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HOW U.S. INTERNATIONAL TAX POLICY IMPACTS AMERICAN WORKERS, JOBS, AND INVESTMENT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

MARCH 25, 2021

Printed for the use of the Committee on Finance

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HOW U.S. INTERNATIONAL TAX POLICY IMPACTS AMERICAN WORKERS, JOBS, AND INVESTMENT

THURSDAY, MARCH 25, 2021

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 9:33 a.m., via Webex, in the Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Cantwell, Menendez, Carper, Cardin, Brown, Whitehouse, Cortez Masto, Warren, Crapo, Grassley, Portman, Toomey, Cassidy, Lankford, Daines, Young, Sasse, and Barrasso.

Also present: Democratic staff: Jonathan Goldman, Senior Tax Counsel, International; and Joshua Sheinkman, Staff Director. Republican staff: Courtney Connell, Senior Tax Counsel; and Gregg Richard, Staff Director.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Finance Committee meets today to discuss international corporate taxes, and the 2017 Trump tax law will be a significant part of this discussion.

The lesson of the Trump tax law is that somehow you can spend hundreds of billions of dollars on multinational corporate tax handouts and not produce any lasting boost in jobs and investments.

Today's hearing comes days after the release of a jaw-dropping report from the Joint Committee on Taxation. That report found that the Trump tax law slashed the average U.S. tax rate paid by the Nation's biggest mega-corporations by more than half. Add to that data from the Congressional Budget Office, and you will see that corporate tax revenues have fallen through the floor. From 2016 to 2019, they dropped by a third. The fact is, before 2017 the United States collected relatively little tax from corporations compared to other major economies.

Despite this, Donald Trump and Republicans still sent the United States diving headlong into a global race to the bottom on corporate taxes. After all, that race to the bottom is based on the old trickle-down philosophy that has been misleading the American people, blowing budgets, and driving inequality for 50 years. The worst part is, it was done in a way that makes America less competitive in tough global markets.

Under the Trump tax law, multinational corporations have special new breaks for shipping jobs and profits overseas. There is a specific new tax break for investing in factories outside our country. There are even new barriers to bringing back good-paying jobs in research and development, or investing in key areas like clean energy.

So, it is no surprise that the investment boom Republicans talked about turned out to be more of an investment whisper. Manufacturing even went into recession in 2019, months before the pandemic hit.

Now, hearing this has got to be a punch in the gut for Americans who live in communities where hulking shuttered factories sit there as reminders of what prosperity used to look like. Americans have recognized this kind of basic unfairness and imbalance in the Trump approach from the get-go—colossal benefits for colossal multinationals, with promises to workers always coming up empty.

So here is the bottom line, from where I sit. As the committee begins today, I reject the proposition that the United States has to participate in a worldwide race to rock bottom on corporate taxes just to compete or to create good-paying jobs. Our country does not have to behave like some kind of minor island off the coast of nowhere, selling zero-tax P.O. boxes to corporate headquarters to crank up a quick buck.

Whether it was the result of shoddy legislating or misleading double-speak, the Trump incentives for shipping jobs overseas are a disaster for working people in Oregon and across the land.

It is time the Congress took a fresh approach. In the coming days, joined by Senator Brown of Ohio and Senator Warner of Virginia, I will be releasing a new framework for international tax that reverses the Trump era handout for multinationals.

Our new framework is based on just a couple of simple propositions. First, multinationals will pay a fair share just like Americans who work for a living. There were too many corporate loopholes and opportunities for gaming the system before the Trump tax law, and the Trump law just made things worse. The rates are too low, and it is too easy for corporations to skip out on paying their fair share simply by shifting profits and gaming the system.

Second, the tax code needs to reward companies that invest and create good-paying jobs in the United States, and stop rewarding companies that ship jobs and factories overseas. Inequality is getting worse, and millions of Americans are hurting and out of a job. Provisions of the Trump tax law that shortchange American workers and make us less competitive have got to go.

As I mentioned, we have members already hard at work on these issues. I know others have big ideas to bring to this debate.

I want to thank our witnesses. This issue represents a big, difficult challenge, but I think the cross-section of people we have today gives us a chance to start this debate. And let's get at it.

My friend and colleague, Senator Crapo, is here, the ranking minority member, and we will recognize him at this time.

[The prepared statement of Chairman Wyden appears in the appendix.]

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you, Mr. Chairman, for holding this hearing today. And thank you to our panelists for joining us today.

Before the Tax Cuts and Jobs Act, or the TCJA, we shared a common concern for the many threats to the U.S. corporate tax base and the collateral threats to U.S.-centered economic activity, including investment, growth, and jobs.

Corporate inversions were on the rise as a defensive strategy adopted by U.S. businesses to ward off foreign takeovers. The combination of one of the world's highest corporate tax rates of 35 percent, and the disadvantages of the U.S. worldwide deferral system, made it a losing proposition to be a U.S.-based company when competing in overseas markets.

That environment led this committee's bipartisan working group, chaired by Senators Portman and Schumer, to conclude that our international tax system was clearly broken. I challenge anyone to reasonably argue that we should return to the pre-TCJA international tax landscape.

Our shared view was not limited to the state of our flawed system. There was also bipartisan agreement on the optimal path forward. President Obama, then-Senate Finance Committee chairman Max Baucus, and then-House Ways and Means Committee chairman Camp, all proposed lower tax rates with minimum taxes on foreign earnings.

There is nothing controversial about the problems that plagued our international tax system, or our collective acknowledgment of the fundamental changes that needed to be made. Consistent with these bipartisan objectives, the TCJA reduced the corporate tax rate, ended the deferral system, and introduced a new minimum tax on foreign earnings of U.S. companies, as well as other anti-abuse rules to prevent base erosion.

While the reduced corporate rate moved the United States more in line with the rest of the world, the anti-base erosion measures that were enacted into law are the most robust in the world. Indeed, they are prompting other countries, through the OECD, to consider similar measures.

The goal of our new system was to both ensure that the United States and U.S. companies are competitive in global marketplaces, and to protect the U.S. tax base.

TCJA is a vast improvement over the prior system. And since the TCJA, the flood of inversions has ceased entirely. And U.S. companies are no longer easy targets for takeovers. Prior to the pandemic, U.S. companies were sharing their business stories of increased investment, wages paid to workers, and jobs in the United States—outcomes I expect to resume once our economy can reopen completely, provided adverse changes are not made to our tax laws.

It is of course healthy to deliberate and to consider refinements to allow U.S. companies to further invest and expand in the United States without harming their ability to compete, especially considering the precarious environment that many businesses find themselves in as they recover from the pandemic.

Markets abroad are vast, and we want U.S. companies to be competitive in their ability to serve those markets and not be ham-

strung by uncompetitive taxation. What we should not do is hastily change the system purely for purposes of raising revenue, bringing inversions and foreign takeovers of U.S. companies right back to the forefront.

Unfortunately, that may be the misguided direction in which the administration wishes to proceed. Let us not forget, those inversions and foreign takeovers were real and not just academic estimates from certain questionable studies we have seen in the area of international effects of taxation.

Some of those studies dealing with so-called stateless income, profit shifting, and base erosion play very fast and loose with the data and the methods. Sometimes in those analyses, politics and advocacy for political position overcome rigor—and it shows.

Under President Biden's proposed corporate rate increase, which would result in a combined U.S. rate of nearly 33 percent, we again would have one of the highest combined statutory rates among developed countries.

Worse, the President's proposed 100-percent increase in the GILTI rate—one current provision of the international part of the tax code—would put the United States at an even greater disadvantage, as no other country taxes foreign earnings at even close to that rate.

America's future jobs, income growth, and prosperity will depend on how well U.S. businesses compete in this country and in foreign markets. American headquarters, research, and other domestic jobs depend on U.S. firms' viability here and abroad.

Strong U.S. companies mean financial security for millions of Americans who need look no further than their 401(k) accounts and IRAs, which hold the largest plurality of publicly traded stock.

As the Schumer-Portman working group said, when U.S. businesses can compete and win in this growing global market, the real winners are U.S. workers—and I might add, those millions of Americans who own stock in their 401(k) accounts and IRAs.

As we examine proposals that would dramatically alter the TCJA's international provisions, we should test the potential outcomes against our shared policy objectives voiced before and since the TCJA. Will the U.S. tax base be strengthened? Will the U.S. growth rise? Will U.S. workers have better job opportunities and wages? Will U.S. workers and retirees see their retirement account balances rise?

Mr. Chairman, I look forward to hearing from today's witnesses.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. Thank you, Senator Crapo.

Here is how we are going to proceed. And I was just advised that we may have a number of votes, starting before too long. I want to tell our guests we very much appreciate them, and we are just going to do our best to keep this going, with members asking their questions.

Our first witness is Dr. Clausing, Deputy Assistant Secretary for Tax Analysis at the Treasury Department. We are particularly pleased that she is on leave from Reed College, which is right around the corner from my home, and Oregonians are very proud of her, and we appreciate her testifying.

Our next witness will be Ms. Olson, formerly the Assistant Secretary for Tax Policy at the Treasury Department, now with PWC.

Our third witness will be Ms. Huang, who is executive director of the Tax Law Center at NYU. And there she is.

And our final witness will be Dr. Jim Hines, Richard Musgrave collegiate professor of economics and the L. Hart Wright collegiate professor of law at the University of Michigan

Let us proceed, Dr. Clausing.

STATEMENT OF KIMBERLY A. CLAUSING, Ph.D., DEPUTY ASSISTANT SECRETARY, TAX ANALYSIS, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Dr. CLAUSING. Thank you so much, Chairman Wyden, Ranking Member Crapo, members of the committee. Thank you so much for inviting me to share these views on the international aspects of business tax reform.

In my testimony today, I will discuss several crucial issues related to international tax reform. First, we need to better protect the U.S. tax base from the shifting of corporate profits to offshore havens. Second, international tax reform is an essential ingredient to a fair tax system. And third, it is important to modernize our tax system to better suit a globally integrated world economy, reducing the tax preference in favor of foreign operations and enabling U.S. workers to compete.

First, consider the important problem of profit shifting, which erodes our corporate tax base, reducing tax revenues. Compared to our trading partners, the U.S. Government raises very little corporate tax revenue as a share of GDP. The United States raised only 1 percent of GDP from the corporate tax in recent years; whereas, other nations consistently raised 3 percent of GDP from the corporate tax.

Our corporate revenues are low despite the fact that U.S. companies produce very high corporate profits, both in historic and comparative terms. Indeed, the U.S. corporate sector is the most successful in the world. The United States hosts 37 percent of the world's top company profits, despite the fact that the United States only comprises 24 percent of world GDP and less than 5 percent of the world's population.

Yet, despite the enormous success of our corporate sector, U.S. companies continue to shift corporate profits offshore, reducing the U.S. corporate tax base. This costs the U.S. Government enormous amounts of foregone revenue. Further, the Tax Cuts and Jobs Act has not changed the magnitude of profits shifted abroad. The role of foreign tax havens in the years 2018 and 2019 is quite similar to what it was in the years before the 2017 law.

While the 2017 law contained two modest measures that were supposed to stem profit shifting, those two measures had harmful unintended consequences. Also, the 2017 law directly encouraged profit shifting in other ways by exempting from U.S. tax the first 10 percent return on assets, and by taxing foreign profits at half the rate of U.S. profits. Both of these provisions tilt the playing field in favor of offshore activities and earnings relative to domestic activities and earnings.

Second, consider fairness. Improving international taxation will improve the progressivity of our tax system, ensuring that large corporations and those that own them pay their fair share. The corporate tax is one of our most progressive taxes, far more progressive than the individual income tax or the payroll tax. All respectable economic models agree on this point: the corporate tax burdens the owners of capital, and those with excess profits.

Recent decades have witnessed a worrisome increase in income inequality, combined with the falling labor share of income. This makes it especially important to modernize the tax system so that we can tax internationally mobile capital. If companies move their profits to avoid tax, we miss our only chance to tax most capital income, since about 70 percent of U.S. equity income goes entirely untaxed by the U.S. Government at the individual level.

In addition to enhancing the progressivity of the U.S. tax system, the corporate tax is also efficient, since taxing excess profits can generate revenue without undue distortion. And evidence indicates that a rising share of the corporate tax base, now likely well over three-quarters, is comprised of excess returns.

Finally, we need to counter the offshoring incentives that are baked into current law. At present, U.S. domestic corporations pay income tax at 21 percent, a lower marginal tax rate than that faced by many schoolteachers or firefighters. Yet, multinational companies operating offshore receive even more favorable tax treatment. Under the GILTI minimum tax, the first 10 percent return on tangible assets is completely free of U.S. tax. And subsequent income is taxed with a 50-percent deduction, facing tax at approximately half the full U.S. rate.

Our tax system would benefit from a much stronger minimum tax. We are not alone in pursuing these types of solutions. There is presently an international effort to move to a global agreement on a country-by-country minimum tax. Working with our allies and friends in this area can help nations rebuild the cooperative spirit that is needed to tackle other important problems such as climate change and global public health issues.

Finally, it is important to have a competitive tax system. And competitiveness is really about ensuring that our tax code does not incentivize foreign operations at the expense of those at home.

Competitiveness is also about nurturing the many fundamental strengths that make the U.S. such a great place to do business. Investing in our institutions, in the abilities and education of American workers, in the quality of our infrastructure, and in cutting-edge research, is all-important.

Thank you.

[The prepared statement of Dr. Clausing appears in the appendix.]

The CHAIRMAN. Okay; our next witness is Ms. Olson. Welcome.

STATEMENT OF PAMELA F. OLSON, FORMER ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Ms. OLSON. Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, thank you for the invitation

to participate this morning as the committee considers the impact of U.S. international tax policy.

I am appearing on my own behalf, not on behalf of PWC or any client, and the views I express are my own.

The written statements submitted for the record today, and what we have already heard, demonstrate widely differing views on the efficacy of our current international tax rules, but agreement on how policy should be judged: whether it delivers what all Americans want—jobs and investment that lead to rising wages, economic security for American workers and their families, and more broadly shared prosperity.

I hope my testimony, which draws on my experience as a policymaker and as a practitioner observing how the rules work in real life, will help the committee chart a path.

U.S. international tax policy prior to the TCJA was dysfunctional. It allowed U.S. companies to compete in foreign markets, but put a tax wedge between reinvesting foreign profits abroad and in the U.S., a wedge that grew in size as the differential between U.S. and foreign corporate tax rates increased, disincentivizing the reinvestment of foreign profits in the U.S. The U.S. financial statement treatment of unrepatriated profits differed from the reporting of companies headquartered in territorial systems, making U.S. companies a target for foreign governments in search of revenue. The high U.S. corporate tax rate and worldwide system placed a discount on the value of business assets in the hands of American-owned companies, leading to the loss of corporate headquarters, with broad consequences for both the local communities and the governments where the headquarters were located.

Besides being dysfunctional, U.S. tax policy was out of sync with the rest of the world, which had reduced corporate rates, adopted territorial systems, enacted laws to safeguard their domestic tax bases, and turned increasingly to consumption taxes like a VAT to meet revenue needs.

There was broad bipartisan recognition—which has already been acknowledged this morning—that U.S. international tax policy before 2017 was unsustainable.

Chairman Wyden, you have led in this area with your 2010 bipartisan comprehensive tax reform bill, lowering the corporate rate to 24 percent and significantly broadening the base. Democrats and Republicans alike—President Obama, Ways and Means chairman Camp, Chairman Baucus, Senator Portman, and Majority Leader Schumer, who co-chaired this committee's working group on international tax reform—put forward proposals to lower the corporate rate, broaden the corporate base, and transition to an international system that ended the disincentive to repatriate foreign earnings. In 2014, Senator Cardin introduced legislation that coupled a 10-percent VAT with a reduction in the corporate tax rate to 17 percent.

To be sure, there were differences among the many proposals put forward, but the differences were of degree, not direction. As an observer of the legislative process, the TCJA reflected a remarkable triumph of bipartisan policy development, despite the ultimate vote—lowering the rate of taxing offshore earnings, ending the disincentive to reinvest in the U.S., and adopting strict anti-base ero-

sion provisions. Though early, initial BEA data on the activities of U.S. multinational companies since TCJA indicate its success.

What has mattered most? Reducing the corporate rate from number one among OECD countries to the middle of the pack, was key to addressing base erosion and increasing U.S. investment and job creation. The base broadening in TCJA meant that corporate receipts as a share of corporate income have stayed relatively unchanged, despite the rate reduction. Mandatory deemed repatriation of foreign profits wiped the slate clean, subjecting earnings to tax and allowing companies to reinvest them in the U.S.

Two minimum taxes—GILTI and BEAT—guard against base erosion and profit shifting. Neither is a perfectly designed provision, but the flaws are not in details like QBAI. I am unaware of any taxpayer enticed to move operations out of the U.S. to be taxed under GILTI. Indeed, taxpayers may go the other direction to avoid it, becoming subject to full current tax under subpart F. Others have repatriated IP to avoid GILTI and take advantage of FDII, which was designed to create a level playing field for U.S. income derived in foreign markets.

Looking ahead, the OECD's project on taxation of the digitalizing economy—not on the list of topics for today—is the elephant in the room. The U.S.'s jurisdiction to tax is on the menu. Congressional guidance to Treasury is lacking, even though the proposals may require conforming legislation and amendments to treaties requiring Senate ratification. Waiting for the OECD agreement is too late to begin consideration of what the Senate would like to see in it.

Whatever the outcome of the OECD negotiations, other governments are going to act, and they will act in a manner that they believe will foster the interest of workers, jobs, and investments in their countries, not in the United States. It is up to you to look out for the best interests of America.

Thank you again for this opportunity.

[The prepared statement of Ms. Olson appears in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Olson.

Ms. Huang, welcome.

STATEMENT OF CHYE-CHING HUANG, EXECUTIVE DIRECTOR, TAX LAW CENTER, NEW YORK UNIVERSITY SCHOOL OF LAW, NEW YORK, NY

Ms. HUANG. Chairman Wyden, Ranking Member Crapo, and members of the committee, thank you for the opportunity to testify today. My name is Chye-Ching Huang, and I am executive director of the Tax Law Center at NYU Law. It is a new public interest initiative to strengthen the tax system by weighing in on technical but consequential tax law issues.

Decades of productivity gains, followed by large tax cuts on corporate profits, have not benefited hard-working families enough. They have faced near-stagnant wages and have been hit hardest by the COVID recession.

A recovery package may soon invest in priorities, including infrastructure, education, and making historic reductions in child poverty permanent, as well as ensuring low-wage workers are not taxed into poverty. That would permit shared prosperity for work-

ers, visitors, and children from all backgrounds who could be in the next generation of innovators and entrepreneurs.

If lawmakers decide to offset some of the cost, international tax reform can ensure that multinationals contribute to the infrastructure and workforce that benefits them. And aside from the revenues, it can reduce tax incentives for companies to locate profits and investments offshore, or to invert.

My testimony makes three points. First, the current system has incentives for multinationals to locate both paper profits and real investments offshore. Second, elements of it can be salvaged and strengthened to build a coherent, workable system that is less tilted. And third, doing so now would not only help workers in an economy in need of strengthening, it could also help to secure a once-in-a-century chance to build a modern, global international tax system.

So first, the law's incentive to shift profits and investment offshore. The 2017 law has a very lopsided basic structure that cut the corporate rate to 21 percent but set a rate on multinational's foreign profits as low to zero. And that is a large incentive to locate profits and investment offshore.

Now the law did create GILTI, BEAT, and FDII to try to limit that damage, but their design is flawed. The GILTI and minimum tax on multinationals' foreign profits is not very robust. It applies only to profits that exceed 10 percent of a multinational's investment and tangible assets, like factories in foreign countries.

So that is a U.S. tax rate of zero on large swaths of foreign profits, and it is also an incentive for companies to have factories and other assets offshore so that they can get that zero rate on more foreign income.

Now GILTI is calculated on a global basis instead of for each country separately. So multinationals can take income and taxes from countries where they pay little or no tax and combine them with income and taxes from countries where they pay significant tax. And that average rate lets multinationals face less GILTI on their overall foreign profits. And from a tax perspective, it can make the U.S. the least attractive place for a multinational to invest or put profits. At about half the U.S. rate, the GILTI rate is far too low.

Now BEAT, the base erosion tax, aims at multinationals shifting profits out of the U.S. and into low-tax countries by making big payments to foreign affiliates. But it catches payments that are not a big base erosion risk, while ignoring others that are.

FDII's purpose is unclear and its design muddled. And it looks a lot like an export subsidy, which could be a fatal WTO problem.

My second point is that parts of the law can be salvaged and strengthened. A reformed GILTI can apply to a broader set of foreign profits, can be calculated on a country-by-country basis, and the rate should be at least 75 percent of the U.S. rate. A strong GILTI and a retooled BEAT could be the basis of a coherent tax structure that reduces the tilt toward offshore profits and investment.

And third, these reforms would not only directly benefit U.S. workers, families, and the economy, they could also help the U.S. to take a leadership role in the current multilateral effort to build

a modern, cooperative international tax system that could have further profound benefits for the U.S. workers and families.

It is an honor to be here today, and I welcome the chance to answer your questions.

[The prepared statement of Ms. Huang appears in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Huang.

Dr. Hines?

STATEMENT OF JAMES R. HINES, Jr., Ph.D., RICHARD A. MUSGRAVE COLLEGIATE PROFESSOR OF ECONOMICS AND L. HART WRIGHT COLLEGIATE PROFESSOR OF LAW, UNIVERSITY OF MICHIGAN, ANN ARBOR, MI

Dr. HINES. Chairman Wyden, Ranking Member Crapo, and committee members, thank you for the opportunity to participate in these hearings.

International taxation involves multinational firms which are important parts of our economy. Twenty percent of the private-sector U.S. workforce is employed by U.S.-based multinational firms, and another 6 percent work for foreign-based multinational firms. These are good jobs that pay well above the country's average compensation.

Multinational firms are responsible for 73 percent of the country's manufacturing employment, 53 percent of total plant and equipment investment, and 84 percent of industrial R&D. Multinational firms constitute a big portion of the U.S. economy, and in particular the advanced part of the economy that is the engine of growth and provides the best jobs.

Multinational firms compete in global markets, but one of the understandable concerns that people have about multinational companies is that they might shift production out of the United States to lower-cost foreign alternatives, and thereby reduce U.S. investment and employment. These types of substitutions definitely occur. But it is important to note that something else that happens is that foreign operations make multinational firms more productive, and this productivity effect enhances U.S. output and employment.

All of the available evidence indicates that, for the economy as a whole, this productivity effect is much larger than the substitution effect. As a result, 10-percent greater foreign investment by U.S. multinational companies is associated with 2.6-percent greater U.S. investment by the same firms, and 10-percent greater foreign employee compensation is associated with 3.7-percent greater U.S. employee compensation.

Foreign expansion makes companies more profitable. And when they are more profitable, they do more business, both in the United States and abroad. What would happen if we were to adopt tax rules that make it more costly for U.S. companies to do business abroad?

To some degree there would be less substitution, which would save some U.S. jobs. But at the same time, the reduction in U.S. business productivity would lose the United States far more jobs. Of course, any business tax increase has the effect of reducing business activities, so it is natural to wonder whether it makes more

sense to direct any new business taxes to the foreign operations of U.S. firms rather than their U.S. operations.

The problem with this logic is that international business operations face much greater competition from foreign firms, and as a result, studies consistently show that they are much more affected by taxation than are domestic operations. It does not make sense to try to impose heavy taxes on economic activities that will thereby be greatly diminished.

U.S. firms are often subject to lower tax rates in foreign countries than they are in the United States. As I note in my written remarks, statistics on the extent to which the foreign operations of U.S. firms are lightly taxed are commonly misinterpreted in a way that greatly overstates their importance and leads to exaggerated estimates of tax avoidance by U.S. companies. But it is true foreign tax rates are often low.

If the U.S. operations of a company are taxed at 21 percent, is any failure to tax the foreign operations also at 21 percent somehow an implicit subsidy? The answer is "no." And the reason why is that the foreign operations of U.S. companies compete with foreign companies that are not subject to U.S. taxes.

Creating a level playing field requires not that taxes on U.S. and foreign operations be equal, but instead that the foreign operations of U.S. firms not be subject to a tax regime that disadvantages them relative to their true competitors, which are foreign companies.

Heavier taxation of international business operations leaves the United States a less attractive home for multinational firms. In the past, this has been responsible for corporate inversions, which are visible instances in which previously U.S. companies become foreign-headquartered for tax purposes. But more importantly, and particularly in the pre-2018 era, there were many cases every day when U.S. firms lost out on foreign business opportunities because they could not compete on an equal basis with companies from Great Britain, Canada, Germany, and other places whose home countries did not subject them to the same taxes.

These lost opportunities have the same economic and tax consequences as classic inversions, but they are less visible because newspapers do not describe business transactions that never took place. Furthermore, these lost business opportunities for U.S. companies cannot be prevented by anti-inversion legislation. What prevents them is sound, competitive tax policy.

[The prepared statement of Dr. Hines appears in the appendix.]

The CHAIRMAN. Thank you very much, Dr. Hines.

I will go to you, Dr. Clausing, first. The committee had a terrific hearing last week on promoting manufacturing in America—a great turnout from both Democrats and Republicans—and what was front and center was the need to make sure the best research and manufacturing is done in America.

Yet, the international system the Republicans created in 2017 says just the opposite. If you look, for example, at research and development: don't do it here, build everything overseas.

My question is, aren't we undercutting all the time and money spent trying to get research and development and manufacturing in the United States by having this backward system in place,

where you have all these incentives to ship the jobs overseas, and ship our factories outside our country?

Dr. CLAUSING. Thank you for that question. The Biden administration most definitely shares your goal of ensuring that research and development and manufacturing prosper in the United States. And it most certainly works against those goals to have a tax system that directly rewards offshoring.

Consider two provisions of the 2017 law. First, the GILTI gives you a larger tax exemption the more tangible assets you have offshore. Second, the FDII gives you a less-generous deduction the more U.S. assets you have, all things equal. Together, these two provisions mean that if a company moves plant and equipment from Indiana to India, it both increases its ability to earn tax-free income offshore, and it also increases its FDII deduction.

These are two powerful incentives that directly encourage offshoring. There have also been studies that have documented these sorts of effects and found that U.S. companies with the largest GILTI benefits are those that are doing the most foreign investment, with no noticeable effect on domestic investment.

The CHAIRMAN. Thank you, Dr. Clausing.

Ms. Huang, your talking and your scholarship is all about how corporate revenues are falling through the floor since the 2017 tax law. I had the Joint Committee on Taxation pull some data for the hearing that shows for some big companies, the biggest, rates were cut more than in a half. My question to you is—I believe you think these trends are going to continue, absent reform. How would the country meet the challenge for priorities that are inherently governmental, like infrastructure, if we continue to see these revenues fall this way?

Ms. HUANG. Yes. Thank you, Mr. Chairman. There is really no getting around that the law was a really big corporate tax cut. You can see that on the JCT estimates by companies, but also revenues as a share of GDP, all but cut in half. And investments, some things like infrastructure, skilled workforce, future innovators, they are all things that multinationals benefit from too.

If one is looking to offset some of that cost of making those overdue investments, reducing the tax subsidy for foreign profits—which is something that the Joint Committee treats as a subsidy—is one of a number of really sound revenue sources that you could look to to do that.

The CHAIRMAN. Thank you.

One more question for you, Dr. Clausing. And it goes back—I think the point was made by Ms. Olson. I do believe we ought to try to find a way in the tax system to be bipartisan. My bipartisan proposals were tied to American investment. That is what Democrats asked for in 2017. We were denied the opportunity. So I want to ask a question about this Republican claim, because they are always saying this is about competitiveness.

I bet you we will hear that 25 times in the course of the morning. It seems to me what their definition of "competitiveness" is is that these big megacorporations do not have to pay real taxes. I think that is their definition of the concept of competitiveness. And if you are wondering if that is what they mean, look at what they did in

2017. They cut taxes for those megacorporations, and they did well, and our country did not do well.

Tell us, in my remaining time, what kinds of policies, in your view, would really address what we need to do to be more competitive?

Dr. CLAUSING. Yes. So there are two really important ideas here. One is the competitiveness of the U.S. location as a place to do business relative to opportunities offshore. And we can do a lot better there.

But another really important aspect of competitiveness is our larger business climate. And that means things like making investments in infrastructure, investing in people, addressing urgent social needs such as responding effectively to crises. Both of these types of competitiveness are too often overlooked.

The CHAIRMAN. Thank you.

Senator Crapo?

Senator CRAPO. Thank you, Mr. Chairman.

Ms. Olson, I will go to you first. First, thank you again for appearing here today, and for your discussion of how the TCJA actually has worked since it was adopted.

The current U.S. combined statutory rate of 25.8 percent brings our system more in line with the rest of the world, but the rate is by no means low. It is still two points higher than the OECD average.

We were also the first country to enact a global minimum tax, and we were very deliberate about the burden imposed on U.S. companies' global activities. While we wanted to protect the U.S. tax base and prevent tax base erosion, we did not want to accomplish those goals at the expense of our companies' ability to compete and to continue to invest in the United States and increase U.S. jobs.

What is your view of President Biden's proposal to increase the combined statutory rate to nearly 33 percent and to double the GILTI rate?

Ms. OLSON. Well, the increase to 33 percent would put us number one again in OECD rankings, and that is a place that I do not think we want to occupy. We would like to be first in a lot of things, but that is not one of them. So you know, other countries—there has been a lot of talk about a race to the bottom. I do not think there has actually been a race to the bottom. There has been a race to the middle, and that race to the middle continues.

So we have a couple of countries that are lowering their rates, one country that is increasing its rates. They are all going to about the same place. Those rates still tend to be lower than ours. We are, I think, number 12 on the OECD list. But if we were to add in a significant increase, we would be back at the top of the list. And I do not think that would be advantageous for U.S. investment and jobs, and I also think it would increase the incentives to erode the base. So I think that would be a mistake.

GILTI, I think, allows American companies to compete. And as Professor Hines's testimony indicates, it is important that the U.S. be able to compete, because that adds jobs in the United States.

Senator CRAPO. Well, thank you very much.

And, Dr. Hines, we just heard from Dr. Clausing that she believes profit shifting is resulting in significant U.S. revenue loss. Her estimates are that profit shifting by U.S. multinational companies results in a 35- to 40-percent loss of U.S. corporate tax revenues. That is a critical factor. However, there are other studies—in fact, one I am looking at by Jennifer Blouin and Leslie Robinson—that suggest that those estimates are overstated, and their study estimates that profit shifting results in only 4 to 8 percent of U.S. tax revenues being lost.

Dr. Hines, do you believe profit shifting is occurring anywhere near the levels suggested by some of the testimony today? And given the research that I just referenced and others, do you believe there is a commonly held view by economists of the data and methodology used to reach that conclusion?

Dr. HINES. There is profit shifting, but its magnitude has been greatly exaggerated. And I think part of the reason is that the statistics are commonly misinterpreted. The terrific work by Drs. Blouin and Robinson pointed out a common misinterpretation of the available data. And I think everyone agrees that this is a very important critique.

Senator CRAPO. Well, thank you very much. And my last question, Dr. Clausing, is for you. I have said directly to Secretary Yellen, both publicly and privately, that I appreciate how the Treasury Department and bipartisan tax leaders in Congress have consistently spoken with one voice when it comes to pursuing an agreement at the OECD that is fair to the United States. I think that is a critical negotiation that we are engaged in.

And in our opposition—both with regard to our business community and in our opposition to unilateral efforts to single out the U.S. businesses for unfair taxation—that kind of unity is essential. And it will require continued coordination and transparency between the administration and the bipartisan tax leaders on the Hill.

I just wanted to follow up with you on a commitment that Secretary Yellen has already made to keep the Finance Committee appropriately updated on the OECD negotiations. Nothing has changed at the administration, has it, about being willing to coordinate with us on a bipartisan basis regarding those negotiations?

Dr. CLAUSING. No. We are delighted to continue to coordinate with leadership in both parties, and with the tax staff on your committee, as well as the House Ways and Means Committee. We have already held a bipartisan, bicameral briefing on the OECD negotiations, and our intention is to do those on a regular basis, both to share with you our thinking, but also, more importantly, to hear your thoughts about the direction that you would like the negotiations to go. So we are committed to that.

Senator CRAPO. Well, thank you very much. I think those negotiations are a very critical aspect of what is happening with regard to, not only the U.S., but global tax policies, and I appreciate that commitment on your part. Thank you.

The CHAIRMAN. Thank you, Senator Crapo.

Next will be Senator Cantwell, and then, following Senator Cantwell will be Senator Thune.

Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman, and thank you, Ranking Member. I appreciate the hearing this morning, but if I could be local yet global, I want to bring up an issue that I have been hearing about in my State, and that is the issue of tax policy and the movement of our tax date to May 15th.

We still, though, have the requirement that people have to pay their first quarterly taxes before that. I think this is something that is causing a great deal of consternation at home, particularly as it relates to other provisions in the CARES Act that we passed. So I hope we can look at legislation that would actually move that requirement to coincide with the May 15th date.

I do not know if anyone on the panel wants to say anything about that? Anybody want to get local?

Dr. CLAUSING. I know that the Treasury is committed to working to make sure that the tax deadlines are suited to the needs of the American people. And the extension of the original tax deadline was meant to help taxpayers have more time in this difficult time to file their taxes. And we are continuing to focus on implementation issues.

Senator CANTWELL. Thank you for that. I think the issue is that we actually, legislatively, have to pass that date. So we should get on it, Mr. Chairman, Ranking Member, and actually figure out how to do that sometime in the next—you know, when we return at the beginning of April, we should just do that. And that is my—anyway, we will continue that drum beat.

But if I could turn to international tax policy issues, the Northwest is a very big export economy, and we want to continue to see—with so much growth happening outside of the United States, we feel that the opportunities of a growing middle class reaching past a 50-percent threshold of the population in general provide a new world middle-class market to sell to.

So what should we be looking at as tax policy that would help us encourage more exports from the United States? What kind of tax policies? And, Dr. Clausing, if you want to try that—not to put you in the hot seat twice, but——

Dr. CLAUSING. Sure; no problem. So I think the important thing with our tax code is to avoid unnecessary distortions to the location of our economic activity. And one of the problems with the tax code as we have it right now is that it incentivizes operations offshore relative to those in the United States.

So we would much rather have a more even treatment of the profits earned from activities here in the United States as those earned from activities abroad, so that we can produce products right here in the Pacific Northwest and export them throughout the world.

And I think that the kind of reforms that we are discussing today would be a helpful move in that direction.

Senator CANTWELL. Well, thank you. Yes, I think that—I mean all of these things go hand in hand, and obviously we need to lead in a skilled workforce, we need to lead in R&D, we need to have more open trade policies that get our products in the door, in my opinion. But there is just a lot more here to do. But I do think getting this equation right—and the Obama administration had a goal of increasing exports by 50 percent over a 5-year window. I think

they got like 70 percent there, or something. And to me that is the heralding of more economic opportunity for the United States. So I hope we will look at these policies.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Cantwell.

Senator Thune?

Senator THUNE. Well, thank you, Mr. Chairman. And I want to thank all our witnesses for being here.

Let me just start by saying that our colleagues on the other side of the aisle like to describe the Tax Cuts and Jobs Act as nothing but a tax cut for corporations, but the truth is that tax bills went down for most families across this country—and businesses. The law cut taxes for households, increased tax credits for families with children, narrowed the AMT, and expanded the standard deduction.

As for the lowered corporate rate, it was part of an effort to give companies an incentive to invest in the United States rather than overseas. The corporate rate cut was fully offset by base broadeners, and the closure of corporate international loopholes, which enabled those provisions to be permanent under reconciliation.

It is also important to point out that even with the current 21-percent Federal rate, the U.S. combined statutory rate is 25.77 percent when taking into account State taxes. Based on OECD data, the average combined rate among OECD countries is 23.27 percent. So our rate is not that low. It is actually higher, as has already been pointed out, than the OECD average.

We heard last week from the CEO of the National Association of Manufacturers, and several companies, about how important it is to keep the corporate rate at the current level in order to ensure that U.S. companies can compete with their foreign competitors.

Ms. Olson, this week, as we are talking about profit shifting and our current international system, how does the U.S. rate play into that equation? And isn't keeping the U.S. rate competitive with the rest of the world an important anti-base-erosion metric?

Ms. OLSON. Yes, Senator, it is critically important that the United States keep its rate low, and I do think that is the most important thing that was done in the Tax Cuts and Jobs Act to encourage investment in the U.S., as well as to reduce base erosion. So I think that is a really critical thing.

We need to keep our rates in the ball park of where other governments are. Right now we are at the high end of the pack. That is okay, but going back to being number one in the pack would not be good.

Senator THUNE. As I reviewed the testimony of this very qualified panel of witnesses, there were a couple of things that stood out to me.

On the one hand, Dr. Clausing's testimony relies on the conclusion that corporate tax revenues are too low. And her testimony focuses on the relative drop in U.S. corporate revenues as a percentage of GDP compared to the OECD average of corporate revenues to GDP.

On the other hand, Ms. Olson's testimony notes that American pass-throughs account for a significant share of business income. This share of business income has only increased over time. For in-

stance, the most recent IRS data shows that pass-throughs accounted for more than half of business income from 1998 to 2015, with the exception of one year. Pass-throughs are much smaller players among the other OECD countries. Whereas pass-throughs account for only 25 percent of business income in OECD countries, they account for 50 percent of U.S. business income, and that number continues to grow.

Ms. Olson, isn't comparing the OECD average and the U.S. average a bit of an apples and oranges exercise? And don't we need to consider the context of the relative importance of pass-through entities as a business form in the United States?

Ms. OLSON. Yes, Senator, I think that is right. It is interesting. I think that the statistics I was looking at show, relative to the OECD, that countries are actually moving in opposite directions. So as the U.S. pass-through sector has grown, the pass-through sector in other countries has shrunk. So we are moving in different directions, and we have to take that into account when you look at what we're collecting in corporate receipts.

Another mistake that is often made in looking at the data is that they look at income that includes, for example, the income of S corporations, which is taxed on pass-through basis. So there is a lot of apples and oranges kind of comparisons that go on as we look at the data regarding corporate tax receipts.

Senator THUNE. As a candidate, President Biden proposed an additional 10-percent offshoring penalty surtax when U.S. companies buy from an affiliate outside the United States, effectively what would be a broad tariff. And the Biden proposal ignores the reality of global supply chains. There are certain products and components that simply cannot be manufactured or created here in the United States, especially when they are to be sold abroad.

I understand the purpose of such a provision would be to discourage offshoring. But as it has been described, it would have a far more expansive and severe effect. As a specific, a very timely example, I have heard from the U.S. company Johnson & Johnson that manufactures a COVID vaccine that said that taxing the import ingredient of the vaccine would result in a higher cost, and consequently either lead to higher prices or serve as a disincentive to U.S. companies bringing products invented overseas to the U.S., which is contrary to what everyone wants.

Dr. Hines, if foreign companies are not subject to a similar tax in their country of jurisdiction, doesn't this surtax penalize companies for being headquartered in the United States?

Dr. HINES. Yes. Yes, it does.

Senator THUNE. Very good. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I thank all my colleagues for their brevity.

Senator Menendez is next.

[Pause.]

The CHAIRMAN. Are you out there in cyberspace?

[No response.]

The CHAIRMAN. Senator Portman?

[No response.]

The CHAIRMAN. Senator Carper?

[No response.]

The CHAIRMAN. Senator Toomey?
[No response.]
The CHAIRMAN. Senator Cardin?
[No response.]
The CHAIRMAN. Senator Cassidy?
[No response.]
The CHAIRMAN. Senator Brown?
[No response.]
The CHAIRMAN. Senator Lankford?
[No response.]
The CHAIRMAN. Senator Bennet?
[No response.]
The CHAIRMAN. Senator Daines?
[No response.]
The CHAIRMAN. Senator Casey?
[No response.]
The CHAIRMAN. Senator Barrasso?
[No response.]
The CHAIRMAN. Senator Whitehouse?
[No response.]
The CHAIRMAN. Senator Cortez Masto?
[No response.]
The CHAIRMAN. Senator Warren?
[No response.]
The CHAIRMAN. Senator Sasse?
[No response.]
The CHAIRMAN. Senator Young?
[No response.]
The CHAIRMAN. Senator Grassley?
[No response.]

The CHAIRMAN. There is Senator Toomey. Senator, you are up, and please proceed.

Senator TOOMEY. Thank you very much, Mr. Chairman. I cannot help but reflect on the big picture about this tax reform from 2017 that some of my Democratic colleagues seem not terribly fond of. It is amazing to me, when we think about where our economy was immediately prior to the pandemic strike, but it is not a mystery, right?

The economy had accelerated. Growth was very strong and robust. Unemployment was crashing down and reaching lows that many economists did not think were even possible. We hit all-time record lows for African American unemployment, Hispanic unemployment, women's unemployment.

We had record job gains. We had more job openings than there were people looking for work, and wages were going up. The increase in wages was accelerating, and the wage gap, the income gap between high-paid workers and low-paid workers, that was narrowing. And the narrowing was accelerating.

So I wish my Democratic colleagues would tell me what is wrong with that picture? Why did they object to record-low unemployment? Why did they object to accelerating wage gains, especially for low-income workers? And do we really think that it is all just a big coincidence that we had passed major structural tax reform 2 years earlier, and these benefits started to occur?

With respect to the international side, my friend, Chairman Wyden, had long been an advocate for doing something about the inversions that we were plagued with. And in 2014, the chairman likened inversions to a virus outbreak, and talked about how bad this problem was, how long it had persisted, how Congress had not fixed this problem. And Chairman Wyden was 100-percent correct.

Then we fixed it. And the changes we made to our global system of taxing American multinationals brought a complete halt to inversions. Let me be clear. It did not slow them down. As best I can determine, we ended them. There have been no inversions since, because we diminished the incentive to be a foreign-based multinational instead of being an American-based multinational.

So let me go to Ms. Olson and ask, based on your experience both in Treasury and in the private sector before and after TCJA, do you think it is just a coincidence that inversions stopped pretty much immediately after the enactment of the TCJA?

Ms. OLSON. No; I think the two are definitely related. The 21-percent rate made the United States a much more attractive place to be located. The anti-base-erosion rules were—they are actually, in the view of the corporate world, quite onerous, rather than generous, as has been suggested. And so that went a long way.

And then of course there is the tightener on 163(j), which was what had driven a lot of the corporate inversion transactions. So all those things coming together make the U.S. a much better place to invest, and have eliminated, I think, the movement of corporate headquarters offshore via inversions.

Senator TOOMEY. Now is it fair to think of the GILTI tax as, in a way, similar to a global minimum tax?

Ms. OLSON. If that is to me, yes, I would say that it is.

Senator TOOMEY. I think that is the case also. And isn't it true that many OECD countries do not have a global minimum tax at all? We do. Ours is effectively 12½ percent. Actually, the GILTI tax rate is effectively 13⅛ percent when you take into account the foreign credits, as I understand it. And is that not actually more onerous than many of our OECD competitors?

Ms. OLSON. Yes, again the—we are the only country that has a minimum tax. Other countries generally have territorial taxes.

Senator TOOMEY. So the way I think about this—and tell me if you disagree—we do actually put our multinationals based in the U.S. at a competitive disadvantage with respect to the tax code, with respect to other countries, but it is not so onerous that we drive everybody out of the country. Is that a fair way to think about it?

Ms. OLSON. I think it is.

Senator TOOMEY. But is there a point at which, if you decided to just keep raising this minimum tax, that the cost would be so high that the rational decision for a multinational would be to locate somewhere other than the United States because the cost is just too much?

Ms. OLSON. Well, what the high tax rate does is, it puts a discount on the value of assets in the hands of a U.S. company, and over time they tend to migrate in other ways, whether it is through acquisition or sale of parts of a business, but they migrate.

Senator TOOMEY. Right. So I would just—let me just point out that we have made tremendous, tremendous progress. I think our challenge now, the way we ought to be thinking about the economy, is how do we get back to the best economy of my lifetime, the best economy for low-income workers of my lifetime, the best economy for creating opportunity of my lifetime? That is what the goal should be, and we are not going to get there by unwinding the progress we made in the TCJA.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Toomey.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman. You know, I have listened with interest to our Republican colleagues claim that dropping the corporate rate down far below the OECD average is the holy grail of U.S. competitiveness; that somehow American businesses and the U.S. entrepreneurial ecosystem are unable to compete with foreign counterparts without a significant tax advantage. But I believe that in order for the U.S. to out-compete our competitors, we need to out-innovate them.

But unfortunately, the U.S. now ranks in the bottom half of the OECD when it comes to investment in research and development. And rather than enhance incentives for R&D, the Republican corporate tax bill actually went in the opposite direction, and it gutted critical tax incentives like the R&D tax credit.

In addition, the poorly constructed BEAT is penalizing many businesses that are playing by the rules, creating jobs in the United States, while turning a blind eye to some of the worst base eroders.

So, Secretary Clausing, what is more beneficial to the American economy and U.S. workers, a lower corporate rate or targeted tax incentives to increase research and development investments?

Dr. CLAUSING. I needed to unmute. Thank you for that question. I absolutely think it is more important to focus on investing in both infrastructure and research and development, rather than worrying about further reducing corporate taxes, which as of now, as we have noted, we pay the lowest corporate taxes as a share of GDP of any OECD country, or right near the bottom. And that is despite the fact that our corporate profits are very high.

So just looking at corporate profits as a share of GDP, they are much higher now than they were in decades past.

Senator MENENDEZ. And I would assume research and development creates jobs here at home, and the high-paying jobs and the continuing effort to help us innovate and be competitive, for example with China?

Dr. CLAUSING. Yes. Research and development is essential to our future, as well as investing in education and having an economy that is open to the talents of the world, foreign students and immigration being another important source of comparative advantage for the United States.

Senator MENENDEZ. Now the 2017 Republican corporate tax bill was the largest corporate tax giveaway in our Nation's history, period, from my view. According to the Joint Committee on Taxation, Congress's nonpartisan scorekeeper, cutting the corporate rate from

35 to 21 percent cost a whopping $1.5 trillion alone—nearly the entire price of the entire package.

As a result, in 2018 the average tax rate paid by U.S. corporations dropped by more than half to only 7.8 percent. Now I know most families in New Jersey would love such a sweetheart deal to pay a Federal tax rate of less than 8 percent. But because working families are not politically connected and do not make big campaign contributions, they get stuck paying the bill, as millions now face double taxation due to the new cap Republicans put on the State and local tax deduction.

So again, Secretary Clausing, in your opening statement you noted that the U.S. only collects about 1 percent of its GDP worth of corporate tax, which is half the level we collected prior to the GOP corporate tax bill, and one-third of the OECD average.

So how did the 2017 GOP corporate tax bill shift the tax burden between corporations and individuals? And can you explain the tangible impact this large cut in corporate taxes has on middle-class families in New Jersey and, for that matter, across the Nation?

Dr. CLAUSING. Yes. So when we cut corporate taxes so dramatically, one of two things has to happen. Either we are increasing the relative burden on others in the economy—and that is definitely true: the relative amount of taxes paid by households and small businesses is higher relative to that paid by corporations. But we also put a lot of budget pressure on the government. We raise only about 16 percent of GDP in Federal revenue right now. The last time we balanced the budget, it was 20 percent of GDP. And so, when you look at those consequences, they are pretty important for middle-class families. And when you look at that 2017 law, the provisions that were permanent were those that cut corporate taxes; whereas, the provisions that are permanent on the individual side are those that make health insurance more expensive for the most vulnerable among us, and those that change the inflation indexing of the tax code in a way that is a stealth tax increase on the middle class.

So those permanent provisions show a real shifting of the burden, again away from corporations and to middle-class Americans.

Senator MENENDEZ. So corporations got a permanent cut, and average citizens in short order will then find themselves again with a whack. Thank you very much.

The CHAIRMAN. Thank you very much, Senator Menendez.

Next will be Senator Carper, who is with us.

Senator Carper?

[No response.]

The CHAIRMAN. Senator Carper, you might be on mute.

[No response.]

The CHAIRMAN. Senator Carper?

[Pause.]

The CHAIRMAN. Senator Carper? Senator Carper?

[No response.]

The CHAIRMAN. Okay, let's go to Senator Cassidy while we wait for Senator Carper.

Senator Cassidy?

Senator CASSIDY. Thank you for having me.

Let me just kind of echo a little bit of what Senator Toomey said. I was on Fox News Sunday a few weeks ago when Jared Bernstein, who is part of the President's Council of Economic Advisors, said—before he caught himself—we need to go back to the economy we had before COVID hit.

It was like, "Oh, wait, I cannot say that because that would acknowledge that the economic policies of the previous administration had given us an economy which was admirable, and even aspirational."

I think it is also important to notice the words the witnesses are using. Dr. Huang said something along the lines of, those who are lower-income are not doing as well as they should. Well, as it turns out, under the previous administration, as Senator Toomey pointed out, there was relative wage growth that was higher in the lower quintile of Americans, and indeed they were the ones that, relatively speaking, benefited more than those of the upper income.

You may not like the fact that I use "relative," but Dr. Clausing just used the word relative. Yes, if you cut corporate tax rates and their profits go up, they will pay more taxes. But, relatively speaking, the family would pay more, but it is relative. We are playing word games here.

I would rather go back to what Mr. Bernstein said on Fox News Sunday. If we can get back to that economy that we had prior to COVID, wouldn't we all be happy? Wouldn't the Biden administration be doing victory laps?

One thing to point out: we had a hearing yesterday in the Homeland Security Committee on how do we reshore important industries for domestic production of PPE, for example of antibiotics and other things that have migrated overseas.

One of the witnesses—nonpartisan—said that if we raised corporate rates, it would be a disincentive for companies to reshore. This kind of makes sense. If it costs more to do business here, you are less likely to do business here. And it is so kind of 101 in terms of why a company would locate someplace. I am just kind of amazed that we are having a debate over this, but clearly not everybody in this hearing is nonpartisan, unlike the person yesterday.

Let me mention something. Ms. Olson, I am concerned about antibiotic production. Right now, our so-called beta-lactam drugs, which are penicillin, cephalosporins, are made entirely in China. And their shelf life is not great.

So, if you want to store the active pharmaceutical ingredient, you have less ability to store it long-term. But if there would ever become a reason why China would wish those drugs not to be sent to us, then obviously we would be worse off.

So the question is, how do you incentivize companies to restart manufacturing here in the United States of a medication such as this? So tell me—we have fewer pharmaceutical companies based here because of our tax code, I am told, but what do you think about raising relative tax rates in the United States versus tax rates overseas as regards the incentive for someone to begin to set up a whole new manufacturing apparatus to create antibiotics here in the United States versus say, for example, China?

Ms. OLSON. Well, the corporate tax rate is clearly very important in company decisions about where to locate their activities. And so keeping it low is a good thing. Attending to R&D, and encouraging that that be done in this country is also important.

When you add in our State and local rate to our corporate rate, we are not below the OECD average. We are above it by a couple of points. And so if we increased it further, we would very quickly go back to the head of the pack there.

On the R&D side, as has been said, we are on the low side. So we need to fix some of those things in order to incentivize more of that to be done here in the United States.

Senator CASSIDY. So tell me this. If what the other side is alleging, that our rates of corporate tax are important, but they are also alleging that our rates are much lower than they should be relative to our competitors, has there been a massive movement of companies moving from those other countries into the United States?

I mean, from what you just said, if our rates are so much lower relatively speaking, and we have all the advantages of being in the United States, it seems as if companies would move from other countries to the United States to take advantage of our relatively low tax rates.

Has that mass migration occurred?

Ms. OLSON. Not that I've seen.

Senator CASSIDY. Not that I have seen, either. I yield back, but just point out that some of this just defies common sense, and it is word games in order to advance an agenda. With that, I yield the floor. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

Senator Carper is next.

Senator CARPER. Thank you, Mr. Chairman and Ranking Member. I want to address my one question to the reformed Base Erosion and Anti-abuse Tax, also known as BEAT. I want to thank our witnesses for joining us today.

There has been a fair amount of discussion this morning about areas where we disagree, for example, with respect to the corporate tax rate and Global Intangible Low-Taxed Income, also known as GILTI.

