing the bank accounts of American living abroad to avoid potential FATCA penalties, FATCA may be here to stay. Depending on your perspective, that may be a bad thing. Indeed, it's hard not to listen carefully to the pleas of Americans living and working overseas who are facing hostile banking relationships.

ACA says changing to residence-based taxation for individuals would encourage U.S. corporations to send more American staff overseas to represent U.S. interests and promote American-made products. The bigger question is how U.S. tax rules impact our global competitiveness, but that could be a Gordian knot.

For more, see:

[IRS May Find "Innocent" FBAR Violation Willful](#)

[IRS Relief To Canadian Dual Citizens](#)

[U.S. Tax Crackdown Hits Canadian Residents](#)

[Americans In Canada Must File U.S. Tax Returns](#)

[Please Sir, Can I Have Some More FATCA?](#)

[Stripping FATCA From Our Diet](#)

[FBAR And FATCA Haters Unite](#)

[IRS OVDI Offers Penalty Relief for Dual Citizens](#)

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