But I think there might be some consensus in another area among Democrats and among Republicans, and industry, that another international tax provision in the 2017 tax law—the Base Erosion and Anti-abuse Tax, also known as BEAT—needs some reforms.

For example, Congress created tax credits to encourage private investment in clean energy projects. I strongly supported these credits which helped lead to the creation of good-paying jobs, much more reliable power, and cleaner air. However, the basic design of the BEAT disincentivizes the use of these tax credits, especially after 2025 when the credits can no longer be factored into the BEAT calculation.

These concerns will be partially addressed by a bill that I've introduced today, and it is called the Save America's Clean Energy Jobs Act, which would help get projects that are stalled by the pandemic off the ground by providing temporary refundability for clean energy tax credits.

In addition, the recent report from the Joint Committee on Taxation showed that in 2018, large multinationals paid a fraction in BEAT taxes compared to what the BEAT was projected to raise.

And to each of our witnesses today, let me just ask this. Why does this enormous gap exist between projected and collected BEAT revenue? And where might there be consensus on reforming the BEAT so that it achieves its goal of preventing profit shifting by avoiding unintended consequences?

And to that end, does the BEAT just need some tweaks, or should it be repealed and rewritten from scratch? In other words, the question before us—with apologies to the late Congressman Sonny Bono of California—is, should the BEAT go on?

Dr. CLAUSING. Thanks. I am happy to start with that. The BEAT was intended to target in part the profit shifting and income stripping that was happening from foreign multinational companies that are investing in the United States. And if you look at the UN reports on inward foreign investment, the United States actually was sort of the top destination for foreign direct investment from other countries for many years. We are a really good place for foreign companies to invest. But it is important that when they are investing and doing things in the United States, that they are also paying the tax and not moving the income offshore.

So the BEAT was designed to address that problem. But there were many problems with both the final legislation and also with implementing regulations that made it such that the BEAT's revenues have been very disappointing. So it has not really stemmed the income stripping of foreign companies offshore as much as was intended.

In addition, as you point out, it has mistakenly hit a lot of U.S. companies that benefit from tax credits that encourage things like clean energy, which is a very important shared goal of yourself and the Biden administration. But we do not want to be mistakenly harming companies that are investing in clean energy, rather than targeting this foreign profit shifting.

So some of those companies have done very little profit shifting themselves, but are nonetheless being hit by the BEAT. So I think there is ample room to improve on the BEAT. The Biden administration has not yet taken a position on reforms, but we are actively studying that problem, and we are aware of all of these issues.

Senator CARPER. All right; let me ask the same question, if I could, to our other witnesses. Pam Olson, please?

Ms. OLSON. Yes, I think there is definitely room to improve the BEAT. One of the things that it does is to target on a gross basis, without looking at whether or not income that is paid out of the United States is subject to tax somewhere else. So it does have some very odd effects.

The credit that you are focusing on is also one of the odd effects. I would say that the Joint Committee on Taxation, at the time that they were estimating revenues from the BEAT, said that it was the hardest provision that they had to estimate in the TCJA because it was a completely novel provision and they did not have good data from which to draw in order to make the revenue estimate.

So in some sense, it is not surprising. I do think it will ramp up in future years, which will exacerbate some of the effects that you do not like, such as when it goes from 5 percent to 10 percent.

Senator CARPER. All right; thank you.

Ms. Huang, same question. Does the BEAT just need some tweaks, or should it be repealed and rewritten from scratch, or in other words, should the BEAT go on?

Ms. HUANG. Senator, I think it is very muddled. A polite word would be "curious," but a less polite word is "bizarre." It really does have some quite strange features. And in terms of the revenue piece that you were talking about, one reason is that it was written to have a lot of holes in it. I am looking at a tax advisory firm that has a report that says taxpayers may be able to reduce BEAT liability by increasing cost of goods sold. And there are lots of big holes like that in the BEAT that allow for reduction in the liability.

There are also the regulations which—by one report, just one regulation exempting foreign banks will cost about $50 billion over 10 years.

The CHAIRMAN. We are going to have to move on, Senator Carper.

Senator CARPER. Could I get a "yes" or "no," Mr. Chairman, from our last witness, Dr. Hines? Should the BEAT go on?

Dr. HINES. No.

Senator CARPER. Thank you so much.

The CHAIRMAN. Thank you.

Senator Warren?

Senator WARREN. Thank you, Mr. Chairman.

So we have a lot of work to do to fix the international tax system, and I am looking forward to working with my colleagues here to do that. A good place to start is to be clear about the extent to which giant corporations are already manipulating the tax code to avoid paying their fair share.

Dr. Clausing, between 2018 and 2020, what was the corporate income tax rate?

Dr. CLAUSING. The corporate tax rate was 21 percent.

Senator WARREN. Okay; 21 percent. So, Dr. Clausing, how much profit did Amazon make? And what tax rate did Amazon pay during that same 3-year period?

Dr. CLAUSING. So there was a recent ITEP study that looked at this, and Amazon earned over $40 billion over that 3-year period and paid about a 4½-percent tax rate.

Senator WARREN. Okay; so how is it possible that Amazon was able to rake in profits like that and pay only a four—I think it is about a 4.3-percent tax rate, when the corporate income tax rate was 21 percent?

Dr. CLAUSING. Yes; so there are lots of reasons that we have discussed in this hearing today about why U.S. companies end up with very low tax burdens. And I think that the one that we are focused on here the most is the international profit shifting problem. And Amazon, as well as many other companies, has benefited from the favorable treatment that our tax code provides for international profit shifting.

There are also other reasons why companies pay less in tax. Those might include receiving large R&D credits, or having losses

in past years that might reduce their tax liability, or they are paying a lot of stock compensation, which is favorably treated in tax laws as well.

Senator WARREN. Okay; so you have given us the technical names. I think the rest of us would call them loopholes and tax shelters that they have used to drive down their liability.

But let me ask, is this kind of manipulation that Amazon used unusual?

Dr. CLAUSING. I would say there's a wide recognition that the kinds of loopholes that we have been talking about today are very common. And there is a lot of agreement on this. So some of our witnesses have focused on disagreement, but I would point out that the American Enterprise Institute, the Tax Policy Center, economists at OTA, at the Treasury, and economists at the JCT, they all agree that profit shifting is a very large problem, and they have put out revenue estimates that suggest very similar magnitudes across all those different organizations.

So this is a very common, and a very large problem. And I think that is why it is so important to have this hearing today, to be able to address this rampant avoidance of tax.

Senator WARREN. So let me ask, then, Ms. Huang: if we applied just a flat 7-percent tax on the more than $20 billion in profits that Amazon reported to investors in 2020, Amazon would have paid nearly $1½ billion more in taxes.

If we applied a 7-percent flat tax to the more than 1,000 corporations that reported more than $100 million in profits, would that help ensure that big companies paid their fair share, regardless of loopholes and other tax avoidance schemes?

Ms. HUANG. Well, Senator, that is an idea that just makes so clear how easy it is for companies to control what they report on paper, whether it is for tax purposes or whether it is for financial reporting purposes, and as you are pointing out, sometimes neither of those pieces of paper can reflect what is going on in the real world.

And as Dr. Clausing said, you can try to get at that by making them both look more like the real world or, as in your proposal, you can target the gap between them, which also could be thought of as a backstop on the first approach. So I think that makes crystal clear what the problem is.

Senator WARREN. Yes. Well, something has to change. And I am all for raising the corporate tax rate. I am also for closing loopholes. I am all for shutting down tax havens. But we also need to recognize that corporations will never stop trying to bend the rules. You know, when you plug one loophole, they are going to bring in armies of lawyers and lobbyists and accountants to try to find another one.

A small tax on profits, like the number that CEOs like to brag about, their book profits, would ensure that even the companies that are most skilled at gaming the tax code would have to contribute a fair share.

President Biden agrees, and he has proposed a similar tax on book profits. And in the coming weeks, I am going to be introducing legislation to make a tax on book profits for the largest, most profitable companies in America a reality.

I think it is time for this. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warren. Senator Brown is here. Senator Cortez Masto is here. Senator Warner is here. We are going to do our best to just keep this all moving.

Senator Brown?

Senator BROWN. Thank you, Senator Wyden, for this really important hearing.

For decades we have had a corporate business model where companies shut down production in Toledo, or Dayton, or Youngstown. They would collect the tax break, move jobs to Mexico or China where they could exploit workers, only to sell their products back in the United States.

And, Mr. Chairman, you know the 2017 tax bill only made it worse. I am working with Senator Mark Warner from Virginia on this committee on a framework that will get rid of incentives in the tax code to shift jobs and factories abroad, reward investing in American jobs, and make multinational corporations pay their fair share. We have been working together on this for years. I am proud to be partnering with him and with Chairman Wyden. So I would thank Chairman Wyden for this work to take the renegotiation of NAFTA, another corporate trade agreement, and go to work with making changes to make NAFTA into USMCA, which actually looks out for workers.

So my question, Dr. Clausing and Ms. Huang—imagine for a moment a CEO deciding whether to retrofit an empty factory in Ohio, or whether to build a brand-new factory in Mexico. He is asking his chief tax counsel which option would get the company more favorable tax treatment. What would the CEO's tax expert say? Which would they say gives the company a bigger tax break, keeping it in Ohio or going to Mexico? Dr. Clausing and Ms. Huang, if you would both answer.

Dr. CLAUSING. Thank you for that thoughtful question. So, one of the problems with our tax code now is it does not just incentivize operations in low-tax countries and havens—which is something we have been talking about so far today—but it also incentivizes operations in high-tax countries because you get to blend the income in the high-tax country with the low-tax country, and together you get to half the U.S. rate.

So, take Mexico, which was your example. They have a corporate tax rate of 30 percent. But if you have some income in Mexico and some income in an offshore haven, you can blend those streams of income and together get that 50-percent deduction relative to doing business in Ohio. And so that is a large tilt in the playing field in favor of any foreign operation relative to U.S. operations. I sometimes refer to this as an "America last" tax bill.

Senator BROWN. Ms. Huang, your comments?

Ms. HUANG. I absolutely concur. You have incentives within GILTI where having those tangible assets in Mexico allows you to exempt profits from both Mexico and potentially from Bermuda, if you have managed to shift some profits to Bermuda. You get to shield both of those from the GILTI tax.

And then, as Dr. Clausing mentioned, because of the averaging feature, there is an incentive that makes America potentially the

least attractive place to put that physical asset from a tax perspective.

Senator BROWN. So the 2017 tax law which Senator Wyden and I and others on this committee, the Democratic side, opposed for many reasons, was a giveaway to the wealthiest people in the country, some of what Senator Warren has talked about. And also, the GILTI provision gave 50 percent off taxes if they move overseas.

So, Dr. Clausing, in the last minute, or even less, talk a little bit about what incentive this creates.

Dr. CLAUSING. Yes. So those two together—the powerful incentive of having the first 10 percent of your assets be completely tax-free offshore, means that if you take some equipment from the United States and move it abroad, you qualify for even more tax-free treatment abroad.

There is also another provision in the current tax law—the FDII—which turbo-charges that because, if you reduce your investments in the United States, you get even larger FDII deductions. So with both hands, you are encouraging movement offshore in plant and equipment through that tangible asset exclusion.

In addition, there is the blending issue that we mentioned before, which means that in all of the foreign operations, like a master distillery, you can combine the high-tax and low-tax income and get to this outcome. It's really much better than what you would get operating in the United States.

And you know, I think that if we are focused on competitiveness for the United States, we need to think about ways to make this a productive location to do business. And that includes fixing all of these tax things, but it also includes making key investments in things like infrastructure, education, our institutions, and our response to crises. And if we combine those two things together, then nothing can stop us, and the United States, I think, will be an excellent place to do business.

Senator BROWN. Thank you, Ms. Clausing. I just came off of our tenth year of our presentation with manufacturers, doing 6th, 7th, 8th graders' manufacturing camps in Ohio. We have done about 100 of them to encourage young people to go into manufacturing. We need a government that is going to support their futures, and these tax changes that Chairman Wyden is fighting for are so important.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Brown.

We are going to try to get both Senator Cortez Masto and Senator Warner in before we will have to take a little break, and hopefully we can keep it moving.

Senator Cortez Masto?

Senator CORTEZ MASTO. Thank you. This is a great conversation. I have had to pop off to Energy and Natural Resources, so I am going to follow up on some of the testimony I'm sure was covered, but thank you so much.

Let me start with Ms. Huang. I have to thank you for highlighting the need to prioritize our workers and families, particularly in the wake of COVID–19 and its impact on low-wage workers and workers of color. And in the State Nevada, our hospitality workers have been so affected.

What is the best way that we can ensure that we have good-paying, stable American jobs, particularly in the hospitality industry that just requires a lot of input around the low wage? What should we be doing with the tax code, or anything?

Ms. HUANG. Absolutely. Thank you very much, Senator, for that question. And I think investments that directly focus on supporting workers and businesses, tourism and hospitality and other hard-hit sectors, would be far better than the poor economic return that we are getting from tax-subsidizing multinationals to shift profits and investments offshore.

For example, your leadership on securing a boost in the Earned Income Tax Credit in the American Rescue Plan heavily benefits workers in tourism and hospitality. It directly benefits about a third of all cooks, for example. And making that provision permanent, with other needed investments, would be far better for delivering shared prosperity to the economy overall than continuing these deeply discounted tax rates for foreign profits.

Senator CORTEZ MASTO. Thank you. And because we know, when particularly workers in hospitality and leisure do well, the American public does well, right? I mean, when there is opportunity, that lifts up that income that is so necessary for our struggling families.

So let me jump to Ms. Olson. In your testimony, you mentioned a lack of congressional guidance in relation to the digitalization project, among other related measures. Can you talk a little bit more about that and how you feel Congress can take a greater initiative in international tax policy?

Ms. OLSON. Certainly. Thank you for that question. In the trade area, there is something called Trade Promotion Authority, which you are probably familiar with, where the Congress gives instructions to the negotiators when they go off to negotiate trade deals. I think something like that is something that would work really well in this case, where what we are talking about is the United States' jurisdiction to tax. It is something that, if an agreement is reached at the OECD—and I do hope agreement is reached at the OECD—is going to come back and land in this committee, and in the Senate Foreign Relations Committee, to write legislation and to ratify treaties that might have to be changed as a consequence.

So it is really important that you get engaged in that process, and something formal along the lines of the Trade Promotion Authority process would be a good thing to think about.

Senator CORTEZ MASTO. Thank you very much. Thank you again for the conversation.

The CHAIRMAN. Thank you very much, Senator Cortez Masto.

Senator Warner?

Senator WARNER. Thank you, Mr. Chairman. Let me echo what Senator Brown said. I look forward to working with you and Senator Brown as we try to get this international corporate structure right. The 2017 bill did not get it right. I think that some of our friends thought with the GILTI system and FDII that they would balance it right. In actuality, by doing some of these blending rates that Ms. Huang and Dr. Clausing have talked about, they actually got it flat wrong and incented, particularly R&D and intangible assets, to go offshore.

Dr. Clausing, I want to raise a quick point with you. When you look at our corporate revenue levels, 1.1 percent of GDP in 2019, we are bottom of the barrel of the G7. You look at our overall revenue levels in terms of the OECD, we are 33rd or 34th.

If we are going to stay competitive with China, for example, which is making record investments in next-generation technology, how are we going to be able do that in any kind of fair way with these kind of revenue levels?

Dr. CLAUSING. One important feature of having a competitive economy is having adequate funds to make the public investments in things like infrastructure, research and development, our education system, our highways. You know, all of those are really important parts for making a strong business climate.

As you point out, we have very low Federal revenues. We only raise about 16 percent of GDP in Federal tax revenue. That is much, much below any peer nation, and it is well below the 20 percent that we raised when we last balanced the budget at the turn of the century.

So I think that there is room for a lot more tax revenue. Now, when you look at where to raise the revenue, one thing that is quite clear is that our corporate revenues are particularly low. They are one-third that of other nations in the OECD. And that is despite the fact that our corporate profits are really high, both in historic terms as a share of GDP, but also relative to those in other countries.

So I think there is room to collect more in this area without creating undue concerns about the competitiveness of our companies. The important thing is the competitiveness of our location as a place to do things, and that requires an adequate funding of the state.

Senator WARNER. And I agree, and that also requires an incentive system. As Senator Brown pointed out in his questions, we are encouraging, maybe not intentionally but indirectly, placing your best assets, your R&D assets, oftentimes offshore.

Ms. Huang, one of the things that you raised is the importance of investment in human capital. I am going to throw out something I have raised with this committee a number of times. It seems to me we have people who say they want to invest in human capital, but we have nothing in our tax accounting or reporting system that incents a company to do that.

As a matter of fact, I always like to point out, if a company goes out and buys a robot for $5,000, oftentimes the company will get an R&D tax credit for that robot. The robot is viewed as an asset, and that asset can be reported, if you are a public company, in a public way.

If the same company spends $5,000 training two human beings to be more efficient than the robot, yes, you get to deduct those costs, but you do not get an R&D tax credit. It is viewed as an expense. And until recently the SEC did not even have any public reporting components for companies that invest in human capital.

Can you talk about, on a broad basis, the idea of whether we create an R&D tax dredit for human capital investment, or other ways that we can put real muscle behind this notion that we ought to

incent companies to invest in their most valuable asset, human capital?

Ms. HUANG. Well, I can tell you a few things that we should not do, Senator, and I think that will point to some of those structures that are in the 2017 tax law that actually create incentives to move capital and investment offshore, and therefore potentially jobs and wages, and also the potential to do that investment in U.S. workers and infrastructure.

So, as you were mentioning, we were talking with Senator Brown about some of these perverse incentives. The FDII tax break is one example that is supposed to help create incentives for manufacturing and creating jobs in the U.S., but the fewer tangible assets that a company has in the U.S., all else equal, the larger the tax break. So that is an incentive to move assets offshore, which in some cases would be helpful to producing wages and benefits for workers.

And the other problem with that is that it is also a tax break on both old and new assets, and a lot of that is a wasteful giveaway. So if one were to think about how you invest in workers, you would want to make sure that the benefits are very direct; that there isn't an ability to have windfall gains going to corporations for things that they were doing anyway, and really target it to all the types of investments that would help create shared prosperity.

Senator WARNER. Thank you, Mr. Chairman.

The CHAIRMAN. Now Senator Portman was here——

Yes, Senator Portman?

Senator PORTMAN. Thank you, Mr. Chairman. Thank you for working with us on other committee hearings.

Ranking Member Crapo started off this morning talking about the fact that I co-led a task force back in 2015 with Senator Schumer on international tax, and we had a lot of consensus. We agreed that the high corporate rate, highest in the OECD, and the worldwide system, was simply unsustainable. And you remember what it was leading to. We had companies that were literally inverting, you know, moving from the United States overseas.

In fact, we had a number of inversions in Ohio. We were losing jobs, loving investment. The system was causing a lock-out effect. That was the reality. And we recognized the need to transition to a better system.

In that report—I just looked at it—we said, and I quote, "When U.S. businesses can't compete and win in the global market, the real losers when they can't compete are U.S. workers. The real winners are U.S. workers when we can compete." And the TCJA reflected that consensus.

So there were lots of parts of that bill that were relatively controversial, but the international part actually reflected that consensus: lower the rate, territorial system, and making our companies more productive and more competitive. And that is exactly what has happened.

So there is a lot of investment that has occurred, coming back into this country. I look at the IP side that was just talked about. New IP is largely now being done in America. Companies like Google brought their IP back, as did others. So that is the reality.

And, Ms. Olson, we have heard from Democrats and several panelists today that TCJA incentivizes offshoring. Specifically, they are pointing to the Global Intangible Low-Tax Income, the GILTI minimum tax and its allowances for Qualified Business Asset Investment, to reduce the level of taxes paid.

However, the QBAI is not a loophole. It is a recognition that earnings attributable to tangible property are not susceptible to profit shifting. In order for U.S. companies and businesses and workers to compete in foreign markets, they need to be where the customers are. Think of General Electric, as an example. The engine plant is in Ohio. They sell a lot of engines overseas. That is good. We like that. It creates jobs here. But the servicing of those engines has to be done in those foreign countries. They cannot bring the engines back for service.

We have Owens Corning in Ohio. They cannot be competitive trying to ship glass halfway across the world, but we are glad they are an American company and that they are able to have foreign markets. Procter and Gamble in my hometown of Cincinnati, they cannot ship diapers from Ohio overseas profitably. It just cannot be done.

So the vast majority of foreign operations of U.S. companies serve foreign markets. In fact, approximately 90 percent of all sales of those foreign operations are to foreign customers and not an offshoring of operations to serve U.S. markets.

That is data that is real. That is what is happening. So, Ms. Olson, do you believe GILTI's treatment of tangible assets is appropriate? And in your experience, does this actually incentivize U.S. companies to move U.S. assets or jobs overseas?

Ms. OLSON. Thank you, Senator Portman. Yes, I do not think that the GILTI provisions have done anything to incentivize the movement of operations outside the U.S. What QBAI does is to measure a return on tangible assets. When those tangible assets are in another country, they have primary jurisdiction to tax the income from it. That is all it does—it recognizes that.

There has been a long recognition that what is mobile is intangible income. And what intangible income is measured by in GILTI is a return on tangible assets in excess of 10 percent. So I think it exactly targets what it should target. I do not believe that it provides any kind of incentive. I am unaware of any company that has moved operations to take advantage of GILTI. Quite to the contrary, they try to escape it. And some of that escape is even subjecting themselves to subpart F or bringing the assets, as you mentioned, back to the United States to take advantage of the U.S. rate and FDII.

Senator PORTMAN. Last week we heard testimony in the committee on tax incentives for encouraging investment in the United States, something we should all want.

Professor Hanlon, from MIT, testified that in terms of a company's next marginal decision, the lower corporate rate and the FDII are more likely to lead to decisions to retain IP in the U.S., and also to manufacture in the U.S., all else constant.

So FDII works in tandem with GILTI and provides the deduction on the GILTI tax for U.S. IP used abroad. A competitive effective rate is needed to prevent the GILTI provision from harming the

competitiveness of U.S. companies relative to their foreign competitors.

FDII is just as important to provide a disincentive against moving intangible property offshore. As shown by the legislative history of FDII that we just did in 2017, one of the committee's goals was to remove the tax incentive to locate intangible property abroad and encourage U.S. taxpayers to locate intangible income, and potentially valuable economic activity, in the U.S.

Professor Hines, some academics have called for repealing FDII. Don't you think doing so would risk undermining the attractiveness of the U.S., not only as a place for locating intangible property, but also as a place for high-paying jobs in research and manufacturing?

Dr. HINES. Oh, yes, I completely agree. It would be a big mistake to repeal FDII for two reasons. One, because it encourages companies to locate their intellectual property and other high-tech stuff in the United States; and second, because it offers a more competitive tax rate on higher-tech companies that are more internationally mobile. And those are the companies we want to make sure stay in the United States.

Senator PORTMAN. Thank you very much. And thank you, Mr. Chairman, for allowing me to ask questions today.

Senator CRAPO [presiding]. Thank you. Senator Wyden has gone over to vote. I do not know if he explained this to everybody, but we have a series of four votes going on right now on the PPP program. And we are going to be kind of switching out with each other while those votes go on.

And we also have three hearings for many members of this committee that are going on at the same time. So that is why we have a little bit of difficulty getting coordination of our attendance here.

As a result of that, I do not see anyone else here at this moment who is in line. Senator Portman, if you had any other questions, you are certainly welcome to keep going.

Did you have any other questions, Senator Portman?

Senator PORTMAN. I certainly do. And if you do not mind, Ms. Olson, I would love your views on FDII, and in particular, does it not make sense, as we are talking about reform, to be sure, when we are looking at tax incentives to invest in America, that we start with retaining FDII?

Ms. OLSON. Yes, I think FDII is an important provision. And I do think that we should retain it. I also think you need to take a look at R&D—which as you know switches from expensing to capitalization and amortization next year—as another thing that affects where R&D gets done. And I think it would behoove the committee to consider changing that provision so that we do not start driving R&D other places.

R&D is so important in terms of the jobs it creates here in the United States, as well as the knock-on effects. And that is why other countries put so much effort into trying to attract that kind of investment. We are number 27 out of the 36 or whatever OECD countries when it comes to R&D incentives. We will get worse once we switch from expensing to capitalization and amortization. And if we were to get rid of FDII, we would probably fall to dead last.

Senator PORTMAN. Well, that is a great point. And we do hear quite a bit about the R&D issue, and the fact that, during the 2017

bill, it was really used as a pay-for, not because of good policy reasons, and hopefully there is a bipartisan consensus that going to amortization does not make sense to encourage exactly what we all should want, which is more R&D to be done here in the United States.

So my hope is, that will be part of whatever package people are talking about putting through. My concern is that, based on what I have heard today from some of my colleagues and some of the witnesses, we could be shooting ourselves in the foot by doing away with FDII or otherwise making it more difficult for U.S. companies to invest here.

And again, a lot of companies that are American companies are global companies. That is good. We want them to have markets overseas. It is not a bad thing that they are servicing GE aircraft engines overseas. Otherwise, GE would not have the market in the first place. And so we have to be, I guess, cognizant of the fact that there are going to be some foreign operations to serve foreign markets. And our tax code ought to encourage that.

Do you agree with that, Ms. Olson?

Ms. OLSON. Yes; wholeheartedly.

Senator PORTMAN. Well, Mr. Chairman, thanks very much for allowing me to continue. I appreciate your fitting us all in between our hearings and the votes and so on.

Senator CRAPO. Thank you, Senator Portman. And while we are waiting, let me just ask, is there any other Senator who I do not see here? If you are here, click on and let us see you show up on the screen. If not, I have a couple of questions.

I know that when Senator Wyden gets back, he has at least one more question. And then we will see if other Senators are able to make it back to the hearing.

My next question is for you, Dr. Hines. Most economists, from Jason Furman on the Democrat side to Doug Holtz-Eakin on the Republican side, agree that cost recovery for investments in business assets, especially plant and equipment, provide a significant tax incentive for that investment.

Indeed, the Joint Committee on Taxation's macroeconomic analysis specifically states that. That is the reason I have introduced legislation to make bonus depreciation provisions of the TCJA permanent. The report on this policy choice, after enactment of the TCJA and before the pandemic, bears it out.

But today, many of my colleagues on the other side have focused on JCT's snapshot of an average tax rate of 7.8 percent for certain companies in 2018. What they are not acknowledging is the fact that U.S. companies can reduce their taxes paid by increasing investment in capital assets like plant and equipment in the United States. And that is exactly what we hoped U.S. businesses would do when we provided bonus depreciation in the TCJA.

I believe most of us on this committee would agree that it is a good policy, as greater investment leads to greater productivity, which leads to more jobs and higher wages for workers.

Dr. Hines, could you just tell me if you agree? And comment on this issue, if you would.

Dr. HINES. I do agree. And both economic theory and the available evidence indicate that bonus depreciation encourages greater

investment, exactly as you would expect. And the economy benefits from that.

So it is true, when you introduce bonus depreciation in the first year or two, you are going to have diminished corporate tax revenues because you are front-loading the deduction, and that is what TCJA did. But that does not mean it is not a good policy. It makes some sense if you want a country with lots of investment and lots of business activity.

Senator CRAPO. Well, thank you very much. I appreciate that. It is just that we are hearing a lot of statistics thrown around today on both sides, and a lot of comparisons relative to that, and both sides are using relative analysis as well.

So I just kind of wanted to get some clarity on the fact that we have to be very careful when we look at snapshot statistics or comparative analysis of ratios of tax burden and so forth. They are all relevant, and it is appropriate for both sides to talk about them. But we need to be sure we understand exactly what these statistics are showing. So I appreciate that.

Ms. Olson, I also had another question I would like to ask you. This relates to sort of what I was just talking about. Senator Warren just stated that companies with lower U.S. tax rates are achieving those rates through loopholes and tax havens. But she is looking at financial statements as she reaches these conclusions, I believe.

What is the problem with looking to a financial statement to try to understand how much tax a company paid? And to give a little more clarity to this question, we have heard a lot about providing manufacturing incentives like R&D tax credits, but don't those tax credits reduce a company's tax paid? And would that be legitimately described as a tax loophole?

Ms. OLSON. Thank you for that question, Senator Crapo. Yes, those are all things that reduce corporate tax receipts. So we tend to, one, like the effect of the tax benefits—we had this same conversation with Senator Carper when he was talking about BEAT. We like those provisions. At the same time, we do not like what they do for corporate tax receipts.

And so, when we look at a tax return and when we look at financial statements, they are prepared for different purposes. A financial statement is intended to give a picture to investors of the health of the company. The tax return is prepared in compliance with what the Internal Revenue Code says, which is of course written by Congress, and there are all sorts of incentives that are built into the tax code, like bonus depreciation, like R&D tax credits, like green energy credits, that all affect the tax liability that is ultimately paid. Those are not reflected on the financial statements, except as a reduction of tax liability, because they do not affect what the company shows as its income.

Senator CRAPO. Well, thank you. I think it is important to understand that distinction. You know, we have an ongoing debate here in Congress over our tax extenders, as we have come to call them. We have all kinds of tax credits and other pieces of our tax code that have to be extended, often on an annual basis. And we go through this lurch and stop, and lurch and stop with tax policy in

the United States as we kind of battle over the extension of, or modification of these tax extenders.

And I suppose that that is one area where some of us would call some of those bad tax policy and would like to terminate them, and some of us would call some of those very good tax policy, like the R&D tax credit or the bonus provisions that I talked about a moment ago, which we would call good tax policies.

But it seems to me we should conduct the debate in the context of exactly what it is in the tax code that is causing whatever appears on a financial statement or on a tax return and look at the bottom line as to whether we are having the kind of impact on our economy that we want in terms of making the economy strong.

Let me—hold on. I am going to have to ask my staff to do something for me really quickly here. I will be right back.

[Pause.]

Senator CRAPO. Okay, I apologize. I am back. We are checking on how the votes are going. I expect Senator Wyden to be back any moment, but until he returns, perhaps I could just ask another general question. And the question basically is, you know we have had a lot of talk here about what the corporate rate is, what it should be, how it works, and so forth.

I have a question about who pays the burden of the corporate tax. Where does the burden of the corporate tax fall? My understanding from the Portman-Schumer report was that it was estimated that a reduction of the corporate tax would significantly benefit workers by allowing greater numbers of jobs, and greater wage and benefit increases. So there is one group that I think perhaps sees an impact on them from the corporate tax.

We have heard a lot of talk about the fact that the actual owners of the corporation are the ultimate ones who may be considered to have the burden of the tax fall on them, and who would that be? You know, I understand a significant part of that would be retirees, or people building their own retirement packages through their IRAs, 401(k)s, or pension funds. And I know that the argument goes back and forth on that.

I would just love to toss this out to anyone of you who would like to speak about it. Where does the payment—who bears the burden of the corporate tax in the United States?

Dr. HINES. You know, the awful truth is that there is a lot of controversy about this. And we do not actually know. But what theory says is that in a globalized economy, fixed factors in the United States—which are land and labor—should bear most of the burden of a business tax. So that would argue from a theory standpoint in favor of workers.

But the evidence is mixed. And I think there are a lot of reasons to think that workers bear a lot of the burden of the corporate tax, you know, half or more. There are estimates that are lower, that are close to 25 percent of the tax burden, but it does seem a little too low, actually.

Dr. CLAUSING. Let me add that there is a lot of consensus actually on this point. If you look at the American Enterprise Institute model, the Tax Policy Center model, the Joint Committee on Taxation model, the Treasury model, and the Congressional Budget Of-

fice model, they all agree that the corporate tax burden, the lion's share of it is falling on either capital or excess profits.

And if you look at the evidence for countries that have lowered their corporate tax, including big ones like us, but also Japan, Germany, Italy, and the UK, you do not see evidence of those corporate tax reductions showing up in higher wages for workers.

And I think the reason is that a lot of the corporate tax base is not taxing the normal return to capital, which would create the theoretical mechanisms that Dr. Hines mentioned, but it is falling on the excess return to capital. And taxing the excess return to capital is efficient, right? And there are a lot of changes in our economy that have increased the market power of companies. And there are changes in our law that have increased expensing. And those two changes together mean that more and more of the corporate tax is really falling on these extra returns, which is, I think, why we cannot see any beneficial effect on wages in all of these large countries that have run this experiment.

And there is a lot of consensus in the models.

Ms. HUANG. Senator, may I just add in response to what I think is a really core question that sits behind a lot of the to and fro we have been having so far, that in addition to the points that Dr. Clausing made, even in those models that say that some share of the corporate tax flows through to workers, that share is highly skewed towards high-wage workers—so executives, CEOs, people at the top end of the wage distribution.

And in addition, the assumption underlying those models is that ultimately any cut in the corporate tax is paid for. So one of the questions ultimately in terms of who benefits or not from a cut in the corporate tax rate is who ends up paying.

Dr. Clausing pointed out earlier that in the 2017 tax law, for the permanent corporate tax cut, it was offset by increases on lower- and moderate-income individuals, plus high-income individuals through that chained CPI piece.

Your point about IRAs and 401(k)s and other ways in which lower- and moderate-income people might ultimately own stock is, I think, a really good question. But if you look again at the distribution of who does have savings in those stocks, it is not low- and moderate-income workers that are the lion's share. And to the extent that they do, a lot of that is held in tax-preferred accounts that do not face any tax whatsoever.

Senator CRAPO. Okay, anyone else? Ms. Olson, did you want to get in on this one? You do not have to if you do not want to.

Ms. OLSON. I think I am the lone non-economist on the panel, so perhaps I shouldn't venture in. I have consumed a lot of economic analysis over the years, and I would say, based on the economic analysis that I have consumed, I fall more into Professor Hines's camp, that the information does not appear at all settled.

Dr. Clausing referred to the models. The models use a number that is based on a lot of analysis that economists have done, but I do not think that that represents a final conclusion.

The other thing—and this may be more correlation than causation—but over the course of the last few years, prior to COVID, we did see the wages of low- and moderate-income individuals start to

edge up for the first time in a long time. So again, maybe it is correlation not causation, but that did occur.

Senator CRAPO. Yes, I was going to actually raise that question. But I see Senator Wyden is back, so, Mr. Chairman, I am not aware that there are any other Senators available, and I have asked another question or so. I understand you probably have some more, but the gavel is in your hands.

The CHAIRMAN. Thank you, Senator Crapo.

Dr. Clausing, I think we are getting close to wrapping this up. As you know, tax law does not really resemble English; you know, this kind of arcane set of concepts, and we are blending things, and we are throwing stuff around, section this and that.

But I am increasingly troubled about the fact that in the United States, tax havens are driving too much of the world's largest economy. And I would like, maybe apropos of this debate about a handful of sentences in English, for you to kind of walk people through it.

Because to me, the way these debates get played out is, well, there is all this competition between the big guys. And then we have debates about somebody has this rate and somebody has that rate. But that is not a growing concern of mine because, when you read Joint Tax, they said it sure looks like the tax havens are getting more of the action.

So my take on this is that it seems increasingly—despite all the rhetoric about going after tax havens—there is a lot of competition between the United States and tax havens. And that can really hurt the cause of creating more high-skill, high-wage jobs.

So why don't you unpack that, and particularly get into the question of to what extent is the problem between the United States and tax havens? And what is to be done about it?

Dr. CLAUSING. Yes. That is an excellent question. Thank you for asking me that.

If you look at that JCT report that just came out, there are some very interesting tables in the back. And one of the things that you will see is the place where U.S. multinationals, and in fact other multinationals, invest and put jobs. Those are often high-tax countries with strong institutions and strong labor forces. But the places where they put their profits, on the other hand, are often tiny havens with rock-bottom tax rates.

So if you look at the data in the back of that report, you will see that in 2017, havens accounted for 10 of the top profit countries, and 47 percent of all after-tax profits were in just 7 of those havens. In 2018, after the tax law, havens accounted for 8 of the top 10 profit countries and 51 percent of the profits. So it is clear that havens are really big in this space.

Another thing that that points out is, there is a shared interest among non-haven countries in tackling this problem. And as Secretary Yellen has said, we are quite interested in working with other countries to lessen the pressures of tax competition. Measures we need to protect our corporate tax base can help other countries, and measures that other countries take to protect their corporate tax base can help our country.

So there is a mutual, shared interested here in addressing this problem that havens have been creating for all the non-haven coun-

tries of the world. So I think it is an essential priority in working with other countries on this.

The CHAIRMAN. Thank you, Dr. Clausing. And we are going to follow up with you on that. And as you know, Senator Brown and Senator Warner and I are getting ready to lay out a framework for dealing with some of these challenges and loopholes. And I just think, when you look at that JCT report, I was struck by the fact—and they are a pretty cautious group; they do things by the book—they made it very clear that the tax havens are continuing to drain some of the crucial ability we have to have to create more high-skill, high-wage jobs here.

So I thank you. We will note for the record Ms. Huang also nodded affirmatively.

Okay, Senator Daines, you are on.

Senator DAINES. Thanks, Mr. Chairman.

Well, this hearing is examining a really important topic, and that is how our international tax policy affects workers, jobs, and investment. Following the enactment of what we did back in 2017 with the tax cuts, we improved our competitiveness in a very big way, lowering corporate tax rates from where we had the highest combined rate in the developed world, to where we are at today, about the OECD average, and we are seeing the results of this working in our economy, particularly in the job market.

Inversions stopped. Corporate investment in the U.S. increased. And the unemployment rate in February 2020, just before the pandemic hit, was at a 50-year low at 3½ percent. And best of all, workers were thriving. We were seeing median household income increasing by 6.8 percent in fact, between 2018 and 2019. And given this positive data across the board, and the fact we are finally seeing robust wage gains at the lower end of the income spectrum, I am scratching my head, truly, as to why we are hearing from my colleagues that they want to roll back the Tax Cuts and Jobs Act.

However, I am excited to examine this topic here today. I would like to start by talking about something I have heard Secretary Yellen say a few times now. During her appearance before the Banking Committee yesterday in the Senate, Secretary Yellen acknowledged that it is necessary for U.S. firms to be competitive.

As somebody who spent 28 years in the private sector competing against companies outside the United States, this is about U.S. global competitiveness. In response to a question of whether an increase in the corporate tax hike would have hurt U.S. competitiveness, Secretary Yellen stated, and I quote, "It would be important to make sure the corporate tax increase is done in the context of a global agreement."

I think increasing the GILTI rate can also be put into that same bucket. Increasing it unilaterally without corresponding moves by other countries would be disastrous. And do not take my word for it. The left-leaning Tax Policy Center wrote last week that increasing GILTI without any corresponding moves by other countries will, and I quote, "put U.S. firms at a disadvantage and reignite inversions."

Remember, we wanted to stop the inversions when we passed the tax cuts. Guess what? Inversions stopped.

To be clear, I do not personally think we should increase the corporate tax rate, GILTI, or for that matter, any other taxes. However, I have a question for you, Dr. Clausing. Do you agree with Secretary Yellen, your boss, that U.S. rates should not be increased until a global agreement with our competitors is reached and implemented?

Dr. CLAUSING. Thank you so much for that question.

I agree with Secretary Yellen on many things, and I believe what she said in her testimony was that she has committed to working with other countries on addressing this problem.

If you look at the last couple of decades, you will see that countries throughout the OECD have dramatically cut their corporate tax rates, together by over 20 percentage points. And this tax competition environment is not good for us, and it is not good for those other foreign countries. As I mentioned in my last response to Chairman Wyden, we have a joint interest in addressing these problems.

That said, it is important to remember that the United States also has a lot of advantages, right? We have excellent infrastructure. We have excellent workers. We have strong institutions. And we are committed to building on those advantages. And building on those advantages means that we do not always have to match exactly what every other country is doing.

So I think that there is room for really constructive engagement with other countries on tackling this problem.

Senator DAINES. Well, to be clear, Dr. Clausing, this is about competition. The reason other countries are lowering their rates is this competition. Inversions were a really big problem for us, and we cut taxes, and guess what? Inversions virtually stopped.

And so I just—I am very concerned that if we unilaterally go forward here, it puts U.S. businesses at a disadvantage, and it starts having an unintended consequence, which is moving businesses back offshore, which would be a huge mistake.

Your written testimony and opening statement highlight your conclusions on the magnitude of profit shifting by U.S. companies both before and after enactment of TCJA. However, Dr. Hines shared that 2017 was the last year for which high-quality data was currently available.

So in other words, we are looking at data, frankly, before TCJA became effective. We are not looking at relevant data in terms of cause and effect. Even in your paper, titled "Profit Shifting Before and After the Tax Cuts and Jobs Act," you state that "studies of the TCJA are relatively speculative at this point, and to my knowledge there is not yet substantial work estimating how the legislation will affect profit shifting."

Nevertheless, in today's testimony you once again point to data that is as of 2017, which is before we enacted the tax policy. So my question is, how do you reconcile the fact that both you and Dr. Hines acknowledged in your written testimony the 2017 data is the only comprehensive data available, to your conclusion that profit shifting cost the government an estimated $100 billion in 2018 and 2019, particularly given Professor Hines's current-level estimate of profit shifting as, at best, modest?

Dr. CLAUSING. Just briefly, I will say that there is 2018 and 2019 data from the Bureau of Economic Analysis in the testimony, and there is also 2018 data that have been analyzed by the Joint Committee on Taxation that we have been talking about today. And both of those show absolutely no diminution in the use of tax havens after the law relative to before the law. So we do have some substantial data sources.

The CHAIRMAN. Senator Daines, we have to go to your colleague, Senator Sasse.

Senator DAINES. Okay. Thank you.

The CHAIRMAN. Thank you. Senator Sasse?

Senator SASSE. Thank you, Mr. Chairman. And thank you, Steve, for teeing up the same issues that I wanted to pursue as well. So I want to thank all four witnesses for being here.

And, Dr. Clausing, I'm not trying to keep you on the hot seat, but Senator Daines grabbed a bunch of the topics I wanted to pursue as well, before we run back to this next vote.

So can you just back up and help me understand what your view is on what Steve Daines just said about inversions pre- and post-2017? Do you agree that they stopped? Because I think they have stopped, but it is not clear to me whether or not you agree with that.

Dr. CLAUSING. I think there is a lot of evidence that the late Obama-era regulations stopped all of the very important, sizeable inversions. And I also think that there are many tools at our disposal to address issues of inversions, including both unilateral measures, but also working with other countries to lessen these pressures of tax competition.

As Secretary Yellen points out, we do not want to engage in a race to the bottom in this area. It is not a fair tax system to let capital completely escape tax but to apply much higher rates on the labor and income of school teachers and firefighters.

So working with our partners abroad, we should be able to tackle some of these tax competition pressures, while making sure that we are also able to make the investments at home for fundamental economic success.

Senator SASSE. Okay, so at a theoretical level I hear what you are saying, and I think a lot of it is defensible. But at a practical level, do you really believe that if you look at all the countries into which inversions were going, whatever the right preposition should be if not "into," but where the inversion decided to then incorporate and locate, do you really believe we are going to have some sort of treaty with all those countries?

So I mean, you are not really going to stop it by that theoretical point, are you? You are just going to push the beach ball under the pool in one direction instead of another. But if the inversions are happening, they are going to go to one of the countries that does not participate in your idealized international treaty, aren't they?

Dr. CLAUSING. There are lots of strong tools that the countries like the United States, Germany, and Japan, have at our disposal to tackle not just our own tax laws, but to also encourage other countries to cooperate in this mechanism.

And we are committed to using all the tools at our disposal not just to make the U.S. a competitive place to invest, but also to less-

en the pressures that are put on all countries' tax systems by low tax rate havens. And there is a lot of work to be done here, and we are working in every possible way to counter those pressures. And I am hopeful that we will succeed, because it is a very important opportunity, and a very important time to build a fairer and a more efficient tax system.

Senator SASSE. So I mean, I think what I hear you saying is that you do not think U.S. companies were disadvantaged in the run-up to 2017. Does that mean that you would be comfortable going back to a pre-2017 international tax structure right now and you do not think that would disadvantage U.S. companies?

Dr. CLAUSING. I think if you look at the data, U.S. companies were quite successful both before and after the recent tax laws. But no one is suggesting simply going back to a prior era. Both the Biden proposals and the kinds of proposals favored by many of the Senators on this committee suggest building on our current laws to make a stronger system that is more suited to the challenges of the global economy, that does not encourage offshoring, that does not allow rampant profit shifting, that puts a fair burden on both labor and capital. And so these are all objectives that I think we can work on together to reach in our building on current law.

Senator SASSE. Dr. Hines, could I toss the same question at you? Can you tell me how you see the effects of the tax changes of 2017 on inversions, and what would you think would happen to U.S. competitiveness if we returned to a pre-2017 international tax system?

Dr. HINES. Look, I agree with Dr. Clausing that nobody wants us to return to the pre-2017 international tax system. We were clearly out of whack with the rest of the world, and I think there was bipartisan agreement on that.

When it comes to inversions, yes, clearly the 2017 bill put the end to inversions by making the U.S. a less-disadvantaged place to do business.

But we also need to keep in mind these kind of invisible inversions that take place around the world all the time, where American companies are not competitive with their foreign competitors—with companies from Canada and Germany and Britain—then they lose out on foreign business activity. Those are a lot like having inversions, except that we do not see them; it is just that they take place anyway.

Senator SASSE. Thank you. The chairman is flashing his red light on my screen, and I do not want to get a foul.

The CHAIRMAN. I thank my colleague. And unless members come back who have not gotten a first round, I think we are going to wrap up. And I am just going to be really brief on this.

I do want to come back to the——

Senator YOUNG. Mr. Chairman?

The CHAIRMAN. Yes? Well, here we have a Senator who did not get his first round. Senator Young?

Senator YOUNG. I thank you for recognizing me, Mr. Chairman. I am grateful for you holding this hearing.

Dr. Hines, I want to revisit an issue that I understand was just raised by the ranking member. According to the nonpartisan Congressional Budget Office and the Joint Committee on Taxation, 25

percent of the corporate tax is borne by American workers in the form of fewer jobs and reduced wages.

Now President Biden has proposed raising the Federal corporate rate to 28 percent, which means a combined statutory rate of 33 percent, taking into account State taxes, plus doubling the tax on companies' foreign earnings.

So I also understand the President has pledged not to raise taxes on households earning less than $400,000 per year. Dr. Hines, in any case, won't these dramatic tax increases in significant part be borne by American workers and families who are making far less, far less than $400,000?

Dr. HINES. Yes. Look, the higher taxes reduce business activity, and that reduces demand for American labor, which reduces employment and wages. And we can quibble about exactly how much of the burden is borne by workers, but it is clearly large.

I think it is greater than 25 percent, but other people think it is 25 percent, and I should add that it is not just high-paid workers. The theory says the opposite, that it is all workers who are employed by these companies. Because what happens is, when you raise the business tax rate, companies do less investment. They do less of everything. And that reduces their labor demand across the board.

So yes, like it or no, we live in a capitalist system. And if you live in a capitalist system, workers' demand is determined by their productivity. And their productivity is how productive they are in the businesses. So higher tax rates reduce business activity, reduce worker productivity, and therefore reduce employment and compensation.

Senator YOUNG. Thanks so much, Doctor. You know, I read a recent article by Alex Hendrie in *The Washington Times,* and it is an incredibly accessible piece. I commend it to anyone who might be watching or listening to these proceedings. And I just want to quote a little snippet from it. It is entitled "Joe Biden Breaks His Tax Pledge."

And discussing the worker impact of the proposed taxes, he cites a 2017 study by Stephen Entin of the Tax Foundation indicating that labor, or workers, bear around 70 percent of the burden of corporate taxes. And Mr. Entin says that "economic studies over the last few decades have found that labor bears between 50 percent and 100 percent of the burden" of the corporate tax rate.

Even the Congressional Budget Office—this nonpartisan entity that both parties must listen to that referees our public policy decisions—in 2006 published a study indicating that 74 percent of the corporate tax is borne by workers—by workers.

So that lends further support to your perspective, Doctor.

I would like to move on to global competitiveness as it relates to the corporate tax rate. Ms. Olson, before the Tax Cuts and Jobs Act, the U.S. headline rate was 35 percent, the highest corporate tax rate among industrialized countries. So we had all kinds of headquarters that were so-called inverting, moving overseas and to Canada.

While U.S. companies' foreign earnings were subject to that 35-percent tax rate, that tax could be deferred, in many cases indefinitely. Now President Biden has proposed increasing the statutory

tax rate to 28 percent, but with State taxes, the rate would be nearly 33 percent on corporations.

He has also proposed increasing the tax on foreign earnings to 21 percent, but that rate would be closer to 26 percent when you take into account the effect of foreign tax credits.

So, Ms. Olson, again I am asking out of concern for the welfare of America's workers and retirees, doesn't the Democrats' proposed system start to look an awful lot like a worldwide tax system with higher rates applicable to U.S. and foreign earnings than other countries impose? And what would this mean for American businesses and, in turn, most importantly, their workers?

Ms. OLSON. So it would vault us back to number one in the world with respect to the tax on domestic income. And that, I think, would be disadvantageous to investment in the United States, and job creation in the United States.

On the international side, there is not much doubt in my mind that it would make us less competitive. One of the things that has been raised by Dr. Clausing is the fact that the U.S. is working at the OECD to try to get to consensus on setting some minimum taxes to put a floor on tax competition.

I think the tax competition actually ended a while ago. Ninety percent of the rate reduction that has occurred was over by 2007. We just have not seen that since then.

We also have not seen any indication that other countries are willing to engage in setting a minimum tax that is anywhere near even—it is certainly not near 21 percent. They actually seem to be talking about a rate that is below our current GILTI rate.

So moving high above that would certainly have a disadvantageous effect on American companies, and therefore on American workers.

Senator YOUNG. Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague. I think we are getting ready to wrap up. I am just going to make a couple of quick comments. For all the colleagues who are also following it, we need questions for the record within a week from today.

I do want to come back to the notion of competitiveness. I really get the sense that a number of Republicans see that as code for big corporations, megacorporations paying little or no taxes. And mention was made, I think perhaps by Ms. Olson, that I wrote two bipartisan tax reform bills, with the Republican chair of the Budget Committee, Judd Gregg, then with Dan Coats, in fact, Senator Young's colleague from Indiana. Neither of those two bipartisan bills had a big carve-out for foreign income. That was the difference. That is what the debate was. I think Ms. Olson probably remembers it. That was what the debate was that went on month after month after month. It was critical to tilt the playing field to create as many good-paying American jobs and keep investments here.

And neither of those two bipartisan bills gave megacorporations a special break for doing business overseas. That is what the difference is all about.

Now I am just going to make a quick couple of comments, and then we will close. I think that there is a lot of clarity today on some of these areas where the Trump law sold out the workers and

in fact made us less competitive in the world. The research and development provision, for example, on this 2017 law could not have been clearer. It was a disincentive, and the basic proposition of creating incentives for research and development and manufacturing overseas—when folks in Oregon and around the country are watching our manufacturing sector and innovation-oriented companies looking for opportunities, those kind of destructive policies disincenting research and development, making it more attractive to do business overseas, are losers.

So this is an area that needs change in the tax code. And there is a broad range of members whom you heard from today who have a variety of ideas. And we are going to look at them. And very shortly Senator Brown and Senator Warner and I are going to put out our framework, and I think there will be ideas from other members.

The bottom line is, we are the largest and most innovative economy in the world. And we can let other countries fool around with hand-outs and gimmicks and the like. We are going to focus on policies that actually make us more competitive, attract U.S. investments, high-skill, high-wage jobs, and do it in a way without blowing up the budget.

This is the kind of hearing that generates the ideas and thoughts for making that possible. Thank you to all our witnesses, and this has been an excellent hearing. And I think it is a great compliment to your expertise in the field that you have so many Democrats and Republicans—the fact that this hearing, this domestic manufacturing hearing, had so many members in attendance is reflective of the need for reform.

So with that, I think we will call it a wrap. I do see my friend, Senator Crapo, here. Is there anything you wanted to add, or can we wrap?

Senator CRAPO. Well, I could respond to your comments, Mr. Chairman, but I will do it at another time.

The CHAIRMAN. You and I will continue the conversation during the next vote.

Senator CRAPO. All right.

The CHAIRMAN. I thank my colleague for his courtesy. With that, the committee is adjourned.

[Whereupon, at 12 noon, the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF KIMBERLY A. CLAUSING, PH.D., DEPUTY ASSISTANT SECRETARY, TAX ANALYSIS, DEPARTMENT OF THE TREASURY

Chairman Wyden, Ranking Member Crapo, members of the committee, thank you for inviting me to share these views on the international aspects of business tax reform. International tax reform feeds into our most important tax policy goals: building a tax system that is fit for purpose, fair, and focused on the needs of all Americans.

In my testimony today, I will discuss several crucial issues related to international tax reform. First, we need better protections to defend the U.S. corporate tax base from the tax-motivated shifting of corporate profits to offshore havens. Second, international tax reform is an essential ingredient in building a fairer tax system. Third, it is important to modernize our tax system to better suit a globally integrated economy, reducing the tax preference in favor of foreign operations, and enabling U.S. workers to compete on a level playing field. Most important, all our tax system choices must serve the interests of all Americans.

Fortunately, there are relatively straightforward changes that we can make, that will vastly improve our international tax regime. These include a stronger, more robust minimum tax and steadfast work with our partners and allies abroad in order to counter the pressures of international tax competition.

Building a Tax System That Is Fit for Purpose

International tax reform is essential to our most important tax policy goals. After the tax cuts of prior years, we now raise only about 16 percent of GDP in Federal tax revenue. (To put this into perspective, the last time the U.S. balanced the Federal budget, receipts were about 20 percent of GDP.) And, while the pandemic necessitated a large and robust fiscal response in the near term, it will be important to build a tax system that can contribute to our many important fiscal priorities, including lasting investments in infrastructure, research, and clean energy. At the same time, it is essential not to raise taxes on typical workers, who have often not felt the beneficial effects of our strong economic growth.

Compared to our trading partners, the U.S. government raises very little corporate tax revenue. For many years, the typical OECD (Organization for Economic Cooperation and Development) country has raised about 3 percent of GDP from corporate taxation, whereas in 2018 and 2019 (before the pandemic occurred), the United States raised only 1 percent of GDP from the corporate tax. Even before the 2017 Tax Cuts and Jobs Act, the United States was below peer nations, collecting only 2 percent of GDP. Indeed, corporate taxes as a percentage of GDP have been trending downwards in the United States since the 1950s.[1]

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[1] Data from Tax Policy Center. "Corporate Income Tax as a Share of GDP, 1956–2018." *https://www.taxpolicycenter.org/statistics/corporate-income-tax-share-gdp-1946-2018.*

Corporate Tax Revenues Relative to GDP

	United States	OECD Average[2]
Post-TCJA: 2018/2019	1.0	3.1
5 Years pre-TCJA: 2013–2017	2.0	2.9
Years Prior: 2000–2012	2.0	3.0

Data Source: OECD Revenue Statistics

Corporate tax revenues are low despite the fact that U.S. companies produce very high corporate profits, both in historic and comparative terms. For example, in recent years, corporate profits (after-tax) as a share of GDP averaged 9.7 percent (2005–2019), whereas in the period 1980–2000, corporate profits averaged only 5.4 percent of GDP.[3]

Indeed, the U.S. corporate sector is the most successful in the world; the United States hosts 37 percent of the Forbes Global 2000 top companies' profits, despite the fact that the United States only comprises 24 percent of world GDP and less than 5 percent of the world's population.[4]

Yet, despite the enormous success of the corporate sector, U.S. companies continue to shift corporate profits offshore, reducing the U.S. corporate tax base and U.S. tax revenues. As of 2017, corporate profit shifting by both U.S. and foreign multinational companies cost the U.S. government approximately $100 billion per year at prior tax rates.[5] Although revenue loss is mechanically lower at today's lower corporate income tax rates, recent data indicate that the role of foreign tax havens was quite similar in 2018 and 2019 as it was in the years before the 2017 law.

Although the 2017 law contained two modest measures that were supposed to reduce profit shifting (the GILTI minimum tax, for global intangible low-tax income, and the BEAT, for base-erosion anti-abuse tax), the 2017 law also encouraged profit shifting in other ways, by exempting from U.S. taxation the first 10 percent return on foreign assets, and by taxing foreign profits at half the rate of U.S. profits.

Based on the early evidence in the 2 years after the law, the use of tax havens to avoid tax continues unabated. As the figure above illustrates, the share of total foreign income in seven prominent tax havens is nearly identical in the 2 years after the law (2018 and 2019) as it was in the 5 year prior to the law, at 61 percent of after-tax income, or 1.5 percent of GDP.

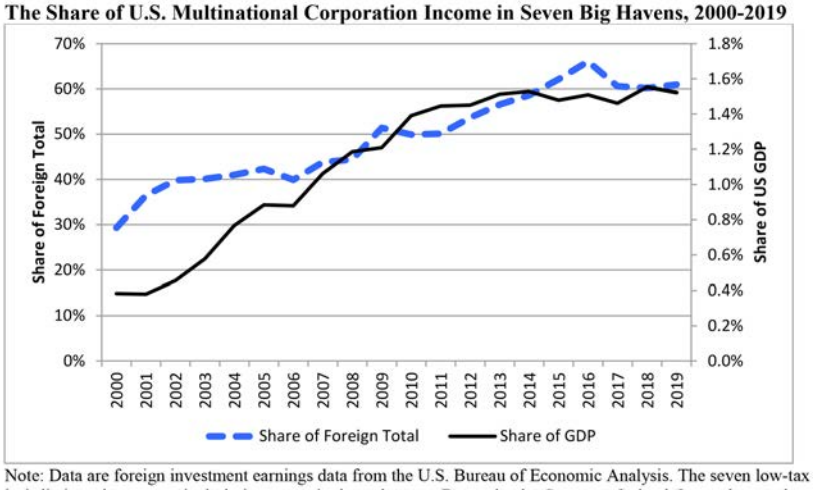
[2] The average for G7 countries is very similar.

[3] Data are from the Federal Reserve Economics Statistics database.

[4] Data are from 2020 Forbes Global 2000 list.

[5] See Clausing, Kimberly. "Profit Shifting Before and After the Tax Cuts and Jobs Act." 2020. *National Tax Journal.* 73(4). 1233–1266. My preferred estimate is over $100 billion, but a thorough analysis that employs four data sources and three methods finds a wide range of revenue costs; across all methods, the revenue cost averages about $90 billion per year. Similar revenue losses are found in Clausing, Kimberly. "Five Lessons on Profit Shifting from the U.S. Country by Country Data." 2020. *Tax Notes Federal.* 169(6). November. 925–940. Many other researchers have drawn attention to the large scale of the profit shifting problem. Studies are too numerous to fully recount here but include Guvenen, Fatih, Raymond J. Mataloni, Dylan Rassier, and Kim J. Ruhl. 2018. "Offshore Profit Shifting and Domestic Productivity Measurement." *NBER Working Paper No. 23324;* Crivelli, Ernesto, Michael Keen, and Ruud A. de Mooij. 2016. "Base Erosion, Profit-Shifting, and Developing Countries." *Finanz—Archiv* 72 (3): 268–301; and Bilicka, Katarzyna. 2019. "Multinationals' Profit Response to Tax Differentials: Effect Size and Shifting Channels." *American Economic Review* 109 (8): 2921–2953.

The Share of U.S. Multinational Corporation Income in Seven Big Havens, 2000-2019



Note: Data are foreign investment earnings data from the U.S. Bureau of Economic Analysis. The seven low-tax jurisdictions that are particularly important in these data are: Bermuda, the Caymans, Ireland, Luxembourg, the Netherlands, Singapore, and Switzerland. The haven share is mechanically higher than it would be in some data sources since the data are reported on an after-tax basis.

Building a Fairer Tax System

Improving international taxation will do more than raise much-needed revenue. It will also improve the progressivity of our tax system, ensuring that large corporations—and those that own them—pay their fair share.

The corporate tax is one of the most progressive taxes in our tax system, far more progressive than the individual income tax or the payroll tax. Economic models from organizations as varied as the U.S. Treasury, the Joint Committee on Taxation, the Congressional Budget Office, the Tax Policy Center, and the American Enterprise Institute all agree that the vast majority of the corporate tax burden falls on the owners of capital and those with excess profits.

Recent decades have witnessed a worrisome increase in economic inequality, combined with a falling labor share of income. At the same time, governments throughout the world have too often responded by shifting relative burdens away from capital, reducing tax rates on capital gains, dividends, and corporate income, while increasing relative tax burdens on other income. Instead of dampening economic inequality, the tax system has too often exacerbated it. In part, these policy changes may have been a response to the fact that capital is more mobile than labor, as it is easier to offshore a factory (and even easier to offshore paper profits) than it is to move a person (or their labor income).

Yet policy-makers have not sufficiently modernized the tax system to make it more suited to these global forces. The changes outlined below will go much further toward that end. It is also essential to remember that shifting the capital tax burden to individuals, rather than businesses, will still leave much capital income untaxed, unless long held tax preferences are completely rethought. At present, about 70 percent of U.S. equity income goes untaxed by the U.S. government at the individual level.[6] (Indeed, some U.S. equities are also held by foreigners, whose residence countries may or may not tax that income at home. When corporate rates are cut, large benefits accrue to foreign investors.)

In addition to enhancing the progressivity of the U.S. tax system, the corporate tax is also efficient, since taxing excess profits can generate revenue without undue distortion, and evidence indicates that a rising share of the tax base, now likely over

[6] *See* Burman, Leonard E., Kimberly A. Clausing, and Lydia Austin. 2017. "Is U.S. Corporate Income Double-Taxed?" *National Tax Journal* 70 (3): 675–706.

three quarters, is comprised of excess returns.[7] Finally, a majority of voters in both parties favor higher taxes on corporations.[8]

Building an Economy That Meets the Needs of All Americans

Our modern global economy generates enormous churn. Forces such as transformative technological change, rising market power, import competition, declining unionization, and changing social norms have left many workers with economic outcomes that fall short of long-held expectations. Nearly 90 percent of children born in the 1940s out-earned their parents, but that share has fallen steadily. For children born in 1970, only 60 percent out-earn their parents; for those born in the 1980s, only half do.[9]

Those left behind by economic disruption are looking for answers. Some policy solutions, such as reinvigorating labor law to give workers greater economic power and investing in infrastructure and community colleges in left-behind regions, can be quite helpful. Others, such as erecting immigration barriers, risk adding insult to injury. Immigration is a vital source of job creation and innovation in the U.S. economy; turning our back on immigrants and foreign students weakens one of our most essential advantages.[10]

Yet we can do a lot more to ensure our tax system works for American workers. Expanding the Earned Income Tax Credit rewards work for those that are struggling, and expanding the Child Tax Credit is an enormous anti-poverty tool. Both of these were enacted as part of the American Rescue Plan. In corporate tax, it is important to reduce the large tilt in the playing field that favors foreign income and to work with partner countries to lessen the pressures of tax competition. A stronger minimum tax, stronger measures to tackle the profit shifting of foreign multinational companies, and close cooperation with our allies all have an important role to play.

Building a 21st-Century Tax System

The American Rescue Plan provided an essential down payment, expanding Child Tax Credits and Earned Income Tax Credits, both measures that go to the heart of creating inclusive, worker-focused prosperity. But we also need to build business tax systems that can handle the global mobility of capital.

Multinational corporations can reasonably be asked to pay their fair share. At present, U.S. corporations pay income tax at only a 21-percent rate, a lower marginal tax rate than that faced by many schoolteachers and firefighters.[11] Multinational companies operating offshore receive even more favorable tax treatment. Under the GILTI minimum tax, the first 10 percent return on tangible assets is completely free of U.S. tax, and subsequent income is taxed with a 50-percent deduction, facing tax at approximately half the full U.S. rate.[12] Our tax system would benefit from a much stronger minimum tax.

Building Multilateral Cooperation in International Tax

We are not alone in worrying about the profit shifting of multinational companies. Since 2013, there has been an ongoing international effort at cooperation in this area, led by the OECD and G20 countries, referred to as BEPS (for base erosion and profit shifting). The first round of negotiations made some modest progress in several areas, but ultimately was not transformational, as tax avoidance techniques that were shut down sprung back in different forms, and multinational company profit shifting continued in a manner similar to years prior.

Presently, a second round of negotiations is centered around addressing two problems: rethinking the allocation of taxing rights in a modern economy (so-called "Pil-

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[7] *See* Laura Power and Austin Frerick. 2016. "Have Excess Returns to Corporations Been Increasing Over Time?" *National Tax Journal.* 69 (4): 831–46.

[8] *See* data from the Financial Times-Peterson Foundation U.S. Economic monitor, summarized at *https://www.pgpf.org/infographic/majority-of-voters-support-higher-taxes-for-wealthy-and-corporations-and-want- next-president-to-pay-for-his-priorities.*

[9] *See* Raj Chetty et al. "The Fading American Dream: Trends in Absolute Income Mobility Since 1940." *Science.* 28 April 2017. 398–406.

[10] For a book-length treatment of these themes, *see* Clausing, Kimberly. *Open: The Progressive Case for Free Trade, Immigration, and Global Capital.* Cambridge: Harvard University Press, 2019.

[11] In 2020, the 22-percent tax bracket began at $40,126 for single individuals.

[12] The exact rate depends on the circumstance of the company. If they are operating only in zero-tax jurisdictions, they pay tax at 10.5 percent, but the rate can be as high as 13.125 percent if income is blended with income from higher-tax countries, since foreign tax rates are only 80 percent creditable.

lar 1"), and ensuring that all companies pay some minimum level of tax ("Pillar 2"). Within these efforts, a country-by-country minimum tax is presently being proposed internationally.

In general, there is strong policy interest in solving these vexing international tax problems, and countries' efforts can be mutually reinforcing. For instance, governments levying minimum taxes generate positive fiscal spillovers for each other's tax bases, by substantially reducing the incentive of their resident multinational companies to shift profits away from *all* non-haven tax bases toward tax havens. Further, U.S. leadership in international tax reform may incentivize stronger action abroad.

Working with our allies and friends in order to build better tax laws can help nations cooperate to solve other global collective action problems, not just stopping excessive tax competition pressures in corporate tax, but also using these vital international collaborations to work productively to handle issues like climate change, global public health, and other serious threats.

Building Consensus

Several hurdles stand in the way of international reforms, but they are not insurmountable.

Concerns about the competitiveness of U.S. multinationals ignore the evidence. Both before and after the 2017 Tax Act, U.S. multinational companies are the envy of the world, not just for their high profits and market capitalization, but also for their tax planning acumen. U.S. multinational companies paid similar *effective* tax rates as peers in other countries, even before the 2017 Tax law dramatically lowered U.S. corporate tax rates. And, U.S. corporate tax revenues are far lower than those in peer countries, as shown in the table above.

Further, to the extent that foreign countries also adopt strong minimum taxes, that will also reduce any competitiveness worries, while protecting our tax base from the profit shifting of foreign multinational companies. In fact, the present moment is an ideal time to reform our international tax rules, since there is a strong international consensus around addressing these problems, and our action can encourage action abroad.

Finally, it is important to remember that competitiveness is about more than the success of U.S. companies in foreign merger and acquisition bids. It is also about ensuring that our tax code doesn't incentivize foreign operations at the expense of those at home. And, it is about nurturing the many fundamental strengths that make the United States a good place to do business. Investing in our institutions, in the abilities, education, and economic power of American workers, in the quality of our infrastructure, and in cutting-edge research is all important. It is also important to work harmoniously with other countries in order to ensure a smooth and stable trading system, and in order to seriously address common concerns such as climate change and public health.

QUESTIONS SUBMITTED FOR THE RECORD TO KIMBERLY A. CLAUSING, PH.D.

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

INTERNATIONAL TAX POLICY POST-TCJA

Question. Corporate tax revenues declined sharply following the 2017 tax law, which has led to a large gap between U.S. corporate tax revenue as a share of our gross domestic product (GDP) and that of most of our peer nations. The global minimum tax rate, known as GILTI, provides an incentive for corporations to offshore physical assets and to prefer foreign income over U.S. income. At the same time, the foreign-derived intangible income (FDII) deduction also acts as an offshore, profit-shifting incentive.

How have these incentive structures affected the broader U.S. economy? Would you recommend a pure return to the pre-2017 tax law international tax regime? If not, what are some alternative policy options the U.S. should consider that would alter the current incentives firms face to shift profits overseas?

Answer. The pre-2017 tax regime did not include the specific offshoring incentives that are part of current law under GILTI and FDII,[1] but the prior regime did have some undesirable features that can be improved upon. For example, the statutory rate was high but the base was relatively narrow, leading to large gaps between the statutory and the effective rate. In addition, there was no corporate income tax assessed on foreign income until it was repatriated, which incentivized offshore operations and profits, yet simultaneously disappointed investors who wanted tax-free access to their offshore cash. (Still, effects on U.S. investment and corporate profitability were minor, since companies could borrow against offshore profits, and offshore profits were often still invested in U.S. markets.)

Ideally, corporate tax reform would fix the problems of both prior law and current law. The American Jobs Plan proposal does just that. By eliminating the (QBAI) exemption for the first 10 percent return on offshore tangible assets, and by repealing FDII, offshoring incentives are eliminated. A much stronger minimum tax (with country-by-country administration and a higher rate) will put an end to the profit-shifting incentives that were present in current and prior law. Accompanying this change, we recommend reforms to the BEAT (as described in our SHIELD proposal) that will curtail foreign multinational company profit shifting.

Question. What has been the overall effect of the 2017 tax law's shift from a "worldwide" tax system toward a "territorial" tax system?

Answer. Exempting foreign profits from taxation encourages both operations in low-tax jurisdictions and the shifting of corporate profits toward low-tax jurisdictions. While the 2017 tax law included a modest minimum tax, the net effect of the international provisions of the 2017 law was to leave the profit-shifting problem fully intact, while also increasing incentives to offshore assets (see footnote 1 above). The share of U.S. multinational company profits in low-tax jurisdictions was nearly identical in the years after the law (2018–2020) as it was in the years prior to the law (2013–2017).

Question. I am interested in your perspective on the best practices for economic recovery and regaining the historic pre-pandemic levels of economic growth and low unemployment, particularly for minority communities that were hit the hardest by the pandemic and continue to lag in their recovery.

Do you believe there is a danger of a slowed recovery if the U.S. corporate tax rate is once again set at the highest rate among OECD member countries, thus disadvantaging U.S. firms?

Answer. A strong economic recovery is indeed important. Still, raising corporate income taxes will not hamper our recovery. First, over 10 years, the Biden proposals increase corporate income taxes modestly, to about 1.7 percent of GDP. In years prior to the 2017 law, U.S. corporate tax revenues averaged about 2 percent of GDP, and in the years since the 2017 law, U.S. corporate tax revenues averaged about 1 percent of GDP. In contrast, our trading partners raise about 3 percent of GDP in corporate income taxes.

Second, the corporate income tax is a profits tax, and as such, it is strongly countercyclical. Companies only pay corporate tax when they are profitable, and companies earning losses (or carrying them forward from prior years) pay no corporate tax. In contrast, other sources of tax revenue fall more heavily on typical American workers and families, regardless of economic conditions.

QUESTION SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. The 2017 tax bill eliminated the deduction for unreimbursed expenses workers incur as part of their job—this means that police and firefighters were no longer able to deduct unreimbursed cost of their uniforms or equipment. Truck driv-

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[1] GILTI exempts the first 10 percent return on foreign assets; all else equal, FDII deductions are less generous as domestic assets increase. Early literature has shown that companies have responded to these perverse incentives. For example, Beyer et al. (see *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3818149*) find that for U.S. multinational corporations, higher levels of pre-TCJA foreign cash are associated with increased post-TCJA foreign property, plant, and equipment investments. They do not find a similar increase in domestic property, plant, and equipment. Atwood et al. (see *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3600978*) find the GILTI provisions introduced new incentives for U.S. multinational corporations to invest in foreign target firms with lower returns on tangible property so that they might shield income generated in havens from U.S. tax liability under the GILTI minimum tax.

ers could no longer deduct travel expenses and workers in unions could no longer deduct the cost of their dues.

I have a bill, the Tax Fairness for Workers Act, to reinstate these deductions and make the deduction for union dues above the line. It is a measure I hope will be included in the President's budget.

Will you commit to working with my office on this proposal which supports workers and union jobs?

Answer. We are interested in working with your office on this effort and on a wide array of policies that support strong union jobs in the United States. The goal of fostering high- quality U.S. jobs is at the heart of the American Jobs Plan, which invests in U.S. infrastructure, R&D, manufacturing, and clean energy. Our international tax plan also encourages U.S. job growth by addressing provisions in the current tax code that favor offshore profits and production.

QUESTIONS SUBMITTED BY HON. ROBERT MENENDEZ

THE BASE EROSION AND ANTI-ABUSE TAX (BEAT)

Question. The 2017 GOP corporate tax law was poorly conceived and drafted, which has resulted in many unintended consequences. One flawed provision is the Base Erosion and Anti-abuse Tax or BEAT. While there's no doubt that we need to prevent multinational corporations from artificially shifting their income outside of the U.S., the BEAT was written in a way that often punishes the good actors—those that pay what they owe to the U.S.—while letting the true base eroders get away.

Do you agree that the BEAT is ineffective and in serious need of reform?

Answer. The administration has determined that the BEAT is beyond repair. It has been largely ineffective at curtailing profit shifting by multinational corporations, and BEAT revenues have been below forecasts. Although the BEAT could be strengthened, it is both under- and over-inclusive in its scope due to its structure. For example, the BEAT penalizes firms with lower margins over firms with higher margins, and it does not distinguish between payments subject to a low effective tax rate and those subject to a high effective tax rate. More fundamentally, the BEAT does nothing to stop the race to the bottom on corporate income tax rates. To address harmful tax competition, the Americans Jobs Plan would repeal the BEAT and replace it with the Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD) rule. Because the SHIELD denies deductions by reference to payments to related foreign parties in low-taxed jurisdictions, it incentivizes those jurisdictions to reverse the race to the bottom by adopting minimum tax regimes.

Question. Should our tax code provide special consideration and relief from the BEAT or any future alternative, for a company that already has an Issue Resolution Agreement under the IRS's Compliance Assurance Process and abides by a bilateral advanced pricing mutual agreement between the IRS and a foreign National Tax Agency to ensure the company is paying its fair share of U.S. taxes?

Answer. The BEAT is deeply flawed, both as legislated and as implemented by the Trump administration in regulations. This includes its potential for over-inclusiveness in some circumstances that you cite. As drafted, the BEAT applies to payments to countries that have tax rates higher than our proposed GILTI rate of 21 percent, and to transactions that may be been subject to an advance pricing agreement with the IRS. The proposal in the American Jobs Plan would replace the BEAT with a more targeted provision that addresses comprehensively low-taxed income to prevent a race to the bottom. We look forward to working with the committee on these reforms.

QUESTIONS SUBMITTED BY HON. SHELDON WHITEHOUSE

Question. Trump promised his tax law would put America first and bring jobs and investment back home. Instead, he created a special half-off rate for the profits multinational corporations earn abroad, and on top of that, a "get out of taxes free card" for companies that build factories overseas.

You have called these provisions an "America-last" tax policy, explaining they create incentives to shift profits to tax havens and invest in physical production in higher-tax countries—often our economic competitors—instead of investing here in

America. My No Tax Breaks for Outsourcing Act would apply GILTI on a country-by-country basis, which President Biden has proposed in his Made in America Tax Plan.

Why is it so important to apply GILTI on a country-by-country basis? Is this feasible from a compliance and enforcement standpoint?

Answer. It is ideal to apply GILTI on a country-by-country basis, since the global averaging feature of the GILTI minimum tax creates a perverse "America last" tax policy. Specifically, under current law, income earned in a low-tax country gets taxed at approximately half the U.S. rate, incentivizing earnings in low-tax countries. But, importantly, *high-tax* foreign income is also incentivized relative to U.S. income, since it generates foreign tax credits that can offset tax due on haven income. This system makes it easy for multinational tax planners to blend income from high-tax and low-tax locations abroad, paying a rate much lower than the U.S. rate.

In contrast, a country-by-country administration of the law acts as an immediate deterrent on profit shifting. Every dollar earned in a haven generates immediate U.S. tax, with no sheltering possible from foreign tax credits. And, there is no longer any tax preference for earning income in a high-tax country, rather than the United States.

It is true that current international tax law is very complex. Yet, many companies are already doing country-by-country calculations under present law. Much of the complexity is the current system is due to new technical problems introduced under the 2017 Tax Act. International tax reform can be accompanied by coordinated regulatory changes that simplify tax administration.

Further, a strong minimum tax will dramatically curtail the incentives to shift profit offshore, substantially reducing the waste of resources that are devoted to tax planning, and also lowering the degree of difficulty that the IRS faces when it attempts to enforce our international tax rules.

Question. My No Tax Breaks for Outsourcing would require multinationals to pay the same rate on profits earned abroad as smaller domestic companies pay to eliminate the incentive to shift profits to tax havens.

How might this reform benefit the competitiveness of domestic businesses? How would it impact profit shifting?

Answer. It is important to close the offshoring and profit shifting loopholes built into the 2017 tax bill, and both your reform and the President's approach do just that. The President has proposed increasing both the international and domestic rates and narrowing the difference between the rates. Of course, it is difficult to balance two worthy goals: fair taxation that levels the playing field for domestic and multinational companies and addressing the competitiveness of American companies as they operate around the world.

Question. The 2017 tax law created a tax break for so-called Foreign-Derived Intangible Income (FDII), promoted as an incentive to locate intellectual property in the U.S. But a company that locates fewer tangible assets—like plant and equipment—in the U.S. often can get a larger tax break. President Biden has proposed to eliminate it in his Made in America Tax Plan.

Why is the tax incentive for FDII so ineffective?

Answer. There are multiple problems with FDII. First, the FDII is not an effective way to encourage R&D in the United States, since it provides larger tax breaks to companies with excess profits (those already reaping the rewards of prior innovation) and only targets those with high export sales (omitting those companies with domestic sales). Second, like the GILTI, the FDII encourages offshoring, since the export subsidy becomes less generous (all else equal) as companies have higher U.S. tangible assets. (Whereas the GILTI rewards companies for offshore assets by allowing a larger tax-free return on those assets.) Repealing FDII would generate a large amount of revenue that could be used to encourage research and development much more directly. As one example, reversing the research amortization provision in the 2017 Tax Act (and returning to expensing) would cost a similar amount of revenue as FDII repeal would raise. Also, many of the same companies receive benefits from each provision. The vast majority of all FDII deductions are claimed by corporations that also have large qualified research expenses.

Question. When it came to negotiating global tax rules at the OECD, the Trump administration focused on shielding large corporations from tax rather than address-

ing the global scourge of tax avoidance. I am pleased that Secretary Yellen dropped the Trump Treasury demand that the new regime be optional for companies and that President Biden has called to end the race to the bottom on corporate tax rates.

How does the Treasury Department plan to lead our global partners towards strong international rules to put an end to offshore tax dodging? How can leading by example by enacting strong domestic legislation spur similar reforms abroad?

Answer. Through bilateral and multilateral engagement, Treasury has already begun to lead our global partners toward adoption of a robust, globally agreed upon minimum tax under Pillar 2 of the OECD/G20 negotiations, and enactment of domestic international tax reform will bolster Treasury's efforts in this regard. For instance, changing GILTI to a per-country system would strengthen the minimum tax by reducing the ability to blend high- and low-tax profits to escape minimum tax liability altogether. This not only substantially reduces incentives to shift profits but has the additional benefit of addressing concerns that our negotiating partners have regarding the weakness of the current regime. The Made in America Tax Plan's SHIELD proposal also functions as a heavy incentive to get partners on board with a robust Pillar 2 because it denies U.S. tax deductions on payments made to related entities in low-tax jurisdictions.

Question. Public country-by-country reporting of key financial information—such as taxes paid, revenue, profits, number of employees, and tangible assets—would help deter multinational corporate tax avoidance and provide investors with financially material insight into aggressive tax strategies and related risks to their investments. Investment firms with over $100 trillion in cumulative assets under management support such tax transparency. This data would also inform policy makers as Congress considers reforms to the taxation of multinational corporations.

Do you support requiring corporations to publicly report key financial information, such as taxes paid, revenue, profits, tangible assets, and the number of employees, on a country-by-country basis?

Answer. Tax transparency is an important goal, and companies should have a responsibility to their shareholders, their customers, their workers, and the public to be open and transparent. Taxpayer privacy is also an essential tenet of U.S. law, and under current law, country by country information should be shared among tax authorities, but not released to the public. We are studying possible reforms that would foster greater tax transparency, while balancing the needs of taxpayers for privacy.

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

Question. The nonpartisan Joint Committee on Taxation (JCT) has estimated that 25 percent of the corporate income tax is borne by workers.[2] More recent estimates have concluded that the amount of the corporate income tax borne by workers is closer to 50 percent.[3] Do you agree that the percentage of the corporate tax borne by workers is at least 25 percent? If not, why do you believe the JCT analysis is incorrect?

Answer. Economic models from organizations as varied as the U.S. Treasury, the Joint Committee on Taxation, the Congressional Budget Office, the Tax Policy Center, and the American Enterprise Institute all assign the vast majority of the corporate income tax burden to some combination of capital and excess profits. These models also assume that the deficits created by corporate tax cuts will be offset sometime in the future—yet do not account for the potential costs of those offsets for typical workers. It is important to remember that other tax options (such as labor income taxes, payroll taxes, and sales taxes) fall almost entirely on labor.

Furthermore, since these models were developed, two factors have likely lessened the long-run burden of the corporate income tax on labor. First, since current law exempts the normal return to capital for much investment, in theory the corporate tax should fall even less on labor than it did in years past. The mechanism by which corporate taxes burden labor requires a reduction in investment to reduce worker productivity, lowering wages. Second, the role of market power in the U.S. economy has continued to increase, making more and more of the corporate tax base excess profits rather than the normal return to capital. See Phillipon, Thomas, *The Great*

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[2] *https://www.jct.gov/publications/2013/jcx-14-13/.*
[3] *https://www.aeaweb.org/articles?id=10.1257/aer.20130570.*

Reversal: How America Gave up on Free Markets, Cambridge: Harvard University Press, 2019.

Finally, the article you cite uses German evidence, and Germany has very different norms about wage setting and labor involvement in corporate decision-making.

Question. The Global Intangible Low-Taxed Income (GILTI) minimum tax provides an exclusion for a return on tangible assets (Qualified Business Asset Investment or QBAI). The provision has been criticized by Dr. Clausing and Ms. Huang for encouraging offshoring. However, the Organisation for Economic Co-operation and Development (OECD) Pillar 2 minimum tax being considered provides an exclusion similar to QBAI, although the proposed Pillar 2 exclusion would exempt a return attributable to both tangible assets and payroll. Even President Obama's proposals for a minimum tax provided an exclusion for a return on active assets "to exempt from the minimum tax a return on the actual activities undertaken in a foreign country."[4]

Isn't this type of exclusion a normal feature of a global minimum tax because there is a recognition that profits attributable to hard assets are less susceptible to profit shifting, and returns on hard assets are normally taxed by the local jurisdiction? Do you believe the OECD Pillar 2 proposal would encourage domestic companies to invest in foreign jurisdictions?

Answer. GILTI exempts the first 10 percent return on foreign assets; all else equal, FDII deductions are less generous as domestic assets increase. Early literature has shown that companies have responded to these perverse incentives. For example, Beyer et al. (see *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3818149*) find that for U.S. multinational corporations, higher levels of pre-TCJA foreign cash are associated with increased post-TCJA foreign property, plant, and equipment investments. They do not find a similar increase in domestic property, plant, and equipment. Atwood et al. (see *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3600978*) find the GILTI provisions introduced new incentives for U.S. multinational corporations to invest in foreign target firms with lower returns on tangible property so that they might shield income generated in havens from U.S. tax liability under the GILTI minimum tax.

OECD negotiations are ongoing and the question of excluding a normal return on assets or employment is presently unsettled.

Question. Dr. Clausing says in her testimony that the corporate tax is an efficient tax. However, many economists, including those at the OECD, find that the corporate income tax—out of all the different types of taxes countries impose—is the most harmful to economic growth. In their report—"Tax and Economic Growth," the OECD economists say "lowering statutory corporate tax rates can lead to particularly large productivity gains in firms that are dynamic and profitable, *i.e.,* those that can make the largest contribution to GDP growth."

Do you agree or disagree with the OECD economists on this point? Couldn't raising the corporate tax rate have the opposite effect and cause a drag on economic growth?

Answer. It is possible that the OECD economists were relying on older models of the corporate tax, as early theoretical models in economics showed that capital taxes could be quite distortionary. However, modern models including more realistic assumptions indicate that the optimal capital tax rate could be at least as high as the optimal labor tax rate.

For example, while early work such as Atkinson and Stiglitz (1976) suggested a zero tax on capital, later work by both authors concluded otherwise, and both took policy positions that were in stark contrast to this result.[5] The more realistic assumptions that create a positive role for capital taxation include differences in the ability to earn returns on capital, a role for inheritance, imperfect or incomplete capital markets, and uninsurable shocks to rates of return. There is also a political economy rationale for capital taxation.[6]

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[4] *https://home.treasury.gov/system/files/131/General-Explanations-FY2017.pdf.*

[5] *See, e.g.,* Atkinson and Stiglitz (2015), the most recent edition of their text *Lectures on Public Economics,* as well as Stiglitz (2012) and Atkinson (2015).

[6] For examples of papers with these arguments, *see* Conesa, Kitao, and Drueger (2009), Piketty and Saez (2012, 2013), and Farhi, Sleet, and Werning (2012). Recently, Straub and Werning (2019) show that optimal capital tax rates are higher than those found in the early literature, even when relying on the very same theoretical models.

Excess returns to capital above the normal market return, resulting from market power or rents, also create a powerful rationale for capital taxation. Since much of the capital income tax base reflects these excess returns, that implies a far higher ideal rate of capital taxation. In most models, taxes on *excess* profits do not diminish the incentive to invest, although they may affect risk-taking behavior. Evidence from the U.S. corporate tax base indicates that a rising share of the tax base, now likely over three quarters, is comprised of excess returns.[7]

Thus, the tax system should keep a robust role for capital taxation for efficiency purposes, bearing in mind that most taxes (aside from head taxes and Pigouvian taxes) generate some inefficiencies. To ensure adequate capital taxation, the corporate tax is a vital tool, since about 70 percent of U.S. equity income goes untaxed by the U.S. government at the individual level.[8]

Question. The administration has proposed significantly raising the corporate statutory rate and the GILTI rate. The GILTI minimum tax already imposes a higher rate of tax on foreign income of U.S. companies than other countries apply to the foreign income of their domestic companies.

If the OECD fails to reach an agreement or if member states fail to adopt the agreement, the effect would be even higher comparative effective tax rates on U.S. businesses, potentially a differential of an effective minimum tax rate of over 21 percent compared to 0 percent imposed by most foreign countries.

In answering a question on the effects of the TCJA reforms on locating or maintaining a U.S.-based business in the United States, Ms. Olson said that higher levels of taxation imposed on U.S. companies would discount the value of assets in the hands of a U.S. company. Over time, the diminution in the value of those assets would make them, relatively speaking, more valuable in the hands of foreign-owned companies. Doesn't this impact on asset value have to be true? Is there any reason to ignore this basic financial reality?

Answer. Concerns about the competitiveness of U.S. multinationals ignore the evidence. Both before and after the 2017 Tax Act, U.S. multinational companies are the envy of the world, not just for their high profits and market capitalization, but also for their tax planning acumen. U.S. multinational companies paid similar *effective* tax rates as peers in other countries, even before the 2017 Tax Act dramatically lowered U.S. corporate tax rates.

And, U.S. corporate tax revenues are far lower than those in peer countries. Over 10 years, the American Jobs Plan proposals increase corporate taxes modestly, to about 1.7 percent of GDP. In years prior to the 2017 law, U.S. corporate tax revenues averaged about 2 percent of GDP, and in the years since the 2017 law, U.S. corporate tax revenues averaged about 1 percent of GDP. In contrast, our trading partners raise about 3 percent of GDP in corporate taxes.

Further, to the extent that foreign countries also adopt strong minimum taxes, that will also reduce any competitiveness worries, while protecting our tax base from the profit shifting of foreign multinational companies. In fact, the present moment is an ideal time to reform our international tax rules, since there is a strong international consensus around addressing these problems, and our action can encourage action abroad.

Still, even absent agreement, we are not powerless to address these problems. The SHIELD proposal can counter foreign company profit shifting. And simple anti-inversion measures, or even changes through regulation, can be quite effective in stemming the incentive to invert, as shown by the U.S. experience after the anti-inversion (and anti-income stripping) regulations of the late Obama years.

Finally, it is important to remember that competitiveness is about more than the success of U.S. companies in foreign merger and acquisition bids. It is also about ensuring that our tax code doesn't incentivize foreign operations at the expense of those at home. And, it is about nurturing the many fundamental strengths that make the United States a good place to do business. Investing in our institutions, in the abilities and education of American workers, in the quality of our infrastructure, and in cutting-edge research is all important. It is also important to work harmoniously with other countries in order to ensure a smooth and stable trading system, and in order to seriously address common concerns such as climate change and public health.

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[7] *See* Power and Frerick (2016).
[8] Burman, Clausing, and Austin (2017).

Question. The U.S. Congress cannot write the rules for sovereign members of the G7, G20, or the OECD. That is the case even if the OECD were to reach an Inclusive Framework agreement. The Peoples Republic of China, for instance, America's greatest economic rival, has indicated skepticism towards the OECD Inclusive Framework. Without such an agreement, wouldn't the United States be unilaterally raising the comparative effective tax rates of U.S.-based companies to uncompetitive levels? How should Treasury proceed if other countries, such as China, are not willing to impose a global minimum tax? The United States was already a first mover with GILTI. Why should the United States move again before other countries move at all?

Answer. At the Prime Minister or Finance Minister level, every G7 country has publicly expressed support for or openness to the global minimum tax and a commitment to work constructively towards an OECD Inclusive Framework agreement. In the G20 we similarly see support for the negotiations from every G20 member country, including China. With respect to the Chinese specifically, we are in multilateral discussions with China, just as we are in a discussion with the rest of the Inclusive Framework members in this negotiation. We have also engaged directly with the Chinese on the international tax issues at stake in the OECD negotiations. China has consistently engaged constructively. Separately, the OECD Secretariat has pointed out that Pillar 2 can go forward and be fully effective without every country implementing Pillar 2, and indeed that is the point of the so-called undertaxed payments rule of Pillar 2. On Pillar 1, as the other major economy with very large globally engaged digital firms, China and the United States share certain interests.

Question. Chairman Wyden and Dr. Clausing engaged in a dialogue where Chairman Wyden went as far as to question the policy motives of those on the Republican side as using competitiveness as simply "code" for cutting taxes for "mega-corporations." Do you believe that tax policies that raise the effective tax rate on the foreign operations of U.S. businesses well above that of their foreign competitors has no effect on their ability to succeed in foreign markets?

Answer. This question was addressed in my answer above (two prior).

Question. In testimony before this committee, both Secretary Yellen and Deputy Secretary Adeyemo noted the importance of competitiveness in reviewing TCJA's policy effectiveness and appropriate revisions to the TCJA. Competitiveness was discussed with respect to the Global Intangible Low-Taxed Income ("GILTI") regime and the Treasury objectives on Pillars 1 and 2 of the OECD discussions. Yet, in your testimony, you said "Concerns about the competitiveness of U.S. multinationals ignore the evidence." With respect to the role of competitiveness, do you agree with Secretary Yellen and Deputy Secretary Adeyemo that it is important to consider the competitiveness of U.S. companies when considering international tax policy?

Answer. This question was addressed in my answer above. (See prior question; three prior.)

Question. During the hearing, several Senate Finance Committee members pointed out that corporate inversions ceased after TCJA was enacted. You dismissed the effect of TCJA's lower corporate rate, anti-base erosion rules on inbound and outbound transactions, significant tightening of interest deductibility rules of section 163(j), full bonus depreciation and other major policy features of TCJA as not having any effect on eliminating corporate inversions, and suggested the section 385 regulations were responsible for ending inversions. Weren't the proposed and final section 385 regulations focused on thinly-capitalized transactions and similar aspects of interest deductions and earnings stripping?

Answer. The section 385 regulations that addressed distributions of indebtedness addressed U.S. taxpayers that borrowed from foreign-related parties to fund a distribution of cash out of the United States (or a similar transaction) to reduce the U.S. tax base, or so-called dividend note transactions. Prior to the section 385 regulations, these dividend notes transactions frequently occurred immediately after an inversion or a non-inversion foreign takeover of a U.S. company because foreign owners of U.S. corporations can base erode the United States through very low tax jurisdictions. The section 385 regulations addressed these transactions. While the 2017 tax legislation did include certain additional provisions addressing inversions, as currently defined in the code, the only provision in the 2017 tax legislation that attempted to comprehensively address base erosion after inversions and foreign takeovers was the BEAT. As observed in the hearing, the BEAT is poorly designed for its intended purpose of protecting the U.S. tax base. The Made in America tax plan proposes to both improve the rules preventing inversions and to replace the

BEAT with a better tailored tool to prevent erosion of the U.S. tax base. We look forward to working with the committee on these reforms.

Question. It was well-documented that inversion transactions were a defensive strategy for U.S. businesses to thwart tax-driven takeovers by foreign-owned companies attributable to many different features of U.S. tax policy before TCJA's enactment, including, for instance, the highest corporate rate, and the lock-out effect of deferred earnings. Isn't it true the section 385 regulations did not address those disadvantageous features because section 385 doesn't provide the authority to do so?

Answer. See response immediately above. The section 385 regulations address a specific type of dividend note transaction that often occurs immediately after an inversion or a non-inversion foreign takeover. This type of dividend note transaction takes advantage of the preference in current law for foreign ownership of U.S. corporations because the foreign owners can base erode the U.S. operations through debt from very low tax jurisdictions in a manner that U.S.-headquartered businesses cannot. The BEAT, through its flawed enactment and regulations, has failed to adequately address these concerns. The administration has proposed legislation addressing these transactions more comprehensively, through the SHIELD. We look forward to working with the committee on these reforms.

Question. As a follow-up to the previous two questions, Treasury Secretary Lew described the section 385 regulations as inadequate in eliminating inversions, when originally released, with this statement:

> Today, we are announcing additional actions to further rein in inversions and reduce the ability of companies to avoid taxes through earnings stripping. This will have an important effect, but we cannot stop these transactions without new legislation. I urge Congress to move forward with anti-inversion legislation this year. Ultimately, the best way to address inversions is to reform our business tax system, which is why Treasury is releasing an updated framework on business tax reform, outlining the administration's proposals to date as a guide for future reform. While that work goes on, Congress should not wait to act as inversions continue to erode our tax base.

Was Secretary Lew's statement incorrect?

Answer. Secretary Lew was correct. The regulations he addressed were important to discouraging inversions, but legislative action was needed to completely eliminate this activity. Unfortunately, the 2017 tax legislation failed to adequately address the environment that gave rise to these transactions. The American Jobs Plan and the President's other budget proposals will however address these transactions and, if enacted in full, could make the section 385 regulations unnecessary. We look forward to working with the committee on these reforms.

Question. The administration's "American Jobs Plan" includes a proposal to "make it harder for U.S. corporations to invert." Yet, as we have seen, there have been no inversions since TCJA was enacted. Does the administration, then, acknowledge that its proposals would "reignite" inversions, as the Tax Policy Center has stated?[9]

Answer. The Biden-Harris administration, like the Obama-Biden administration, is concerned about both inversions (as currently defined in the code) and non-inversion foreign takeovers of U.S. businesses. For this reason, the administration is proposing legislation that will eliminate preferences that remained in place after the 2017 tax legislation that preference foreign ownership of U.S. corporations. This includes tighter rules defining a statutory inversion and tighter rules addressing base erosion by foreign-parented groups. We look forward to working with the committee on these reforms.

Question. You advocate for repealing the provision in GILTI that provides for an exemption for 10 percent of QBAI. You also advocate for doubling the GILTI rate to 21 percent. However, as you know, the Organisation for Economic Co-operation and Development (OECD) Pillar 2 minimum tax being considered provides an exclusion similar to QBAI, although the proposed Pillar 2 exclusion would exempt a return attributable to both tangible assets and payroll, and the minimum tax rate under consideration is 12.5 percent. Is the administration similarly advocating at the OECD to remove this exclusion from the Pillar 2 minimum tax and raise the minimum rate higher than 12.5 percent?

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[9] *https://www.taxpolicycenter.org/taxvox/oecd-pillar-2-provides-good-model-biden-us-worldwide-tax.*

Answer. The administration's negotiating position on Pillar 2 is obtaining agreement on a robust minimum tax at the highest rate possible. As you note, tax burdens can increase due to either or both of a higher tax rate and a broader tax base. In the negotiations, the administration is focused on both features of the Pillar 2 minimum tax and is actively negotiating on both fronts.

As for the 12.5 percent rate, this has only been informally discussed as a potential benchmark under the prior administration. The Finance Ministers of both France and Germany have already indicated support for a higher rate, and Treasury is confident that consensus can be reached in a manner that would help, rather than hurt, the competitiveness of the U.S. tax system. Currently, the gap between the domestic minimum tax is 10.5 percent because there is no globally agreed upon minimum tax. A deal on Pillar 2 would close that gap.

The Pillar 2 proposal does include a provision that leaves open the possibility of an optional exemption related to tangible assets and payroll, with the intent of ensuring that local jurisdictions may retain incentives to encourage routine activities in their home jurisdiction (as opposed to encouraging that activity to move to foreign jurisdictions). This rationale and the consequent path of the negotiations is quite distinct from QBAI, which is a feature of U.S. law that encourages the offshoring of U.S. jobs. In other words, the path forward on the payroll and tangible assets rules in Pillar 2 is entirely consistent with the Biden Harris administration rationale for repealing the offshoring incentive we have in our own law.

Question. During the hearing, you engaged in a discussion regarding the tax profile of Amazon. Specifically, statements were made that Amazon takes advantage of "loopholes" and tax shelters to reduce its tax liability. You responded that "there's a wide recognition that the kinds of loopholes that we've been talking about today are very common."

Would you describe bonus depreciation under section 168(k) as a tax shelter or loophole? Would you describe the research and development credit under section 38 as a tax shelter or loophole?

Answer. In the hearing, I was focused on the loopholes that we were discussing in the hearing, which are primarily international in nature; in particular, I was concerned with incentives in current U.S. law that encourage profit shifting and offshoring (discussed above). Clearly, the tax code is also used to incentivize activities with positive effects on the economy (such as research, clean energy, etc.), and that practice does not generate troubling "loopholes" when credits are properly claimed and substantiated.

Question. What do you believe is the role of the tax code in incentivizing domestic manufacturing and research?

Answer. Research and development, whether in conventional businesses, manufacturing, or in cutting edge green energy companies, is very useful to economic growth, and economists have long recognized that R&D has beneficial spillover effects. Thus, it makes sense to encourage R&D through favorable provisions in the tax code, provided that the credit is properly claimed and substantiated.

Question. On page 2 of your written testimony, you provide a comparison of corporate tax revenues relative to GDP for years prior to TCJA and after. You also compare the U.S. share of tax revenues to GDP to the share for OECD countries.

My understanding is these data ignore tax revenue attributable to businesses operating in passthrough form, which are taxed at the individual level. How much business tax revenue was attributable to passthrough entities in the United States in 2018 and 2019? How much business tax revenue was attributable to pass-through entities in OECD countries, on average, in 2018 and 2019? Do the OECD data include subnational tax revenue? Does your 2018/2019 data for the United States include State tax revenue? If the data are unavailable for 2018 and 2019, please provide a comparison of the business tax revenue for 2017 of U.S. tax revenue as a share of GDP as compared to other OECD countries on average, adjusting for business income and tax revenue attributable to passthrough entities, as well as subnational and State tax revenues.

Answer. I used data from the OECD that is available here: *https://data.oecd.org/tax/tax- on-corporate-profits.htm#indicator-chart.* As detailed in the description, the data include revenues at all levels of government. While it is true that the U.S. has a vibrant and important pass-through business sector, we also have a large corporate sector and the most successful multinational companies in the world. The

OECD data examine only corporate profits revenues and do not provide the other breakdowns.

Question. Don't your estimates also exclude the tax revenue from the Tax Cuts and Jobs Act section 965 transition tax, which imposed tax on pre-enactment foreign earnings? Please adjust your corporate tax revenues to include the estimated effect of the Section 965 transition tax and provide the corresponding results.

Answer. The OECD data do not allow this breakdown. But that consideration would imply that our corporate revenues are even lower in the steady-state.

Question. On page 2 of your written testimony, you state that "corporate tax revenues are low despite the fact that U.S. companies produce very high corporate profits, both in historic and comparative terms. For example, in recent years, corporate profits (after-tax) as a share of GDP averaged 9.7 percent (2005–2019), whereas in the period 1980–2000, corporate profits averaged only 5.4 percent of GDP." Footnote 3 provides "Data are from the Federal Reserve Economics Statistics database."

The Federal Reserve has numerous databases. Please provide a more specific data source, along with the data used to arrive at your results.

Answer. Please see this source: *https://fred.stlouisfed.org/graph/?graph_id=245129&rn=117.*

Question. My understanding is that the Federal Reserve Economics Statistics corporate profits data include income from S corporations, which are taxed under the individual income tax. Additionally, they include Federal Reserve earnings and income of non-profits.

Please adjust the corporate profit percentages cited in your testimony to exclude S corporations and non-profits as not adjusting for them provides an inaccurate reflection of corporate profits to GDP, particularly when compared to tax estimates that do not include tax revenues of S corporations.

Answer. These data are not provided in comparable terms on the FRED database. But other data sources, such as the Forbes Global 2000 lists of multinational companies, indicate that U.S. multinational corporate profits are very strong in recent years.

Question. Why were the periods 2005–2019 and 1980–2000 chosen as the timeframes for comparison?

Answer. If you look at the graph (see two answers prior), you will see that the latter period looks relatively stable (aside form great recession), as does the former period (aside from cyclical factors). The years in between were a period of rapid increases in this series.

Question. On page 3 of your written testimony, you state that the 2017 law encouraged profit shifting. Please provide data that support this conclusion.

Answer. There were several causal mechanisms that directly encouraged profit shifting; most important was the move toward territorial treatment of some income, which removed the possibility of U.S. tax upon repatriation. These are discussed in my written testimony (and in answers above).

Question. On page 3 of your written testimony, you state that corporate profit shifting costs the U.S. government approximately $100 billion per year at prior tax rates. You cite your own published work for this conclusion. While your testimony states that your preferred estimate is $100 billion, your published work provides a range of $61 billion to $141 billion. Further, Leslie Robinson and Jennifer Blouin's research finds that your estimates are severely overstated as a result of using data that double count corporate profits, estimating that profit shifting results in one-tenth of the corporate tax revenue loss that you estimate.[10] While your written work cites 2017 data, you also stated in your testimony that 2018 and 2019 data exist that support your conclusions on profit shifting. Please cite the specific data that support your conclusion that profit shifting in 2018 and 2019 results in $100 billion of U.S. corporate tax revenues lost.

Answer. The best place to go for a thorough answer to this question is a paper that I've written on this topic. The appendix addresses the Blouin/Robinson critique in full. The paper is available here: *https://ntanet.org/NTJ/73/4/ntj-v73n04p1233-1266-Profit-Shifting-before-after-TCJA.html.* If for some reason that is behind a fire-

[10] *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491451.*

wall, you can also find it on SSRN here: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3274827.* Within, there is a figure that shows data through 2019, leading to the conclusion that the size of the profit shifting problem is unchanged post TCJA, presumably because there were contradictory measures within the law. (Some provisions encouraged profit shifting; others discouraged profit shifting.)

Please note that this article and its appendix are referenced for the following several pages of questions since it addresses those subject matters in detail.

Question. You defend your use of direct investment income to study profit shifting, and reject the use of the subtraction method, on the basis that the subtraction method misses foreign-to-foreign profit shifting. Please provide an example of foreign-to-foreign profit shifting that would not be captured by the subtraction method using Bureau of Economic Analysis (BEA) data. Please explicitly explain how this transaction would not be captured using the subtraction method but would be captured in direct investment income.

Answer. Hybrid dividends are one possible problem. This problem, and others, are discussed in the appendix to the above paper.

Question. In your published work, you state that "experts at both the BEA and the JCT believe that [excluding equity income] will omit some types of profit shifting.[11] Please provide citation or other BEA and JCT documentation expressing these official views. In addition, please list the types of profit shifting that would be omitted by excluding equity income and an estimate of their magnitude.

Answer. The experts are Ray Mataloni and Dylan Rassier (BEA) and Tim Dowd and Paul Landefeld (JCT). They are all mentioned in the acknowledgements of the aforementioned paper.

Question. Until 2020, you provided estimates in your research of U.S. revenue loss using an income measure from the BEA that you understood to double count some foreign income. In your published work, you state "Unfortunately, with existing data, it is not possible to account for this double-counting accurately." Consider the following passage from the BEA:[12]

> BEA separately shows the value of income from equity investments in other foreign affiliates (in this example, $100 million) as a component of the aggregated income statement statistics, allowing data users to exclude this double-counted income from in their analysis. Doing so leaves a total of $100 million of operational net income in Germany and $10 million of operational net income in the Netherlands for a total operational net income of $110.

This sounds like a straightforward correction. Please explain why there is a data limitation.

Answer. That is explained (in full detail) in the appendix of the aforementioned paper.

Question. Related to the previous question, if you can remove the double counting in the BEA so easily, why use country-by-country reporting data? In the latter data, you do not know how much double counting exist, have no means of fixing it, and have no time series. On what basis would aggregate country-by-country reporting data be more useful for studying profit shifting than aggregate BEA data?

Answer. No data series is perfect; this is why I use multiple data series to draw conclusions about possible ranges of estimates in this area. The strengths and weaknesses of these data series are also discussed at great length in this paper appendix.

Question. The BEA regularly issues preliminary data and then follows up with revised data for both its net income and direct investment income series. Your 2017, 2018, and 2019 U.S. revenue loss estimates rely on preliminary data. What are your views on using preliminary versus revised data and do you think it is important to highlight that the data are preliminary? Aside from an academic research perspective, what are your views on making major tax policy decisions using preliminary data rather than waiting for revised data?

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[11] Clausing, Kimberly A., "How Big Is Profit Shifting?" (May 17, 2020). Available at: *https://ssrn.com/abstract=3503091.*

[12] *https://www.bea.gov/help/faq/1402.*

Answer. Typically BEA preliminary data are quite similar to the revised data, so I (and other researchers) frequently use these data for the most recent year, as opposed to using one less year of data.

Question. You also state in your published work that you made significant adjustments in method that raise the figures from 2016.[13]

> Still, relative to the replication of Clausing (2016) in Blouin and Robinson (2019), after removing my erroneous adjustment, the new numbers remain far higher than those reported in Blouin and Robinson. Even if we take their "subtraction series" at face value, which itself is not warranted due to missing foreign-to-foreign shifting in the data, other adjustments in method between Clausing (2016) and Clausing (2020) would substantially raise the numbers relative to Blouin and Robinson.

What would your estimates in 2020 be if you used the same method that you have been using to estimate revenue losses from 1982 until your newest paper in 2020?

Answer. The above paper, mentioned several questions ago, includes a full description of my best estimates for analyzing these questions, with a detailed description as to why I made those choices.

Question. Do you think that direct investment income tells you where income is reported for tax purposes, as opposed to where income is earned from an accounting perspective? Why or why not?

Answer. The strengths and weaknesses of this data series, alongside the others, are also discussed at great length in this paper appendix.

Question. Direct investment income is derived from the net income series published by the BEA by multiplying net income by the U.S. parent's direct ownership percent in the affiliate. You raise issues with the subtraction method such as book/tax differences, differences in coverage, definitional differences, etc. If the subtraction method suffers from these issues, why does direct investment income not suffer from these issues? Again, both direct investment income and the subtraction income derive from the same underlying income statements collected by the BEA using financial accounting methods and principles to prepare the data.

Answer. The strengths and weaknesses of this data series, alongside the others, are also discussed at great length in this paper appendix.

Question. As described above, your published work references an erroneous adjustment to direct investment income that overstated your previous estimate of U.S. revenue loss.[14] How significant was the overstatement? Does that mean that both of your pre-TCJA estimates of U.S. revenue loss were overstated in your 2016 article; *i.e.,* both using gross income (which double counted income) and using direct investment income (which was inflated and therefore had the effect of double counting income)?[15]

Answer. The above paper includes a full description of my best estimates for analyzing these questions, with a detailed description as to why I made those choices. The issues in your prior questions take many pages to answer satisfactorily, so it is best to consult that paper.

Question. Some economists have argued that direct investment income should not be used to study profit shifting and that a profit-type return, which closely tracks the subtraction method, is preferred because "it always excludes equity income."[16] You have received numerous comments from Dr. Zucman on your work. Please comment on the reason for your disagreement with his preferred measure as being profit type return (which is the most similar to the subtraction method).

Answer. I'm certain that Dr. Zucman would agree that no data series is perfect; this is why I use multiple data series to draw conclusions about possible ranges in this area. The strengths and weaknesses of the data series are also discussed at great length in the paper appendix.

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[13] *Id.*

[14] Clausing, Kimberly A., "How Big Is Profit Shifting?" (May 17, 2020). Available at: *https://ssrn.com/abstract=3503091.*

[15] Clausing, Kimberly. "The Effect of Profit Shifting on the Corporate Tax Base in the United States and Beyond" (June 17, 2016). Available at: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2685442.*

[15] *Id.*

[16] *https://www.nber.org/system/files/working_papers/w24701/w24701.pdf.*

Question. Your published work states that direct investment income "excludes all equity income" and that for this reason it does not double count income.[17] Please explain why you think that direct investment income excludes equity income.

Answer. Again, see paper appendix for a discussion of the strengths and weaknesses of these data sources.

Question. As referenced during the hearing, JCT released a pamphlet in advance of the hearing.[18] The JCT report includes return information for tax years 2017 and 2018, including information reported on Form 8975 relating to country-by-country reporting. However, in footnote 238, the JCT report provides a disclaimer regarding the interpretation of data included in Forms 8975:

> There are several important ambiguities to note when interpreting this data. MNEs can and do use a variety of financial reporting standards and can choose whichever one they would like to use for reporting information on Form 8975 (*i.e.,* if these MNEs have different permanent establishments with separate books that differ from the parent corporation). Consequently, what is in the income and tax items will differ across MNEs. Additionally, the rules were not clear on whether to include dividend income in profits, even though it was clear that it should not be included in revenues. As a result, there could be some double counting of dividend income in the profits line. Also, related party revenues are not on a consolidated basis. Rather, they are reported in aggregate. So, related party revenues will have some double counting in jurisdictions. Taxes paid on a cash basis could include taxes owed in a prior year or a refund from a prior year. (JCT report, footnote 238, page 57)

Are you aware that prior to 2019 (including in tax years 2017 and 2018), there was no guidance provided to companies to exclude intercompany dividends from the Form 8975? Does this not mean that Form 8975 data may also have a double counting issue as was identified in your research? Specifically, given that intercompany dividends likely increased between 2017 and 2018 due to section 965 in the TCJA, doesn't this mean that the intercompany dividend/double counting issue highlighted was exacerbated, thereby lowering the average tax rate?

Answer. In the 2017 data, country-by-country data appeared quite similar (in totals) to those from other sources that did not include any possibility of double counting. These issues are also addressed in the appendix to my paper cited above. I agree that the 2018 data report larger numbers, and it will take time to fully understand the strengths and weaknesses of these data, and how the repatriation provisions of the 2017 law may have affected the data.

Question. Your testimony and academic work describes some of our trading partners as "tax havens." For example, your work has described Ireland, Luxembourg, the Netherlands, Switzerland, and Puerto Rico as tax havens. The rate currently being contemplated for a global minimum tax at the OECD is 12.5 percent. Ireland's headline corporate tax rate is also 12.5 percent.

What is the administration's precise definition of a tax haven?

Answer. In my work, I notice that a handful of jurisdictions, all with very low effective tax rates, account for the vast bulk of the profit shifting problem. These very low tax jurisdictions are often referred to as "havens" in the literature. The literature typically distinguishes such jurisdictions by their low effective tax rates. I do not believe that the administration has a formal definition for the term "tax haven."

Question. Is it the administration's position that Ireland, Luxembourg, the Netherlands, Switzerland, and Puerto Rico are tax havens?

Answer. See prior answer.

QUESTIONS SUBMITTED BY HON. JOHN BARRASSO

Question. I'm going to use Senator Cantwell's phrase and "go local" for just a moment.

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[17] Clausing, Kimberly. "The Effect of Profit Shifting on the Corporate Tax Base in the United States and Beyond" (June 17, 2016). Available at: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2685442.*

[18] *https://www.jct.gov/publications/2021/jcx-16-21/.*

Dr. Clausing and Ms. Huang, I heard both of you testify about how U.S. policy needs to focus on workers. I've heard Chairman Wyden and Democrats on the committee talk about doing what is right for American workers.

On Day 1 of the Biden administration, with the stroke of a pen, President Biden eliminated thousands of good-paying American jobs when he blocked construction of the Keystone Pipeline.

Given your support for doing everything we can to support American jobs in the United States, do you agree President Biden's actions are inconsistent and in conflict with your beliefs that we should be helping, not hurting, all American workers whose jobs are located within the boundaries of the United States?

Answer. All of President's Biden's policy priorities are focused on the essential priority of American job creation. However, the policies should be viewed holistically. For example, ending fossil fuel subsidies, as the American Jobs Plan proposes to do, reduces incentives for producing oil and gas. However, the same proposal includes much *larger* subsidies for green energy production, many multiples the size. Thus, on net, these proposals encourage job creation and also use tax policy to respond to the urgent priority of mitigating climate change.

Question. The President, Democrats, and their supporters have suggested various tax proposals that will drive up the cost of doing business for American businesses who operate solely within the United States and whose products or services are sensitive to global prices.

Enacting tax policies that increase the operating costs for the U.S. businesses described above will make those companies less competitive with foreign companies that (1) offer the same product or service in the global marketplace, and (2) are not impacted by the added operating costs created by U.S. tax policy.

Do you agree or disagree with this statement? Please explain.

Answer. U.S. corporate tax revenues are far lower than those in peer countries. Over 10 years, the Biden proposals increase corporate taxes modestly, to about 1.7 percent of GDP. In years prior to the 2017 law, U.S. corporate tax revenues averaged about 2 percent of GDP, and in the years since the 2017 law, U.S. corporate tax revenues averaged about 1 percent of GDP. In contrast, our trading partners raise about 3 percent of GDP in corporate taxes.

It is also important to remember that competitiveness is about more than the success of U.S. companies in foreign merger and acquisition bids. It is also about ensuring that our tax code doesn't incentivize foreign operations at the expense of those at home. And, it is about nurturing the many fundamental strengths that make the United States a good place to do business. Investing in our institutions, in the abilities and education of American workers, in the quality of our infrastructure, and in cutting-edge research is all important.

QUESTIONS SUBMITTED BY HON. BILL CASSIDY

Question. Insurance and banking—limits to reshoring: As we look to bring business back to the United States, we should recognize that some companies in regulated industries like banking and insurance are required by local regulatory authorities to have a significant presence, including in people and capital, in the country where their customers are located. As a result, these companies can't serve international customers from the United States.

Have you given consideration to industries like these and how any proposed tax changes in GILTI could negatively impact U.S. companies ability to be competitive or grow and serve markets that are not the United States?

Answer. The administration is committed to reforming the GILTI system to ensure that the U.S. tax system eliminates preferences for conducting business offshore while maintaining the status of the United States as a desirable business location. The administration is also very engaged in the OECD Pillar 2 process to work with our trading partners to end the race to the bottom on global tax rates and building a tax system for the global middle class. We look forward to working with the committee on these reforms.

Question. How can we make sure we do not penalize companies for changes they can't make due to local law and regulation?

Answer. See immediately above.

Question. Insurance and OECD minimum tax rules: As you know, the OECD is engaged in a significant two-part project to ensure multinational enterprises are sufficiently taxed in locations where they create value and are subject to a minimum level of taxation regardless of where they are headquartered.

Some in the insurance industry in my State have concerns with the second part of the project, known as Pillar 2. Because of the insurance industry's unique business model, the peculiar nature of its accounting rules, and the regulatory environment in which it operates, insurance companies could suffer double taxation if proposed changes to the project are not adopted.

Are you aware of the concerns raised by the insurance industry on Pillar 2 and if so, what is the administration doing to address these concerns?

Answer. The administration is engaged in the OECD Pillar 2 process to work with our trading partners to end the race to the bottom on global tax rates and build a tax system for the global middle class. We are engaged with all stakeholders in this process and are aware of the concerns voiced by the insurance industry. We look forward to working with the committee on these reforms.

QUESTIONS SUBMITTED BY HON. STEVE DAINES

Question. During the hearing, I cited a response provided by Secretary Yellen to a question from Senator Tillis at a Senate Banking Committee hearing. Senator Tillis asked Secretary Yellen whether, ". . . in your opinion, the increase of the corporate tax rate up to 28 percent will not cause any significant competitive disadvantage for the United States for corporate expansion?"

Secretary Yellen replied, "Well, I think it would be important to make sure that it is done in the context of a global agreement."

Would you agree with Secretary Yellen's reply?

Answer. The global agreement is an important complement to the U.S. domestic policy agenda, but the American Jobs Plan is sound tax policy even in the absence of an agreement, as the tax changes proposed within the plan will end offshoring incentives, curtail profit shifting, and generate a more equitable and efficient tax system.

As noted above, U.S. corporate tax revenues (as a share of GDP) are far lower than those in peer countries and would remain so after the proposed tax law changes. Still, it is useful to work together with other countries to solve vexing international collective action problems, including those of tax competition.

Question. There is an expectation that a global agreement on a minimum tax could be reached this summer. Even if a deal is reached at the OECD, it is widely expected that any minimum tax would be far lower than President Biden's proposed 21 percent minimum tax. Can you explain how tax increases of this magnitude on U.S. companies would not reignite inversions?

Answer. The United States is seeking a global agreement on a minimum tax at the highest possible rate. Even if it settles somewhat below 21 percent, today the global minimum tax rate is 0, far below our 10.5-percent rate.

To the extent that foreign countries also adopt strong minimum taxes, that will also reduce any competitiveness worries, while protecting our tax base from the profit shifting of foreign multinational companies. Still, even absent agreement, we are not powerless to address these problems. The SHIELD proposal can counter foreign company profit shifting. And simple anti-inversion measures, or even changes through regulation, can be quite effective in stemming the incentive to invert, as shown by the U.S. experience after the anti-inversion (and anti-income stripping) regulations of the late Obama years.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. The original purpose of taxing tax haven profits as explained by Secretary Dillon in proposing the anti-deferral measures was to eliminate incentives to foreign direct investment (FDI). Since the 1960s, the international tax system has dramatically changed. However, low or no tax jurisdictions still exist and are often used to entice direct investment in those countries. Similarly, we employ certain incentives to spur investment in the U.S.

As the purpose of these foreign tax systems is supposed to affect location of job-producing business investment, what is the comparative effect of deferred U.S. tax vs. location of markets, location of supplies, comparative worker efficiency and wage costs, energy and transportation infrastructure, and costs of social overhead for specific social priorities of the alternative investment locations?

Answer. It is certainly the case that there are many factors beyond tax that determine where companies invest. Ensuring the strength of our institutions, and investing in infrastructure, education, R&D, and cutting-edge technology, will help ensure that the United States remains a strong place to do business.

Question. What percentage of the Fortune Global 2000 was represented by U.S. companies in 2005–2019? 1980–2000? 1968–1980? Is the percentage increasing or decreasing? To what extent do factors other than comparative tax rates affect direct investment location decisions?

Answer. The data that I have access to do not allow me to compare all of the above time periods. However, the United States has an outsized role among Global 2000 companies. While we account for about 24 percent of world GDP in 2019 (and only 16 percent in purchasing power parity terms), U.S. multinationals are 29 percent of the Forbes 2000 list, and 37 percent of Forbes 2000 profits, and 48 percent of Forbes 2000 market capitalization.

In recent years, countries like China and India have seen increasing numbers of their companies on the Forbes 2000 list. This is completely expected, as we'd expect countries with rapid economic growth to host increasingly successful global companies.

Question. Describe the impact of U.S. Federal tax incentives on FDI, and what percentage of U.S. FDI is attributable to comparative labor efficiency, access to markets, access to supplies, access to technology, access to educated workforce, and differences in business regulation to achieve noneconomic goals?

Answer. This sort of question would entail a sophisticated econometric analysis, and even then, there would be issues of causality that would be difficult to determine. The United States is host to much inward FDI due to the fact that we have a large market, a skilled workforce, and many other advantages. Likewise, U.S. companies often choose large, successful economies when deciding where to invest and hire abroad.

Question. Can you provide the committee with a detailed comparison of the factors listed above as applied to OECD and the 10 largest non-OECD destinations for direct investment by U.S. parented multinational groups?

Answer. I am not aware of existing analyses that provide these breakdowns. See prior answer regarding the difficulty of such an analysis.

Question. In your written testimony, you say "concerns about the competitiveness of U.S. multinationals ignore the evidence. Both before and after the 2017 Tax Act, U.S. multinational companies are the envy of the world." However, as we heard at the hearing, before the Tax Cuts and Jobs Act (TCJA), the competitiveness of U.S. companies was a problem, as evidenced by the number of companies that inverted or were targets for foreign acquisition. Before TCJA, even Senator Wyden said that "a modern tax code should fight gamesmanship and bring down the corporate rate to make American businesses more competitive."

If you think the pre-TCJA system didn't impair U.S. companies' ability to compete, does that mean you would be comfortable with returning to the pre-TCJA international tax system?

Answer. The pre-2017 tax regime did not include the offshoring incentives that are part of current law under GILTI and FDII, but the prior regime did have some undesirable features that can be improved upon. For example, the statutory rate was high but the base was narrow, leading to large gaps between the statutory and the effective rate. In addition, there was no tax on foreign income until it was repatriated, which incentivized offshore operations and profits, yet simultaneously disappointed investors who wanted access to their offshore cash. (Nonetheless, effects on U.S. investment were minor, since companies could borrow against offshore profits, and offshore profits were often still invested in U.S. markets.)

Ideally, corporate tax reform would fix the problems of both prior law and current law. The American Jobs Plan proposal does just that. By eliminating the (QBAI) exemption for the first ten percent return on offshore tangible assets, and by repealing FDII, offshoring incentives are eliminated. A much stronger minimum tax (with

country-by-country administration and a higher rate) will put an end to the profit shifting incentives that were baked into current and prior law. Accompanying this change, we recommend reforms to the BEAT (in our SHIELD proposal) that will curtail foreign multinational company profit shifting.

Question. Have trading partner corporate taxes as a share of GDP increased or decreased since the 1950s?

Answer. I am not sure about the 1950s comparison, but overall trading partner corporate taxes as a share of GDP have been remarkably stable in recent decades, at about 3 percent of GDP (see: *https://data.oecd.org/tax/tax-on-corporate-profits.htm#indicator-chart).* Note that these data do not imply that profit shifting has not been a rising problem during this time, as corporate profits have generally been increasing as a share of GDP.

Question. Additionally, you state: "Based on the early evidence in the 2 years after the law, the use of tax havens to avoid tax continues unabated."

What evidence do you recommend the committee review? Is the information based on U.S. corporate tax return information for those taxable years? Has JCT or the Department of the Treasury conducted the review? What criteria were used to compare tax haven income before and after the enactment?

Answer. The data provided in my testimony is from the Bureau of Economic Analysis foreign direct investment earnings series. That series now extends to 2020. The share of U.S. multinational company profits in low-tax jurisdictions was nearly identical in the years after the law (2018–2020) as it was in the years prior to the law (2013–2017).

Question. The Biden administration has proposed a series of changes to the GILTI provisions including: doubling the tax rate to 21 percent, mandating that the tax be computed on a country-by-country basis instead of an aggregate basis, and eliminating the ordinary return exclusion for a qualified business asset investment (QBAI). Each of these proposed changes will increase the tax burden on U.S.-based companies while having almost no impact on their foreign competitors that provide similar services or sell similar goods. Taken together, these proposed GILTI changes would put U.S. companies at a severe competitive disadvantage and are out of step with ongoing OECD discussions to impose a minimum tax rate of 12.5 percent.

With respect to QBAI, can you provide evidence of multinationals who moved facilities from the United States to a foreign jurisdiction? Or is this more of an academic concern that "cross- crediting" could occur?

Answer. I expect that future studies will provide clearer evidence on the magnitude of these mechanisms, but some early evidence is suggestive. For example, Beyer et al. (see *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3818149*) find that for U.S. multinational corporations, higher levels of pre-TCJA foreign cash are associated with increased post-TCJA foreign property, plant, and equipment investments. They do not find a similar increase in domestic property, plant, and equipment. Atwood et al. (see *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3600978*) find the GILTI provisions introduced new incentives for U.S. multinational corporations to invest in foreign target firms with lower returns on tangible property so that they might shield income generated in havens from U.S. tax liability under the GILTI minimum tax.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. President Biden recently unveiled his infrastructure proposal in which he warned of the global "race to the bottom" on corporate tax rates. He has proposed raising the corporate rate to 28 percent, which would make the U.S. subject to the highest corporate tax rate in the OECD. Additionally, he expressed interest in finding a multilateral agreement on a global minimum tax.

Given research by the Joint Committee on Taxation and other nonpartisan bodies that estimate workers bear at least 25 percent and possibly over 50 percent of the burden, should we be concerned about the effects of higher corporate taxes on job creation and retention, especially as we work towards economic recovery?

Answer. Economic models from organizations as varied as the U.S. Treasury, the Joint Committee on Taxation, the Congressional Budget Office, the Tax Policy Center, and the American Enterprise Institute all assign the vast majority of the corporate income tax burden to some combination of capital and excess profits. These

models also assume that the deficits created by corporate tax cuts will be offset sometime in the future—yet do not account for the potential costs of those offsets for typical workers. It is important to remember that other tax options (such as labor income taxes, payroll taxes, and sales taxes) fall almost entirely on labor.

Furthermore, since these models were developed, two factors have likely lessened the long-run burden of the corporate income tax on labor. First, since current law exempts the normal return to capital for much investment, in theory the corporate tax should fall even less on labor than it did in years past. The mechanism by which corporate taxes burden labor requires a reduction in investment to reduce worker productivity, lowering wages.Second, the role of market power in the U.S. economy has continued to increase, making more and more of the corporate tax base excess profits rather than the normal return to capital. See Phillipon, Thomas, *The Great Reversal: How America Gave up on Free Markets,* Cambridge: Harvard University Press, 2019.

Question. During the hearing, you stated that the Biden administration's proposal to increase the corporate tax rate could be borne by excess capital. However, as I just noted above, the Joint Committee on Taxation estimates that at least 25 percent of corporate income taxes are borne by American workers—and that estimate is on the low end. Isn't that a significant and alarming share that should not and cannot be ignored?

Answer. See prior answer.

Question. You have characterized Ireland as a "tax haven" given its 12.5-percent corporate tax, yet this is the exact rate the OECD is considering for its global minimum tax. Do you believe President Biden's proposal is out of step with other developed nations when it comes to corporate taxes?

Answer. The administration seeks to obtain a sustainable global agreement on a robust minimum tax at the highest rate possible. Such an agreement would help all countries defend their tax bases from erosion due to profit shifting, and it would end the "race to the bottom" in corporate taxation. Ensuring that a global economy can still tax mobile capital is essential to creating a more equitable globalization. Erosion of capital taxation has meant that workers' labor income is shouldering more and more of the burden of financing fiscal priorities. Instead, multinational corporations can be asked to pay their fair share.

PREPARED STATEMENT OF HON. MIKE CRAPO,
A U.S. SENATOR FROM IDAHO

Mr. Chairman, thank you for holding this hearing today. Thank you to our panelists for joining us today.

Before the Tax Cuts and Jobs Act (TCJA), we shared a common concern for the many threats to the U.S. corporate tax base and the collateral threats to U.S.-centered economic activity, including investment, growth, and jobs. Corporate inversions were on the rise as a defensive strategy adopted by U.S. businesses to ward off foreign takeovers. The combination of one of the world's highest corporate tax rates of 35 percent and the disadvantages of the U.S. worldwide deferral system made it a losing proposition to be a U.S.-based company when competing in overseas markets.

That environment led this committee's bipartisan working group chaired by Senators Portman and Schumer to conclude that our international tax system was "clearly broken." I challenge anyone to reasonably argue that we should return to the pre-TCJA international tax landscape.

Our shared view was not limited to the state of our flawed system; there was also bipartisan agreement on the optimal path forward. President Obama, then-Senate Finance Committee chairman Baucus, and then-House Ways and Means Committee chairman Camp all proposed lower tax rates with minimum taxes on foreign earnings.

There is nothing controversial about the problems that plagued our international tax system or our collective acknowledgment of the fundamental changes that needed to be made. Consistent with these bipartisan objectives, TCJA reduced the corporate tax rate, ended the deferral system, and introduced a new minimum tax on foreign earnings of U.S. companies, as well as other anti-abuse rules to prevent base erosion.

While the reduced corporate rate moved the United States more in line with the rest of the world, the anti-base erosion measures that were enacted into law are the most robust in the world. Indeed, they are prompting other countries, through the OECD, to consider similar measures. The goal of our new system was to both ensure the United States, and U.S. companies, are competitive in the global marketplace and to protect the U.S. tax base.

TCJA is a vast improvement over the prior system. Since TCJA, the flood of inversions has ceased entirely, and U.S. companies are no longer easy targets for takeovers. Prior to the pandemic, U.S. companies were sharing their business stories of increased investment, wages paid to workers, and jobs in the United States—outcomes I expect to resume once our economy can reopen completely provided adverse changes are not made to the tax rules.

It is, of course, healthy to deliberate and consider refinements to allow U.S. companies to further invest and expand in the United States without harming their ability to compete, especially considering the precarious environment many businesses find themselves in as they recover from the pandemic. Markets abroad are vast, and we want U.S. companies to be competitive in their ability to serve those markets and not be hamstrung by uncompetitive taxation.

What we should not do is hastily change the system purely for purposes of raising revenue, bringing inversions and foreign takeovers of U.S. companies right back to the forefront. Unfortunately, that may be the misguided direction in which the administration wishes to proceed.

Let us not forget, those inversions and foreign takeovers were real, and not just academic estimates from certain questionable studies we have seen in the area of international effects of taxation. Some of those studies, dealing with so-called stateless income, profit shifting, and base erosion, play very fast and loose with data and methods. Sometimes, in those analyses, politics and advocacy for political position overcome rigor, and it shows.

Under President Biden's proposed corporate rate increase, which would result in a combined U.S. rate of nearly 33 percent, we again would have one of the highest combined statutory tax rates among developed countries. Worse, the President's proposed 100-percent increase in the GILTI rate, one current provision of the international part of the tax code, would put the United States at an even greater disadvantage, as no other country taxes foreign earnings at even close to that rate.

America's future jobs, income growth, and prosperity will depend on how well U.S. businesses compete, in this country and in foreign markets. American headquarters, research, and other domestic jobs depend on U.S. firms' viability here and abroad. Strong U.S. companies mean financial security for millions of Americans who need look no further than their 401(k) accounts and IRAs, which hold the largest plurality of publicly traded stock.

As the Schumer-Portman working group said, "When U.S. businesses can compete and win in this growing global market, the real winners are U.S. workers." As we examine proposals that would dramatically alter TCJA's international provisions, we should test the potential outcomes against our shared policy objectives voiced before and since the TCJA.

Will the U.S. tax base be strengthened? Will U.S. growth rise? Will U.S. workers have better job opportunities and wages? Will U.S. workers and retirees see their retirement account balances rise?

Mr. Chairman, I look forward to hearing from today's witnesses.

PREPARED STATEMENT OF JAMES R. HINES, JR., PH.D., RICHARD A. MUSGRAVE COLLEGIATE PROFESSOR OF ECONOMICS AND L. HART WRIGHT COLLEGIATE PROFESSOR OF LAW, UNIVERSITY OF MICHIGAN

Chairman Wyden, Ranking Member Crapo, and members of this distinguished committee, it is an honor to participate in these hearings on international tax policy. I teach at the University of Michigan, where I am the Richard A. Musgrave collegiate professor of economics in the department of economics and the L. Hart Wright collegiate professor of law in the law school, and where I serve as research director of the Office of Tax Policy Research in the Stephen M. Ross School of Business. I taught for years at Princeton and Harvard prior to joining the Michigan faculty, and have been a visiting professor at Columbia University, the London School of Eco-

nomics, the University of California—Berkeley, and Harvard Law School. I am a research associate of the National Bureau of Economic Research, research director of the International Tax Policy Forum, and former co-editor of the American Economic Association's *Journal of Economic Perspectives*.

The international provisions of the Internal Revenue Code significantly affect the vitality of the economy and the welfare of U.S. residents, so it is important that they be well designed. As with other components of our tax laws, the challenge is to craft rules that promote efficient resource use while also collecting the revenue that the country needs. This challenge is particularly acute in the international arena because the world economy is highly, and increasingly, competitive. U.S. firms compete with foreign firms for business operations and sales to customers; and the United States competes with other countries to attract business activity. Because we do not live in a bubble, but instead in a world with many competitors, it is critical in designing U.S. policy to be cognizant of the policies of other countries and the way that U.S. taxes position U.S. taxpayers relative to their foreign competitors.

The United States has a competitive labor market, which from elementary economic theory means that labor compensation—wages, salaries, and fringe benefits—is determined by labor productivity. Consequently, the way to maintain and improve the well-being of U.S. workers is to adopt policies that make U.S. labor as productive as it can be. Since people work for businesses, it follows—again, from economic theory—that an efficient and thriving business sector promotes labor productivity, creating the greatest demand for labor and therefore the highest standard of living for U.S. workers. It is not possible for the economy to compensate people with more than the economy produces, so in order to improve standards of living it is necessary to adopt policies that maximize production given available resources. This is what efficient policies do, and it is why efficient policies are desirable.

Multinational firms are major U.S. employers. In 2017, the last year for which high-quality data are currently available, U.S.-based multinational firms were responsible for 20.1 percent of U.S. private-sector employment and 23.8 percent of U.S. private-sector labor compensation.[1] These figures illustrate not only that these jobs represent a significant portion of the U.S. private workforce, but also that they are well-paid, with average compensation 18 percent higher than the economy's average. In the same year foreign-based multinational firms accounted for an additional 6.4 percent of U.S. private employment and 8.0 percent of private employee compensation. Some sectors of the economy are particularly multinational-intensive, with U.S.-based multinational firms providing 51.6 percent of U.S. manufacturing employment and 59.9 percent of manufacturing employee compensation, and foreign-based multinationals contributing an additional 21.0 percent of U.S. manufacturing employment and 23.8 percent of U.S. manufacturing employee compensation. It is obviously in the interest of the U.S. economy and U.S. workers to maintain thriving business operations by multinational firms.

There is understandable concern that the foreign operations of U.S. multinational firms might come at the expense of their U.S. operations. To take an evocative example, a U.S.-based multinational manufacturing firm might close a U.S. plant and replace it with a plant in a lower-cost foreign country. This type of substitution clearly occurs, and when it does, it has the effect of reducing U.S. labor demand. It does not, however, follow from this example that foreign direct investment by U.S. firms generally reduces their demand for labor in the United States, because there is an offsetting productivity effect of foreign business operations, and this productivity effect is a major stimulant to U.S. labor demand. The opportunity to earn profits with operations in foreign countries generally increases the productivity of U.S. business operations, and thereby stimulates additional business activity, and additional employment, in the United States. For example, greater opportunities for a U.S.-based multinational to sell locally- produced consumer products to foreign customers typically increases the return to U.S. operations that develop and refine the product, so in such cases an expansion of foreign business operations should be associated with greater employment, and greater employee compensation, in the United States.

There are therefore two important channels by which the foreign operations of U.S.-based multinational firms influence their domestic employment and employee

[1] The evidence described in this paragraph is drawn from C. Fritz Foley, James R. Hines Jr., Raymond J. Mataloni Jr., and David Wessel, "Multinational activity in the modern world," in C. Fritz Foley, James R. Hines Jr., and David Wessel eds., *Global Goliaths: Multinational Corporations in the 21st Century Economy* (Washington, DC: Brookings, forthcoming).

compensation. The substitution effect, in which foreign operations replace what these firms otherwise would have done in the United States, depresses U.S. labor demand. The productivity effect, in which foreign operations enhance firm productivity, augments U.S. labor demand. The aggregate impact of foreign operations on U.S. labor demand depends on the relative magnitudes of these two effects. As a general matter, the more internationally competitive is the economic environment, the more important is the productivity effect compared to the substitution effect, and therefore the more likely is it that foreign operations by U.S.-based multinational firms increase demand for labor in the United States. In an industry with extremely keen competition, firms can survive only by taking advantage of every sales possibility and every opportunity to economize on costs. In such cases, if foreign operations enhance profitability then firms cannot survive and thrive without them, so the foreign operations of U.S. firms contribute to U.S. employment and employee compensation.

The available evidence suggests that the magnitude of the productivity effect generally exceeds that of the substitution effect, so greater foreign business activity of U.S.-based firms is associated with greater demand for labor in the United States. Mihir Desai, Fritz Foley, and I found that for U.S.-based multinational firms between 1982 and 2004, 10 percent greater foreign capital investment was associated with 2.6 percent greater domestic investment, and 10 percent greater foreign employment was associated with 3.7 percent greater domestic employment. Greater foreign investment also had positive estimated effects on exports from the United States, and on U.S. research and development spending, indicating that foreign expansions stimulate demand for tangible and intangible domestic output. Subsequent work by Lindsay Oldenski and others reports similar evidence of foreign expansions by U.S.-based multinational firms being associated with greater U.S. employment in data through 2014; and studies of multinational firms based in other countries including Australia, Canada, Germany, and the United Kingdom offer analogous evidence that when these companies expand their operations in foreign countries they also enhance their employment and employee compensation in their home countries.[2]

From the standpoint of U.S. tax policy, it is clearly important not to impede productivity-enhancing foreign operations of U.S.-based firms, because doing so has the effect of reducing demand for labor in the United States. A more robust multinational sector has the potential to expand highly compensated employment beyond 26.5 percent of the U.S. private sector workforce. But tax policy clearly has the potential to have the unwanted effect of discouraging business operations by these firms.

The U.S. taxation of international joint ventures offers a cautionary tale. Late in the negotiations and amendments leading up to passage of the Tax Reform Act of 1986, it transpired that additional tax revenue was needed to make the 1986 Act revenue-neutral. One of the revenue raisers inserted very late in the process was a provision requiring that each 10–50 corporation, foreign affiliates owned between 10 and 50 percent by American companies, calculate its foreign tax credits in separate "baskets." 10–50 corporations are international joint ventures. This provision of the 1986 Act prevented taxpayers from being able to calculate their foreign tax credit limits on an average basis across countries and even across business operations within the same countries, and thereby imposed higher U.S. taxes on international joint ventures, doing so on something of a selective basis. This tax cost sharply discouraged U.S. firms from participating in international joint ventures. The evidence shows that in subsequent years U.S. firms significantly reduced their international joint venture activity, which represented roughly 22 percent of their foreign activity prior to passage of the Tax Reform Act of 1986, but within a few years afterward had fallen to just 15 percent. Furthermore, the decline in joint venture activity was concentrated in low-tax foreign countries, which is consistent with the additional tax costs imposed by the 1986 Act.[3] Recognizing the unwanted effects

[2] For the evidence discussed in this paragraph, and references to other studies, *see* Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Domestic effects of the foreign activities of U.S. multinationals," *American Economic Journal: Economic Policy,* February 2009, 1 (1), 181–203, and Lindsay Oldenski, "Do multinational firms export jobs?" in C. Fritz Foley, James R. Hines Jr., and David Wessel eds., *Global Goliaths: Multinational Corporations in the 21st Century Economy* (Washington, DC: Brookings, forthcoming).

[3] Mihir A. Desai and James R. Hines Jr., "'Basket' cases: Tax incentives and international joint venture participation by American multinational firms," *Journal of Public Economics,* March 1999, 71 (3), 379–402.

of this "basket" provision, Congress subsequently repealed it in 1997,[4] and U.S. international joint venture activity ultimately recovered. But obviously it would have been better never to have had this episode, which illustrates the potential for U.S. tax policy to impede the ordinary business activities of U.S. firms.

The partial disappearance of international joint ventures is just one of the examples of business opportunities lost due to the operation of U.S. tax rules. Prior to 2018, the high U.S. statutory tax rate of 35 percent together with the U.S. system of worldwide taxation had the effect of discouraging foreign business activity by U.S. firms, particularly activity in low-tax foreign countries. Firms from other countries were generally not subject to home country taxes on their foreign incomes, and as a result, were better able than U.S. firms to compete for business in low-tax countries. For example, if there were a business opportunity in Singapore—a promising tech company that was open to being acquired by a foreign buyer—then U.S. firms might compete not only with each other but also with Canadian, Japanese, German, and other firms for the acquisition. Companies from all of these other countries were in better tax positions to make the acquisition, because the U.S. tax system imposed a residual tax on foreign income earned in countries with lower tax rates than the United States. This does not mean that U.S. firms could not compete at all in these international markets, but that they were hampered in doing so by the operation of the U.S. tax system.

It is worth reflecting on the implications of this competition among firms from multiple countries for this Singapore acquisition. If a British firm successfully completes the acquisition due in part to its more favorable tax position, this is very much like a corporate inversion. In a classic corporate inversion, a U.S. might decide to reincorporate as a British firm for tax purposes. Of course even the inverted firm's U.S. operations would still have a U.S. home and be taxable by the United States, but Congress is concerned about corporate inversions because the firm's foreign operations that heretofore had been controlled by a U.S. firm would then, after the inversion, be controlled by a foreign company. Notably, the same thing is true when a British firm wins the bidding war for a Singapore company because U.S. firms are unable to compete on equal terms: foreign business activities are controlled by foreign firms due to the operation of the U.S. tax system. This loss of foreign business might be called an "invisible inversion"—invisible because the United States would never know that it lost the business. But its economic effects are the same as classic inversions. Notably, in the pre-2018 era, these invisible inversions took place every day, because the U.S. tax system was so much less competitive than the tax systems of other countries that were homes to firms with which U.S. firms compete. While not as visibly dramatic as a corporate inversion or a foreign takeover of a U.S. company, they had the same economic impacts in shrinking the size of the U.S. business sector relative to what it would be otherwise, and distorting the pattern of asset ownership. This in turn reduced the demand for U.S. labor, and thereby depressed wages and employment opportunities in the United States.

Since almost all major capital-exporting countries have territorial tax systems, it follows that the way to compete with them on even terms is for the United States to maintain a territorial tax system also. Failure to do so distorts patterns of asset ownership, reducing the efficiency of the economy, disadvantaging U.S. firms, making them less productive, and reducing their demand for labor in the United States.[5] In this competitive environment, failing to impose a home country tax on lightly taxed foreign income is not a mistake or implicit subsidy, but instead just the efficient and correct policy to pursue. The opportunity to earn income in low-tax foreign jurisdictions can be thought of simply as the opportunity to do business in places

[4] "Indeed, the Congress was aware that recent academic research suggests that the present-law requirements may distort the form and amount of overseas investment undertaken by U.S.-based enterprises. . . . The Congress believed that the joint venture can be an efficient way for American business to exploit its know-how and technology in foreign markets. If the prior-law limitation was discouraging such joint ventures or altering the structure of new ventures, the ability of American business to succeed abroad could be diminished. The Congress believed it is appropriate to modify the prior-law limitation to promote simplicity and the ability of American business to compete abroad." United States Congress, Joint Committee on Taxation, 1997, *General Explanation of Tax Legislation Enacted in 1997,* U.S. Government Printing Office, Washington, DC, p. 302.

[5] This reflects the absence of Capital Ownership Neutrality, as described in Mihir A. Desai and James R. Hines Jr., "Evaluating international tax reform," *National Tax Journal,* September 2003, 56 (3), 487–502, and Mihir A. Desai and James R. Hines Jr., "Old rules and new realities: Corporate tax policy in a global setting," *National Tax Journal,* December 2004, 57 (4), 937–960.

where a certain kind of cost—in this case, foreign tax cost—is lower. As a general matter, the United States benefits when its companies have low-cost business opportunities. If this were a different kind of business cost—the cost of a raw material, for example—there would be no discussion of the need to impose an offsetting charge on the foreign operations of U.S. companies that use low-cost materials abroad. We should think of the tax system similarly, and be appropriately skeptical of the desirability of subjecting foreign income to U.S. taxation in order to compensate for low tax rates in some countries.

Given the competitiveness of the international economic environment, and the policies of foreign governments, imposing heavier taxes on the foreign business activities of U.S. firms would put them at disadvantages in foreign markets and thereby reduce their ability to compete. The same is of course also true of taxes on domestic economic activities, since the United States competes with other countries for business. If U.S. government revenue needs are such that additional tax revenue simply has to be obtained from the business sector, then economic theory says that the damage-minimizing way to do so is to impose taxes on activities that are least influenced by taxation. This maxim implies that the international sector is not a good candidate for heavier tax burdens, due to competition produced by firms from other countries and the resulting high degree of responsiveness of economic activity to taxation. It does not help theU.S. economy, U.S. tax collections, or U.S. workers to impose tax burdens that make U.S. firms uncompetitive in international markets. Industries with activities that are particularly internationally mobile, such as shipping, manufacturing, technology, and finance, also represent poor candidates for heavier taxation, and indeed as international competition for them intensifies they become strong candidates for favorable tax provisions.

Part of the motivation for international tax reform is concern over international tax avoidance, and more specifically, the loss of tax revenue by the United States. These concerns are entirely reasonable, since taxpayers often have incentives to arrange their affairs in ways that produce taxable income in countries other than the United States. Furthermore, it is well-documented that the location of taxable income is sensitive to tax rates. As a result, and particularly in the pre-2018 environment with a high U.S. corporate tax rate, taxpayers used financial and other means to report income in lower-tax foreign countries rather than the United States. Both in the past and now this shifting of tax base outside of the United States is a concern—but it is very easy, and indeed very common, greatly to exaggerate the extent of this problem.

The challenge in understanding the magnitude of international tax avoidance lies in understanding how much, and where, income would have been reported in the absence of tax-motivated profit shifting. This is extremely difficult to do, as a result of which studies use highly imperfect proxies. And studies also use imperfect data on the tax obligations of multinational firms.

The statistical evidence largely compares the reported profitabilities of multinational affiliates located in high-tax countries with the profitabilities of affiliates located in low-tax countries. This evidence consistently points to there being a problem with international income shifting, but that the problem is modest in size. Some of the best evidence[6] suggests that the semi-elasticity of income reporting is roughly 0.4, which means that a corporation with operations in two countries, one facing a 25-percent tax rate, and the other a 15-percent tax rate, will typically arrange its financial and other affairs to increase the reported income of the low-tax affiliate by four percent of what it would otherwise have been. Other, rather more persuasive, evidence suggests that the effect on reported profits might be only half as large as this.[7]

It is noteworthy that almost all of the available evidence reflects the behavior of taxpayers subject to enforcement by tax authorities other than those of the United States. A typical study considers the profitability of a multinational firm with operations in multiple countries such as Italy and Bulgaria. Since Italy imposes a 24-

[6] For thoughtful interpretive surveys of this literature, *see* Scott Dyreng and Michelle Hanlon, "Tax avoidance and multinational firm behavior," in C. Fritz Foley, James R. Hines Jr., and David Wessel eds., *Global Goliaths: Multinational Corporations in the 21st Century Economy* (Washington, DC: Brookings, forthcoming), and Dhammika Dharmapala, "What do we know about base erosion and profit shifting? A review of the empirical literature," *Fiscal Studies,* December 2014, 35 (4), 421–448.

[7] Dhammika Dharmapala and Nadine Riedel, "Earnings shocks and tax-motivated income-shifting: Evidence from European multinationals," *Journal of Public Economics,* January 2013, 97, 95–107.

percent corporate tax, and Bulgaria a 10-percent tax, there is an incentive to reallocate taxable income from the Italian operation to the Bulgarian operation. By comparing the reported profitabilities of the two operations, studies attempt to infer the extent to which this income reallocation occurs, and then extrapolate this pattern to apply to other situations. The difficulty with this exercise—and one of the reasons why it can offer of misleading implications for the United States—is that U.S. rules and U.S. enforcers are not involved in policing any attempts to reallocate taxable income out of Italy. Despite resource limitations and other challenges, U.S. tax enforcement remains extremely effective compared to that of other countries. As a result, patterns of apparent income reallocation between other countries need not, and probably do not, appear to anywhere near the same degree when the United States is involved.

A separate issue that has come to light recently is that much of the data used to analyze international tax avoidance is commonly misinterpreted, and in particular, has been improperly construed to imply that multinational firms allocate much more income out of high-tax countries and into tax havens than in fact they do.[8] The problem arises because multinational firms commonly own foreign affiliates through holding companies in low-tax jurisdictions, and the accounting conventions mean that in such circumstances all of the income earned by lower-tier foreign affiliates are attributed to the tax haven holding company. Thus, a U.S. firm that invests in Germany via a Bermuda holding company might have taxable income of 100 in Germany, but the statistics would show income of 100 in Germany and 100 also in Bermuda. Since this type of arrangement is quite common for U.S. firms, particularly in the pre-2018 era when the use of tax haven holding companies facilitated deferral of U.S. tax obligations on foreign income,[9] the data showed the tax haven affiliates of U.S. companies to have disproportionate incomes. The statistics are not wrong, but they are readily misinterpreted. In the example, the Bermuda affiliate in fact owns the shares of the German affiliate, so in that sense the Bermuda affiliate has an income of 100. But the essential point is that this 100 of income is taxed in Germany, and that is what had not been properly appreciated prior to the appearance of the recent paper by Jennifer Blouin and Leslie Robinson. Much of the reported income of tax haven affiliates is taxed by governments of higher-tax countries elsewhere, and in that sense is double-counted. As a result, most statistical studies greatly overstate the extent to which income is shifted into low-tax countries.[10]

It has long been clear that many of the estimates of income shifting by multinational firms greatly overstate the extent of the problem. Two simple empirical patterns reveal that it could not be the case that international tax avoidance is as prevalent as some claim.

The first evidence comes from the location of foreign business activities. Studies consistently find that multinational firms locate more employment, property, plant, and equipment in low-tax locations, and less in high-tax locations, than the structures of these economies would ordinarily warrant.[11] This business activity pattern is itself a form of base erosion from the standpoint of high-tax countries, albeit of a rather mundane form, since it is hardly surprising that high tax rates discourage business activity, whereas low tax rates attract it. From the standpoint of profit shifting, however, this pattern makes it clear that firms are unable to reallocate pretax income with impunity. If it were easy to reallocate taxable income there would be no benefit to locating real business activity in a low-tax country. The profit-maximizing strategy would be to locate business activity wherever it generates the highest pretax profits, and use financial or other means to reallocate tax-

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[8] Jennifer Blouin and Leslie Robinson, "Double counting accounting: How much profit of multinational enterprises is really in tax havens?" Available at SSRN: *http://dx.doi.org/10.2139/ssrn.3491451.*

[9] For an explanation and evidence of the role of tax haven holding companies in facilitating deferral, *see* Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "The demand for tax haven operations," *Journal of Public Economics,* March 2006, 90 (3), 513–531.

[10] My own work, such as James R. Hines Jr. and Eric M. Rice, "Fiscal paradise: Foreign tax havens and American business," *Quarterly Journal of Economics,* February 1994, 109 (1), 149-182, is not exempt from this critique.

[11] *See,* for example, Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Foreign direct investment in a world of multiple taxes," *Journal of Public Economics,* December 2004, 88 (12), 2727–2744; Shafik Hebous, Martin Ruf, and Alfons J. Weichenrieder, "The effects of taxation on the location decisions of multinational firms: M&A versus greenfield investments, *National Tax Journal,* September 2011, 64 (3), 817–838; and Johannes Becker, Clemens Fuest, and Nadine Riedel, "Corporate tax effects on the quality and quantity of FDI, *European Economic Review,* 2012, 56 (8), 1495–1511.

able income to an affiliate located in a zero-tax location. It would be a mistake to let tax rates influence where pretax profits are actually earned, since doing so reduces the amount that is ultimately destined to be reported as income by the affiliate in a tax haven. In fact, this is not what firms do: the evidence consistently indicates that multinational firms tend to locate greater real business activity in countries with low tax rates than would otherwise be expected. This is consistent with maximizing after-tax profits only if it is costly and difficult to shift pretax income.

Second, there is evidence from the limited use of tax haven affiliates by multinational corporations. The tax havens are the lowest tax-rate countries, so are the destinations of choice, if one has unfettered choice, for profits to be reallocated from high-tax countries. Despite the potential appeal of using tax haven affiliates for this purpose, slightly fewer than 50 percent of U.S. multinational firms had any tax haven affiliates in 2014, the last year for which these high quality data are available.[12] Similar recent evidence is available from a study of the country-by-country income reports of large German multinational firms, which reveal that just 8.7 percent of the global incomes of these companies are reported in all tax haven countries taken together.[13]

It is striking that fewer than half of U.S. multinational firms had any tax haven operations at all in 2014. The majority of U.S. multinational firms obviously did not reallocate taxable income to tax havens, as they had no method of doing so, given the absence of legal presence there. Similarly, even if all of the tax haven income of large German multinational firms were actually earned in Germany and misattributed to tax haven affiliates—which obviously is a vast exaggeration—the total magnitude of the resulting base erosion would be 8.7 percent. The most noteworthy feature of this evidence is that there is nothing that prevents a U.S. or German multinational firm from establishing a tax haven affiliate. The reason not to do so is that it is not worth it—and the reason it is not worth it is that it is too difficult or costly to reallocate taxable income from high-tax countries to tax haven countries. Since the same logic applies even to the less than half of U.S. multinational firms that do have tax haven operations, evidence of the limited use of tax haven operations by U.S. and German companies immediately implies that the problem of tax-motivated income reallocation is modest in magnitude.

The fact that a problem is modest in magnitude does not mean that it should not be addressed, of course. The United States should enforce its tax laws and protect its tax base. However, when it comes to designing policy, we should do so with a clear sense of the scope of current problems and priorities and objectives for reform. It is in the country's interest, and more specifically in the interest of U.S. workers, to have a competitive tax system that supports the economy while collecting the revenue that we need. This problem is difficult enough without exaggerating any of its components. Wise design of U.S. policy has the potential to position the country for robust economic growth as it comes out of the pandemic-induced recession, and U.S. economic fortunes going forward depend on it.

PREPARED STATEMENT OF CHYE-CHING HUANG, EXECUTIVE DIRECTOR, TAX LAW CENTER, NEW YORK UNIVERSITY SCHOOL OF LAW

Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, thank you for the opportunity to testify today. It is an honor to participate in this hearing.

The COVID–19 recession was a heavy blow to the incomes of low-wage workers and workers of color, and it followed decades of near-stagnant incomes and wages

[12] C. Fritz Foley, James R. Hines Jr., Raymond J. Mataloni Jr., and David Wessel, "Multinational activity in the modern world," in C. Fritz Foley, James R. Hines Jr., and David Wessel eds., *Global Goliaths: Multinational Corporations in the 21st Century Economy* (Washington, DC: Brookings, forthcoming) indicates that in 2014, 49.8 percent of U.S. multinationals had one or more tax haven affiliates. In other years for which there are available data—1982, 1989, 1994, 1999, 2004, and 2009—the fraction of U.S. multinational firms with tax haven affiliates varied between 33.9 percent and 42.4 percent. While these data are comprehensive, they exclude the smallest multinational firms, and since the smallest firms are the least likely to have tax haven affiliates, it follows that these percentages if anything overstate the fraction of U.S. multinational firms with tax haven affiliates.

[13] Clemens Fuest, Felix Hugger, and Florian Neumeier, "Corporate profit shifting and the role of tax havens: Evidence from German country-by-country reporting data," CESifo Working Paper No. 8838, January 2021. The data come from German companies with annual aggregate revenues exceeding 750 million euros.

for low- and moderate-income households.[1] These workers and families should be a top priority when making U.S. tax policy, including reforms to the U.S. international tax regime.

To prioritize workers and families, lawmakers may soon make overdue investments in areas including infrastructure, education, securing permanent historic reductions in child poverty, and ensuring low-wage workers are not taxed *into* poverty. Doing so would help secure U.S. competitiveness and innovation in ways that benefit ordinary workers and families. For example, expanding economic security for children in low- and moderate-income families can help ensure that those who have talent for innovation and entrepreneurship have opportunities to fully realize those abilities.[2]

Lawmakers may decide to finance some of these investments with tax revenues, and international tax reform is one of a suite of sound tax policies that could contribute. Such reform could ensure that highly profitable multinationals contribute adequately to national investments from which they benefit.

Even aside from the substantial revenues that would be raised, sound international tax reform would help strengthen the economy by reducing current tax incentives for companies to locate profits and investments offshore or, potentially, invert. Many large multinationals use cross-border tax avoidance as a profit center. Reducing their ability to do so would help other U.S. businesses that cannot or do not want to use tax avoidance as a business strategy to compete while staying focused on customers, products, and innovation.

The 2017 tax law, including its corporate and international provisions, did not serve national priorities well. The law's large permanent corporate tax cuts did not lead to a perceptible increase in investment or wages above the trends underway under the prior tax law.[3] It did not adequately curtail profit shifting: multinationals still shift hundreds of billions in profits offshore each year.[4] But it dramatically shrank corporate tax revenues and increased after-tax inequality.[5]

My testimony offers three further points about the international tax regime and how it can be reformed:

I. The post-2017 legal structure of the U.S. international tax regime contains defects that are opportunities and incentives for multinationals to locate profits and activities offshore.

II. Elements of the U.S. international tax regime can be salvaged and strengthened. A more robust minimum tax and a re-tooled provision to address base erosion by foreign-resident multinationals could form part of a workable, coherent tax structure that raises revenues, while reducing the current tax tilt towards offshore profits and investment.

III. 2021 offers timely opportunities to make these reforms. The U.S. can strengthen its tax system to benefit U.S. workers and families and improve the economy's recovery and long-run health. In doing so the U.S. can take a leadership role by seizing the once-in-a-century opportunity offered by

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[1] Chad Stone, "Jobs Recovery Still Long Way Off, Especially for Low-Wage Workers and Workers of Color," Center on Budget and Policy Priorities, February 5, 2021, *https://www.cbpp.org/blog/jobs-recovery-still-long-way-off-especially-for-low-wage-workers-and-workers-of-color;* Chuck Marr, Brandon DeBot, and Emily Horton, "How Tax Reform Can Raise Working Class Incomes," Center on Budget and Policy Priorities, October 13, 2017, *https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes;* Jane. G. Gravelle, "Wage Inequality and the Stagnation of Earnings of Low-Wage Workers: Contributing Factors and Policy Options," Congressional Research Service, February 5, 2020, p. 2, *https://crsreports.congress.gov/product/pdf/R/R46212;* Opportunity Insights Economic Tracker, *https://tracktherecovery.org/*.

[2] *See* Wesley Tharpe, Michael Leachman, and Matt Saenz, "Tapping More People's Capacity to Innovate Can Help States Thrive," Center on Budget and Policy Priorities, December 9, 2020, *https://www.cbpp.org/research/state-budget-and-tax/tapping-more-peoples-capacity-to-innovate-can-help-states-thrive.*

[3] *See* Jason Furman, "Prepared Testimony for the Hearing 'The Disappearing Corporate Income Tax,'" February 11, 2020, *https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Furman%20Testimony.pdf.*

[4] Kimberly Clausing, "Profit Shifting Before and After the Tax Cuts and Jobs Act," *National Tax Journal,* Vol. 73, No. 4, 2020, p. 11, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3274827.*

[5] Jane G. Gravelle and Donald J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," Congressional Research Service, last updated June 7, 2019, p. 7, *https://crsreports.congress.gov/product/pdf/R/R45736;* Furman, *supra* note 3.

current multilateral negotiations to build the framework for a robust, cooperative international tax system.

I. DEFECTS IN THE CURRENT LEGAL REGIME

The 2017 tax law not only cut the domestic corporate tax rate to 21 percent, but also moved the U.S. tax regime to a partial "territorial" system, including by permanently excluding certain income of U.S. multinationals from tax. Today, U.S. parent companies can enjoy a far lower rate of tax on their foreign profits—often zero percent—than the rate on U.S. profits if they meet certain conditions.

The drafters of the 2017 law were aware that a much lower permanent rate on foreign profits than U.S. profits is a large, permanent incentive for multinationals to both report profits offshore, and locate real investment overseas. Recognizing the danger of this lopsided basic structure, the 2017 law included provisions aimed at limiting the damage: GILTI, BEAT, and FDII.[6] The anti-abuse rationale of some of these provisions is sound, and the provisions contain some novel and promising elements. But their design undermines their effectiveness, and retains incentives to locate profits or investment overseas in some circumstances, and increases those incentives in others.

Treasury regulations cannot be expected to cure all the major flaws of such statutory provisions. In some cases, however, regulations have enlarged the statute's problems. Some regulations probably overstepped the scope of legal authority. Others did not take the *best* interpretation of the law within the range of regulatory authority. Instead, some regulations interpreted the law to permit U.S. multinationals to use various planning techniques to reduce their taxes and avoid the potential impact of the law's anti-abuse provisions, contrary to the basic purpose of those statutory rules.

Some notable defects in the legal regime include:

1. **GILTI's promising minimum tax structure has three large flaws.** A well-designed minimum tax on foreign profits can ensure that profits that U.S. multinationals report offshore, and that are taxed not at all or very lightly in foreign countries, are subject to some tax by the U.S. A robust minimum tax would greatly reduce the incentive for multinationals to shift profits and investment offshore, because it would reduce or eliminate tax savings from doing so. It would also reduce the incentive for U.S. multinationals to report income generated in other non-U.S. source countries as having been made in tax havens.

   GILTI, however, is not robust: large classes of profits are exempt from its reach, its design creates new incentives to shift profits and investment offshore, and its rate on foreign profits is too far below the U.S. corporate tax rate.[7] Specifically:

   - **Substantial profits are entirely outside of the reach of GILTI, meaning zero U.S. tax applies to certain income from real activity or paper profits that are reported offshore.** GILTI applies only to foreign profits that are greater than 10 percent of a company's investment in tangible assets (such as factories) in foreign countries. That means a U.S. tax rate of zero percent on swaths of U.S. multinationals' foreign income.

     This is an incentive for firms to shift or locate plants, equipment, and other physical assets offshore, because the more such assets a corporation has overseas, the more of that firm's offshore income will face a U.S. tax rate of zero percent rather than the domestic corporate tax rate of 21 percent. That is true even when the firm's foreign tangible assets generate little or no profits themselves.[8] In other words, if a U.S. multinational puts physical plants and other tangible assets offshore, it can get a tax rate of zero percent on profits from intellectual property and other intangible assets that it has also moved on paper into tax havens.[9]

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[6] Global Intangible Low-Taxed Income, the Base Erosion and Anti-Abuse Tax, and Foreign-Derived Intangible Income.

[7] This section draws on prior work of the author in Chuck Marr, Brendan Duke, and Chye-Ching Huang, "New Tax Law Is Fundamentally Flawed and Will Require Basic Restructuring," Center on Budget and Policy Priorities, August 14, 2018, *https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring.*

[8] A 10-percent rate of return is far higher than the historical rate of return on low-risk assets. The interest rate on a 10-year Treasury bond is currently below 2 percent.

[9] Clausing, *supra* note 4, Figure 2.

Furthermore, the value of assets that is used to calculate the 10-percent exemption is the basis used for the purpose of calculating depreciation, so newer property generally gets a bigger exemption, bolstering the incentive to locate new investment offshore.

- **GILTI's global approach creates a perverse incentive in some circumstances to favor locating profits in both countries that have lower and higher tax rates than the U.S.** GILTI is calculated based on a multinational's global income and non-U.S. taxes, instead of its income and taxes for each country separately.[10] GILTI therefore allows multinationals to aggregate income and taxes from countries where they pay little or no tax and those where they pay significant tax. The blending or averaging feature of GILTI is a serious weakness. It leads to the striking outcome that the U.S. can be the *least* attractive place for a multinational to invest or place its profits, from a tax perspective.

  On the one hand, if a multinational already has a lot of profits generated in high-tax countries (a so-called excess credit position), it creates an incentive for multinationals to book profits in tax havens because no U.S. tax will apply. Because the multinational can average the profits newly booked in a tax haven with the existing profits in high-tax countries, its average tax rate on foreign income may be high enough to avoid any GILTI tax. Indeed, even after the 2017 tax law, more than half of multinational corporations' foreign income is still booked in Bermuda and six other large tax havens.[11]

  On the other hand, if the multinational already has a lot of profits located in low-tax countries or tax havens and is therefore paying the GILTI tax, it can benefit by shifting U.S. profits or real activities to foreign countries with a tax rate similar to the U.S—including to countries with rates that are somewhat higher than those in the U.S. Doing so will result in a similar amount of tax due on the shifted profits or real activities. But it will reduce the total tax on the profits located in low-tax countries by reducing or eliminating the GILTI owed, due to the ability to average across countries under the GILTI.

  As tax advisor, former Treasury international tax official, and Director of the International Tax Program at NYU Law, David Rosenbloom has said, this feature of GILTI can mean that it:[12]

  "[. . .] creates a great incentive to send investment outside the United States because averaging always produces an incentive to go outside the United States. If you are low, you have an incentive to average up by going outside the United States; if you are high, you have an incentive to go abroad to bring the average down."

- **The GILTI rate is still far below the rate on U.S. profits, leaving a large tilt towards offshore profits and activity.** The maximum effective GILTI rate currently ranges between 10.5 and 13.125 percent.[13] This is only roughly half the headline rate that domestic companies face on their U.S. profits.

  Having a minimum tax like GILTI is a recognition that allowing U.S. multinationals to earn tax-free profits abroad (a "pure" territorial system) is a very harmful incentive to locate profits and investments offshore. GILTI attempts to offset that tilt by somewhat closing the gulf between the rate on foreign and domestic profits, without going all the way to equalizing them. There is, however, much room for tax-motivated profit and investment shifting in the space between 10.5 percent (or sometimes zero percent) and

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[10] With a credit of up to 80 percent on foreign taxes they do pay. A firm paying $100 in foreign taxes can thus reduce its U.S. minimum tax by $80.

[11] Clausing, *supra* note 4, Figure 2.

[12] Symposium, "The Future of the New International Tax Regime," *Fordham Journal of Corporate and Financial Law,* Vol. 24, No. 2, 2019, p. 292, *https://ir.lawnet.fordham.edu/jcfl/vol24/iss2/1/*.

[13] Income subject to GILTI is taxed with a 50-percent deduction, and only up to 80 percent of foreign tax credits are creditable. This means that the effective GILTI rate is 10.5 percent when no foreign tax credits are available, and up to 13.125 percent when full foreign tax credits are available. Other circumstances involving further limitations on foreign tax credits are discussed below.

21 percent, and the only way to curb much of that tax avoidance activity is to narrow the tax rate gap.

2. **BEAT aims at an important problem, but its "irrational" rules need retooling.** The BEAT is also intended to address a serious problem. Multinationals, including foreign-based multinationals, shift profits out of the U.S. and into low-tax countries by making large payments from their U.S. affiliates to their foreign affiliates. The payments can be deductible by the U.S. affiliate in the U.S. (reducing U.S. profits taxed at the U.S. domestic corporate tax rate). But even though those payments are income of the foreign affiliate, if the affiliate is in a tax haven, the payments can face little or no U.S. or foreign tax. The multinational corporate group is on both sides of the payments, so there may be opportunities to inflate the payments beyond a realistic price for the transfer of actual assets, goods, or services. Such base erosion payments are a problem encompassing all multinationals, but are particularly severe for foreign-resident multinationals because they are not subject to GILTI. This also means an incentive for U.S. multinationals to invert.

   The BEAT is an add-on alternative minimum tax. Broadly speaking, the BEAT disallows some deductions that a multinational would otherwise be able to claim for payments to related foreign parties if those payments exceed a threshold. BEAT's rules on what payments and entities are counted or excluded are complex. The rules have politely been called "curious"[14]—also, "weird," "irrational," and "truly bizarre."[15]

   The BEAT catches some payments that do not appear to be a base erosion risk yet ignores other large categories of payments that are a base erosion risk.[16] The implementing regulations created further exclusions to the BEAT that are not well-supported by the statute, noted below. Thus, while the BEAT has a sound objective to prevent payments that artificially shift profits out of the U.S. for tax purposes, the BEAT needs to be substantially revamped to hit its mark.

3. **FDII has an unclear purpose and muddled design.** FDII allows a multinational to deduct a share of its "foreign-derived intangible income." That is, if a multinational holds intangible assets (such as patents or other IP) in the U.S., its above-normal profits from exports of products, services, and assets related to those intangibles get a tax break. This structure favors selling such products to foreign consumers rather than U.S. consumers, which makes it very likely subject to WTO challenge as an export subsidy.[17] Compounding that (perhaps fatal) flaw, FDII creates incentives for certain multinationals to sell their U.S. tangible assets or locate them offshore to get more income taxed at the favorable FDII rate. This is because the FDII deduction is allowed only to the extent that profits from covered exports exceed a set rate of return on tangible assets located in the U.S., so the fewer tangible assets a company has in the U.S., all else equal, the larger its FDII tax break.[18] FDII's tax break is also on income from both old and new investments alike, meaning a large part of it is a wasteful giveaway on profits from old investments.

4. **Regulations cannot be expected to fix the flaws of a statute, but under trying circumstances, the regulations introduced some new problems.** When a tax law's design or drafting is flawed, Treasury and the IRS cannot be expected to fix those flaws fully through regulation and guidance. But when faced with a law's flaws, ideally regulation would not add to them. The circumstances of the enactment of the 2017 tax law, however, were not ideal.

   After a truncated legislative process, the under-resourced agencies were required to propose and finalize a tremendous number of regulations quickly. Comments on proposed regulations came overwhelmingly from corporations

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[14] Clausing, *supra* note 4, p. 15.

[15] Symposium, *supra* note 12, p. 287.

[16] *Id.*

[17] Rebecca M. Kysar, "Critiquing (and Repairing) the New International Tax Regime," *Yale Law Journal Forum,* Vol. 128, October 25, 2018, pp. 350–51, *https://www.yalelawjournal.org/pdf/Kysar su38oca6.pdf;* Congressional Research Service, "Issues in International Corporate Taxation: The 2017 Revision" (Pub. L. 115–97), April 23, 2020, pp. 32–33, *https://fas.org/sgp/crs/misc/R45186.pdf.*

[18] Dhammika Dharmapala, "The Consequences of the Tax Cut and Jobs Act's International Provisions: Lessons From Existing Research," *National Tax Journal,* Vol. 71, No. 4, 2018, pp. 722–723, *https://www.ntanet.org/NTJ/71/4/ntj-v71n04p707-728-Consequences-of-the-Tax-Cut-and-Jobs-Acts-International-Provisions.html;* Clausing, *supra* note 4, p. 14.

and their representatives seeking an interpretation of the law that would lower (or further lower) their tax liability.[19] With notable exceptions, there were very few comments from a broad public interest perspective, despite the large consequences of these technical decisions.

Several regulations exacerbated weaknesses in the law, even when the statute gave scope for better alternatives. Neither usual congressional estimation and scorekeeping processes, nor Treasury's regulatory processes provide explicit estimates of the net impact of the 2017 tax law's regulations on revenues or distribution.[20] There are indications, however, that the law's international tax regulations were consequential. Together with new information on corporations' financial reporting and on multinationals' tax planning around the law, CBO projected in 2020 that the international tax regulations will lower projected revenues by roughly $110 billion over 10 years relative to earlier estimates.[21]

International tax regulations implementing the 2017 tax law that are highly questionable in terms of both authority and policy include:

- **The foreign bank exception to BEAT,** that, according to *The New York Times,* is estimated to reduce the BEAT's revenues by up to $50 billion.[22]
- **The GILTI high-tax exception election.** Regulations allow multinationals facing usual limitations on their foreign tax credits (intended to serve an anti-abuse purpose) to elect out of GILTI when the tax credit limits cause them to face an effective foreign tax rate above 18.9 percent.[23]
- **The failure to allocate R&D to GILTI,** meaning that a multinational's R&D expenses are not adequately matched to their foreign income, increasing their ability to maneuver foreign tax credits to reduce U.S. tax liability under GILTI.[24]
- **A weakened statutory interest expense limit on the 10-percent return exempt from GILTI** with a highly permissible rule for calculating the amount of interest allocated under this rule.[25]

This is not to say all the regulations were maximally generous to multinationals. As tax law expert Samantha Jacoby noted, "Companies and lob-

[19] For discussion of regulatory processes, *see* Rebecca Kysar, "TCJA's Business Provisions: Design Flaws and Undemocratic Implementation," testimony before the U.S. House of Representatives Ways and Means Committee, February 11, 2020, *https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Kysar%20Testimony.pdf.* For an example of the one-sided nature of comments on regulations generally, *see* Shu-Yi Oei and Leigh Osofsky, "Legislation and Comment: The Making of the § 199A Regulations," *Emory Law Journal,* Vol. 69, No. 2, January 2019, *https://lawdigitalcommons.bc.edu/cgi/viewcontent.cgi?article=2273&context=lsfp.* Oei and Osofsky found that comments on the regulations implementing the lower rate for pass-through businesses were overwhelmingly from taxpayers, industries, or other private interests. Only 1 out of 51 communications during the pre-notice period were submitted by public interest-oriented individuals or groups, and only 5 out of 388 comments during the notice and comment period.

[20] Either compared to the regulatory settings that were assumed when the revenue impact of the law as enacted was first estimated, or compared to a scenario where no regulations were issued. For an explanation of how OIRA review of tax regulations has failed to produce informative revenue or distribution analysis of tax regulations, *see* Greg Leiserson, "Cost-Benefit Analysis of U.S. Tax Regulations Has Failed: What Should Come Next?", Washington Center for Equitable Growth, September 30, 2020, *https://equitablegrowth.org/research-paper/cost-benefit-analysis-of-u-s-tax-regulations-has-failed-what- should-come-next/.*

[21] Samantha Jacoby, "Corporation-Friendly Treasury Regulations Reducing Federal Revenues," Center on Budget and Policy Priorities, last updated February 13, 2020, *https://www.cbpp.org/research/federal-tax/corporation-friendly-treasury-regulations-reducing-federal-revenues.* That loss is likely to be mechanically lower now in dollar terms due to the recession.

[22] Jesse Drucker and Jim Tankersley, "How Big Companies Won New Tax Breaks From the Trump Administration," *New York Times,* December 30, 2019, *https://www.nytimes.com/2019/12/30/business/trump-tax-cuts-beat-gilti.html.* For further analysis of the statutory authority issue, *see* Kysar, *supra* note 19.

[23] Stephen E. Shay, "A GILTI High-Tax Exclusion Election Would Erode the U.S. Tax Base," *Tax Notes,* November 18, 2019, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3490053.* The strained interpretation may also carry risks for other parts of the code. *See* Jasper Cummings, "Not GILTI 'by Reason of' the High-Tax Exclusion," *Tax Notes,* October 5, 2020, *https://www.taxnotes.com/tax-notes-federal/global-intangible-low-taxed-income-gilti/not-gilti-reason-high-tax-exclusion/2020/10/05/2czwq.*

[24] Stephen E. Shay, Reuven S. Avi-Yonah, Patrick Driessen, J. Clifton Fleming, and Robert J. Peroni, "Why R&D Should Be Allocated to Subpart F and GILTI," *Tax Notes,* June 22 2020, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3633962.*

[25] *See* Kysar, *supra* note 19; Symposium, *supra* note 12, pp. 290–91.

byists didn't get everything they asked for," but "[in] some very important areas, they got a lot of what they asked for."[26]

The lopsided process of corporations seeking more favorable tax treatment from the law and regulations has not yet finished. Strained statutory interpretations taken by some regulations open a door for taxpayers to push for similarly stretched interpretations of *other* parts of the tax code—but only when it would lower their taxes.[27] Multinationals wishing to make the international tax regulations even more favorable to them can also challenge them in court. This is a one-sided ratchet, because it is not clear who can challenge legally flawed regulations that are overly generous.[28]

Furthermore, if adequate funding is not restored to a deeply underresourced IRS—which since 2010 has lost more than a third of its revenue agents who are expert enough to deal with the most complex tax audits—even the laws and regulations that are on the books will not be adequately enforced.[29]

II. SALVAGING AND STRENGTHENING ELEMENTS OF THE INTERNATIONAL TAX REGIME

Reform to U.S. international tax law that focuses on workers, jobs, and investment would address the law's flaws while strengthening its promising elements. A robust minimum tax on U.S. multinationals and a retooled provision to address base erosion, especially by foreign multinationals, could be part of a workable, durable structure that raises revenues while reducing the current tilt towards offshore profits and investment. Broad directions for reform include:

1. **Crafting a robust minimum tax out of GILTI.** Professor Susan Morse has observed that "GILTI will perhaps end up saving the corporate tax."[30] GILTI would be a robust minimum tax on U.S. multinationals if it were reformed to:

   - **Exclude less foreign income from its reach.** This means eliminating the 10-percent return on tangible assets that is currently exempt and eliminating the high-tax exception election.
   - **Eliminate or reduce various opportunities to blend and shelter income, expenses, and credits from different sources to avoid GILTI.** Calculating GILTI on a country-by-country basis is one key way to achieve this objective. It would mean that every dollar earned in a tax haven would be subject to GILTI tax. It would also eliminate the incentive for multinationals to shift profits and activities to foreign countries with similar tax rates as the U.S. in order to reduce or eliminate the minimum tax that would be otherwise due on profits booked in tax havens. Reforms should also address the calculation of the interest expense allocation, and the failure to allocate R&D to GILTI.
   - **Set a minimum rate far closer to, and certainly no less than, 75 percent of the U.S. domestic rate.** This is the most straightforward way to limit incentives to locate profits and investment offshore.

   Another attraction of a strong GILTI with these features is that it could allow the U.S. to more strongly advocate for a robust global minimum tax in multilateral negotiations, as discussed below.

2. **Re-working BEAT.** The BEAT diagnoses a serious problem—payments that shift profits into tax haven countries—but little about the BEAT rules make sense. A substantially reworked BEAT could more precisely and effectively target payments that are in fact more likely to be base erosion, while exempting those that are not. It could apply to payments only to countries where the payments are not subject to a reasonable tax rate, so that it does not capture pay-

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[26] Richard Rubin, "Trump-Era Tax Rule Benefiting Some Multinationals May Get Revised Under Biden," *Wall Street Journal,* 7 December 2020, *https://www.wsj.com/articles/trump-era-tax-rule-benefiting-some-multinationals-may-get-revised-under-biden-11607337001.*

[27] Cummings, *supra* note 23.

[28] See Shay et al., *supra* note 23, section VI. For discussion of who may challenge overly generous tax regulations, *see* Daniel J. Hemel and David Kamin, "The False Promise of Presidential Taxation," *Yale Journal on Regulation,* Vol. 36, No. 2, 2019, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3184051.*

[29] Chye-Ching Huang, "Depletion of IRS Enforcement Is Undermining the Tax Code," testimony before the House Ways and Means committee, February 11, 2020, *https://www.cbpp.org/research/federal-tax/depletion-of-irs-enforcement-is-undermining-the-tax-code/*.

[30] Symposium, *supra* note 12, p. 259. Morse's comments also related to the potential role of GILTI in multilateral negotiations; this is discussed further below.

ments that are not likely to be "base erosion." On the other hand, BEAT should be reformed to catch other payments that may be base erosion (such as its exclusions for costs of goods sold, and the treatment of the portion of certain payments that do not represent mark-up).[31] As with a robust GILTI, a reworked BEAT could also support the development of a cooperative multilateral approach, as discussed below.

3. **Leaving FDII behind.** I am skeptical that FDII can be salvaged given its muddled rationale and WTO problems. Some commentators have suggested making FDII into a "patent/innovation box" that gives a discounted tax rate on profits for IP located in the U.S., regardless of the location of the end consumer. Patent boxes are a not a good solution to any well-defined problem: they deliver windfall tax cuts to already profitable investments of the sort that already enjoy substantial tax subsidies, and patent boxes are a magnet for tax avoidance. Public resources intended to support innovation would be better directed towards public investment in science, basic research, broadband infrastructure, education, and ensuring all children can thrive.[32]

4. **Seizing missed opportunities in areas like check-the-box and transfer pricing.** While providing some promising new structures that can be the basis of further reform, the 2017 tax law largely failed to address several other weaknesses of the prior regime. These could also be revisited. For example, it would be timely to consider the "check-the-box" rules that allow U.S. multinationals to avoid paying taxes on their foreign subsidiaries' passive earnings (such as interests and royalties) by checking a box on an IRS form that has the effect of making those offshore subsidiaries and their passive income invisible for U.S. tax purposes. Check-the-box has spawned complex regulatory attempts to limit its abuses, and it can now be used to reduce GILTI.[33] Various transfer pricing rules also deserve further scrutiny. There may be both regulatory and legislative opportunities to address such issues.

5. **Creating more coherent, less gameable rules.** The scaffolding of a reformed international tax regime will need detailed and robust rules layered on top of it. Some rules of thumb for crafting them are:

   - **Eliminate blending/averaging in some cases or reduce its extent in others.** The late Edward Kleinbard, former tax practitioner, Joint Committee on Taxation staff director, and then University of Southern California professor, described international rules that permit averaging of income, deductions, and credits across high and low-taxed sources as being a "tax distillery." In this distillery, "tax master blenders" at each company perfect the mix of income, deductions, and credits reported in each entity, country, and other relevant categories to lower the ultimate rate on foreign profits.[34]

     An example of the tax minimization benefits of averaging include where high-taxed profits can be used to shield low-tax profits, such as in the global approach of GILTI. A similar structure is when different categories of income or expenses can be averaged before allocating them to different sets of entities or countries, such as in the interest computation rules for calculating exempt income under GILTI. Permissive averaging structures can protect incentives to book profits in tax havens, and can create other perverse incentives. Such structures should generally be avoided (such as moving to country-by-country for GILTI). Any other averaging (or blending, cross-crediting, etc.) that is permitted should occur only within boundaries drawn as tightly as possible.

   - **Minimize electivity.** Letting multinationals choose how to be taxed under various regimes—as is the case with the GILTI high-tax exception election—simply means most multinationals will claim a tax cut for having

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[31] Ksyar, *supra* note 17, p. 357.

[32] Alex Bell, Raj Chetty, Xavier Jaravel, Neviana Petkova, and John van Reenen, "Who Becomes an Inventor in America? The Importance of Exposure to Innovation," *Opportunity Insights,* November 2018, *https://opportunityinsights.org/paper/losteinsteins/;* Tharpe et al., *supra* note 2.

[33] Moshe Spinowitz and Robert Stevenson, "To Check or Not to Check? The TCJA's Impact on Entity Classification Decisions," *International Tax Journal,* March–April 2019, *https://www.skadden.com/insights/publications/2019/04/to-check-or-not-to-check.*

[34] Edward D. Kleinbard, "Stateless Income," *Florida Tax Review,* Vol. 11, 2011, p. 727, *https://gould.usc.edu/centers/class/class-workshops/usc-legal-studies-working-papers/documents/C11_1_paper.pdf.*

competent tax advisors. If the election is annual, as for the high-tax exception, it can mean switching in and out of different regimes from year to year.

International tax rules will never be especially simple. But elective rules create the type of unnecessary complexity that benefits only multinationals and their advisors. When large tax benefits are at stake, it can seem that multinationals' calls for simplicity and certainty can grow quieter, while their calls for (complex and variable) electivity that lowers taxes grow louder.

- **Align different regimes.** Different parts of the international tax code serve different purposes, but where rules misalign for no good reason, they can create opportunities to plan into and out of whichever regime results in less tax. Limiting electivity is one way to minimize such gaming; aligning rules (such as expense allocation rules for GILTI that are more like other foreign tax credit allocation rules, or the various aspects of FDII and GILTI that are misaligned[35]) is another.

III. THE UNIQUE OPPORTUNITY TO MAKE NEEDED REFORMS IN 2021

Sound reforms of the U.S. international tax system will deliver benefits to U.S. workers and the economy, as discussed above. Lawmakers can also ensure that such reforms are consistent with the U.S. taking a constructive and leading role in the current effort to ensure the global international tax system moves toward a strong, cooperative framework. Doing so could also profoundly benefit U.S. workers and the economy by potentially eliminating the current race to the bottom amongst countries, where each seeks to undercut the others' corporate tax systems in order to attract corporate residence, profits, or investments. This race to the bottom depletes revenues that are critical to making the investments with widely shared benefits that would strengthen the living standards of workers and families while improving the strength of the economy.

The global international tax system is at a once-in-a-century crossroads.[36] Its current framework was constructed in the 1920s and focused on preventing double taxation, so that income would not be taxed twice (or more) by different countries. It was not designed to prevent double *non*-taxation, where multinationals report income in neither their home country nor where they made the income, but instead in tax havens where they are taxed at zero or very low rates. Multilateral attempts to address double non-taxation were sporadic until recently, and often focused on trying to discipline low-tax countries and tax havens. These efforts were ineffective, in part because they paid insufficient attention to the role of high-income countries' tax rules in allowing resident multinationals to enjoy large tax benefits when those companies shift their profits to tax havens. But the Great Recession, long-run fiscal challenges, and growing inequality increased countries' focus on holes in the international tax system.[37]

OECD/G20 multilateral efforts are now seeking to build a new international framework to address "base erosion and profit shifting" and curtail the race to the bottom on corporate tax rates and international tax rules, while still preventing double taxation. These efforts have faced challenges. For instance, the prior administration's efforts in multilateral forums were not as constructive as they might have been.[38] The COVID–19 recession created new fiscal pressures, and many countries have started to consider, propose, and implement Digital Services Taxes ("DSTs") on sales of intangible digital services to customers in those countries. These destination countries argue they have a claim to some tax on corporate profits and note that that profits deriving from intangible assets often go entirely untaxed. However,

[35] For discussion of misalignments between GILTI and FDII, *see* Jonathan S. Brenner and Josiah P. Child, "The Nitty-Gritty of FDII," *Tax Notes,* September 17, 2018, *http://www.capdale.com/files/24250_the_nitty-gritty_of_fdii.pdf.*

[36] For some discussion of the development of the global international tax system and recent developments, *see* the discussion in the Symposium proceedings at *supra* note 12; Ruth Mason, "The Transformation of International Tax," *The American Journal of International Law,* Vol. 114, No. 3, July 2020, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3576520;* Steven A Dean, "FACTCA, the U.S. Congressional Black Caucus, and the OECD Blacklist," *Tax Notes,* July 7, 2020, *https://www.taxnotes.com/tax-notes-today-international/competition-and-state-aid/fatca-us-congressional-black-caucus-and-oecd-blacklist/2020/07/07/2cns4.*

[37] *See* Mason, *supra* note 38.

[38] Alan Rappeport, Ana Swanson, Jim Tankersley, and Liz Alderman, "U.S. Withdraws From Global Digital Tax Talks," *New York Times,* June 17, 2020, *https://www.nytimes.com/2020/06/17/us/politics/us-digital-tax-talks.html.*

some features of some DSTs have given rise to claims that they target U.S. companies, and uncoordinated responses could create an incoherent patchwork of taxation and raise the specter of some double tax. But there is still a chance to achieve a cooperative framework to prevent double non-taxation and the race to the bottom, while avoiding a proliferation of uncoordinated unilateral measures.

Building a strong global framework will require the U.S. to use its intellectual and economic gravity. Secretary Yellen has stated that the Biden administration will engage "robustly" in the OECD/G20 multilateral process, and withdrew an unconstructive demand made by the prior administration.[39]

Given the opportunity presented by the OECD/G20 negotiations, reforms to GILTI of the types outlined above could have dual benefits. First, they would deliver significant benefits to the U.S. in their own right. Second, such reforms could support a cooperative effort. For instance, lawmakers can ensure that GILTI reforms are drafted consistently with potential commitments in "Pillar 2" of the OECD/G20 Inclusive Framework. Pillar 2 seeks to ensure that all companies pay a minimum level of tax, including through the adoption of Income Inclusion Rules ("IIRs") which could have the features of a reformed GILTI. The adoption of strong IIRs would help reduce multinationals' gains from profit shifting to tax havens (as those profits would still face minimum taxes in multinationals' countries of residence) and help to curtail the race to the bottom by reducing the incentive for countries to set their corporate tax rates below the minimum rate (as doing so would have less impact on the worldwide tax liability of multinationals).

Assuming GILTI were strengthened, and the BEAT reformed so that it more adequately captures base erosion by foreign-headquartered multinationals, U.S.-headquartered multinationals could be exempt from the BEAT, because base erosion payments by U.S. multinationals would be more adequately addressed by the reformed GILTI. This would help rationalize the BEAT so it is more targeted and effective, and make it more consistent with the structures being considered under Pillar 2. (The OECD Blueprint for Pillar 2 notes that the Inclusive Framework "strongly encourages" the U.S. to turn off BEAT when entities are resident in countries that have an IIR.)

The fact that a minimum tax along the lines of GILTI is now a focus of multilateral negotiations shows the U.S.'s intellectual and economic gravity in international tax. The Obama administration was reportedly "laughed out of the room" when it first floated minimum taxes as the basis of a multilateral approach.[40] Today, however, the enactment of GILTI in 2017 has helped change the conversation such that a reformed GILTI could now be a model for a cooperative international regime. Even if a multilateral agreement among countries that represent a major slice of the global economy takes time to finalize, therefore, lawmakers should not hesitate to reform GILTI, BEAT, and FDII in ways that would deliver significant benefits to the United States.

QUESTIONS SUBMITTED FOR THE RECORD TO CHYE-CHING HUANG

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

TAX HAVENS; BASE EROSION AND PROFIT SHIFTING

Question. For decades, corporations have used overseas tax havens to avoid their share of taxes, which has shifted an ever-larger share of the tax burden onto working-class and middle-class Americans. Governments across the globe are losing an estimated $427 billion per year in revenue, and the U.S. alone loses about $90 billion per year—money that could be used to shore up public education, repair our roads, or lift our children out of poverty.[1] The 2017 tax law lowered the corporate tax rate and adopted the base-erosion and anti-abuse tax (BEAT), yet companies are still shifting jobs and profits offshore.

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[39] James Polti, Aime Williams, Chris Giles, Sam Fleming, and Miles Johnson, "U.S. Removes Stumbling Block to Global Deal on Digital Tax," *Financial Times,* February 26, 2021, *https://www.ft.com/content/c2a6808e-ec6d-41d5-85e9-3a27c2b2c1bc.*

[40] Symposium, *supra* note 12, p. 294.

[1] Jeanne Whalen, "Tax cheats deprive governments worldwide of $427 billion a year, crippling pandemic response: Study," *The Washington Post,* November 19, 2020, *https://www.washingtonpost.com/us-policy/2020/11/19/global-tax-evasion-data/.*

What are the inadequacies of the 2017 tax law on this issue? Did it further incent offshoring?

Answer. The large revenue cost of the tax law's corporate and international provisions nevertheless left in place substantial profit shifting.[2] Some of the law's new provisions also introduced new incentives to locate profits and investment offshore. The basic structure of the law with a much lower rate on foreign profits than U.S. profits is the biggest structural flaw of the law that creates a tilt towards offshore profits and investment.

Recognizing the danger of this lopsided basic structure, the 2017 law included provisions aimed at limiting the damage: GILTI, BEAT, and FDII.[3] The anti-abuse rationale of some of these provisions is sound, and the provisions contain some novel and promising elements. But their design undermines their effectiveness, and retains incentives to locate profits or investment overseas in some circumstances, and increases those incentives in others.

My written testimony submitted for the hearing record includes further details of how specific design elements of these provisions operate to create these incentives.[4]

Question. How would you fix it to ensure that corporations pay their fair share in taxes on their international activities?

Answer. Reforms to the U.S. international tax law that focuses on workers, jobs, and investment would address the law's flaws while strengthening its promising elements. Broad directions for reform include:

1. Crafting a robust minimum tax out of GILTI. This would mean excluding less foreign income from its reach, reducing or eliminating various opportunities to blend and shelter income, expenses, and credits from different sources to avoid GILTI (such as through a country-by-country calculation of GILTI), and setting the minimum rate far closer to (and certainly no less than) 75 percent of the domestic rate.
2. Re-working BEAT to more precisely and effectively target payments that are in fact more likely to be base erosion, while exempting those that are not.
3. Repealing FDII and directing public resources intended to support innovation towards public investment in science, basic research, broadband infrastructure, education, and ensuring all children can thrive.
4. Consider taking a leading role in curbing harmful tax competition. One such proposal is the administration's proposal to Discourage Offshoring by Strengthening the Global Minimum Tax for U.S. Multinational Corporations (colloquially referred to as the "SHIELD" proposal).[5] This proposal is conceptually consistent with my recommendations regarding BEAT reform.

My written testimony sets out further detail in these and other areas, and also explains how such reforms would in themselves deliver strong domestic benefits, while also helping to push towards a modern global framework for international tax that could have further strong benefits.

Question. What alternative policy options should the U.S. consider to prevent corporations from avoiding taxes, and to secure investments in the American workforce?

Answer. Tax compliance by large businesses, and the wealthy people who own them, is a significant area of concern. Ensuring large businesses, including those with international operations, pay the taxes that they owe would help businesses—including purely domestic businesses and small businesses that cannot use complex international tax avoidance schemes that can sometimes cross the line into eva-

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[2] *How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment: U.S. Senate Committee on Finance,* 117th Congress (2021) (testimony of Kimberly A. Clausing), *https://www.finance.senate.gov/download/03252021-clausing-statement.*

[3] Global Intangible Low-Taxed Income, the Base Erosion and Anti-abuse Tax, and Foreign-Derived Intangible Income.

[4] *How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment: U.S. Senate Committee on Finance,* 117th Cong. (2021) (testimony of Chye-Ching Huang), *https://www.finance.senate.gov/imo/media/doc/Huang%20testimony%2003220221%20rev.pdf.*

[5] U.S. Office of the Press Secretary, "Fact Sheet: The American Jobs Plan," The White House, March 13, 2021, *https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/.*

sion—to compete on a level playing field.[6] Audit rates on some of these largest businesses and corporations have been cut in half since 2010.

Ensuring that the IRS has adequate resource, including a mandatory stream to rebuild its workforce of auditors able to handle the complex returns of multinational corporations, is key to achieving this goal. Doing so would raise substantial net revenue for investments in workers and families.

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

Question. The nonpartisan Joint Committee on Taxation (JCT) has estimated that 25 percent of the corporate income tax is borne by workers. More recent estimates have concluded that the amount of the corporate income tax borne by workers is closer to 50 percent. Do you agree that the percentage of the corporate tax borne by workers is at least 25 percent? If not, why do you believe the JCT analysis is incorrect?

Answer. Twenty-five percent is a mainstream estimate. It is important to note that even estimates that assume that 25 percent of the corporate income tax flows through to workers find that more than one third of the benefit of a corporate tax cut goes to the highest-income one percent of filers, while less than 15 percent of the benefit goes to households in the bottom 60 percent of the income distribution.[7] This is because the share that goes to shareholders and other investors is highly concentrated at the top of the income distribution, and even the share that goes to "workers" is distributed in proportion to incomes, so much of that benefit flows to highly compensated workers (such as CEOs and other executives), not low- and middle-income workers.

The mainstream models underpinning the assumption that any of a corporate tax cut flows through to shareholders also assume that the corporate tax cut is ultimately paid for (otherwise the increase in deficits and decrease in national investment would raise interest rates and offset any impacts of the corporate rate cut). If low- and moderate-income filers end up paying for the cost of the corporate rate cut, they may be made worse off on net.[8]

Question. The Global Intangible Low-Taxed Income (GILTI) minimum tax provides an exclusion for a return on tangible assets (Qualified Business Asset Investment or QBAI). The provision has been criticized by Dr. Clausing and Ms. Huang for encouraging offshoring. However, the Organisation for Economic Co-operation and Development (OECD) Pillar 2 minimum tax being considered provides an exclusion similar to QBAI, although the proposed Pillar 2 exclusion would exempt a return attributable to both tangible assets and payroll. Even President Obama's proposals for a minimum tax provided an exclusion for a return on active assets "to exempt from the minimum tax a return on the actual activities undertaken in a foreign country."

Isn't this type of exclusion a normal feature of a global minimum tax because there is a recognition that profits attributable to hard assets are less susceptible to profit shifting, and returns on hard assets are normally taxed by the local jurisdiction? Do you believe the OECD Pillar 2 proposal would encourage domestic companies to invest in foreign jurisdictions?

Answer. Global minimum taxes are relatively novel, and their design is still the subject of intense discussion. Exempting some flat rate of return is one method of attempting to *proxy* for return on actual activities undertaken in foreign jurisdictions. As a proxy, this method is imperfect at exempting those returns but only those returns, so there are tradeoffs to taking this approach. Further, the rate of return set and how it is calculated are design details that can have potentially large impacts on whether this proxy meets its target without creating large new opportunities and incentives for locating profits and investment offshore.

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[6] *The Disappearing Corporate Income Tax: U.S. House Committee on Ways and Means,* 116th Cong. (2020) (testimony of Chye-Ching Huang), *https://www.cbpp.org/research/federal-tax/depletion-of-irs-enforcement-is-undermining-the-tax-code.*

[7] Chye-Ching Huang and Brandon DeBot, "Corporate Tax Cuts Skew to Shareholders and CEOs, Not Workers as Administration Claims," Center on Budget and Policy Priorities, August 16, 2017, *https://www.cbpp.org/research/federal-tax/corporate-tax-cuts-skew-to-shareholders-and-ceos-not-workers-as-administration.*

[8] *Ibid.*

Question. Dr. Clausing says in her testimony that the corporate tax is an efficient tax. However, many economists, including those at the OECD, find that the corporate income tax—out of all the different types of taxes countries impose—is the most harmful to economic growth. In their report—"Tax and Economic Growth," the OECD economists say "lowering statutory corporate tax rates can lead to particularly large productivity gains in firms that are dynamic and profitable, *i.e.,* those that can make the largest contribution to GDP growth."

Do you agree or disagree with the OECD economists on this point? Couldn't raising the corporate tax rate have the opposite effect and cause a drag on economic growth?

Answer. I believe the referenced quotation is from a 2009 OECD and Middle East and North Africa working group summary report in response to the Great Recession.[9] The summary report refers to an underlying study, published in final form in 2011.[10] The final study notes that in the context of an economic recovery, "The tax change that shows the most promise in terms of both increased growth and economic recovery is the reduction of income taxes (including social security contributions) of those on low incomes. This would stimulate demand, increase work incentives and reduce income inequality."[11]

The study also makes the important point that how tax cuts are financed matters for the net impact on growth. (And conversely, what tax increases finance matters for the net impact on growth.)[12]

More recent evidence suggests that the 2017 tax law's corporate tax cuts did little to increase growth, investment, or wages above the trends already underway before the law's enactment.[13]

The administration has proposed significantly raising the corporate statutory rate and the GILTI rate. The GILTI minimum tax already imposes a higher rate of tax on foreign income of U.S. companies than other countries apply to the foreign income of their domestic companies.

If the OECD fails to reach an agreement or if member states fail to adopt the agreement, the effect would be even higher comparative effective tax rates on U.S. businesses, potentially a differential of an effective minimum tax rate of over 21 percent compared to 0 percent imposed by most foreign countries.

Question. In answering a question on the effects of the TCJA reforms on locating or maintaining a U.S.-based business in the United States, Ms. Olson said that higher levels of taxation imposed on U.S. companies would discount the value of assets in the hands of a U.S. company. Over time, the diminution in the value of those assets would make them, relatively speaking, more valuable in the hands of foreign-owned companies. Doesn't this impact on asset value have to be true? Is there any reason to ignore this basic financial reality?

Answer. As the Congressional Research Service has explored in detail in its assessment of the standard of "capital ownership neutrality," "In light of the many ways in which the efficiency costs of capital ownership non-neutrality are unlikely to be significant compared to location distortions, it seems questionable to use meeting this standard of neutrality to evaluate tax reform changes and questionable to see source-based taxation as an efficient international tax regime."[14]

Question. The U.S. Congress cannot write the rules for sovereign members of the G7, G20, or the OECD. That is the case even if the OECD were to reach an Inclusive Framework agreement. The Peoples Republic of China, for instance, America's

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[9] *https://www.oecd.org/mena/competitiveness/assessingthetaximplicationsofthefinancialcrisis.htm;* and *https://www.oecd.org/mena/competitiveness/41997578.pdf,* "Tax and Economic Growth: Summary and Main Findings."

[10] Jens Matthias Arnold, Bert Brys, Christopher Heady, Asa Johansson, Cyrille Schwellnus, and Laura Vartia, "Tax Policy for Economic Recovery and Growth," *The Economic Journal,* 2011, available at *https://academic.oup.com/ej/article-abstract/121/550/F59/5079707?redirectedFrom=fulltext.*

[11] *Id.*

[12] For further discussion of this and other studies, *see:* Huang and Frentz, "What Really Is the Evidence on Taxes and Growth," Center on Budget and Policy Priorities, February 18, 2014, *https://www.cbpp.org/research/what-really-is-the-evidence-on-taxes-and-growth.*

[13] *See* Jason Furman, "Prepared Testimony for the Hearing 'The Disappearing Corporate Income Tax,'" February 11, 2020, *https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Furman%20Testimony.pdf.*

[14] Jane G. Gravelle, "Reform of U.S. International Taxation: Alternatives," Congressional Research Service, August 1, 2017, *https://fas.org/sgp/crs/misc/RL34115.pdf.*

greatest economic rival, has indicated skepticism towards the OECD Inclusive Framework. Without such an agreement, wouldn't the United States be unilaterally raising the comparative effective tax rates of U.S.-based companies to uncompetitive levels? How should Treasury proceed if other countries, such as China, are not willing to impose a global minimum tax? The United States was already a first mover with GILTI. Why should the United States move again before other countries move at all?

Answer. As my written testimony submitted for the record sets out in more detail, there would be strong domestic benefits from strengthening the U.S. corporate tax system to reduce incentives for locating profits and investment offshore and reducing the ability to invert, regardless of how other countries act. The U.S. also has economic and intellectual gravity in this space, as demonstrated by how the novel enactment of GILTI has shaped conversations around the potential shape of an international framework.

Question. Chairman Wyden and Dr. Clausing engaged in a dialogue where Chairman Wyden went as far as to question the policy motives of those on the Republican side as using competitiveness as simply "code" for cutting taxes for "mega-corporations." Do you believe that tax policies that raise the effective tax rate on the foreign operations of U.S. businesses well above that of their foreign competitors has no effect on their ability to succeed in foreign markets?

Answer. I do not believe that the proposals contained in my written testimony create a significant barrier to U.S. businesses succeeding in foreign markets. Further, I am not aware of sound empirical evidence that shows that before the 2017 tax law, U.S.-resident multinational corporations were having difficulty succeeding in (making large profits in) foreign markets. U.S. multinationals prior to the 2017 tax law were reporting very large profits in foreign markets annually, such that one of the provisions in the 2017 tax law deemed the repatriation of the stock of those profits (in excess of $2 trillion) reported offshore.

QUESTION SUBMITTED BY HON. JOHN BARRASSO

Question. I'm going to use Senator Cantwell's phrase and "go local" for just a moment.

Dr. Clausing and Ms. Huang, I heard both of you testify about how U.S. policy needs to focus on workers. I've heard Chairman Wyden and Democrats on the committee talk about doing what is right for American workers.

On Day 1 of the Biden administration, with the stroke of a pen, President Biden eliminated thousands of good-paying American jobs when he blocked construction of the Keystone Pipeline.

Given your support for doing everything we can to support American jobs in the United States, do you agree President Biden's actions are inconsistent and in conflict with your beliefs that we should be helping, not hurting, all American workers whose jobs are located within the boundaries of the United States?

Answer. This falls outside of my area of expertise, so I do not have views to offer on the impact of policy in this area.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. The original purpose of taxing tax haven profits as explained by Secretary Dillon in proposing the anti-deferral measures was to eliminate incentives to foreign direct investment (FDI). Since the 1960s, the international tax system has dramatically changed. However, low or no tax jurisdictions still exist and are often used to entice direct investment in those countries. Similarly, we employ certain incentives to spur investment in the U.S.

As the purpose of these foreign tax systems is supposed to affect location of job-producing business investment, what is the comparative effect of deferred U.S. tax vs. location of markets, location of supplies, comparative worker efficiency and wage costs, energy and transportation infrastructure, and costs of social overhead for specific social priorities of the alternative investment locations?

Answer. There was broad agreement that the deferral features of the U.S. international tax system prior to the 2017 tax law were unsound and included incentives

for both shifting profits and activity abroad. As my testimony submitted for the record notes, however, the current U.S. international tax regime includes a number of incentives to locate profits and investment offshore, and there a number of ways that this structure could be improved upon to reduce those incentives.

Question. What percentage of the Fortune Global 2000 was represented by U.S. companies in 2005–2019, 1980–2000, 1968–1980? Is the percentage increasing or decreasing? To what extent do factors other than comparative tax rates affect direct investment location decisions?

Answer. I believe this question may refer to the Forbes Global 2000, which in my understanding has been compiled since only 2003.[15] I have not compiled these data over time, but I would expect that the U.S. share of companies in these and other global corporate rankings will have been affected over time by trends including relative population growth in the U.S. and other countries.

Question. Describe the impact of U.S Federal tax incentives on FDI, and what percentage of U.S. FDI is attributable to comparative labor efficiency, access to markets, access to supplies, access to technology, access to educated workforce, and differences in business regulation to achieve noneconomic goals?

Answer. While I do not have a strongly preferred empirical decomposition, I agree that structural factors that are supported and can be strengthened by public investments are an important driver of FDI, and in many cases, supporting higher public investments is a more promising route to encouraging investment and productivity with broadly shared benefits than cutting corporate tax rates on U.S.-sourced income.

QUESTION SUBMITTED BY HON. TODD YOUNG

Question. In your testimony you described the GILTI tax as being not robust. When it was passed in 2017, the Joint Committee on Taxation projected that GILTI would raise revenue by $112 billion and more recently found the effective rate of GILTI is around 16 percent.

Given that the United States was the first and only country to enact a global minimum tax, and the tax being considered by the OECD is weaker than the current GILTI rate, do you believe that the GILTI tax is the most robust global minimum tax in the world?

Answer. I agree that a unique or novel tax provision is by definition simultaneously both the strongest and weakest of its kind, and my written testimony submitted for the record also outlines a number of ways that GILTI can be strengthened to be made more robust,[16] and details my view that U.S. leadership in this space can affect the direction of the global international discussions to which you refer.

PREPARED STATEMENT OF PAMELA F. OLSON, FORMER ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY

Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, I appreciate the opportunity to appear this morning as the committee considers the impact of U.S. international tax policy. I had the honor of serving as Treasury's Assistant Secretary for Tax Policy from 2002 to 2004, led PwC's Washington National Tax Services practice from 2012 until last year, and am currently a consultant to PwC. I am appearing on my own behalf and not on behalf of PwC or any client. The views I express are my own.

INTRODUCTION

The title of this hearing cuts straight to the bottom line regarding what really matters: the impact of tax policy on American workers, jobs, and investment. While international tax policy is replete with esoteric details, it must be judged by whether it delivers what Americans of all political stripes want: jobs and investment that lead to rising wages, economic security for American workers and their families, and

[15] *https://www.forbes.com/lists/global2000/#6eca74195ac0.*

[16] *How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment: U.S. Senate Committee on Finance,* 117th Cong. (2021) (Testimony of Chye-Ching Huang), *https://www.finance.senate.gov/imo/media/doc/Huang%20testimony%2003220221%20rev.pdf.*

more broadly shared prosperity. As Yogi Berra once observed, "If you don't know where you're going, you might not get there." The committee's focus on the bottom line results it wants should give it strategic direction.

To evaluate our international tax policy, my testimony will examine the past, present, and future: what our international tax rules were prior to 2018, how the rules changed in 2018, and how Congress might change the rules, with a particular focus on the potential effect of the OECD's digitalization project and what other countries may do independently or in response. The latter is important because the actions of other governments affect the attractiveness of the United States as a location for jobs and investment.

As the Finance Committee charts a path for the future, it will be important to assess where we've been, where we are, and to make an informed judgment of where we want to go for the sake of American workers, jobs, and investment.

INTERNATIONAL TAX POLICY BEFORE THE TAX CUTS AND JOBS ACT (TCJA)

The unintended consequence of U.S. international tax policy prior to the TCJA was to disadvantage U.S. workers and U.S. investment. Under prior law, the United States had what has been described as a nominally worldwide system and a factually territorial system. The U.S. worldwide system subjected a U.S. company's profit to tax wherever earned around the globe, currently if the profit fell into categories deemed to be mobile or passive under subpart F, and upon repatriation for the remainder of its active business income. The U.S. system was also described as a hybrid system, and to be sure, it contained the most and least attractive features of both.

What the prior system sought to achieve was a level playing field for U.S. companies competing with foreign companies in countries with lower tax rates than the United States. The leveling of the playing field was temporary, lasting only until the profits were repatriated, but the benefit allowed U.S. headquartered companies to compete in foreign markets with companies subject to lower tax rates. That matters because being globally competitive increases the value of U.S.-created assets and intellectual property that are deployed to serve markets around the globe, increasing investment in these assets and creating more and better paying jobs for American workers. It is understood by business executives and shown by academic research that U.S. companies' foreign investments benefit American workers because they create more jobs in the United States—a point also made by Prof. Hanlon in her testimony to the committee last week.

The unfortunate result of the prior system is that it disincentivized the reinvestment of foreign profits in the United States to the detriment of American workers. U.S. investments needed not only to pass an investment hurdle rate, but they also had to generate a return sufficient to cover the added tax owed on repatriation of the profit. The growing differential between the U.S. corporate rate and that of other OECD countries made it increasingly costly to repatriate earnings to the United States, an effect evidenced by the growing amounts of foreign "permanently reinvested earnings" reported on U.S.-headquartered companies' pre-2018 financial statements.

The "permanently reinvested earnings" were often referred to as "untaxed profits" though the reality was that most earnings had been taxed by the foreign country where the earnings originated (in some cases, the same earnings were taxed by more than one country), and the only sense in which the sums were untaxed was by the United States. By deferring the taxation of the earnings until they were repatriated, the United States eased the uncompetitive nature of its relatively high corporate rate but discouraged the reinvestment of foreign earnings in the United States. From the perspective of the American worker, the pre-TCJA playing field was not level.

The U.S. corporate tax rate, highest among OECD countries, coupled with a worldwide system affected values in merger and acquisition transactions. Assets could fetch a higher price from foreign buyers who would not be subject to U.S. taxes on their foreign operations and could minimize their tax burdens.[1] A benefit of a merger and acquisition transaction with a foreign headquartered company was the possibility of redomiciling the U.S. company's headquarters outside of the

[1] Andrew Lyon, "Insights on Trends in U.S. Cross-Border M&A Transactions After the Tax Cuts and Jobs Act," *Tax Notes International,* October 26, 2020, pp. 497–507.

United States. In effect, higher tax costs put a discount on the value of business assets in the hands of American owned companies.

The loss of a corporate headquarters can have broad consequences for both the local community and the governments where the headquarters were located. The migration of headquarters jobs overseas can lead to diminished Federal, State, and local revenue and to potential follow-on job and investment losses for the shops, restaurants, businesses, and charities that depended on or benefited from the activities and employment of the corporate headquarters. The loss of corporate headquarters jobs can also reduce local civic involvement adversely affecting charitable, cultural, and educational institutions.

The OECD observed the United States' tax system pre-2017 was out of sync with the rest of the world, which had reduced corporate tax rates, adopted territorial tax systems, and enacted laws to safeguard their domestic tax bases. Other governments also relied increasingly on consumption taxes like the value-added tax (VAT) as a mechanism to meet their revenue needs. The premise underlying the OECD's Base Erosion and Profit Shifting (BEPS) project, commenced in 2013, was the instability of the international tax regime. The distortion of investment decisions caused by United States' policy pre-TCJA contributed to the instability. The increasing amounts of "permanently reinvested earnings," attributable to the United States' high rate and worldwide system, became an attractive target for other governments as a perceived unclaimed pot of earnings.[2] The United States failed to stake its claim or counter the stateless income assertion until the "untaxed," "nowhere," and "stateless" income labels had stuck. The labels skewed the global political debate because they created the appearance that the earnings belonged nowhere and consequently were up for grabs. Although the perception should have been changed by the TCJA's enactment, with its tax on accumulated unrepatriated foreign earnings and its new global minimum tax on foreign income referred to as GILTI, that has not been the case. While that was a failing more of messaging than of substance, it was not without consequence. To wit, foreign government complaints of unfair competition based on companies not being taxed shifted quickly to complaints, not about *whether* the companies were being taxed, but to *where* the companies were being taxed. Foreign governments, it turned out, cared not so much about perceptions of unfair competition as they cared about asserting jurisdiction to tax a share of U.S. companies' global profits.

POLICY COALESCENCE AROUND THE NEED FOR AND SHAPE OF CHANGE

U.S. international tax policy before 2017 was an inherently unsustainable system, a fact that was broadly recognized on a bipartisan basis before 2017. Chairman Wyden, you were a leader in this area with your bipartisan comprehensive tax reform bill in 2010 lowering the corporate rate to 24 percent and significantly broadening the base. Other Democrats, including President Obama and then-Vice President Biden, and Republicans, beginning with then House Ways and Means Committee Chairman Dave Camp, put forward proposals to lower the corporate rate, broaden the corporate base, and transition to an international system that ended the disincentive to repatriate foreign earnings. Then Finance Committee Chairman Max Baucus likewise put forward proposals to reform the international tax rules. This committee's working group on international tax reform, chaired by Senators Portman and (now Majority Leader) Schumer, called for a dividend exemption system with "robust and appropriate base erosion rules" that would end the disincentive to repatriate foreign earnings. The international tax reform working group also examined the need to make the United States a more hospitable environment for headquartering companies and to reduce the corporate rate. In 2014, Senator Cardin introduced legislation that coupled a 10 percent VAT with a reduction in the corporate tax rate to 17 percent.

To be sure, there were differences among the many proposals put forward, but the differences were of degree, not direction.

The OECD's BEPS project, which was explicitly about closing loopholes and gaps in the tax systems between countries and not about reallocating jurisdiction to tax global profits, included a number of "best practices" to prevent base erosion and profit shifting. Some of the OECD's recommendations reflected concepts originated

[2] Companies headquartered in countries with territorial tax systems received a comparable but permanent benefit, meaning that unlike U.S. companies, there was no similar residual tax claim to report on their financial statements.

in and advocated for by the United States. Whether the BEPS recommendations motivated TCJA provisions, many of the recommendations were enacted in TCJA.

INTERNATIONAL TAX POLICY AFTER THE TCJA

As an observer of the legislative process, the TCJA's corporate reforms reflect a remarkable triumph of bipartisan policy development, despite the ultimate absence of Democratic votes for the final legislation. It lowered the corporate rate, taxed offshore earnings, ended the disincentive to reinvest foreign earnings in the United States, and adopted a number of provisions intended to protect the U.S. fisc from base erosion and profit shifting, many of which were also among the OECD's BEPS recommendations. These include anti-hybrid rules, tightened transfer pricing rules, and interest deduction limitations. TCJA included not just one minimum tax but two aimed at cross-border transactions and foreign earnings (*i.e.,* GILTI and BEAT), thus far surpassing the OECD's recommendations. In addition to the overall corporate rate reduction—possibly the greatest base protection measure any country can enact—TCJA also included an incentive for the use of intangibles in the United States that aimed to level the playing field for American jobs and investments and correct the imbalances of the prior system.

The TCJA and its base broadening provisions, in particular, have generated criticism as too generous and too onerous. The mutual dissatisfaction may suggest an appropriate balance was struck. Tax return data for the period since the TCJA was enacted is not yet available but initial data on the activities of U.S. multinational companies collected by the Bureau of Economic Analysis are quite favorable. According to the BEA, U.S. multinational companies grew faster in 2018 in their U.S. employment, U.S. value added, and U.S. investment in plant, equipment, and research and development than in their corresponding foreign activities. In fact, growth at home by these U.S. companies in terms of their employment, value added, and investment was above their average growth rate of the past 20 years.[3] In addition, the BEA has reported that U.S. companies have repatriated $1.5 trillion in foreign earnings to the United States since the enactment of TCJA through the third quarter of 2020—this is more than three times greater than the amount repatriated over a similar time period prior to the enactment of TCJA.

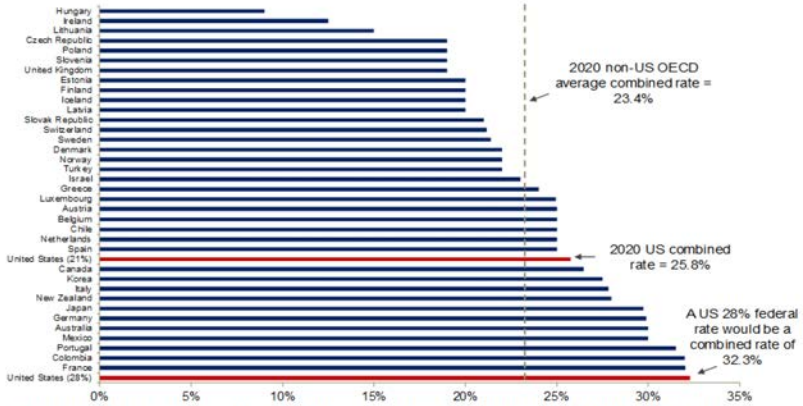
What follows are further observations regarding the TCJA's provisions that are most significant and that have garnered the most attention, positive or negative.

Corporate rate. Reducing the corporate tax rate was the single most significant change Congress could have made to address base erosion and increase the attractiveness of the United States as a location for investment and job creation. The lower rate reduces the incentives for, and rewards from, efforts to avoid taxes. The flip side is it increases the rewards from hiring and investing in the United States. The 21-percent corporate rate, after taking into account State and local taxes, dropped the United States from its highest ranking among OECD countries, a position we occupied for a number of years, to the middle of the pack.[4]

[3] Bureau of Economic Analysis, "Activities of U.S. Multinational Enterprises, 2018," News Release BEA 20–40, August 21, 2020, available at: *https://www.bea.gov/news/2020/activities-us-multinational-enterprises-2018.*

[4] In 2020, the United States had the 12th highest combined Federal and State statutory corporate rate in the 37-country OECD, and the U.S. rate was 2.3 percentage points higher than the average rate of the other 36 countries. On a GDP-weighted basis, the United States was less than 1 percentage point below the average of the other OECD countries.

Figure 1. US corporate rate relative to other OECD countries



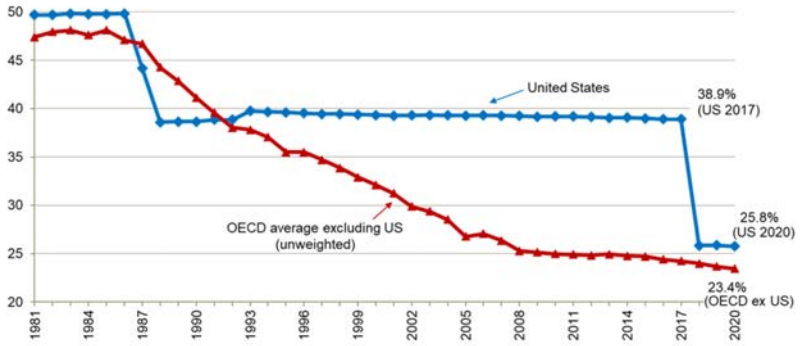
Note: France has enacted a 25% rate effective in 2022. Colombia enacted a phased reduction to 30% in 2022.
The UK has announced a 25% rate effective in 2023.
Source: OECD and PwC calculations.

The notes to the chart above indicate there are two scheduled rate reductions yet to take effect—France and Colombia—and one rate increase—the United Kingdom. The chart also indicates where the United States would stand if it were to increase its Federal rate to 28 percent: including State and local taxes, the United States would again be number one, and not in a good way, undoing the benefits of the TCJA that incentivize investing and job creation here. With scheduled rate reductions in France and Colombia, even a 25 percent rate would put the United States effectively in a tie for second place, behind only Portugal. That is a contest we do not want to win.

Recently, concern about a "race to the bottom" has garnered significant attention. The facts suggest the race to the bottom, if there was one, has evolved to a race to the middle. As can be seen in the chart below, the United States had first-mover advantage when it enacted the Tax Reform Act of 1986, moving from a rate above the OECD average to a rate below it. But that is where the United States remained, except for a one percentage point increase in 1993. Other countries initiated their own rate reductions in the 1980s and 1990s, and soon left the United States behind. Indeed, in 2016, President Clinton, who signed the legislation raising the corporate rate to 35 percent, noted "I was the President who urged it to be raised to 35 percent, but when I did it, it was precisely in the middle of OECD countries. It isn't anymore."[5] Based on PwC's calculations from OECD data, approximately 90 percent of the global corporate tax rate reductions between 1981 and 2020 had occurred by 2007. The two countries with upcoming reductions scheduled are currently the first and second highest on the previous chart. The reductions will leave them at or above the OECD average. As the notes indicate, the United Kingdom has proposed an increase in its corporate tax rate to 25 percent, which would put it in the middle of the OECD pack, but still below the current U.S. all-in rate.

[5] *https://www.cnbc.com/2016/09/21/bill-clinton-supports-lower-corporate-tax-rate-says-reasoning-for-tpp-clear.html.*

Figure 2. Statutory (Federal and State) Corporate Income Tax Rates, OECD, 1981-2020



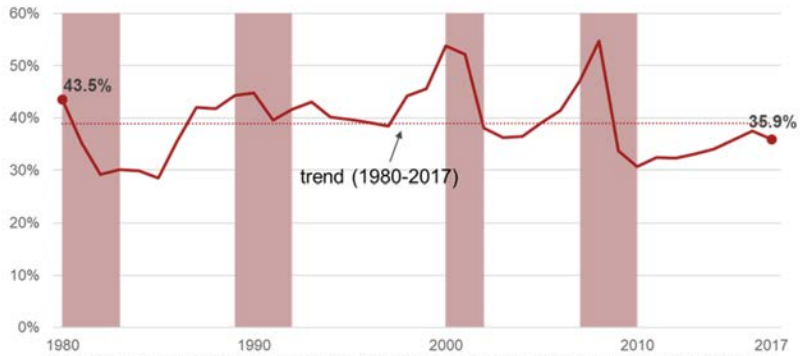
Source: OECD and PwC calculations.

Tax rate changes are easier to understand than changes to the tax base to which the tax rate is applied. That may explain why tax base changes are generally overlooked, even though the tax base change may be more significant or even offset the effect of the rate change. Both the U.S. tax rate changes in the Tax Reform Act of 1986 and in the TCJA were accompanied by significant broadening of the corporate tax base. Applying a lower rate to a broader base means that many companies did not see a change in their tax liabilities despite the significant drop in the rate. Some industries calculated that the base broadening provisions in the TCJA completely offset the rate reduction. A rate increase with the same TCJA base for these industries will increase the cost of doing business in the United States above the cost before enactment of the TCJA.

Base broadening has often accompanied rate reduction in other countries as well. Going the other direction, the United Kingdom's corporate tax rate increase is to be preceded by significant base-narrowing investment incentives that will offset the impact of the rate increase. The coupling of rate andtax base changes likely accounts for the fact that corporate receipts as a share of corporate income have stayed relatively unchanged despite the general trend of rate reduction. The chart below illustrates the constancy of U.S. corporate tax receipts over time, taking into consideration only the domestic income of corporations that are taxed under the corporate income tax and excluding the income of S corporations, whose owners are taxed directly on all income under the individual income tax.[6]

[6] It is important to account for the increased share of business income earned by passthroughs, such as S corporations, when evaluating tax revenues collected on business income. For example, IRS data indicate that in 1980, S corporations earned only 1 percent of the income earned by C corporations, but by 2016 they earned nearly 50 percent of the income of C corporations.

Figure 3: Corporate Income Tax Payments as a Percentage of BEA Corporate Domestic Income (adjusted for C corporations only)



Recession periods shaded. 2017 tax excludes $250 billion Sec. 965 accrual charge, which is recorded by BEA as a capital transfer to government, analogous to a wealth tax and not an income tax. BEA corporate income is adjusted to remove income of Federal Reserve Banks, S corporations, and nonprofit entities.
Source: Bureau of Economic Analysis and PwC calculations.

Mandatory deemed repatriation of foreign profits. Because of the high rate differential between the United States and other countries, U.S.-headquartered companies had accumulated significant profits outside the United States. The mandatory deemed repatriation of all of those profits wiped the slate clean, subjecting all of the foreign earnings to tax and allowing companies to repatriate the earnings for reinvestment in the United States. The tax cost of the deemed repatriation, even paid over a period of 8 years, was significant for many companies, especially those whose foreign investments were treated as cash and subject to tax at the higher rate. Going forward, however, it reduced borrowing needs, simplified Treasury functions, and facilitated investing and job creation in the United States.

Minimum taxes. TCJA included two minimum taxes: the tax on global intangible low-taxed income (GILTI), which was drawn from the proposals put forward by President Obama, former Chairman Camp, former Chairman Baucus, and other members of Congress; and the base erosion and anti-abuse tax (BEAT), a new starter that denies a deduction, generating an additional tax liability, if the U.S. taxpayer's payments to foreign affiliates exceed a percentage threshold. Relative to the norms of international taxation, both GILTI and BEAT have quirks. GILTI, for example, limits foreign tax credits to 80 percent and permits no carryover of unused credits. BEAT applies without regard to whether the deductible payments are subject to tax in the jurisdiction to which they are paid, which is the jurisdiction with primary taxing rights. BEAT was designed and intended to create a level playing field and operates as such. It applies equally to payments to foreign-headquartered companies and foreign affiliates of U.S.-headquartered companies providing cross-border services to their U.S. affiliates.

There are other features that produce unintended results. Under the GILTI rules, for example, expense allocation against foreign income can push the tax rate above the foreign country's rate, even when that rate exceeds the U.S. statutory rate. The mechanics of BEAT make it a procyclical tax. Despite steps being taken to reduce the difficulty of compliance, such as computing GILTI on a global rather than country-by-country basis, both taxes add considerable complexity to the tax code.

GILTI, like other minimum tax proposals, is designed to reduce opportunities for base erosion and ensure all income from intangible assets is subject to a minimum level of tax. It has been asserted that TCJA created incentives to shift income offshore, but that is simply untrue. GILTI applies to profits that under prior law would not have been subject to U.S. tax unless and until they were repatriated to the United States. The 13.125-percent tax (that GILTI generally equates to after factoring in the foreign tax credit haircut), applied currently, clearly reduces the pre-TCJA incentives to create and hold assets outside the United States, deferring tax

indefinitely. If the GILTI rate were increased, for example, by reducing the 50-percent exclusion, then U.S.-headquartered companies would be subject to significant additional tax on much of their foreign income that foreign-headquartered companies are not.

While the connection of foreign operations to American workers, jobs, and investments is not always obvious, burdening U.S. companies with an expense not borne by their foreign competitors will cost them opportunities. As mentioned at the outset of my testimony and as Professor Hanlon noted in her testimony at last week's hearing, a U.S. company's foreign operations create jobs here in America. This is an important point to consider in the design of U.S. international tax policy: growth abroad creates jobs at home. Conversely, lost opportunities abroad are likely to translate to fewer jobs and reduced investments in the United States.

Examples are often given of facilities built abroad that, it is asserted, could have been built in the United States, but many industries serve markets around the globe and can only do so if they have facilities from which to serve those markets. Hotels, restaurants, and stores are obvious examples, but so are plants that manufacture products for which shipping costs from the United States to the foreign market would be excessive relative to the value of the product or to satisfy local content requirements. The foreign operations of those U.S. companies require supporting headquarters jobs for American workers and mean a stronger and healthier employer. Setting a tax rate on those foreign operations that exceeds the tax borne by their competitors in the local market could cost American workers their jobs.

There are proposals to eliminate the exception from GILTI of a 10-percent return on qualified business asset investment (QBAI), which are the tangible assets a company uses in its foreign operations. When first devised in the minimum tax context, the 10-percent return on tangible assets served as a rough proxy for intangible income. If the return exceeded 10 percent, it was deemed to be intangible income. Concern about the mobility of intangibles is what generated the minimum tax proposals and what motivated the OECD's BEPS project. Thus, the exception for a return on QBAI is a means of measuring the intangible income—the excess of the 10-percent return on QBAI—that should be captured by a minimum tax. In effect, it recognizes the primary taxing right that the country in which the operations are located has to income from the tangible assets there. Including that income in GILTI would increase opportunities for double taxation and disputes. The QBAI exception allows U.S. companies to compete on a level playing field with foreign companies with respect to investments in tangible assets that yield normal rates of return, by subjecting them to only the foreign tax rate in the country in which the tangible assets are located. A 10-percent return on fixed assets is not what minimum taxes were intended to capture.

Concerns have been expressed that QBAI and other features of GILTI may encourage companies to invest outside of the United States. The BEA data described above is compelling evidence that should lay the concern to rest. It indicates that U.S.-headquartered companies' investment in property, plant, and equipment in the United States increased faster than in their foreign affiliates. The BEA data also put the U.S. growth rate above its 20-year average. Anecdotally, I am unaware of any company being induced by the design of GILTI to invest outside the United States. Indeed, articles have been written on the benefits of electing into subpart F, full current taxation of foreign income, as preferable to GILTI.[7]

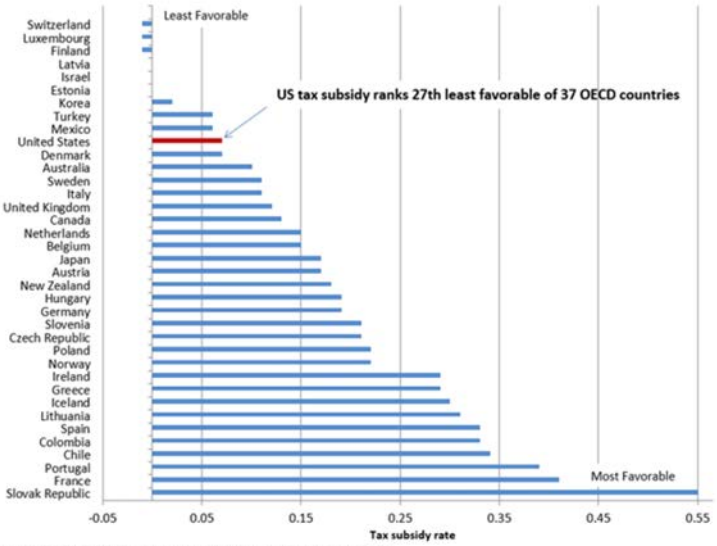
The deduction for foreign-derived intangible income (FDII) was designed and intended to create a level playing field in the tax rate applied to U.S. income derived in foreign markets from products and services. It uses the same rough proxy as GILTI for computing income from intangible assets—the excess over a 10-percent return on fixed assets—and the 37.5-percent deduction against a 21-percent corporate rate yields a 13.125-percent rate for FDII. The goal of the deduction is to equate the tax rate applicable to intangible income whether generated in the United States or abroad. The GILTI tax rate is scheduled to increase after 2025, with a matching adjustment to FDII, keeping the tax rates equal.

Other TCJA base broadening provisions. In addition to the lower rate, the tax on unrepatriated foreign profits, two minimum taxes, and other international changes that fell into the OECD's "best practices" category, the TCJA included a switch from expensing to capitalization and amortization of R&D expenses. Since R&D received significant attention from the committee at last week's hearing, I will only observe

[7] Libin Zhang, "To the Frying Pan: New Virtues of Subpart F Income Over GILTI," *Tax Notes* [TA], July 2, 2018, pp. 73–81.

that there is tremendous global competition for R&D jobs. Why? Because companies' R&D investments create jobs and have knock-on effects that positively affect investment and the economy. Every decision to conduct R&D elsewhere makes it more logical to make the next investment elsewhere. Some countries, including China, recognize the knock-on effects and are willing to offer subsidies and deductions equal to multiples of the R&D expense in order to attract R&D investment. Others offer favorable treatment of income generated by R&D through intellectual property incentives (so called "IP box regimes") to which FDII is a partial response. The United States already ranks 27th least favorable out of 37 OECD countries in R&D tax incentives, before capitalization and amortization of R&D becomes effective, weakening our position further. For the benefit of American jobs and investments, the United States should give careful consideration to the comparability of its R&D tax incentives to those of other countries to maintain its leading position in the global economy.

Figure 4: Tax Subsidy Rates on R&D Expenditures of Large Profitable Firms, 2020



Source: OECD, R&D Tax Incentive Database, December 2020.

WHERE SHOULD INTERNATIONAL TAX POLICY GO FROM HERE?

The OECD's project on taxation of the digitalizing economy is not on the list of topics for this hearing, but it is the elephant in the room. As was the case with the BEPS project that preceded the digitalizing economy project, the U.S. Treasury has been a very active participant in the discussions. As was also the case with the BEPS project, the work began and proceeded without the direction of Congress that ought to precede a discussion in which the allocation of U.S. taxing jurisdiction is at stake. Members of Congress, including in particular the leaders of this committee, have been vocal in stating their opposition to digital services taxes, ring-fencing the digital economy for tax purposes, and changes in international tax agreements that target U.S. companies, and they have stated their desire for resolution through multilateral discussions at the OECD rather than unilateral measures. No congressional guidance has been provided, however, regarding the content of the agreement even though the proposals on the table would require legislation and, in addition, amendments to treaties or the entry into a multilateral instrument, both of which would require Senate ratification. Waiting for the Treasury Department negotiators to return with a deal is too late to begin consideration of what the Senate would like to see in it.

One part of the digitalizing economy project—"Pillar 2"—matches up relatively well with the two minimum taxes enacted in the TCJA. Pillar 2 proposes that countries enact a global minimum tax that resembles GILTI and an undertaxed payments rule that resembles BEAT. The Pillar 2 version of BEAT may be better designed than BEAT, but avoiding multiple levels of taxation will require careful coordination with the global minimum taxes, and logically the minimum tax should have priority in determining whether a deductible payment is undertaxed. Only time will tell whether other countries' implementation of Pillar 2 follows this construct, or whether they use the template of Pillar 2 as an opportunity to enact an undertaxed payment rule, denying deductions for or imposing withholding taxes on payments to U.S. companies.

Secretary Yellen has voiced support for the OECD project, noting that a global minimum tax would put a floor under corporate tax rates and end the "race to the bottom." As previously noted, the facts suggest a race to the bottom in headline corporate tax rates may be a thing of the past, but that said, broadly subjecting foreign-headquartered companies to the same kind of a minimum tax as U.S.-headquartered companies may help level the playing field. The problem with a minimum tax—unless other countries follow suit—is that it can disadvantage a country's own headquartered global companies relative to foreign companies. GILTI, for example, raises the tax paid by U.S.-headquartered companies on their foreign operations, but it cannot raise the tax paid by foreign companies on their foreign operations. A robust OECD agreement pursuant to which all or most other countries with major corporate headquarters enacted similar minimum taxes could be beneficial to U.S. companies.

There are three concerns with this rosy scenario.

The first is that there are questions whether GILTI would be considered a compliant minimum tax under Pillar 2. It is passing strange for countries, none of which have enacted minimum taxes, to pass judgment on whether GILTI is sufficiently stringent, but setting that aside, the OECD has acknowledged that GILTI is more stringent overall in its application than the Pillar 2 design. GILTI could be amended to bring it into greater conformity with the details of the Pillar 2 design, but note that that would require Congress to enact legislation the terms of which would be dictated by the OECD.

If GILTI does not qualify—and other countries' treatment of U.S. companies under their anti-hybrid rules demonstrates their willingness to not treat GILTI as a compliant minimum tax—then U.S.-headquartered companies may be subject to the implementation of the undertaxed payment rule in any country that adopts that part of Pillar 2, resulting in double tax on U.S. companies and/or revenue loss to the U.S. fisc.

The second concern is whether other countries would enact the agreed-upon minimum taxes. The concept of a foreign minimum tax has been around at least since the late 1990s when the OECD launched work on "harmful tax competition." Interest in the concept returned when President Obama proposed a foreign minimum tax, Chairman Camp included it in his draft international legislation, and the Obama Treasury pushed for inclusion of foreign minimum taxes as an action item in the OECD's BEPS project. Despite more than 20 years of international attention to the concept, no country other than the United States has chosen to enact one or, to my knowledge, entertained the possibility of doing so.

Countries may sign on to a Pillar 2 agreement but fail to enact an effective foreign minimum tax on their multinational companies, giving them a competitive advantage while denying deductions or imposing withholding taxes on payments made by U.S. multinationals to both their foreign affiliates and to the U.S. parent. The complexity of the OECD's proposed approach alone will discourage many countries from proceeding. It will be difficult to prevent countries from simply selecting those aspects of the Pillar 2 framework that appeal to them or can easily be implemented (like denying deductions or imposing withholding taxes) while failing to implement the meaningful minimum tax that should be the foundation of Pillar 2.

A crucial unknown is at what level the Pillar 2 minimum tax rate will be set. Most discussions assume a rate comparable to Ireland's 12.5 percent. At 13.125 percent, the U.S. GILTI rate is already higher and will be several points higher when the scheduled change to GILTI takes effect in 2026. Pillar 2 will not provide a floor that protects U.S.-headquartered companies, particularly if President Biden's proposed increase in the GILTI rate is enacted.

The third concern is that some countries that have displayed little interest in Pillar 2 refuse to agree to Pillar 2 without the reallocation of taxing jurisdiction that is Pillar 1, and Pillar 1 is a whole different kettle of fish.

The BEPS project was *technically* difficult. It required the identification of loopholes in and between national taxing regimes that allowed income to fall into gaps and one country's tax system to be used to erode the tax base of another. It also required determining and agreeing on the best method of closing those loopholes and gaps. Although BEPS has had limited time to work, the anecdotal evidence suggests it has had (and continues to have) a significant effect on business operations that have been adjusted to satisfy BEPS's substantive requirements.

Although technically difficult, BEPS was politically easy because it did not seek to reallocate companies' global profits among countries, but rather to align corporate taxation with economic activity and ensure all profit was booked *and taxed* in the location of the economic activity. BEPS brought countries an expectation of increased tax revenue, not that they would be asked to reallocate global profits within their taxing jurisdiction to another country. This politically fraught question is exactly what Pillar 1 puts on the table.

Pillar 1 diverges from longstanding international tax rules and no discernible economic (or other) principle underlies it. It is true that technological advances permit a company to operate in a country without a physical presence, but borders open to trade have allowed market access for sales of products for decades, if not centuries. That has not led to countries in which sales are made requiring payment of income tax on a share of the product manufacturer's global profits.

The Pillar 1 discussion would have an effect on U.S. taxing rights that differs from any other country. Based on information PwC has gathered, over half of the global profits taxable by market countries under the Pillar 1 proposal are profits of U.S. companies. It should not be a surprise then that the United States Treasury has been reticent about agreeing to Pillar 1. Rather than acknowledging the surrender of taxing jurisdiction the proposal asks of the United States, however, the OECD discussion has largely revolved around not whether, but how much of global profits to reallocate.

In exchange for agreeing to Pillar 1, the United States received two commitments: (1) agreement that other countries will repeal or refrain from implementing "unilateral" measures such as digital services taxes that target U.S. companies, and (2) agreement to mandatory binding dispute resolution procedures to resolve intergovernmental disputes over taxing jurisdiction. The first is hard to square with continuing proposals for or adoption of digital services taxes without plans to roll them back once OECD agreement has been reached. To the credit of Secretary Yellen's negotiating team, however, defining a "unilateral measure" has been added as an OECD workstream. Reports indicate the second has encountered unyielding resistance from governments unwilling to surrender control over tax disputes.

To borrow Hegelian dialectics—we have thesis, we have antithesis, but we are nowhere near synthesis. There are many other significant issues to be resolved under Pillars 1 and 2. The details of these are matters with which this committee should be familiar because they will land in your lap: the expectation is that an agreement reached at the OECD will be implemented by the United States Congress. These details may affect the latitude the committee has to design and enact policies you believe are in the best interest of American workers, jobs, and investments.

Perhaps most important, whatever the outcome of the OECD negotiations, other governments are going to act, and they will act in a manner they believe will foster the interest of workers, jobs, and investments in their countries, not in the United States.

CONCLUSION

The committee's focus on international tax policy's effect on American workers, jobs, and investments is timely and proper. As the committee considers tax policy changes, whether directly to the international provisions or to the provisions that determine the attractiveness of the United States as a place to invest and create jobs, it will be important to apply lessons from the past and understand how the actions of other governments will affect American workers, jobs, and investment. U.S. policy-makers do not operate in a political or economic vacuum.

Thank you again for inviting me to testify. I would be pleased to answer any questions you may have or otherwise to assist the committee in its important work.

QUESTIONS SUBMITTED FOR THE RECORD TO PAMELA F. OLSON

QUESTIONS SUBMITTED BY HON. MIKE CRAPO

Question. The nonpartisan Joint Committee on Taxation (JCT) has estimated that 25 percent of the corporate income tax is borne by workers. More recent estimates have concluded that the amount of the corporate income tax borne by workers is closer to 50 percent. Do you agree that the percentage of the corporate tax borne by workers is at least 25 percent? If not, why do you believe the JCT analysis is incorrect?

Answer. Estimates of the portion of corporate income tax burden borne by workers with which I am familiar range from 20 to 70 percent. Estimates at the high end of the range are based on the openness of the global economy. Given the openness of the U.S. economy, 25 percent seems like a conservative estimate. The experience post-Tax Cuts and Jobs Act and pre-pandemic may provide empirical evidence of the burden of the corporate tax falling on workers given the decline in the unemployment rate, especially among groups subject historically to higher unemployment rates, and the rise in wages among low- and moderate-income workers.

Question. The Global Intangible Low-Taxed Income (GILTI) minimum tax provides an exclusion for a return on tangible assets (Qualified Business Asset Investment or QBAI). The provision has been criticized by Dr. Clausing and Ms. Huang for encouraging offshoring. However, the Organisation for Economic Co-operation and Development (OECD) Pillar 2 minimum tax being considered provides an exclusion similar to QBAI, although the proposed Pillar 2 exclusion would exempt a return attributable to both tangible assets and payroll. Even President Obama's proposals for a minimum tax provided an exclusion for a return on active assets "to exempt from the minimum tax a return on the actual activities undertaken in a foreign country."

Isn't this type of exclusion a normal feature of a global minimum tax because there is a recognition that profits attributable to hard assets are less susceptible to profit shifting, and returns on hard assets are normally taxed by the local jurisdiction? Do you believe the OECD Pillar 2 proposal would encourage domestic companies to invest in foreign jurisdictions?

Answer. Yes, the QBAI exception in GILTI focuses the provision on income for which there is a risk of profit-shifting and recognizes the primary jurisdiction of the foreign country to tax the activities undertaken there. Eliminating QBAI would change GILTI from an anti-base erosion measure to a trade protectionist measure, burdening the foreign operations of U.S.-based companies, but not their local or foreign-headquartered competitors. It is my personal experience that QBAI does not incentivize companies to relocate operations from the United States or to increase their investment in foreign jurisdictions. It merely provides U.S.-headquartered businesses a level playing field on which to compete with foreign-headquartered companies. Based on that experience, I would not expect the Pillar 2 proposal's exemptions to encourage domestic companies to invest in foreign jurisdictions.

Question. Dr. Clausing says in her testimony that the corporate tax is an efficient tax. However, many economists, including those at the OECD, find that the corporate income tax—out of all the different types of taxes countries impose—is the most harmful to economic growth. In their report—"Tax and Economic Growth," the OECD economists say "lowering statutory corporate tax rates can lead to particularly large productivity gains in firms that are dynamic and profitable, *i.e.,* those that can make the largest contribution to GDP growth."

Do you agree or disagree with the OECD economists on this point? Couldn't raising the corporate tax rate have the opposite effect and cause a drag on economic growth?

Answer. I agree with the OECD economists who concluded the corporate tax is the most inefficient tax and favor consumption taxes like a VAT to raise revenue. Raising the corporate tax rate would remove capacity from businesses to invest in their workforce, in property, plant, and equipment, and in R&D, all of which are tied to a healthy, thriving economy.

Question. The administration has proposed significantly raising the corporate statutory rate and the GILTI rate. The GILTI minimum tax already imposes a higher rate of tax on foreign income of U.S. companies than other countries apply to the foreign income of their domestic companies.

If the OECD fails to reach an agreement or if member states fail to adopt the agreement, the effect would be even higher comparative effective tax rates on U.S. businesses, potentially a differential of an effective minimum tax rate of over 21 percent compared to 0 percent imposed by most foreign countries.

In answering a question on the effects of the TCJA reforms on locating or maintaining a U.S.-based business in the United States, Ms. Olson said that higher levels of taxation imposed on U.S. companies would discount the value of assets in the hands of a U.S. company. Over time, the diminution in the value of those assets would make them, relatively speaking, more valuable in the hands of foreign-owned companies. Doesn't this impact on asset value have to be true? Is there any reason to ignore this basic financial reality?

Answer. Tax is a cost that is factored into calculations of returns on investment and thus affects the amount a company can pay for or invest in assets to generate a positive return. The higher the costs, including tax, the lower the amount the company can pay for the assets. Subjecting U.S. companies to tax in excess of the tax imposed on foreign competitors gives the foreign competitor a cost advantage. It makes business assets less valuable in the hands of a U.S. company than a foreign company. Over time, that will give rise to an increase in the "invisible inversions" to which Professor Hines referred in his testimony. This will have an effect on where production is located, where R&D occurs, and where companies are headquartered. Deriding this financial reality as an M&A scorecard ignores the significant economic loss to communities that have benefited from a business presence, particularly headquarters locations, when a U.S. company is acquired and becomes foreign-owned.

Question. The U.S. Congress cannot write the rules for sovereign members of the G7, G20, or the OECD. That is the case even if the OECD were to reach an Inclusive Framework agreement. The Peoples Republic of China, for instance, America's greatest economic rival, has indicated skepticism towards the OECD Inclusive Framework. Without such an agreement, wouldn't the United States be unilaterally raising the comparative effective tax rates of U.S.-based companies to uncompetitive levels? How should Treasury proceed if other countries, such as China, are not willing to impose a global minimum tax? The United States was already a first mover with GILTI. Why should the United States move again before other countries move at all?

Answer. Yes, most other OECD countries have territorial systems that subject their companies' foreign operations to no or only de minimis levels of tax. Through the enactment of GILTI, the United States has already put a higher tax on U.S.-headquartered companies' foreign operations than the tax imposed by other governments on their companies' foreign operations. The Biden administration's proposal with the current law denial of 20 percent of foreign tax credits would increase the rate imposed on U.S. companies' foreign operations to more than 26 percent, meaning U.S. companies—unlike their foreign competitors—would pay a minimum tax in addition to the local corporate tax on their operations in more than three-quarters of EU countries, more than two-thirds of OECD countries, and China, based on the statutory tax rates in these countries.

The concept of a global minimum tax has been the occasional subject of discussion for at least 25 years. It was considered by the OECD beginning in 1996 and was proposed by the Obama administration for inclusion in the OECD's BEPS project in 2013. Both times, the concept failed to attract the interest of other governments. After the United States enacted GILTI in 2017, the OECD again began considering minimum tax options. It is worth noting that while the minimum tax has been the subject of discussion, no country has followed the United States' lead and enacted its own minimum tax. With that historical background, it would be prudent to await OECD Inclusive Framework agreement on Pillar 2 and its implementation by other major countries, including China, before enacting any changes to GILTI that would further disadvantage U.S. companies.

Question. Chairman Wyden and Dr. Clausing engaged in a dialogue where Chairman Wyden went as far as to question the policy motives of those on the Republican side as using competitiveness as simply "code" for cutting taxes for "mega-corporations." Do you believe that tax policies that raise the effective tax rate on the foreign operations of U.S. businesses well above that of their foreign competitors has no effect on their ability to succeed in foreign markets?

Answer. Higher taxes on foreign operations mean U.S.-headquartered companies incur higher costs than their foreign competitors, which will make it more difficult

for U.S. businesses to gain and maintain market share absent some advantage over their competitors. When U.S. companies do not succeed in foreign markets, it costs the jobs in the United States that support the foreign market operations, reduces the value of the companies, and shrinks the U.S. tax base.

Question. The administration and Dr. Clausing have, in my view incorrectly, described both Foreign Derived Intangible Income (FDII) and GILTI as provisions that encourage offshoring. As you know, FDII works in tandem with GILTI. While a competitive effective tax rate is needed to prevent GILTI from harming the competitiveness of U.S. corporations relative to their foreign competitors, FDII is important as a disincentive to moving intangible property offshore. To quote from the legislative history of FDII:

> [O]ne of the committee's goals in tax reform is to remove the tax incentive to locate intangible income abroad and encourage U.S. taxpayers to locate intangible income, and potentially valuable economic activity, in the United States.

The administration has proposed the repeal of FDII. Do you believe that doing so would risk undermining the attractiveness of the United States as not only a location for holding intangible property, but also as a place for high-paying jobs in research and manufacturing?

Answer. Yes, repealing FDII would make the United States a less-attractive location for holding intangible property and for locating the jobs, such as R&D, that produce valuable intangible property (IP). Many other countries have enacted "IP boxes" or similar incentives to encourage the location of activities such as R&D within their borders. Relative to other countries' IP incentives, FDII provides a modest incentive to locating IP-producing activities in the United States. As noted in my testimony, the United States ranks 27th out of 37 OECD countries with respect to R&D tax incentives. Repealing FDII would further reduce the United States' ranking.

Question. Dr. Clausing testified that U.S. corporate tax revenues are significantly lower than the revenue collected by our trading partners. Chairman Wyden's statement concluded that "corporate tax revenues have fallen through the floor." What is the problem with comparing U.S. corporate tax revenues as a share of GDP to the corporate tax revenues of OECD countries as a share of GDP?

Answer. The United States has a large pass-through business sector, the income of which is reported on individual rather than corporate tax returns, relative to other OECD countries. The U.S. pass-through sector has increased significantly over the last 4 decades making a comparison of U.S. corporate taxes as a share of GDP relative to other countries highly misleading. In addition, the revenue cost of the business and international provisions of the TCJA were frontloaded, particularly due to full expensing of equipment investment. As a result, CBO projects that longer-term, corporate taxes as a percentage of GDP will rise much higher than in 2018 and 2019. Indeed, Joint Committee on Taxation projections show that the international provisions of TJCA are about revenue-neutral in 2027, excluding one-time deemed repatriation revenue. Through April 2021, fiscal year 2021 corporate tax revenues are about 60 percent higher than for the comparable pre-pandemic period in fiscal year 2019, though that could change later in the year as a result of pandemic-related net operating loss carrybacks.

Question. Since TCJA was enacted, it has been illustrated that under the existing GILTI structure, the effective GILTI rate of 13.125 percent is pushed significantly upward when the effects of expense allocation on the GILTI basket play out in practice. As a strong supporter of TCJA, I recognize that this policy outcome does not align with Congress' stated intent in the legislative history.

No matter what the outcome of next steps on the international reforms, shouldn't we expect this issue to be remedied?

Answer. Yes, the effect of the expense allocation rules is to subject foreign income to GILTI that is already subject to foreign tax at a rate much higher than 13.125 percent. In fact, expense allocation causes companies to be subject to GILTI whenever the foreign tax rate is above 13.125 percent, even when the foreign rate exceeds 21 percent. The expense allocation is a particular issue given the inability to carryover unused FTC. This problem would be exacerbated by the Biden administration's proposal to eliminate QBAI and convert the calculation from global to country-by-country. It is worth noting that, unlike GILTI, the OECD Pillar 2 minimum tax provides for loss and credit carryovers, which would produce less irrational results.

Question. If the expense allocation rules applicable to the GILTI foreign tax credit basket are considered, couldn't the policy proposed by the Biden administration create a GILTI rate that exceeds the 28 percent proposed headline corporate rate?

Answer. Based on the experience with GILTI as it is currently formulated, that seems likely. In addition, the Treasury Department has confirmed its plan to keep the 20-percent reduction of FTC under current law, which would increase the 21-percent rate to more than 26 percent without taking the expense allocation rule into account.

QUESTION SUBMITTED BY HON. JOHN BARRASSO

Question. The changes made by the 2017 Tax Cuts and Jobs Act (TCJA) encourage companies to invest in the U.S. and move their intellectual property back to the U.S.

Specifically, the competitive corporate tax rate, bonus depreciation, and foreign derived intangible income rules remove the tax incentive to locate intangible income abroad. These changes encourage U.S. taxpayers to locate intangible income, and potentially valuable economic activity, in the U.S. This was the fundamental objective of these provisions. However, testimony provided during the hearing points to data from 2018—to argue TCJA failed at encouraging onshoring.

Given your experience and understanding regarding U.S. corporate strategic planning, how long would it take a company to analyze changes to U.S. law, restructure their operations and move those operations back to the United States?

Answer. Little happens overnight. Moreover, data from 2018 is too early to assess the effectiveness of the TCJA in attracting investment to the United States. Much of it is a snapshot of the last year before the TCJA. Fiscal year taxpayers did not become subject to many TCJA provisions until sometime during 2018, delaying until 2019 the reporting on their tax returns of the impact of the TCJA.

Although the high-level benefits of the TCJA were readily apparent and could be analyzed—the 21-percent rate, for example—other changes required regulatory guidance to provide necessary details regarding how the provisions would work. Although Treasury produced guidance on a remarkably short timeframe, some essential guidance took up to 3 years to produce. Once guidance was produced, companies had to analyze the details to determine the best course of action for their foreign operations.

After the analysis was complete, the time required to restructure operations would vary based on the type of operation. Some operations would require regulatory approvals to relocate, which can take many months or even years to obtain. Other property was more readily moveable—IP, for example. Based on the benefits readily apparent, some companies reported that they quickly moved IP back to the United States.

Stability matters to restructuring and relocation decisions. Parts of the TCJA either expire or become less advantageous over time. Even the parts of the TCJA that are permanent have been a cause of concern for companies that have questioned whether beneficial provisions such as the 21-percent rate and FDII would be changed by subsequent Congresses. Some companies have been reluctant to move IP or operations to the United States without confidence in the long-run stability of the system. The changes to the TCJA under consideration illustrate the reason for those concerns.

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. As the author of 2004 legislation that cracked down on so-called inversion transactions, I've long been concerned about companies moving overseas simply to avoid U.S. tax. But, I've always understood inversions as a symptom of our outdated and anti-competitive corporate tax code. In 2017, we modernized our international tax system and brought our corporate rate in-line with other developed nations. Since tax reform, I haven't heard of any companies with inversion plans. In fact, companies have called off inversions and even brought operations back to the U.S. Do you agree that the 2017 tax law has largely stopped inversions transactions?

Answer. Yes, in particular, the reduction in the corporate rate substantially lessened the detriments of being headquartered in the United States and diminished the beneficial effect of inverting. Besides halting inversion activity, the TCJA reversed the trend of foreign companies prevailing in acquisition transactions.

Question. If the international reforms implemented by the 2017 law were reversed, would you expect inversion transactions to once again pick up?

Answer. Although further barriers to inversions could be enacted to prevent such transactions, they are unlikely to prevent the "invisible inversions" to which Professor Hines referred in his testimony because of the disadvantageous treatment of U.S.-headquartered companies. For the same reason, the fact of foreign companies prevailing in acquisition transactions would be likely to reemerge.

Question. During her nomination process, Treasury Secretary Yellen expressed support for doubling the tax rate on foreign subsidiaries of U.S. firms in *anticipation* that other OECD countries will agree to implement a global minimum tax. However, it's unclear when, or even if, other OECD countries will adopt a minimum tax. Doubling our tax rate on U.S. foreign affiliates without action by our major trading partners is fraught with risks. Indeed, even the liberal Tax Policy Center recently wrote that increasing U.S. taxes on foreign income without actions by other countries will "put U.S. firms at a disadvantage" and "reignite corporate inversions."

Do you agree it would be foolish for the U.S. to double taxes on its international firms when the rest of the world hasn't even agreed to a minimum tax in the first place? Isn't there a risk that some or even all of the other OECD countries refuse to follow our lead?

Answer. Yes, as I stated in response to a QFR from Senator Crapo, in the nearly 4 years since the United States enacted a minimum tax on income from foreign operations, no other country has enacted a similar minimum tax, and the history of global consideration of minimum taxes should give pause to anyone counting on global adoption. Even if a Pillar 2 agreement is reached at the OECD, there is no assurance that other countries will actually take the steps to implement a minimum tax that conforms to the OECD agreement. It should also be noted that the terms of the minimum tax under consideration at the OECD appear less onerous in many respects than current law GILTI and far less onerous than the Biden administration's proposed changes to GILTI.

Question. Under current U.S. law, U.S. foreign subsidiaries are effectively subject to a global minimum tax of about 13 percent or potentially higher. Doubling this rate would subject foreign affiliates of U.S. firms to at least a 26-percent rate. But, my understanding is the OECD is discussing a 12.5-percent global minimum tax. Thus, even if all OECD countries agree to implement such a tax, it still would be less than half the rate proposed by the administration.

Doesn't this suggest that even under the administration's most optimistic scenario, U.S. international firms will be at a competitive disadvantage?

Answer. Yes, as noted in response to the last QFR, the OECD's proposed minimum tax appears far less onerous than the administration's proposed GILTI changes. The administration's GILTI rate is sufficiently high that U.S. companies would owe GILTI on operations in many, if not most, EU and OECD countries.

Question. How would you expect U.S. international firms to respond, and what do you expect would be the effect on the U.S. economy?

Answer. U.S. companies would be disadvantaged relative to companies headquartered in foreign countries and, over time, would likely find it difficult to compete with those companies. That would make it difficult to grow or maintain foreign country market share. It likely would make the companies or their foreign operations the target of foreign acquisitions, which would reduce the U.S. jobs supporting the foreign operations, the value of the companies, and the U.S. tax base.

Question. The Biden administration has proposed a number of tax increases on U.S. international businesses. This includes increasing the corporate tax rate to 28 percent, imposing a corporate alternative minimum tax on book income, doubling the tax rate on foreign subsidiaries of U.S. firms, and modifying several international rules to subject more foreign income to U.S. tax. These changes would undoubtedly push our international tax rules out of line with other OECD countries. How would you expect this to affect business investment in the U.S. and in turn, American jobs and wages?

Answer. In the most recent survey data, China has displaced the United States as the number one recipient of foreign direct investment. Tax changes that push the United States further from the global norm could add to the advantage of investing in China and other countries relative to the United States. The changes would also disadvantage U.S.-headquartered companies competing in foreign markets. The impact of reduced FDI and direct investment will be reduced jobs and wages in the United States.

QUESTIONS SUBMITTED BY HON. JAMES LANKFORD

ENERGY

Question. In a previous hearing on supply chains and manufacturing, we heard directly from the witnesses that the best way to incentivize mineral production and processing in the U.S. is to have a competitive tax environment.

We also understand that some critical minerals and nutrients have to be imported, as they are not physically located in the U.S.—however, U.S. companies with extraction operations abroad could be hit with President Biden's proposed "import penalty" if they try to bring these materials back to the United States.

We need to incentivize domestic production, but this penalty proposal ignores our global critical mineral supply chains. These U.S. companies, who have extraction operations abroad and bring those materials back to the U.S., would face this penalty, as well as the increased corporate rate being proposed. Meanwhile, any international competitor selling into the U.S. wouldn't face this penalty or the corporate rate.

Don't these proposals threaten our global competitiveness and give U.S. headquartered companies a disadvantage both abroad and here at home?

Answer. I assume the "import penalty" refers to a proposal in President Biden's campaign that was not included in the American Jobs Plan.

Yes, like U.S. business operations that exist to supply foreign markets, extractive industries that must operate where the minerals are would be harmed by changes that make the United States less competitive and particularly harmed by proposals that would hike taxes on companies' foreign operations. Such operations may not be capable of being "onshored." U.S. companies would suffer a disadvantage relative to local companies or companies headquartered in countries without added taxes or penalties on foreign operations.

Question. In addition, couldn't these suggested changes, the penalty and increased rate, actually incentivize businesses to ultimately relocate their headquarters entirely out of the U.S.?

Answer. The penalty and higher tax rates would reduce the value of the foreign operations in the hands of U.S.-headquartered companies, making them attractive targets for takeover or acquisition by foreign-headquartered companies not subject to the penalty or higher tax rate.

CHINA

Question. We've continued to hear rhetoric from the administration, including Secretary Yellen, regarding the OECD's minimum tax initiative, and how changes to the U.S.'s GILTI regime are permissible because the OECD is considering a proposal itself—that that will act as a stop gap and prohibit a "race to the bottom" regarding tax rates. However, we know that one of our biggest competitors, China, has been publicly skeptical of the OECD's proposal.

If China doesn't agree, but the U.S. has enacted even stricter, more punitive minimum taxes on its own companies, aren't we, once again, yielding an advantage to the Chinese—who refuse to keep their commitments to international agreements or refrain from participating altogether?

Answer. Yes, U.S.-headquartered companies would be disadvantaged relative to Chinese companies. Indeed, the effective GILTI rate of more than 26 percent the administration has proposed would mean that U.S. companies were subject to GILTI on their Chinese operations when competing in the Chinese market.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. The United States was a first mover when it relates to global minimum taxes. Currently, the OECD is pursuing a proposal similar to GILTI. Even if 140 countries were to agree to the proposal this year, none would be as far down the road as the U.S.

Does it make sense for the U.S. to be making onerous changes to GILTI before any other countries have adopted a similar proposal, let alone before the OECD finalizes their proposal?

Answer. As noted in response to a question from Senator Crapo, the concept of a global minimum tax has a long history, but to date the United States is the only country that has enacted one. Moreover, even in its current form, GILTI is in many respects a more stringent regime than the minimum tax being considered by the OECD Inclusive Framework. As the Biden administration has proposed revising GILTI, it seems likely to be far more stringent than the Pillar 2 proposal under consideration.

It would seem wise for Congress to delay consideration of changes to GILTI until agreement has been reached by the OECD Inclusive Framework, and then to delay the effective date of any changes until conforming minimum taxes have actually been implemented by other countries, including China and European governments whose unilateral actions targeting U.S. companies led to the current OECD project.

Answer. An important feature of GILTI that allows U.S. businesses to be competitive is the aggregate nature of the GILTI calculation. To be competitive in high tax jurisdictions, U.S. businesses are going to have to do business in high tax jurisdictions; to be competitive in low-tax jurisdictions, U.S. businesses are sometimes going to have to do business in low-tax jurisdictions. The aggregate nature of GILTI helps to ensure that U.S. businesses doing business where their customers are based are not penalized for doing so, while still penalizing those who are shifting all of their income to low tax jurisdictions. Further, I'm afraid moving to a country-by-country approach, as proposed by the Biden administration, would deter U.S. businesses from expanding operations to new parts of the world (as start-up deductions generally cause low tax liability) and would have strange anomalies like forcing businesses to pay tax even when they have overall losses in their foreign operations.

Can you discuss some of the competitive aspects of retaining an aggregate approach to GILTI and expand on some of the complexity aspects that you mentioned in your testimony as well?

Answer. There are a number of features of GILTI that make it a stringent regime. Examples include expense allocation, the 20-percent haircut on FTCs, and the lack of a carryover for FTCs. In addition, many companies incur a GILTI liability that is solely attributable to timing differences in the recognition of income and expense between the U.S. and foreign tax rules. Further, it is common for companies starting a new line of business or expanding their operations into additional markets to experience losses from these initiatives, often for several years. Operations in multiple jurisdictions that are aggregated in the calculation of GILTI moderate the harshness of these rules. If GILTI calculations were required on a country-by-country basis, there would be no amelioration of these harsh results. The result, in many common fact patterns, would be the imposition of U.S. tax on income that has already been taxed by a foreign country in a different year or imposition of U.S. tax significantly in excess of a company's actual income. Because a U.S. company's foreign-based competitors would face none of these issues, U.S. companies would be at a serious disadvantage in their efforts to enter new lines of business or penetrate new markets against established foreign-based competitors. Current law GILTI already presents significant challenges for companies in these fact patterns; moving to a per-country approach would dramatically increase these concerns.

The calculation of GILTI even on a global or aggregated basis is extraordinarily complicated. Requiring the calculation on a country-by-country basis would multiply the complexity by the number of countries in which a company has operations and effectively require multiple GILTI FTC baskets. The United States previously had a per-country FTC basket system but eliminated it in the 1970s. Congress considered reinstituting a per-country system but abandoned the idea because of the complexity, favoring instead a 9-basket approach in the Tax Reform Act of 1986. This approach has been subsequently modified and simplified to today's 4-basket FTC system. Compared to the 1970s when Congress moved away from a per-country approach, globalization has resulted in the United States having many more globally engaged companies, and those that are globally engaged have operations in many

more countries. Accordingly, many such companies would have more than 100 foreign tax credit baskets under a per-country GILTI computation, requiring detailed segregation and analysis (including, *e.g.,* the allocation of domestic expenses across more than 100 different baskets) that does not exist for any other purpose. Further, as noted above, a per-country approach would greatly exacerbate double tax or excessive tax issues caused by, *e.g.,* startup losses or timing differences. Attempting to address these issues in a per-country computation would require the tracking of attributes by country over a multiyear period, resulting in a level of complexity greatly in excess of any in the history of the U.S. international tax rules.

Question. The Base Erosion and Anti-abuse Tax (BEAT) was added to the code by the TCJA, and it imposes an additional tax on certain U.S. corporate taxpayers that make deductible payments to foreign affiliates. A U.S. taxpayer's BEAT liability is the difference between (1) 10 percent of the taxpayer's "Modified Taxable Income," and (2) the taxpayer's Regular Tax Liability. Currently, the BEAT rate is 10 percent (11 percent for certain financial institutions), and that rate will increase in 2026. As JCT has noted, "[t]he amount of regular tax liability is reduced (and the [BEAT liability] increased) by all income tax credits except for the research credit and a certain portion of applicable section 38 credits" (*i.e.,* low-income housing tax credits and certain energy credits) [JCX–16–21, page 24]. Due to how the BEAT liability is calculated, U.S. taxpayers that claim certain credits may be subject to the BEAT or may have an increased BEAT liability solely because the taxpayer claims a credit to which the taxpayer is entitled. Even U.S. taxpayers that claim low-income housing tax credits, renewable energy production tax credits, and energy investment tax credits are harmed because they lose a portion of the credit now under current law, and will lose the benefit of the credit entirely in 2026.

This calculation reduces—and can even eliminate—the benefit to U.S. taxpayers of claiming the Low-Income Housing Tax Credit, the Investment Tax Credit, the Production Tax Credit, and foreign tax credits, among many others. Through these credits, Congress provides incentives to U.S. taxpayers to engage in certain activities, such as developing affordable housing or investing in wind and other renewable energy projects, that it has deemed beneficial and worthy of investment. The foreign tax credit prevents double taxation of the same income and ensures that the U.S. tax system does not discourage the export of American-made products, American-created or acquired IP, or American businesses' participation in the global economy. Congress did not intend to eliminate the benefit of these credits when it enacted the BEAT. I am concerned that reducing or eliminating the benefit of these credits could disincentivize U.S. taxpayers from engaging in these activities in the first place.

Do you share my concern that the BEAT's disparate treatment of tax credits results in unintended consequences for U.S. taxpayers, many of whom are engaged in productive activities that Congress intended to incentivize by providing tax credits in the first place, and that these unintended consequences provide a disincentive for U.S. taxpayers to engage in these activities?

Answer. Yes, the reduction in tax credits increases the risk of double taxation and lessens the benefits of the investment incentives Congress has provided. The loss of the intended tax benefits will reduce the investments in those activities or cause companies to restructure operations to minimize BEAT's limitations on credits, either of which reduces Congress's ability to incentivize desired activities.

Question. There has been bipartisan support to move the U.S. to a more territorial system for taxing the foreign earnings of U.S. companies, and there was bipartisan support to provide a backstop to that system aimed at preventing U.S. companies from moving profits offshore.

Do you think reduction of the corporate rate, along with FDII/GILTI regime, reduced tax incentives to move profits and investment offshore and helped U.S. companies better compete in a global marketplace?

Answer. As I said in my testimony, the TCJA represents a remarkable bipartisan policy achievement that put the United States in a much more competitive position to attract investment and jobs. The enactment of a tax rate comparable to other countries, elimination of the disadvantage to reinvesting foreign profits in the United States, and provisions protecting the U.S. tax base from profit shifting and incentivizing the location of IP in the United States were a sorely needed change in U.S. tax policy. Taken together, the TCJA changes have made U.S. companies more competitive and the United States a more attractive location for investment

and job creation, which is consistent with BEA data post-TCJA and prior to the pandemic.

Question. If so, how would Biden administration tax proposals impact U.S.-based companies compared to their foreign counterparts?

Answer. The administration's corporate rate increase would once again vault the United States to number one in corporate tax rates among advanced economies, and its GILTI changes would mean that U.S.-headquartered companies pay GILTI on their foreign operations regardless of whether the operations exist solely to serve foreign markets or access raw materials unavailable domestically and regardless of whether the operations have borne a full local tax. The carrying of a cost, including tax, that far exceeds the cost carried by their competitors would make it more difficult for U.S. companies to succeed in maintaining or growing their operations in foreign markets, with adverse consequences for the jobs in the United States reliant on sales to the 95 percent of the world's population in these markets.

Question. The original purpose of taxing tax haven profits, as explained by Secretary Dillon in proposing the anti-deferral measures, was to eliminate incentives to foreign direct investment (FDI). Since the 1960s, the international tax system has dramatically changed. However, low- or no-tax jurisdictions still exist and are often used to entice direct investment in those countries. Similarly, we employ certain incentives to spur investment in the U.S.

As the purpose of these foreign tax systems is supposed to affect location of job-producing business investment, what is the comparative effect of deferred U.S. tax versus location of markets, location of supplies, comparative worker efficiency and wage costs, energy and transportation infrastructure, and costs of social overhead for specific social priorities of the alternative investment locations?

Answer. Businesses consider many factors when deciding where to locate investment among the many opportunities available to them. While no factor alone is likely to be determinative, differences across locations in any benefits and costs, including taxes, matter on the margin. For companies earning routine returns, taxes may be a very small consideration in location decisions as differences in costs of labor, materials, energy, transportation, and other costs may be larger than potential tax savings. By contrast, for companies earning very high profit margins, corporate tax rate differences may have a more significant effect on location decisions. As a result, policy-makers in the United States as in other countries may design public tax and spending systems in such a way as to enhance, on the margin, the attractiveness of their jurisdiction for investment relative to other locations.

Because of the different sensitivity of low-margin and high-margin businesses to taxes, the TCJA specifically targets high-margin income, discouraging tax-motivated location of high-margin operations in low-tax jurisdictions through GILTI and encouraging these operations to be located in the United States through FDII.

Question. What percentage of the Fortune Global 2000 was represented by U.S. companies in 2005–2019, 1980–2000, 1968–1980? Is the percentage increasing or decreasing? To what extent do factors other than comparative tax rates affect direct investment location decisions?

Answer. Fortune has published a list of the world's 500 largest companies since 1995. (There is a Forbes Global 2000 list, but it has only been published since 2003.) The percentage of the Fortune Global 500 companies represented by U.S. companies was 30 percent in 1995 and rose to a peak of 39 percent in 2002. It has been declining steadily since 2002, reaching a low of 24 percent in both 2019 and 2020.

By contrast, over this same period Chinese companies increased from fewer than 1 percent of the Fortune Global 500 in 1995 to 25 percent by 2020.

Businesses consider many factors when deciding where to locate investment among the many opportunities available to them. These factors may include access to inputs like raw materials or skilled labor, access to customers including the effect of transportation costs, access to a stable legal system that protects property rights including intellectual property, among other considerations. While no factor alone is likely to be determinative, differences across locations in any benefits and costs, including taxes, matter on the margin.

Question. Describe the impact of U.S. Federal tax incentives on FDI, and what percentage of U.S. FDI is attributable to comparative labor efficiency, access to markets, access to supplies, access to technology, access to educated workforce, and differences in business regulation to achieve noneconomic goals?

Answer. Economic research has sought to identify the principal determinants of foreign direct investment ("FDI"). Among the most significant factors are the size and scale of economic activity in the host country. Because the United States has a large market, it benefits from a large amount of FDI. A number of other key variables include openness of the economy, exchange rates, rates of return, costs of production, quality of infrastructure, human capital, and political stability.

Taxes have also been shown to affect FDI. Generally, competitive corporate tax rates provide an incentive for foreign investment in the host country; however, measuring the magnitude of the effect may be confounded by various issues. Importantly, how policies in the host and home country address potential double taxation can substantially alter the investment incentive effects. For companies earning routine returns, taxes may be a very small consideration in location decisions because differences in costs of labor, materials, energy, transportation, and other costs may be larger than potential tax savings. By contrast, for companies earning very high profit margins, corporate tax rate differences may have a more significant effect on location decisions.

Because of the different sensitivity of low-margin and high-margin businesses to taxes, the TCJA specifically targets high-margin income, discouraging tax motivated location of high-margin operations in low-tax jurisdictions through GILTI and encouraging these operations to be located in the United States through FDII.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. We heard a lot of testimony during the hearing about how U.S. companies are engaging in significant profit shifting that allows them to pay no tax on foreign earnings. Ms. Huang's testimony suggested that Global Intangible Low-Taxed Income (GILTI) is not robust and allows companies to pay zero tax on foreign earnings. However, the Joint Committee on Taxation pamphlet for this hearing stated that U.S. companies' foreign earnings are being taxed at about 16 percent on average.

Doesn't this data suggest that U.S. companies are not only subject to the expected 13.125-percent effective rate on GILTI, but actually are subject to a higher rate of tax at 16 percent?

Answer. Yes, based on the structure of GILTI, it is difficult to conceive of a situation where a U.S. company with significant intangible income (the target of GILTI) would be able to avoid paying any tax on foreign earnings. Indeed, the structure of GILTI often results in companies paying GILTI despite income being subject to foreign tax at rates far in excess of the target effective rate of 13.125 percent.

Taking into account the tax rates of other major economies in which U.S. companies may have operations, the Joint Committee's finding of a 16-percent rate of foreign tax on foreign income is unsurprising. Note that the Joint Committee's finding does not count U.S. income tax imposed on the foreign income through GILTI, the subpart F rules, or on branch operations.

Question. Doesn't this indicate that GILTI is a robust minimum tax that is working as intended?

Answer. Yes, perhaps the best indication of the stringent nature of GILTI is that the minimum tax under consideration by the OECD Inclusive Framework is less onerous in many respects than GILTI. There are many features of GILTI that produce results that likely were not intended, but those features make GILTI more, not less, onerous for the companies subject to it.

Question. Last month, this committee held a hearing on the impact of the U.S. tax code on the domestic supply chain and manufacturing sector. The policies and ideas we discussed at last week's hearing will, of course, have a clear impact on that sector, particularly when we consider the tax code more holistically.

Ms. Olson, how do you believe the implementation of these proposed GILTI changes, combined with the penalizing surtax on U.S. firms with foreign operations, would change the incentives on U.S. firms to invest robustly in the United States given the combined increase in domestic taxation?

Answer. The GILTI changes would impose a cost on the foreign operations of U.S.-headquartered companies that local and foreign-headquartered companies would not bear, which would reduce the ability of U.S.-headquartered companies to expand and maintain their foreign operations relative to foreign companies, with adverse

effects on the American jobs that support and depend on the success of the foreign operations. As a consequence, the changes would reduce the capacity of U.S. companies to invest in and create jobs in the United States.

Question. Do you think that this is a net positive or a net negative for low- and middle-income job creation?

Answer. The economics literature indicates that, on average, foreign and domestic operations of U.S. MNCs are complementary, meaning that tax changes that reduce foreign affiliate investment and employment also reduce the U.S. parent company's domestic investment and employment. In other words, changes that harm companies' incentive and capacity for investment, including investment outside the United States, would reduce job opportunities in the United States.Many of the jobs lost would likely be low- and middle-income jobs. In addition, the economic impact of the reduced investment would have spillover effects further reducing opportunities up and down the income scale.

The post-TCJA and pre-pandemic economic data indicate growing employment opportunities, evidenced by record low unemployment rates, including for categories of workers with historically high unemployment rates, and rising wages for low- and middle-income workers.

PREPARED STATEMENT OF HON. RON WYDEN,
A U.S. SENATOR FROM OREGON

The Finance Committee meets today to discuss international corporate taxes, and the 2017 Trump tax law will be a significant part of that discussion. The lesson of the Trump tax law is that somehow, you can spend hundreds of billions on multinational corporate tax handouts and not produce any lasting boost in jobs and investment.

This hearing comes just days after the release of a jaw-dropping new report from the Joint Committee on Taxation. That report found that the Trump tax law slashed the average U.S. tax rate paid by the biggest mega-corporations by more than half. Add to that data from the Congressional Budget Office, which tells us that corporate tax revenues have fallen through the floor. From 2016 to 2019, they dropped by one-third.

The fact is, before 2017 the U.S. already collected relatively little tax from corporations compared to other major economies. Despite this, Trump and Republicans still sent the U.S. diving headlong into the global race to the bottom on corporate taxes. After all, that race to the bottom is based on the same old trickle-down tax philosophy that's been misleading the American people, blowing budgets, and driving inequality for 50 years. The worst part is, it was done in a way that makes this country *less* competitive, not more.

Under the Trump tax law, multinational corporations got special new breaks for shipping jobs and profits overseas. There's a specific new tax break for investing in factories outside the country. There are even new barriers to bringing back good-paying jobs in management and R&D or investing in key areas like clean energy or affordable housing. So it's no surprise that the investment boom Republicans talked about turned out to be more of an investment whisper. Manufacturing even went into recession in 2019, months before the pandemic hit.

Hearing this has to be a punch in the gut for Americans who live in communities where hulking, shuttered factories sit there as reminders of what prosperity used to look like. Americans have recognized this kind of basic unfairness and imbalance in the Trump tax law from the get-go. Colossal benefits for colossal multinationals, but the promises made to workers have always come up empty.

Here's my bottom line. As we begin today, I reject the proposition that the U.S. has to participate in the worldwide race to rock bottom on corporate taxes to compete or create good-paying jobs. This country does not need to behave like some minor island off the coast of nowhere, selling zero-tax P.O. boxes to corporate headquarters for a quick buck. Whether it was the result of shoddy legislating or misleading double-speak, the Trump incentives for shipping jobs overseas are a disaster for working people in Oregon and across the country.

It's time the Congress took a fresh approach. In the coming days, joined by Senator Brown and Senator Warner, I'll be releasing a new framework for international taxation that reverses the Trump-era handouts to multinationals.

Our new framework is based on a few simple propositions. First, multinationals must pay a fair share, just like Americans who work for a living. There were too many corporate loopholes and opportunities for gamesmanship before the Trump tax law, and the Trump tax law only made the situation worse. Rates are too low, and it's too easy for corporations to skip out on paying a fair share by gaming the system and shifting profits.

Second, the tax code must reward companies that invest and create good-paying jobs in the U.S., and stop rewarding companies that ship jobs and factories overseas. Inequality is getting worse, and millions of Americans are out of a job. The provisions of the Trump tax law that shortchange American workers and make us less competitive have got to go.

I'm pleased to be able to say that members are already hard at work on these issues, and I know other members of this committee are going to have big ideas to bring to this debate.

Let me also thank our witnesses for joining the committee today. This issue represents a big, difficult challenge, but today's hearing is an opportunity for us to move the debate forward. I look forward to Q&A.

COMMUNICATIONS

LETTER SUBMITTED BY NEIL ALLARA

To whom it may concern,

The U.S. extraterritorial tax regime is an unfair and unnecessary burden upon voting Americans living abroad. Yes, there are taxation agreements between some countries, but the time and/or money needed to file every year needs to stop. Additionally, there are negative implications related to planning for retirement as well. There is no other advanced country in the world that imposes such extraterritorial taxation on its citizens abroad.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time and consideration of this issue.

Neil Allara

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The 46 members of the Alliance for Competitive Taxation are: 3M, Abbott Laboratories, ADP, Alcoa Corporation, American Express Company, Bank of America Corp., Boston Scientific Corp., Carrier Global Corp., Caterpillar Inc., Cisco Systems, Inc., The Coca-Cola Company, Corteva Inc., Danaher Corporation, Dell Technologies, Inc., The Dow Chemical Company, DuPont, Eli Lilly and Company, Emerson Electric Co., Exxon Mobil Corporation, General Electric Company, General Mills Inc., Google, Inc., The Home Depot Inc., Honeywell International Inc., IBM Corporation, International Paper Company, Johnson & Johnson, Johnson Controls, Inc., JPMorgan Chase & Co., Kellogg Company, Kimberly-Clark Corp., MasterCard Inc., McCormick & Company, Inc., Morgan Stanley, Oracle Corporation, Otis Worldwide Corp., PepsiCo, Inc., Procter & Gamble Co., Prudential Financial Inc., Raytheon Technologies Corp., S&P Global Inc., State Street Corporation, Texas Instruments, Inc., United Parcel Services, Inc., Verizon Communications Inc., and The Walt Disney Company.

How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment

The Alliance for Competitive Taxation (ACT), a coalition of leading American companies from a wide range of industries, welcomes this opportunity to submit testimony on the importance of maintaining a globally competitive U.S. corporate tax system to help restore U.S. economic growth, good jobs, and rising wages for American workers.[1]

This hearing is taking place as the economy continues to recover from the worst recession since the Great Depression. Job losses as of February 2021 were 9.5 million—more than all the jobs lost at the worst point of the 2008–2009 recession.

[1] For more on the Alliance for Competitive Taxation, see *https://actontaxreform.com/*.

A strong recovery means not only returning these Americans to work but also creating new well-paying job opportunities for the nearly 5 million people who would have joined the labor force in 2020 and 2021 if economic growth had continued at its pre-pandemic pace.

We are American companies committed to doing our part to support the country and the communities where we operate. We look forward to our factory floors and offices returning to full capacity, our purchasing managers filling the order books of our suppliers, and "help wanted" signs hanging in every storefront.

We support the goal of Congress and the Administration to return the economy to a position of strength as soon as possible. But a tax increase on employers now would inevitably slow economic growth. For many companies, it would dampen plans to expand hiring; for others, it would slow re-hiring. Reduced demand for workers and stalled investment would suppress wages.

A tax increase would withdraw funds from the economy at a time that is already precarious and would directly counter the federal government's actions to inject funds into the economy. As we seek to recover millions of lost jobs, now is the worst time to raise corporate taxes.

It took six years to restore employment to its pre-recession level following the last recession. America cannot risk any actions that would slow the present recovery.

We urge you to consider the benefits to a strong economic recovery, built on the success of American businesses. We believe America can be the best place in the world for a company to expand its workforce, increase wages, undertake new capital investment, develop new technologies, and manage a global enterprise. But higher taxes now on America's employers, especially taxes that make it harder for American companies to compete in global markets, would put a sustainable recovery at risk.

Key Points:

1. Raising taxes during a recession is a recipe for a stagnant economy. Raising taxes on *employers* during a recession will slow the re-hiring of workers.
2. Competitive U.S. tax policy has been a bipartisan priority for decades because it creates jobs and boosts wages for American families.
    - Prior to the pandemic, real wage growth was increasing at a faster rate than it had in decades, unemployment reached 50-year lows, and companies were hiring and making new investments in the United States. In the absence of the pandemic, strong wage growth and employment gains were forecast to have continued.[2]
3. Corporate income taxes, like any other business cost, factor into a company's decisions to hire workers and invest in plant and equipment. Higher corporate taxes will lead to less cash available for paying wages and investing in capital. Less investment ultimately results in reduced productivity and lower wages for American workers, and less output for American consumers to enjoy. Higher corporate taxes also may result in lower returns for the company's shareholders, including the retirement plans of millions of workers and retirees. Finally, raising corporate taxes can also result in higher prices for the company's products, straining the budgets of low- and middle-income families at a time when funds are already tight.
    - Studies show that workers bear a significant share of the corporate tax burden through lower wages.[3] The Joint Committee on Taxation, the Con-

[2] In its January 2020 economic projections, the Congressional Budget Office wrote "Solid economic growth and continued strength in labor demand are projected to keep the unemployment rate low and drive employment and wages higher in 2020." CBO's median run forecast projected employment "to remain above its maximum sustainable level over the next five years, supporting relatively robust wage growth during that time." Congressional Budget Office, The Budget and Economic Outlook: 2020 to 2030, January 2020, p. 29.

[3] See, for example, Clemens Fuest, Who Bears the Burden of Corporate Income Taxation?, European Tax Policy Forum Policy Paper, 2015; Juan Carlos Suárez Serrato and Owen Zidar, Who Benefits from State Corporate Tax Cuts? A Local Labor Markets Approach with Heterogeneous Firms, American Economic Review, 2016; Clemens, Andreas Peichl, and Sebastian Siegloch. 2018. Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany. American Economic Review, 2018.

gressional Budget Office, and the U.S. Treasury Department all agree in this assessment.[4]

- The portion of the corporate income tax burden on shareholders affects not just the top 1%, but the more than 50% of American families who hold stock either directly or in their IRAs and 401(k)s.[5] State and local government and private pension plans across the country—those of nurses, schoolteachers, police officers and firefighters—all depend on sustained returns from their stock market investments.

4. Raising taxes on income earned abroad by U.S. companies will not increase domestic employment. The foreign operations of American companies *create* jobs for American workers, they do not *displace* jobs for American workers.
   - The foreign operations of U.S. companies give American workers access to global markets to sell the goods and services they produce at home. Nearly 90% of the goods and services produced by the foreign operations of American companies are sold to foreign customers—sales that might not be possible without these operations.[6]
   - U.S. multinational companies account for the majority of U.S. exports of goods and services, creating millions of jobs throughout the U.S. supply chain.[7]
   - Foreign operations also create economies of scale that support additional investment in plant and equipment and more research and development at home, resulting in more jobs and higher wages for American workers.[8]
5. The current tax system does not advantage American companies over their foreign competitors, nor does it encourage U.S. companies to invest abroad rather than at home.
   - The United States is the only country to subject the active foreign earnings of its companies to a minimum tax, a tax that their foreign-headquartered competitors do not have to pay. This puts American companies—and workers—at a disadvantage in global markets compared to their foreign counterparts.
   - The ability to deduct domestic expenditures on equipment and machinery immediately, a provision that was adopted at the same time as the foreign minimum tax, favors investment in the United States, spurring greater investment at home.
6. Recent estimates of profit shifting are greatly overstated.
   - Data used in profit-shifting studies pre-date implementation of both (i) the minimum tax on foreign income adopted in 2017, which was not fully effective for most companies until 2019, and (ii) the base erosion and profit shifting ("BEPS") measures recommended by the OECD in 2015 and adopted by countries in recent years.
   - Moreover, some of these studies rely on data that treat operating income earned in one country as earned by holding companies located in another country, resulting in a misattribution of the source of income and in some cases a double counting (or more) of the income earned abroad by U.S. companies. The improper use of these data overstates earnings where the holding company is located, typically a country that does not tax dividends

[4] The Joint Committee on Taxation assumes 25% of the corporate income tax is borne by workers (Modeling the Distribution of Taxes on Business Income, JCX–14–13, October 16, 2013); CBO also assumes 25 percent of the corporate income tax is borne by workers (The Distribution of Household Income and Federal Taxes, 2008 and 2009, Congressional Budget Office, July 2012, p. 24); and Treasury assumes 18% of the corporate income tax is borne by workers (Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology, Office of Tax Analysis, Technical Paper 5, May 2012).

[5] Federal Reserve Board, Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances, September 2020.

[6] Bureau of Economic Analysis, Worldwide Activities of U.S. Multinational Enterprises: Preliminary 2018 Statistics, Table E.1.

[7] U.S. Census Bureau, Annual Trade Highlights; Bureau of Economic Analysis, Worldwide Activities of U.S. Multinational Enterprises: Preliminary 2018 Statistics, Table I.R 1.; BEA, A Profile of U.S. Exporters and Importers of Services, 2017.

[8] Mihir Desai, C. Fritz Foley and James R. Hines, Jr., "Domestic Effects of the Foreign Activities of U.S. Multinationals," American Economic Journal: Economic Policy, February 2009.

from a related company, and gives the false appearance of low-taxed income in these countries.[9]

I. Raising taxes on employers during a recession will place economic recovery at risk

Coming on the heels of the worst recession since the Great Depression, the economy is still fragile, and the path forward is uncertain. While no tax should be raised during a recession, taxes on employers would have particularly harmful consequences.

The economy depends on America's employers—whether small businesses or large employers—to help restore and expand the economy by rehiring millions of workers, boosting wages, increasing purchases from their suppliers, and making new investments. Raising taxes on employers now would pull resources out of the economy and would put a strong and sustainable economic recovery at risk.

No one can know for sure the path of the virus or the path of recovery, and raising taxes now with the expectation of an economic recovery soon is unnecessarily perilous. The Federal Reserve Board's own projections show it believes the risk of slowing the economic recovery are high enough that it does not intend to raise interest rates before 2024 at the earliest.

Federal Reserve Board Chairman Jerome Powell has emphasized the need for caution before the economy returns to full employment. "The economic recovery remains uneven and far from complete, and the path ahead remains uncertain," Powell explained earlier this month. "The economy is a long way from our employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved."

Chairman Powell has also said that now is not the time to worry about the deficit, the appropriate time "will be when the economy is back to full employment and taxes are rolling in and we're in a strong economy again."

II. Competitive U.S. tax policy has been a bipartisan policy because it creates jobs and boosts wages for American families

For decades there has been bipartisan support for lowering the corporate tax rate to an internationally competitive level and modernizing the outdated U.S. international tax rules.

Bipartisan proposals for reform highlighted that the United States had fallen behind by standing still. Over three decades, other countries had lowered their corporate tax rates and adopted territorial tax systems. These changes provided a more attractive environment for job-creating investments and made companies headquartered in those countries more globally competitive. By 2017, the U.S. corporate tax rate was the highest in the developed world, and the United States was the only G7 country that taxed the repatriation of foreign business income.

High corporate taxes reduced investment in the United States and resulted in slower growth in wages for American workers. As explained by the OECD, the corporate income tax is the greatest deterrent to economic growth of all taxes:

> "Corporate income taxes are the most harmful for growth as they discourage the activities of firms that are most important for growth: investment in capital and productivity improvements."[10]

At the same time, a disadvantageous U.S. international tax system made it harder for U.S. companies to compete in foreign markets. Less success in foreign markets for U.S. companies reduced demand for their products and services and resulted in

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[9] The Bureau of Economic Analysis explains with respect to its data on multinational companies, "Because the balance sheet statistics reflect the cumulative balance sheets of each foreign affiliate (both the top and lower tiers), ownership in lower-tier affiliates results in 'double (or more) counting' in the aggregate statistics. The income statement is similarly affected." (Bureau of Economic Analysis, "How are BEA's statistics on the activities of U.S. multinational enterprises (MNEs) affected by the complex corporate structures of MNEs?," available at: *https://www.bea.gov/help/faq/1402.*) With respect to country-by-country data, the Joint Committee on Taxation cautions that "there could be some double counting of dividend income in the profits line," which will lead to an understatement of the effective tax rate of the company (Joint Committee on Taxation, U.S. International Tax Policy: Overview and Analysis (JCX–16–21), March 19, 2021.) The OECD makes a similar caution (OECD, Important Disclaimer Regarding the Limitations of the Country-By-Country Report Statistics, July 2020). For an analysis, see Jennifer Blouin and Leslie Robinson, Double counting accounting: How much profit of multinational enterprises is really in tax havens? May 20, 2020, available at: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491451.*

[10] OECD, Tax Policy Reform and Economic Growth, 2010, p. 22.

fewer jobs for American workers. Announcements of major companies looking to leave the United States regularly made newspaper headlines and affected communities in every state.[11]

Following tax reform, the U.S. economy was strong

Pre-pandemic, the economy was strong and income gains were shared throughout the workforce:

- Real wages grew 4.9% for the two years 2018–2019, the fastest two-year growth rate in real earnings since 1998–1999. This compares to no real wage growth over the 2 previous years, 2016–2017.[12]
- Wage growth was greater for those on the factory floor and in nonsupervisory roles than for their managers from the start of 2018 to the end of 2019, reversing prior trends.[13]
- Unemployment reached a 50-year low of 3.5% in 2019.[14]
- Investment by companies in plant and equipment and research and development was strong. Real business investment in equipment and R&D grew at 5.6% and 12.1%, respectively, in the 2-year period 2018–2019, faster than in the two preceding years.[15]
- Bureau of Economic Analysis data show that in 2018, the most recent year for which data are available, U.S. companies with global operations grew faster in the United States than they did abroad—growing their employment, capital expenditures in property, plant and equipment, and R&D investment faster in the United States than they did abroad.[16]
- Companies that had moved their headquarters from the United States through acquisitions prior to 2017 began to return as the United States established more competitive tax rules.[17]
- And the CBO forecast wage growth would continue to be strong.[18]

Increases in corporate taxes would jeopardize a fragile economic recovery.

III. Corporate income taxes ultimately affect people in their roles as employees, suppliers, customers, and investors—and these people will be worse off by increasing corporate taxes

Corporations are legal entities in which ordinary individuals participate in their roles as workers, consumers, and savers as retirement plan participants, mutual fund investors and direct shareholders. Studies show that workers bear a substantial share of the corporate tax burden through lower wages, although the precise amount varies from study to study.[19] One effect of the corporate income tax is to discourage productivity-increasing investments in equipment and technology. With labor less productive, employer demand for workers declines, and their wages fall.

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[11] See, for example, Kate Linebaugh and Liz Hoffman, "U.S. Firms Pack Up for Tax Benefits," *Wall Street Journal,* May 12, 2014; Hester Plumridge and Peter Loftus, "Inversion Frenzy Rocks Drug Sector," *Wall Street Journal,* June 21, 2014; Dana Mattioli, "Acquirers Plot Escape from a Turn on Taxes," *Wall Street Journal,* July 7, 2014; Liz Hoffman and Hester Plumridge, "Race to Cut Taxes Fuels Urge To Merge," *Wall Street Journal,* July 15, 2014; Tom Fairless and Shayndi Raice, "In Inversion Deals, U.K. Is a Winner; Location, Language, Lifestyle Are Draws as U.S. Companies Buy Firms Abroad," *Wall Street Journal,* July 28, 2014; Emily Chasan, "Companies are Running the Numbers on Potential Tax Inversions," *Wall Street Journal,* August 26, 2014. For an analysis, see Congressional Budget Office, "An Analysis of Corporate Inversions," September 2017.

[12] Bureau of Labor Statistics, Employed full time: Median usual weekly real earnings: Wage and salary workers: 16 years and over [LES1252881600Q].

[13] Bureau of Labor Statistics, series for "Average Hourly Earnings of Production and Nonsupervisory Employees" [CES0500000008] and "Average Hourly Earnings of All Employees" [CES0500000003].

[14] Bureau of Labor Statistics, series for unemployment [LNS14000000].

[15] Bureau of Economic Analysis, Table 5.3.6. Real Private Fixed Investment by Type, Chained Dollars.

[16] Bureau of Economic Analysis, "Activities of U.S. Multinational Enterprises, 2018," News Release BEA 20– 40, August 21, 2020.

[17] Amanda Athanasiou, Inverters Return to the U.S., and Not Just for the Tax Rate, *Tax Notes* Federal, August 19, 2019.

[18] Congressional Budget Office, The Budget and Economic Outlook: 2020 to 2030, January 2020, p. 29.

[19] For example, Suárez Serrato and Zidar (2016) estimate workers bear 30–35% while Clemens, Peichl, and Siegloch. (2018) estimate 50%. See footnote 1 for complete references.

The Joint Committee on Taxation, the Congressional Budget Office, and the U.S. Treasury Department all agree with this assessment.[20]

A recent OECD survey concludes "empirical estimates suggest that it [the corporate tax] is borne only partially by capital owners and often at least as much by workers in the form of lower wages."[21]

If half of the corporate tax burden is borne by workers, that implies a $100 billion corporate tax increase—approximately the revenue raised over 10 years from a one percentage point increase in the corporate tax rate—would reduce the wages of U.S. workers by $50 billion.

The portion of the corporate income tax burden that falls on shareholders affects not just the top 1% but harms the more than 50% of American families who hold stock either directly or through their IRAs and 401(k)s.[22] In addition, state and local government and private pension plans across the country—those of nurses, schoolteachers, police officers, and firefighters—all depend on sustained returns from their stock market investments.

Across the 59 million workers with 401(k) accounts, more than 90% have some investment in equities, and 82% had at least 40 percent of their account balances invested in equities in 2018.[23] Among 401(k) participants in their 20s, nearly three-quarters had more than 80 percent of their account balances invested in equities.

The Treasury Department estimates that between the portion of the corporate income tax borne by workers and the portion borne by direct and indirect investment in equities, the poorest half of all families on average face a larger tax burden through the corporate income tax than they do from the individual income tax.[24] A corporate income tax hike will hurt those struggling the most.

Corporate earnings distributed as a dividend to taxable shareholders currently are subject to a top federal combined corporate and individual tax rate of 39.8%.[25] Under the campaign proposal of President Biden, this would increase by nearly 50 percent to 59.2%.[26] Taking into account average state income tax rates, corporate earnings distributed as a dividend to taxable shareholders currently are subject to a top combined federal and state tax rate of 47.5%.[27] Under the campaign proposal of President Biden, the top combined federal and state tax rate on corporate earnings would increase to 65.4% based on average state income tax rates—taking nearly two-thirds of the return on corporate investments. This combined U.S. tax rate on dividends would be the highest among the 37 countries in the OECD. And the top combined tax rate on corporate earnings would surpass 70% in California and New York City.[28]

The corporate income tax also may fall on consumers. One recent study estimates that approximately one-third of the burden of corporate income taxes is borne by consumers in the form of higher prices for goods produced by corporations.[29] The

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[20] The Joint Committee on Taxation and Congressional Budget Office assume 25% of the corporate income tax is borne by workers, while Treasury assumes 18% is borne by workers. See references in footnote 2.

[21] Anna Milanez, Legal tax liability, legal remittance responsibility and tax incidence: Three dimensions of business taxation, OECD Taxation Working Papers No. 32, 2017.

[22] Federal Reserve Board, Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances, September 2020.

[23] Employee Benefit Research Institute, 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2018, March 4, 2021.

[24] Office of Tax Analysis, U.S. Treasury Department, Distribution of Tax Burden, Current Law, 2019.

[25] This is computed under current law as a top federal corporate tax rate of 21% and a top federal individual tax rate on dividend income of 23.8%, 39.8% = (.21 + (1 − .21)(.238)).

[26] This is computed under current law as a top federal corporate tax rate of 28% and a top federal individual tax rate on dividend income of 43.4% (39.6% plus the 3.8% net investment income tax) under the Biden campaign proposal, 59.2% = (.28 + (1 − .28)(.434)).

[27] OECD Tax Database, 2020 rates, *https://stats.oecd.org/Index.aspx?DataSetCode=TABLE_II4.*

[28] This assumes a 28% federal corporate tax rate and a top individual federal tax rate of 39.6% under the Biden campaign proposal, along with OECD assumed average state tax rates for corporations of 6.03% (before deductibility) and for individuals of 5.43%. In New York City and California, individuals are subject to a top tax rate of 12.7% and 13.3%, respectively. The current law 3.8% net investment income tax is assumed to be retained under the Biden campaign proposal.

[29] Scott R. Baker, et al. "Corporate Taxes and Retail Prices." Working Paper 27058, National Bureau of Economic Research, April 2020.

study found a greater impact on prices of products "commonly purchased by households with lower incomes relative to those purchased by high-income households."

While studies will differ on the precise incidence of the corporate income tax, it is clear that the burden ultimately falls on people in all income ranges.

IV. Raising taxes on income earned abroad by U.S. companies will not increase domestic employment. The foreign operations of American companies *create* jobs for American workers, they do not *displace* jobs for American workers.

Most foreign operations of U.S. companies serve foreign markets. The most recent government data show that approximately 90% of the sales of goods and services by the foreign operations of U.S. companies are to foreign customers.[30] Some foreign operations are required due to local content requirements, while others reduce costs of transportation and tariffs. Access to natural resources also drives location decisions.

Many foreign operations are the result of the acquisition of a foreign company. These acquisitions often provide new technology, patents, and nohow that can be adopted globally by the acquiring company, boosting its productivity.

Research has shown that the foreign activities of U.S. businesses allow them to expand their investment and employment at home. This is because the foreign activities open up new markets for the company and boost its productivity, all of which increase the demand for its U.S. activities and make its U.S. operations more valuable.

One study based on data of U.S. manufacturers finds that increases in sales by a company's foreign affiliates lead to an increase in its U.S. exports and domestic R&D.[31] The study also finds a strong positive relationship between a company's foreign employment and its domestic employment: for every 10-percent increase in foreign employment by a U.S. company, on average, U.S. employment increases by 6.5%. Given that U.S. multinational companies employ twice as many workers in the United States as they do abroad, this implies that an increase of 100 workers abroad is associated with an increase of 129 workers in the United States. A recent study of European companies finds that an increase in their use of foreign high-skilled R&D workers leads to an increase in their domestic research employment.[32]

Subjecting the foreign operations of U.S. companies to higher taxes than their foreign-headquartered rivals would make it more difficult for U.S. companies to compete.

A tax disadvantage imposed on U.S.-headquartered companies results in their foreign assets being less valuable when owned by an American company than when owned by a foreign company. As a result, U.S. companies may lose out in bidding for foreign acquisitions.

These lost foreign acquisitions have been called "invisible inversions" by Professor Hines, as they have the same economic effect as a U.S. company moving its headquarters overseas: the U.S. business sector is smaller than it otherwise would be, resulting in reduced demand for U.S. workers and lower wages.[33]

Imposing taxes on the foreign operations of U.S. headquartered companies that their foreign competitors do not equally bear will decrease the ability of U.S. companies to compete in foreign markets, and lead to losses in U.S. employment, investment and R&D that support the foreign operations of U.S. companies.

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[30] Bureau of Economic Analysis, Worldwide Activities of U.S. Multinational Enterprises: Preliminary 2018 Statistics, Table E.1, *https://apps.bea.gov/international/xls/usdia2018p/Part-II-E1-E17.xls.*

[31] Mihir Desai, C. Fritz Foley and James R. Hines, Jr., "Domestic Effects of the Foreign Activities of U.S. Multinationals," *American Economic Journal: Economic Policy,* February 2009.

[32] Laura Abramovsky, Rachel Griffith, and Helen Miller, Domestic Effects of Offshoring High-skilled Jobs: Complementarities in Knowledge Production, *Review of International Economics,* 2017.

[33] Statement of James R. Hines, Jr., U.S. Senate, Committee on Finance, How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment, March 25, 2021.

V. The current tax system does not advantage American companies over their foreign competitors, nor does it encourage U.S. companies to invest abroad rather than at home

Current law aims to allow U.S. companies to be competitive with their foreign-headquartered rivals. It neither advantages them over their competitors nor encourages U.S. companies to invest abroad rather than in the United States.

U.S. corporate rate reduction still left the U.S. with an above average tax rate

The combined U.S. federal and state corporate tax rate at 25.8% is more than two percentage points higher than the average of other OECD countries.[34] Among the 37 OECD countries, the U.S. corporate tax rate is 12th highest. Current law does not advantage U.S. companies over their foreign competitors, it merely reduced the prior law tax disadvantage. In contrast, the 28% corporate tax rate proposed by President Biden would give the United States the highest corporate tax rate in the OECD.[35]

GILTI does not advantage U.S. companies over foreign companies

Regarding international income, current law has been referred to as a "quasi-territorial" tax system—a territorial-type system for dividends combined with a foreign minimum tax to protect the U.S. tax base from income shifting. The foreign minimum tax—the global intangible low-taxed income ("GILTI") provision—can be loosely described as applying a "top up" tax to active foreign business income that is taxed by foreign countries at a rate below 13.125%. While it is beyond the scope of this testimony to provide a detailed explanation of GILTI, practitioners observe that U.S. companies with average foreign tax rates above 13.125% still have to pay GILTI tax.[36]

The United States is the only advanced economy that imposes a minimum tax on active foreign business income.[37] And while discussions are taking place within the OECD on a model foreign minimum tax, the OECD Secretariat has described GILTI as tougher than the model the OECD is considering.[38]

An increase in the rate of tax under GILTI would only further disadvantage U.S. companies relative to their foreign-headquartered competitors.

The GILTI deduction for a 10% normal return on depreciable assets does not encourage foreign investment over U.S. investment

GILTI provides an exclusion of a 10% return on foreign tangible investments in plant and equipment. This provides territorial-like treatment for these earnings. The rationale for the exclusion is to allow U.S. companies to compete on an equal playing field with their foreign rivals on the "ordinary" or "normal" return to these investments. But unlike the territorial tax systems of other countries, the U.S. tax law does not exempt from U.S. tax any "above normal" returns on foreign investments. Instead, these above normal returns are subject to tax under GILTI.

While the location of high-return investments may be sensitive to tax rates, companies are unlikely to make a business decision to move investments that earn a low or normal return from the United States to another country on the basis of tax differences. Locational decisions for these lower return investments are swamped by factors such as operational costs, transportation and logistics.

More importantly, the structure of GILTI *provides no tax incentive* to move low or normal return investments from the United States. Under current law, domestic investment in most plant and equipment is eligible for 100% expensing—providing an immediate deduction for the full cost of the investment.[39] Expensing is equivalent in present value to exempting the normal return of the investment from taxation. Thus, the normal return to these investments is exempt in the United States. If the same investment is made abroad, its income will be taxed at the rate of the foreign

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[34] OECD Tax Database, 2020 rates, *https://stats.oecd.org/Index.aspx?QueryId=78166.*

[35] Together with average state tax rates, a 28% federal tax rate combined with average state tax rates would be a combined tax rate of 32.3%.

[36] Richard Rubin, "Tax Changes Hit Overseas Profits of Some U.S. Companies," *Wall Street Journal,* March 27, 2019.

[37] Other countries often tax passive income meeting certain conditions, as the United States also does.

[38] OECD, Tax Challenges Arising from Digitalisation—Report on Pillar Two Blueprint, 2020, p. 19.

[39] Investment in new and used equipment and structures with a tax life of 20 years or less is eligible for expensing.

country. As a result, the U.S. tax system favors investment of these assets in the United States if there is any foreign tax on the earnings of the investment.

The Joint Committee on Taxation reached a similar conclusion on the effect of post-2017 tax law:

> "The macroeconomic estimate projects an increase in investment in the United States, both as a result of the proposals directly affecting taxation of foreign source income of U.S. multi-national corporations, and from the reduction in the after-tax cost of capital in the United States due to more general reductions in taxes on business income."[40]

Data published by the Bureau of Economic Analysis for 2018, the most recent year available, show that U.S. companies with global operations increased their U.S. capital investment, U.S. employment, U.S. compensation, and U.S. R&D at a faster rate than in their foreign subsidiaries. Domestic capital investment for these companies grew by 8.3% while that of their foreign affiliates grew by 0.4%. In addition, U.S. multinational companies' growth in domestic capital investment, employment, value added, and R&D was above their 20-year average in 2018, and growth abroad in these factors was below their 20-year average.[41]

There is no empirical evidence to suggest that GILTI or the deduction for a 10% normal return have resulted in U.S. companies investing abroad rather than in the United States.

VI. The U.S. should protect its tax base, but estimates of revenue losses from income shifting are vastly overstated, do not reflect current law, and therefore should not give rise to a disproportionate policy response

Taxpayers rightfully owe U.S. tax on their U.S. income and the United States should enforce its laws to ensure that taxpayers cannot shift income earned in the United States to other jurisdictions. The most effective deterrent to income shifting is a competitive U.S. tax rate. Post 2017, the corporate tax rate is at a more competitive level and multiple new provisions have been added to prevent taxpayers from shifting income offshore, including:

- The new foreign minimum tax, GILTI;
- A new base erosion and anti-abuse tax ("BEAT"), designed to attack related-party payments from the United States;
- A tough new limitation on the deductibility of net interest expense;
- New anti-hybrid rules to prevent a mismatch between deductions and income in cross-border payments; and
- New anti-inversion penalties for a company that inverts.[42]

In addition, current law provides a lower rate on foreign-derived domestic income (FDII), intended to provide an incentive to attract and retain intangible property in the United States.

Similarly, other countries are implementing measures as recommended under the OECD Base Erosion and Profit Shifting project, including the European Union's two Anti-Tax Avoidance Directives.

Little new data exist to examine the effect of these rules on income shifting. The Joint Committee on Taxation recently analyzed 2018 country-by-country data, covering companies with tax years ending between July 2018 and June 2019.[43] Unfortunately, as noted by the Joint Committee on Taxation, the country-by-country data are known to suffer from double counting of income—the same income can be reported multiple times due to the income of lower-tier foreign subsidiaries potentially

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[40] Joint Committee on Taxation, Macroeconomic Analysis of the Conference Agreement for H.R. 1, The Tax Cuts and Jobs Act, JCX–69–17, December 22, 2017.

[41] Bureau of Economic Analysis, "Activities of U.S. Multinational Enterprises, 2018," News Release BEA 20– 40, August 21, 2020, and historical data available at *https://apps.bea.gov/iTable/index_MNC.cfm.*

[42] New anti-inversion penalties include recapture of rate relief on previously unremitted foreign earnings, inclusion of cost of goods sold payments under BEAT, taxing dividends of such companies at ordinary rates, and increasing the excise tax on stock compensation paid to top executives of such companies.

[43] Joint Committee on Taxation, U.S. International Tax Policy: Overview and Analysis (JCX–16–21), March 19, 2021.

being included in the income of higher-tier subsidiaries, making these data problematic for assessing income shifting.[44]

The 2018 data, the most recent available, also capture only a portion of the effect of the current law GILTI provision, as many companies have foreign affiliates with tax years that were not subject to GILTI until 2019. BEAT also phased in beginning in 2018 at a 5% tax rate, increasing to 10% in 2019. Revenue raised by BEAT not only includes direct tax payments under BEAT but also additional corporate income tax paid by companies that avoid related-party transactions that would give rise to BEAT. Only the former is directly observable.

Some researchers have used earlier year releases of country-by-country data to estimate income shifting, but the double counting of income makes these data unreliable for this purpose.[45] Bureau of Economic Analysis data, properly used, can avoid the double counting of income but instead may misallocate income from the lower-tier subsidiary that generated the earnings to higher-tier holding companies. This misallocation is one reason for the disproportionate reported earnings in tax havens, where such holding companies are often located.[46]

Accounting professors Jennifer Blouin and Leslie Robinson have examined the misallocation of income in Bureau of Economic Analysis data and call it a "fatal flaw" in the work of researchers unaware of how this affects the reported location of income. As an example, they consider the findings of Professor Kimberly Clausing, the current U.S. Treasury Deputy Assistant Secretary for Tax Analysis. Blouin and Robinson estimate that corrected for misallocation of income, losses to the United States are *one-tenth* the amount estimated by Clausing.[47]

Unfortunately, even this estimate likely overstates the amount of income loss to the United States. Clausing's methodology assumes the "excess income" of low-tax countries was predominantly earned in the United States rather than in other high-tax foreign countries in which U.S. companies operate; it is not based on any tracing of actual transactions between low-tax countries and the United States or other countries.[48] It also ignores the stricter controlled foreign corporation rules of the United States than other countries.[49] Legitimate, related-party transactions that would be permitted to reduce taxes in high-tax foreign countries would fail to reduce U.S. tax when conducted between the United States and a foreign affiliate due to U.S. Subpart F rules.

Critical decisions on tax policy should not be made on the basis of inaccurate data, nor on data that does not yet allow one to assess the effectiveness of recently enacted anti-base erosion provisions in the United States and other countries. Raising taxes on the foreign operations of U.S. companies on income attributable to functions, assets, and risks actually located outside the United States instead will make U.S. companies less competitive in the foreign markets they serve, hurting American workers in the process.

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[44] As noted by Martin Sullivan, "Under the country-by-country reporting regulations, reported profit in a country may or may not be a multiple of the actual profit generated in that country. Using this data as reported makes effective tax rates appear low and profit levels appear high. So what looks like a profit-shifting problem might be nothing at all." (Sullivan, Economic Analysis: Are Country-by-Country Reports Worthless?, *Tax Notes International,* Jan. 13, 2020). The OECD also notes that "it is likely that profits in the current iteration of the CbCR statistics are overstated, in some cases potentially substantially." (OECD, Important Disclaimer Regarding the Limitations of the Country-by-Country Report Statistics, July 2020).

[45] The UK government blocked the OECD from publishing UK country-by-country data, citing the "distortive effect of the inclusion of intragroup dividends," which the government stated "compromise how representative and comparable the aggregate CbC [reporting] data is for U.K. multinational groups." Stephanie Soong Johnston, U.K. Blocking OECD From Posting Aggregated CbC Reporting Data, *Tax Notes International,* May 11, 2020.

[46] See references in footnote 7.

[47] Jennifer Blouin and Leslie Robinson, Double counting accounting: How much profit of multinational enterprises is really in tax havens? May 20, 2020, available at: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491451.*

[48] Clausing assumes two-thirds of the income in low-tax countries is shifted from the United States. See, Kimberly Clausing, Profit Shifting Before and After The Tax Cuts And Jobs Act, June 2020, available at: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3274827.*

[49] Professor Hines notes that stricter U.S. rules and better enforcement than other countries imply less income is reallocated from the United States relative to that from other countries. (Statement of James R. Hines, Jr., U.S. Senate, Committee on Finance, How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment, March 25, 2021.)

LETTER SUBMITTED BY SETH ALLISON

I am a proud citizen of the United States of America, and someone who has engaged with the political system my entire adult life. I live outside the United States in Finland where I am a tax resident and where I am subject to full taxation on my worldwide income while residing here. I am writing to this committee to ask that relief and consideration be given to individuals living abroad. U.S. tax law currently treats individuals living abroad (often working very normal jobs) as subject to the same oversight and regulation as multinational corporations. This makes it extremely difficult to be a U.S. citizen and plan for retirement while living or working abroad.

I do not live "offshore." I do live in a country where I pay very high income taxes. U.S. regulation imposes many "invisible taxes" on citizens abroad, where reporting and compliance penalties are so high that you are simply locked out of many markets or investment opportunities. I will likely retire in Finland, and trying to plan for the next 30–40 years in a foreign country is hard enough. But U.S. law makes it nearly impossible to have a normal investment/retirement plan, despite my best efforts.

To illustrate how difficult it is simply to plan for retirement, consider that:

- I am not able to invest my Finnish's companies 401k equivalent retirement fund due to U.S. double taxation, but also I cannot legally invest in U.S. mutual funds while abroad, due to U.S. regulation.
- Most European banks and brokerages will not take me as a client because FACTA compliance and the risk of sanctions vastly outweigh my worth as a retail client.
- Most American banks and brokerages will not take me as a client while abroad, due to EU GPDR and other cross-national regulations. This also prevents me from buying U.S.-based ETFs—removing index funds from potential options.
- I must track taxable events in both countries because generally I must pay the worst of the two country's rates to remain compliant.
- FBAR reporting made it difficult to even get my modest mortgage, as my local bank was terrified that loaning me money would run afoul of unknown/boogeyman U.S. federal or California state law. I had to sign affidavits that I did not own any assets in America just to receive a mortgage—that's how afraid they are to have normal U.S. citizens as clients.
- Despite having no material assets or income from America, I am subject to double taxation (3.8% NIIT) on capital gains/dividend income from shares in my Finnish company. This means I earn less than my coworkers for the same job simply for being American.
- I am subject to double taxation on the sale of my home and other assets—despite all of the income being earned and spent in Euros, I must track the USD value of my assets which is subject to fluctuating exchange rates.
- Even after living 40+ more years in Finland, even if I never return to the USA, the IRS can assert estate tax on my entirely Euro-earned estate before it passes to my family.
- And all of this I had to discover myself—the complexity of expatriate finance means its nearly impossible to find a fiduciary who can assist you in both U.S. and EU taxes. I must pay 2 professionals and piece together the overlapping feedback because no one can reasonably do both expertly.

Some of these regulations originate from the U.S. or the EU, but all could be solved by simply treating Americans abroad as tax residents of the country they reside in. This is not simply an issue that is solved by Foreign Income Tax Exemptions or Credits—I am happy to pay my fair share in taxes. The problem is overlapping restrictions are frustrating, limit opportunities, and incentivize highly risky or speculative investments simply because it's easier to be individually compliant than traditional investments.

Many solutions are possible here, including several that shouldn't be controversial politically:

- Simply allow individuals abroad to be solely tax residents of their resident country, as every other major developed economy does. Decouple the tax code for foreign individuals vs. multinational corporations;
- Add/Raise the minimum income/MAGI limits for FBAR/FACTA/NIIT to something more befitting multinational corporations or extremely wealthy individuals;

- Modify tax treaties with friendly countries to relax regulation on their tax residents while keeping it stringent on nationals from more hostile countries.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate. 9 million U.S. citizens live abroad and we will all be affected if you continue to treat us as multinationals corporations. Currently, U.S. citizens abroad receive the worst of both worlds and that is not befitting the self-proclaimed freest country on earth.

Thank you for considering my input.

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April 8, 2021

The Honorable Chairman Wyden
The Honorable Ranking Member Crapo
U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

Re: How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment—Hearing Thursday March 25, 2021 9:30 am

Dear Chairman Wyden and Ranking Member Crapo:

The American Chemistry Council (ACC) represents the leading companies engaged in the business of chemistry. ACC member companies apply the science of chemistry to create and manufacture innovative products that make people's lives better, healthier, and safer. The business of chemistry is a $565 billion enterprise and a key element of the nation's economy. Over 25% of U.S. GDP is generated from industries that rely on chemistry, ranging from agriculture and automotive to semiconductors and electronics, textiles, pharmaceuticals, and building and construction. Materials and technologies from our industry are used to create solutions that enhance sustainability, including electric and fuel-efficient vehicles, wind turbines, solar panels, advanced batteries, and energy-efficient building materials.

ACC appreciates the opportunity to submit comments in response to the Committee's hearing last week on the effect of the international provisions in the Internal Revenue Code on domestic workers, jobs and investment. Since 2010, the chemical industry has invested $97 billion in new or expanded facilities in the United States. These 229 projects are completed and operating. Another 40 projects cumulatively valued at $31 billion are under construction, while 80 projects valued at $81 billion are in the planning phase. This investment in facilities drives business and job growth in the United States.

In light the vigorous discussion during the March 25 hearing, the ACC makes the following observations regarding potential changes to the international provisions of the Tax Cuts and Jobs Act (TCJA).

At the outset, it is important to note the OECD and Inclusive Framework countries are working toward a deal on Pillars 1 (profit split to address the digital economy) and Pillar 2 (controlled foreign company rules/global minimum tax). If the United States agrees to a deal on Pillar 2 this summer or by the end of 2021, then Congress will be required to change many provisions in the TCJA to align with new global tax standards. It is therefore premature to recommend and make changes to the U.S. international tax system before the outcome of the Inclusive Framework negotiations is known.

Under current law, global intangible low taxed income (GILTI) taxes income in excess of 10% of qualified business asset investment (QBAI). The purpose of the QBAI exemption is to exempt the ordinary returns and tax the income associated with intellectual property. Due to the proration of foreign tax credits, the GILTI applies a tax rate of at least 13.125%.

During the hearing, witnesses expressed concerns that multinational enterprises (MNEs) could manipulate GILTI and offset high-tax income with low-tax income by moving facilities out of the United States. There is much confusion about the roles tax departments play in site selections for new plants. Contrary to the claims of some witnesses, the tax department of a MNE does not select the new location of a plant. Business needs drive the location and growth of business, and the tax department can play a role in maximizing tax benefits once the decision is made. The tax department does not drive site selection. ACC is unaware of a U.S. MNE moving a facility abroad in order to obtain a GILTI benefit.

For these reasons, ACC recommends retaining QBAI and the current structure and rates for GILTI. Failure to do so will make the United States uncompetitive in the bid for manufacturing investment dollars and resulting economic benefits. The movement to a full inclusion system without deferral would make it more difficult for U.S. MNEs to compete abroad for market share.

If the Committee decides to modify GILTI, it should also address issues that will be exacerbated by a country-by-country regime. First, a controlled foreign corporation (CFC) should be permitted to carry forward tested losses. Failure to do so will undermine the growth of U.S. businesses. For example, a chemical company may decide to build a greenfield facility in Germany in order to be close to market and to minimize shipping costs. If the group does not already have a taxable presence in Germany, then the German operations will generate losses until the plant is operating and able to turn a profit. Such losses should offset future income. Without a carry forward, U.S. businesses will be at a competitive disadvantage overseas in pricing in a foreign market. Second, Congress should restore the full foreign tax credit for GILTI.

We urge the Committee to consider ways to retain and strengthen the foreign derived intangible income (FDII) to encourage businesses to export products from the United States. ACC members benefit from FDII, which replaced the domestic production deduction (former section 199) as an incentive to manufacture in the U.S. for export. FDII supports U.S. manufacturing and jobs.

ACC agrees with the majority of the Committee that the base erosion and anti-abuse tax (BEAT) should be revised. It targets behavior that is not base erosion (*e.g.,* the Work Opportunity Tax Credit, a domestic jobs credit, is treated as base erosion) and is also under-inclusive. The cost of goods sold exception (COGs is not treated as a deduction for BEAT purposes) is important for ACC, and we urge retention of the exception. We welcome the opportunity to work with the Committee to create a sensible anti-base erosion regime.

We look forward to continuing engagement regarding potential changes to the TCJA. Our tax code should create an environment in which U.S. companies can compete effectively in global markets and ensure investment dollars, output, and jobs stay in the United States.

Sincerely,

Robert B. Flagg
Senior Director, Federal Affairs

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HOW U.S. INTERNATIONAL TAX POLICY IMPACTS
AMERICAN WORKERS, JOBS, AND INVESTMENT

American Citizens Abroad, Inc. appreciates the opportunity to submit this statement.

American Citizens Abroad, Inc. (ACA) is a qualified section 501(c)(4) non-profit membership organization, which advocates on behalf of Americans abroad. Its sister

organization, American Citizens Abroad Global Foundation (ACAGF), is a qualified section 501(c)(3) tax-exempt public charity, which identifies subjects that affect Americans abroad, develops information about these subjects and provides such information to Congress, Treasury Department and other relevant persons. ACA and ACAGF (collectively, ACA) favor a balanced approach to subjects, supporting efforts that provide tangible results and practical solutions. ACA is the premier thought-leader on issues affecting US citizens living and working overseas.

Overwhelmingly, attention to the subject of US international tax policy and the statutory and regulatory rules that surround this subject focuses on corporations and other business entities. Individuals, in particular American citizens residing outside the United States, are almost always ignored. In the early 1960s, when Congress was enacting Subpart F for corporations, it tinkered a bit with rules for individuals that had sat in the Code since 1926. When it did work on rules for Americans abroad it focused almost solely on the foreign earned income exclusion,[1] which helps US corporations that employ expats under agreements to provide for tax equalization. This explains why at hearings on the foreign earned income exclusion (section 911) witnesses typically represented oil and gas, construction and aircraft companies. The day-to-day plight of ordinary Americans living and working abroad was not so much front and center.

The 2017 Tax Cuts and Jobs Act is a prime example. The focus was entirely on moving to rules that would more favorably tax foreign source income of US corporations. Broadly speaking, this is referred to as a territorial approach. In the final moments of enactment, the absence of any action on US individuals was flagged, but it was too late to do anything other than say it was something to come back to.[2]

The territorial approach for taxing US companies, not taxing or lightly taxing foreign income, is the same thing as residence-based taxation (RBT) for individuals. RBT would generally not tax the foreign income of individuals truly resident outside the U.S. They would remain taxable on US income, and they would remain in the tax system, filing returns and being subject to examination.

Residence-based taxation is the approach, we believe, followed by every other country in the world except for hard-put-upon Eritrea. Certainly, all other industrialized countries apply RBT.

Congress should enact RBT. RBT can be made revenue-neutral, extraordinarily tight against abuse, and such that no one is worse off under RBT than he or she is under current citizenship-based taxation (CBT).

ACA has described in detail a roadmap of ″vanilla″ approach to how taxing US citizens resident overseas based on residence might be structured.[3]

ACA, with the help of District Economics Group, has analyzed this so-called "vanilla" RBT approach.[4]

On behalf of Americans living abroad, ACA hereby requests that this Committee hold a hearing on taxation of Americans abroad and what it would mean to adopt residence-based taxation. Ask the Treasury Department what it thinks about this as a matter of tax policy. Ask the economists at Treasury Department and Joint Committee on Taxation what the historical and background information is and what is the baseline data affecting this subject. How many Americans abroad are there? How many are filing federal tax returns and owe a significant amount of tax? What are the income and assets profiles of these individuals? How might RBT be struc-

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[1] Section 911, Internal Revenue Code.

[2] The following House floor colloquy on Nov. 16, 2017 makes the point:

REPRESENTATIVE GEORGE HOLDING: ***As companies begin to see the benefits of this new territorial system, I look forward to continue to work with the Chairman to explore ways to move towards a residency-based taxation system to ensure that American citizens have a level playing field around the globe as well. ***

CHAIRMAN KEVIN BRADY: Mr. Holding, I want to thank you for your leadership on this issue. In particular, about international competitiveness for our workers. So residence-based taxation is an idea we should continue to explore. We'll continue to work on this issue with you as leadership, and with that I yield back.

https://www.c-span.org/video/?c4692161/user-clip-congressman-holdings-comment-rbt

[3] *https://www.americansabroad.org/media/files/page/60567bc4/residency-based-taxation-aca-side-by-side-comparison-current-law-and-vanilla-approach-180420-1600.pdf; https://www.americansabroad.org/media/files/files/8c367212/Residency-Based_Taxation_Vanilla_Approach_171015.pdf.*

[4] ACA and DEG continue to update and examine further the baseline data. *https://www.americansabroad.org/media/files/files/dc1e1c4e/DEG_short_memo_on_RBT_proposal_11.06.2017.pdf.*

tured to be revenue neutral? How might it be made very tight against abuse? What are the implications for the US's approach to tax havens? What are the implications for exchanges of information? How do Americans abroad contribute to the creation of jobs in the US and the export of goods and services from the U.S.?

Congress, ACA believes, will want soon to revisit portions of TCJA. This means the door is ajar for considering residence-based taxation for individuals. In the distant past, Congress has always at least taken some action with respect individuals when dealing with corporations. Congress should not again ignore the Americans abroad.

Thank you for your attention to this statement.

Jonathan Lachowitz
Chairman—ACA

Charles Bruce
Chairman—ACAGF

Marylouise Serrato
Executive Director—ACA

LETTER SUBMITTED BY GARRETT ANDERSON

As a U.S. Army veteran, I hear from Americans *who do not service* because they were too busy with their lives, "Thank you for your service." That is a disguised attempt to ask forgiveness for their selfishness. It is also an admission that they have no idea why anyone would serve their country. I serviced the United States of America because it was the right thing to do. I did not do it to hear someone say, "Thank you."

Right now, I want to say to every member of this committee that your continuing actions to backdoor your way into foreign corporations because big Fortune 500 corporations are hiding their profits outside of the U.S. is a *disservice* to every American residing outside of the United States who runs a small business to make a living. You should be ashamed of yourselves.

My wife is French. I left the Army after six years of active duty and moved to France. It is a decision that I do not regret, and I did it for love. Moreover, I did not do it because of some crazy idea of avoiding U.S. taxes. If that were the case, I would not have religiously filled U.S. taxes for over 40 years.

I have had the pleasure to see firsthand American companies cheat France of taxes by moving its French profits to the Netherlands and Switzerland. It is a spectacular thing to watch the magic of American big business using "management fees" from a two-person office in a tax haven move millions of dollars away from the country where it was made with thousands of customers and hundreds of employees. But that is the American way. Aren't you all proud to be Americans who cheat other countries of their legitimate tax base?

Now, you are having hearings to figure out how the United States can be the best tax haven for foreign investment while ensuring that American corporations do not cheat the U.S. of its part of their profits. The only problem is that you, Senators, had no idea what you are doing. You are ruining the lives of Americans who do not reside within the borders of the United States.

I had a small one-person consulting business in France. I started it in 2004. In 2005, I started filling out Form 5471. That damn form takes two to four weeks per year to fill out. Moreover, I was filling out the same form that Apple and Google have to fill out. Unlike them, I did not have the funds to get professional help with this reporting mess. (By the way, how many members of the committee fill out their own ways?)

In 2014, I contacted my representative, Susan Davis (D–CA). Of course, she cares about tax issues. I had to log my request on her website under "other issues." (Oddly, "women issues" was listed twice.) The answer I got back was hurtful to say the least. She could not help because she was not a member of the Ways and Means Committee. Moreover, she was really there to help only "hard-working American families". If I am not chopped liver, then I am at least "Un-American".

Luckily after living in France for over half of my life, I became a naturalized France citizen. The naturalization process cost me a lot of frustration, but it opened my eyes to how much the United States considers itself to be the navel of the world. To get a $20 apostille from the State of California, I had to fly to New York to get

a money order. The government of California did not accept credit card or cash payments. It accepted only money orders or checks from U.S. banks. I do not have a U.S. bank account because I do not have a residency in the U.S. (That is a cute little side-effect of the Patriotic Act.) U.S. money orders are not available outside of the United States. Brilliant example of stupid governmental procedures. (It is like reading Catch-22, again.)

The TCJA was the last straw for me. When the United States backdoored their way into foreign small businesses by being creating FAKE taxable income for the American owner, my mind was made up. That is not the America that I served. I paid my $2,350 "punishment" to State Department, stood in front of a bullet-proof window and then swore in front of the American flag and a completely disinterested Foreign Service officer that I renounced my U.S. citizenship.

You should be very proud of your incompetence. An American veteran who ancestors fought for the United States as far back as the Revolutionary War, now needs to get a visa to visit their graves. What you did to me is un-American. So, let me say facetiously, "Thank you for your service. I would still be an American citizen if you cared about us and did your job with competence."

Good luck in your work to Make America The Greatest Tax Haven for foreigners at the expense of Americans who live and work abroad. You are definitely headed in the right direction.

LETTER SUBMITTED BY ALISSA ANDREWS

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I will be living abroad for at least the next several years. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the U.S.A. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational". I am a "dual-national" living in my country of second residency. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God Bless the United States of America!

LETTER SUBMITTED BY RAY ANTON

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America in 1995. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad with a kiwi wife and children born both un the U.S. and New Zealand. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. As a salaried employee the government collects income taxes using a PAYE system (Pay as you Earn) with taxes paid from the first dollar and a top marginal tax rate of 39%. I also pay additional kinds of taxes such as a 15% Goods and Services Tax (GST) to my country of residence, comparable to the sales tax in the U.S.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
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I am not a "mini-multinational". I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate.

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LETTER SUBMITTED BY RON ARIES

I'm a Dutch citizen living outside the United States in The Netherlands where I am a tax resident and where I am subject to full taxation.

You see I am an "accidental American". I was born in the United States. My father was a Dutch Air force officer, stationed in New Jersey at the time of my birth. As a baby we (my family) returned to the Netherlands. I don't remember ever living in the U.S., except for some family pictures. My only experience of America is from geography lessons during elementary school in the Netherlands, I learned English during high school in the Netherlands, and from television, movies and an occasional holiday to America. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. But, it gets worse. I am also required to file complex information returns describing the details of my finances to the IRS. I can't even understand the forms. How can this be? What is the reason for this? No other country does this! I have no idea how to comply with the complex tax filing rules imposed on me. Also, I can't afford the expensive tax consultants. What am I supposed to do? Renounce my U.S. citizenship? I can't even afford the U.S. $2350 renunciation fee to do so. I simply don't know what to do, I'm at my wits end and I can't deal with the stress putting on me and my family.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, simply because of my birthplace I am a U.S. person, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my

non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the U.S., I have no ties with the U.S. and zero assets in the U.S.. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although I am an individual person, a human being, not one single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen? Why are you not willing to recognize that human beings should not be treated as entities?

2. I was shocked that there was no witness present who experienced threats with closure of his/her individual bank accounts in the country they live! In fact destroying their personal life, being excluded from participation to normal life. No more bank account means not being able to receive salary nor pension, no more payments possible for mortgage, insurance, medical care etc. Nobody, not one witness, had this personal experience. Not a single one! This is outrageous and incomprehensible. I respectfully suggest that subsequent hearings include witnesses who actually live outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational". I am a "dual-national" citizen living in my country of premier citizenship. Due to your tax laws I am downgraded to a second class citizen, treated like a pariah in my own country. I don't feel American, I'm Dutch, however due to your birthright citizenship I am apparently American, so it doesn't make me any less American. But, it does mean that I am subject to the laws of the country where I happened to be born. I am not knowledgeable of your GILTI, FATCA, FBAR, or anything. I only ask to be able to carry on to live my life without interference from the Internal Revenue Code of the United States. How was I supposed to know about the U.S. practice of citizen-based taxation? My Dutch parents certainly weren't aware of this (had they been, I would have immediately renounced my unwanted U.S. citizenship when I turned 18).

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Even more important is the fact that individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax or FATCA taxation.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. Again, being denied having a bank account, really means, exclusion of a "normal" life, thus violating my human rights! This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence, Capital Gains Tax)) when the Netherlands does not. In the Netherlands it is custom that people sell their houses as a part of their pension plan! Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one country gives, the other one takes.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. It doesn't!

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence based taxation.

Kind regards,

Ron Aries

LETTER SUBMITTED BY IRENE ARTUSO

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America 33 years ago to marry my husband, a Canadian citizen. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the U.S.A. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational". I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both

the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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God Bless the United States of America!

LETTER SUBMITTED BY JULIAN E. ASHER

I am a proud citizen of the United States of America. Since 2002, I have lived outside the United States in the United Kingdom, where I am a tax resident and where I am subject to full taxation.

I run a small business—a consulting firm focused on sustainability and eco-tourism providing advice to governments and NGOs—in the UK. My business is *not* a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income.

Complying with all these rules costs me thousands of dollars a year. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I'm not a millionaire. I do not live "offshore." I live in a country where I pay very high income taxes. I also pay additional kinds of taxes (including VAT and corporation tax) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground.**

I understand the need to prevent companies like Apple and Google from evading their fair share of tax. However, **I am not a "mini-multinational". I am a small business owner who happens to be a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and my life without interference from the Internal Revenue Code of the United States.**

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

To address this issue, I suggest creating a threshold for the application of GILTI and other rules. Small businesses should be exempt from rules designed for major multinationals. The Small Business Administration's definitions of what constitutes a small business would be a useful place to start. This would enable entrepreneurs like me to carry on our small businesses and live our lives just like our fellow small business owners in the U.S.—which is all we ask.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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April 7, 2021

U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment

The Association of Americans Resident Overseas (AARO) welcomes the Committee's review of U.S. international tax policy and its impact on American workers. Such a review is badly needed, especially in view of the damage the current U.S. tax framework has caused to American workers, retirees and small business owners resident overseas and their families.

We are aware that Congress plans to revisit the 2017 Tax Cuts and Jobs Act (TCJA), focusing mainly on its impact on multi-national enterprises (MNEs): the framework for taxing them, applicable rates and the impact on federal revenues. MNEs and their employees are important, but they are only a subset of the businesses and workers affected by international tax policies. We encourage the Committee to broaden its work to take full account of the impact of these policies beyond the large company sector to avoid inadvertent damage to small business owners and overseas American workers and entrepreneurs.

Congress' immediate task in this regard should be to reverse the damage caused by the TCJA itself. For overseas workers, entrepreneurs and small businesses this means fixing the Global Intangible and Low Income (GILTI) Tax and the so-called "Transition Tax" imposed under the TCJA. Only a small number of large companies owe meaningful taxes under these provisions. But even small amounts of tax and heavy compliance costs create a massive burden on large numbers of small businesses owned by Americans outside the United States. Congress should fix the problems.

Congress should also take care to ensure that no *new* provisions damaging to small American-owned businesses overseas are introduced inadvertently. The Committee can play an important role here by insisting that any implementing measures affecting businesses located overseas are subjected to a serious regulatory impact analysis and ensuring that this is reflected in the measures.

We strongly encourage Congress to extend its review of policies toward international taxation beyond businesses to individuals. Its purpose should be to correct the damage caused by longstanding features of the tax code and badly targeted enforcement provisions aimed at overseas Americans. Most problems would be substantially mitigated by ending taxation on the basis of citizenship and respecting international norms that would limit the application ofU.S. tax laws to areas over which the United States has jurisdiction.

The most important issues (a broad survey is available on AARO's web site [1]) include:

- Collective investment instruments (*e.g.,* mutual funds) and savings vehicles (*e.g.,* 401[k] plans and IRAs) that are tax favoured in the United States, to encourage saving and retirement planning, are often targeted punitively by the U.S. tax code when located where their American owners resident overseas live. The GAO reported extensively on this to Chairman Wyden (then the Ranking Member) on January 31, 2018 (GAO–18–19 [2]), summarizing the situation well.[3] Tax treatment of these savings instruments and vehicles should be aligned regardless of their location.
- Issues of double taxation and irreconcilable inconsistencies between U.S. and country of residence tax frameworks remain significant problems for many overseas Americans, especially those whose earnings are above the earned income exclusion ($108,700 in 2021) specified in Form 2555.
- Americans abroad increasingly encounter extreme difficulties in trying to contact the IRS and are left in the dark concerning the status of their filing, as they can no longer obtain status transcripts.
- Reporting requirements for tax filing are excessively complex and time-consuming. Skilled, expensive, in many countries bilingual, professional assistance is often required. IRS estimates of time typically needed by non-resident filers for record-keeping and filing are summarized HERE.[4] To take an example, for a simple 401(k) equivalent, deemed to be a foreign employees' trust covered by section 402(b) of the tax code (thus requiring Forms 3520 and 3520A), containing two mutual funds (requiring Form 8621 for each fund), could involve more than 160 hours of record-keeping and reporting. This would only be a part of the full return.
- Multiple reporting requirements for foreign financial accounts, applying to both individuals (*i.e.,* FINCEN Form 114 and IRS Form 8938) and their local banks (IRS Form 8966), are duplicative, overlapping and serve no known useful purpose. In addition, compliance costs to banks and the risk of disproportionate penalties have led banks to reject American clients on a large scale, making access to the financial system, necessary for making payments, one of the most serious problems confronting Americans overseas. In 2019 the GAO reported on these issues in detail.[5]
- The same GAO report (GAO–19–180) also called attention to the adverse impact financial reporting requirements were having on overseas American workers, jobs and promotion prospects.[6]

As a final point, AARO takes this occasion to reiterate its longstanding request that the Committee and the rest of Congress move away from its persistent tendency to regard the overseas American community through a distorted lens that perceives all Americans living outside the U.S. as well as the businesses they might operate as

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[1] *https://www.aaro.org/images/pdf/Talking_Points_End_Citizen-based_Taxation.pdf.*
[2] *https://www.gao.gov/assets/gao-18-19.pdf.*
[3] *https://www.aaro.org/images/pdf/Talking_Points_End_Citizen-based_Taxation.pdf#page=9.*
[4] *https://www.aaro.org/images/pdf/Talking_Points_End_Citizen-based_Taxation.pdf#page=12.*
[5] *https://www.aaro.org/images/pdf/Talking_Points_End_Citizen-based_Taxation.pdf#page=18.*
[6] *https://www.aaro.org/images/pdf/Talking_Points_End_Citizen-based_Taxation.pdf#page=20.*

being in the same basket as rich individuals who have sought to hide their wealth overseas or large and nominally American corporations that have used various legal means to minimize their fiscal liability. The vast majority of the millions of Americans living and working overseas are exactly like the millions living in the United States. Their continued stigmatization and subjection to unfair tax policies as a consequence is patently unjust and unseemly for a country like the U.S., which is committed to the principle of fairness and justice for all its citizens.

Although AARO is committed to the larger goal of ending the current system of citizenship- based taxation, it calls, in this instance, for a careful and well-studied examination of the real challenges facing American small businesses and entrepreneurs overseas. Americans who moved overseas did not lose their citizenship as a result of doing so. It is wrongheaded for Congress to inflict punitive measures on everyone due to understandable concern about the illegal or questionable practices of a few. Justice and fairness demand better.

We thank the Committee for the opportunity to comment on these important issues.

Paul Atkinson
Chair, Banking Committee

Fred Einbinder
Vice-President for Advocacy

William Jordan
President

LETTER SUBMITTED BY ELIZABETH AUSTIN

I am a proud citizen of the United States of America. I live outside the United States in France where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY V.K. BAKER

I am a citizen of the United States of America. I live outside the United States in Europe where I am a tax resident and where I am subject to full taxation.

I am an American expat. I have been living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another**

way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

If such unjust laws continue for U.S. expats abroad, I (like many others) will be forced to renounce my U.S. citizenship.

LETTER SUBMITTED BY AMY BALCERAK

I am a proud citizen of the United States of America. I live outside the United States in Switzerland, where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY WENDY O. BARBELLION

I am a proud citizen of the United States of America. I live outside the United States in France where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America 52 years ago. Although the days sometimes go slowly, the years go quickly. I am very attached to my American roots, but I happened to marry a French national in 1972, and acquired French nationality at that time.

I have been a tax resident of France for those 52 years. I am required to organize my financial planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. My husband and I file our French taxes jointly, but I have to file my U.S. taxes "married filing separately". Most attempts at responsible financial planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I have no financial nor other assets in the U.S. I am not eligible for U.S. social security. I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. This creates double taxation, as these indirect taxes are not eligible for tax credits.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save and invest. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

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God bless the United States of America!

LETTER SUBMITTED BY WILLIAM MICHAEL BARKLEY

I am a proud citizen of the United States of America. I have been living in Canada for 52 years now, all my children live here. I am a tax resident in Canada and I am subject to full taxation.

Yes, I am an emigrant from America. I love America, my entire extended family before 1969 live in the U.S.. I am the only one who moved away. But, we never know where life will take us or why. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad.

I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. They are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Despite various tax treaties those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose tax-

ation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I have no property, business interests or bank or investment accounts in the United States.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional taxes such as property and Harmonized Sales Taxes to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in Canada and do not live in the United States. There is no other country in the world, except for Ethiopia, that imposes such extraterritorial taxation.

Let me also speak for my two daughters who were born in Canada and have never lived in the U.S. but are accidental U.S. citizens. They make around $50,000 a year and have to submit their 1040's every year, costing them $400.00 each to have them prepared properly. They will never pay U.S. taxes but are forced to submit an annual return just like I do. This is money they do not have. This is absolutely crazy.

Let me add one more thing to this. In all the years I have lived here I have never made enough money or been in any financial situation where I would have been required to pay U.S. taxes, yet every year I pay to have these complex tax returns filed. In today's dollars I have paid over $20,000 for tax return preparation for what? So you can hire more civil servants to review forms that will always show no tax payment required.

Many of my American friends are fed up and have renounced their citizenship. It is sad for them as they have renounced their heritage simply because the U.S. considers itself exceptional and refuses to adopt residence-based taxation like the rest of the world.

I would also like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. So as President Biden would say "so, here's the thing . . ." the reality is: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am jar and individual person, not a single hearing participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States as a non-business owner.

I am not a "mini-multinational." I am a "dual-citizen" living in Canada. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States. Following the Canada Revenue Tax Code is plenty.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States, especially those that are running small business with no financial or other connection to the USA. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both

the United States and Canada, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thanks you for listening and God bless the United States of America!

LETTER SUBMITTED BY SHON M. BARNETT

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure, I love America. But we never know where life will take us. I moved from America 39 years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I did not move away from the USA to dodge taxes as has been falsely stated by experts in prior hearings to explain the need to monitor U.S. expats. The thought of rescinding my U.S. citizenship has never entered my mind. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live in addition to the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. I cannot take advantage of legal retirement planning in Canada because it doesn't always apply to U.S. tax law. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic benefit from the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay many additional kinds of taxes (examples GST and PST) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation. On top of all that, there is the annual requirement to file duplicate documents to the Treasury for all my banking transactions, reporting all financial account information as well as assets. FATCA and FBAR requires financial reporting with onerous penalties and it is costly to provide all this information annually. My bank account information is reported to the Treasury by the Canadian government (IGA) for all my financial accounts as though I am a criminal. The U.S. has the power to gather that info if they have suspicion of criminal activity. Why must an expat be required to do this? How would any U.S. resident citizen react to being monitored like this by the government?

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and Canada I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! A tax Treaty with another country doesn't mean that taxes aren't paid in both countries even though it is intended to eliminate double taxation. A dividend paid in one country isn't treated the same in both countries.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. In past hearings there has been the accusation that people leave the U.S. in order to avoid paying taxes. Try coming to Canada and paying less tax than you pay in the U.S. . . . people don't move here to avoid taxes.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation. Taxes collected probably don't cover the expense of administering the extraterritorial tax regime.

God bless the United States of America!

LETTER SUBMITTED BY DANIEL BARON

My comments are related to FATCA.

False perception among U.S. lawmakers: Of 9 million Americans living abroad, most are not in the "wealthy" category. Living in Tokyo does not mean I am a "wealthy expat." I am not wealthy. My American friends in Japan are also not wealthy.

FATCA hinders American citizens in conducting business: Not a single U.S. bank has a retail banking operation in Japan. Japanese banks are free to refuse U.S. citizens for accounts or to close existing accounts. It is nearly impossible for U.S. citizens to get a credit card in Japan due to required declaration of U.S. citizenship. This also affects loan applications. Being a U.S. citizen has created a two-tier foreign community: the "untouchable" Americans and rest of world.

Unreasonable filing requirements: annual U.S. tax filing documents are a convoluted tangle of technical lingo and impossible to complete correctly without a tax specialist. Even though I owe no tax every year, I am forced to pay a consultant approximately $1,200 to prove it. There is no legal justification for imposing on citizens an obligation that can not be fulfilled without significant financial burden. The U.S. should adopt residence based taxation, with a single page document for annual IRS filing.

Nine million U.S. citizens abroad represent invaluable soft brand power: Brand America benefits immeasurably from the daily contacts that Americans have with locals in their adopted country. We are the ambassadors on the ground who create long-lasting bonds of trust, who inspire young people to travel or study in

the U.S., who help cultivate business and cultural ties. Collectively, we are an asset that the U.S. Government should value. It is in the country's own interest to ensure that U.S. citizens can thrive abroad and are not penalized by misguided legislation like FATCA. The U.S. should find a smarter way to go after tax criminals and stop punishing average citizens for being Americans.

Thank you for the opportunity to submit my thoughts.

Daniel Baron

LETTER SUBMITTED BY CLAUDE BEAUREGARD

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because

all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ALICE BEBERMAN

I am a proud citizen of the United States of America. I live outside the United States in —Scotland UK where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my

life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Alice Beberman

LETTER SUBMITTED BY NATHAN E. BECK

I am a proud citizen of the United States of America. I live outside the United States in the Czech Republic where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (VAT, local real estate taxes, etc.) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income. I must pay U.S. tax even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. I do work for an American 501(c)3 tax-exempt charitable organization, but also run two businesses in Czech in order to comply with local taxation laws (per the U.S.-Czech Totalization tax treaty). There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am an American citizen, and all my children are "dual-nationals" living in the country of their second citizenship. It doesn't make me or my children less American. It does mean that we are

subject to the laws of the country where we live. When I took my teenage daughters to open their first bank accounts, I had to explain U.S. reporting requirements for these accounts and the IRS tax filing requirements on their part-time student jobs that none of their peers have. **We are not GILTI of anything. We ask only to be able to carry on our small business and/or live our lives without interference from the Internal Revenue Code of the United States.**

In addition, the Internal Revenue Service cannot even keep up with current service to Americans residing abroad. As Americans residing abroad and paying Social Security taxes to another country, we are required to file paper tax returns. The IRS delay in processing paper returns is currently extreme and is not improving. I am still waiting for both my 2019 and 2020 tax refund from the IRS (my 2020 tax return was filed one month ago). **If the IRS cannot maintain the ability to process tax returns in a timely manner that U.S. tax code requires, then why tax Americans residing abroad?**

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. The majority of my bank accounts and savings are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example, sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that Foreign Tax Credit and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MICHAEL BENEDICT

I am a U.S. citizen living in Canada where I am a tax resident and subject to full taxation, twice. Once to Canada where my earnings and savings are and then again in the U.S. where my earnings and savings are not.

Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How is it fair to tax non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? There is no other advanced country in the world that imposes such extraterritorial taxation.

The U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Yours truly,

Michael Benedict

LETTER SUBMITTED BY DIANE BENNY

I am a proud citizen of the United States of America. I have lived outside of the United States in England for 40 years. My move to the UK was prompted by my

marriage to a UK citizen. I have worked in the UK for the majority of my adult life, for UK companies such as the BBC. For the past 10 years I have been self-employed. I am a tax resident in the UK subject to full taxation.

I feel blessed to have an American heritage and upbringing, and I will always love America. I long ago realized that due to my marriage to a UK citizen I would be living outside of America permanently. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. While they are subject to only one tax system, I, as a U.S. citizen, am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible, and even worse, the U.S. tax system is highly complex and difficult for an ordinary person like myself to understand. This complexity particularly affects my options for making responsible financial/retirement plans. I have had to engage expensive accountants to ensure that my tax returns to both countries are done correctly—I am terrified of making an error on my returns due to not fully understanding what the IRS requires from me as a resident of the UK. I understand that errors can (and will) result in very steep financial penalties. I also need expert tax guidance to ensure that I don't unwittingly get hit with double taxation, and to provide information on U.S. tax implications for specific common actions such as selling my primary residence, or cashing in an ISA (neither of which are taxable in the UK).

I am planning to stop working at some point this year and will have to rely on a small, fixed pension as my only regular income source. The cost of engaging accountants every year to guide me through the complex U.S. tax system will severely eat into that income, which is all the more frustrating in that I usually don't owe a cent of U.S. tax! In addition to the extra expense of hiring tax experts for my tax returns, the requirements for producing the FBAR each year is time-consuming and causes a great deal of anxiety. For these reasons I am starting to seriously look into the option giving up my U.S. citizenship. As heartbreaking as this would be for me, I cannot afford financially or mentally to be at the mercy of the U.S. tax system when I am not a U.S. resident. The U.S. tax system is incredibly difficult to understand, and does not take into account the impact many of the tax laws have on citizens who, like myself, live outside of the United States. It seems as if we are being penalised for the fact that we are not U.S. residents. The current U.S. system of citizenship-based tax is totally unfair. How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

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God bless the United States of America!

LETTER SUBMITTED BY CHARLOTTE BERWICK

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America as a child. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. As a doctor qualified outside of the U.S., I could not return without a huge number of professional examinations, at great time and expense, so I am unable to return for that reason also. I am married to a non-U.S. citizen and have built a life in the UK. I am a tax resident of the UK. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not

a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY A. JULIE BEYERS

I am a proud citizen of the United States of America, but I have made a permanent home in Australia where I am a tax resident and where I am subject to full taxation.

I moved from the United States over 16 years ago and permanently made Australia home to be with the person to whom I am now married. I chose to be with the person I love rather than stay in the country I love (America), and now I have a wonderful family and two countries that I love. While I will always love America, I do consider Australia to be my permanent home—the country where my children will grow-up and the country in which I will retire. While I am richer in experience from living in two countries, I am poorer when it comes to the consequences of the USA's extraterritorial taxation scheme.

Obviously, I am a tax resident of Australia as it is my country of residence. I am required to organize my financial and retirement planning in Australia. The U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live, and force me to face complexities and worries that only Americans who have made homes outside of America have to deal with; the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not—but my country of residence taxes other investments such as capital gains on shares at a higher rate than the USA which means I get the worst of both tax regimes. In addition, because I am required to live my life with the USD as my functional currency for tax report-

ing purposes, I am subject to "fake income" on nothing but changes in the exchange rate.

As a tax resident of both the United States and Australia, **I face the harshest impact of both tax systems.** And the foreign tax rules and/or the Foreign Earned Income Exclusion do not solve these problems. I stress every tax time (which is 2×/year—June for Aus taxes and December for USA taxes). I spend a fortune on an accountant well-versed in both systems as I fear "getting it wrong."

What I would like is to be like other Australians, which is subject to only one tax system. The USA tax system and the Australian tax system are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? No other advanced country in the world imposes extraterritorial taxation in the harsh way that the USA does.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is not responsible nor is it just. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality of the many "average Joes and Josephines" who have made their permanent home outside of America and not some theoretical impact (aka "speculation").**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. I ask only to be able to carry on my life having to take into account the taxation system of my country of permanent residence (Australia).

Bottomline, the current USA system of extraterritorial taxation on individuals who have permanently made another country home is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time.

LETTER SUBMITTED BY LENA BICKERSTAFF

I am a proud citizen of the United States of America. I live outside the United States in—Sweden—where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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ognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY NINA BLACKWELL

To Whom it May Concern:

I am a citizen of the United States of America. I live outside the United States in Australia where I am a TAX RESIDENT and where I am subject to FULL TAXATION. I have no financial holdings or interest whatsoever in the United States.

I do not live "offshore." I do live in a country where I pay very high income taxes and thus receive the care, protection and benefits of my "home" country. I receive no benefits from the United States. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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I am not a "mini-multinational". I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

Please do not believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They *do not*!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Respectfully,

Nina Blackwell

LETTER SUBMITTED BY JOAN BLORE

I am a proud citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or life my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

STATEMENT SUBMITTED BY JENNIFER BLOUIN
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I. EXECUTIVE SUMMARY. As financial accounting experts working on tax policy issues, we provide our insights on the effect of accounting standards on U.S. national statistics that measure country-level U.S. multinational company ("MNC") activity. We emphasize that these statistics, which are commonly used in empirical studies that inform international tax policy, are frequently misinterpreted by the research community.[1] These misinterpretations generate overstated estimates of U.S. MNC income in tax havens as well as the loss of U.S. corporate tax revenue from profit shifting. When the financial data are interpreted correctly, a commonly cited estimate of the U.S. tax revenue loss drops from 30–45% to 4–8% of U.S. corporate tax revenue.[2]

Based on our concerns, we have three recommendations for policymakers:

(1) **Do not rely on existing estimates** of the U.S. corporate tax revenue loss from profit shifting, or on estimates of changes in profit shifting after the 2017 tax reform, to make important tax policy decisions without considering the measurement issues we raise;
(2) **Involve financial accounting experts** in the design, collection and analysis of cross- country operating and financial data to inform tax policy;
(3) Before making important policy decisions, **reconcile measures of economic activity across U.S. national statistics data and Treasury data.**[3] Be skeptical when two data sources that purport to measure the same constructs indicate widely different levels of MNC business activity within and across countries.

II. WHAT INFORMS TAX POLICY? Empirical research plays two key roles in policy settings. First, the research informs policy makers of the salience of the issue being considered. In the context of tax policy, this would include insights into the tax revenue raised or lost from an existing policy in a representative population of taxpayers. Second, the research should provide feedback about actual or contemplated changes in a policy. This type of research should inform policy makers of the consequences of reform, whether it be implications for tax revenue or changes in behavior. This empirical work is difficult because it must isolate the effects of tax policy on behavior in the presence of many confounding factors.

To guide international tax policy decisions, researchers must measure three key constructs. First, we need the aggregate amount of worldwide activity (*e.g.,* income, assets, employment). Second, we need the amount of activity occurring in each individual country (domestic and foreign), paying particular attention to tax haven countries. Third, we need the tax rates faced by MNCs in the U.S. and in each foreign country. With these measures, a researcher can plausibly assess the role of tax policy on the location of MNCs' employment, income and investment. In a carefully constructed analysis, a researcher may also estimate the effects of tax policy changes on revenue.

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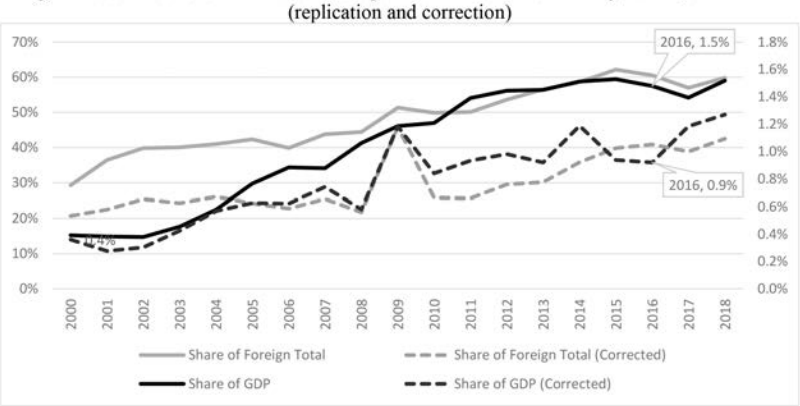
[1] *E.g., see* Clausing 2009, 2011, 2016, 2020. Multinational Firm Tax Avoidance and Tax Policy, 62(4) *National Tax Journal* 703–725 (2009); The Revenue Effects of Multinational Firm Income Shifting, *Tax Notes* (March 28, 2011) 1580–1586; The Effect of Profit Shifting on the Corporate Tax Base in the United States and Beyond, 68(4) *National Tax Journal* 905–934 (2016); Profit Shifting Before and After the Tax Cuts and Jobs Act, 73(4) *National Tax Journal* 1,233–1,266 (2020). Note that these measurement issues are not isolated to U.S. national statistics. Any data source that attempts to measure MNC income (and assets) by country is impacted by accounting standards.

[2] See Blouin and Robinson (2020), Double Counting Accounting: How Much Profit of Multinational Enterprises Is Really in Tax Havens?, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3491451.*

[3] The Bureau of Economic Analysis or BEA collects and disseminates U.S. national statistics.

Unfortunately, several prominent economic studies fail to understand how accounting standards affect the data used to measure MNCs' activities. We describe how researchers' misunderstanding influences the measurement of the income and tax rates of U.S. MNCs' foreign affiliates. We begin by reproducing the figure from Dr. Clausing's testimony in **Fig 1.**

Fig 1. The Share of U.S. Multinational Corporation Income in Seven Big Havens, 2000-2019 (replication and correction)



The solid lines indicate the share of U.S. outward direct investment income (DII) reported by the Bureau of Economic Analysis (BEA) in Bermuda, Caymans, Ireland, Luxembourg, Netherlands, Singapore and Switzerland.[4] Many researchers mistakenly rely on DII as a measure of U.S. MNC income generated solely within the BEA-reported jurisdiction. However, as explained in Section III below, DII often captures U.S. MNC income in more than one country. To **Fig. 1,** we add dashed lines using the correct measure of U.S. MNCs' jurisdiction-specific income, adjusted pre-tax income. Note that DII overstates income earned in those seven tax haven countries as a share of GDP in the year just prior to the 2017 tax reform by 67%.

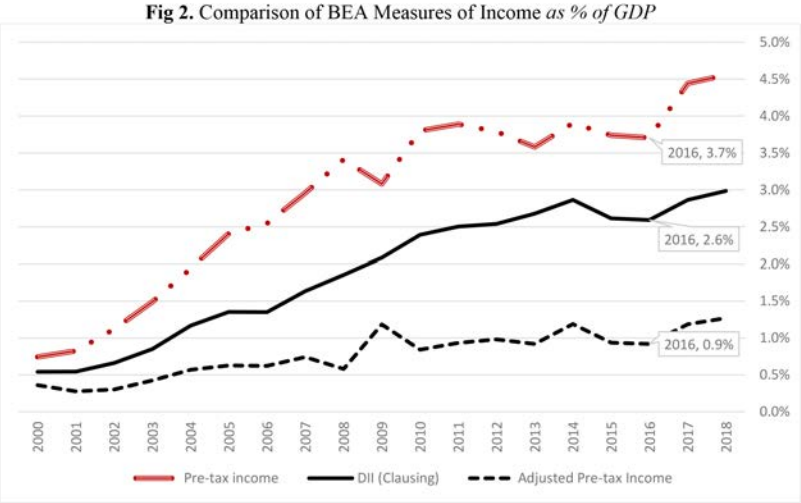
In **Fig. 2** we contrast three measures of income taken from BEA data, as a share of GDP: (1) pre-tax income, (2) DII, and (3) adjusted pre-tax income.[5] The latter measure, indicated by the bottom dashed line in **Fig. 2** corresponds to the "Share of GDP (Corrected)" line shown in **Fig 1.** In Dr. Clausing's work on profit shifting published in 2009, 2011, 2016, and 2020, she fails to recognize that adjusted pre-tax income correctly captures the amount and location of U.S. MNCs' foreign affiliate income.[6] **Fig. 2** reveals that the income measures used by Dr. Clausing significantly overstate income in tax havens. For example, in 2016, a period preceding tax reform, one of Dr. Clausing's preferred measures overstates income as a share of GDP by 310%.

[4] Note that 2018 and 2019 are preliminary data. Also, Clausing (2020) uses preliminary data from 2017 to estimate U.S. revenue loss. There are frequent and sometimes significant revisions to preliminary BEA data. For example, preliminary DII in 2017 was reported as $471 billion while revised data was reported as $519 billion. Another example is that the estimate of U.S. revenue loss in Clausing (2016) of $111 billion using preliminary data for 2012 is $102 billion using revised data for 2012. The BEA posts regular updates on its website to alert researchers when preliminary data is replaced with revised data: *https://apps.bea.gov/iTable/index_MNC.cfm* Dr. Clausing frequently uses preliminary BEA data in her research.

[5] We provide the details of these three measures of income using an example in Section III.

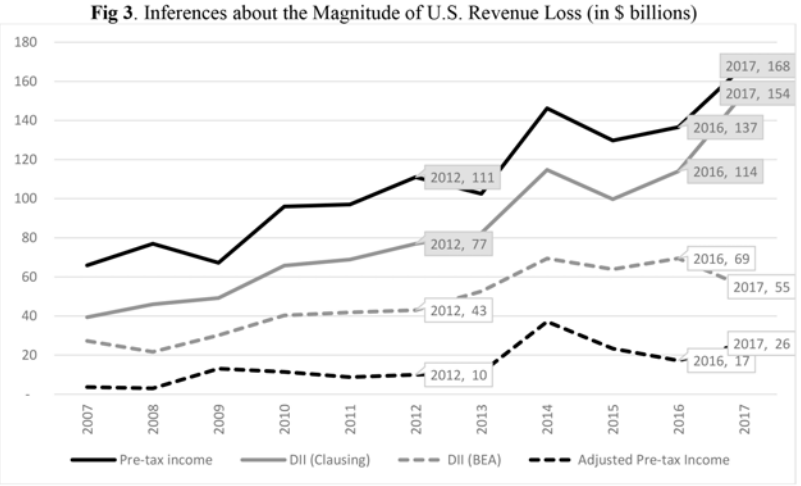
[6] It is important to note that DII used to produce **Fig. 1** from her testimony is DII reported by the BEA—"DII (BEA)." In all of Dr. Clausing's research prior to the 2017 tax reform, she mistakenly used the inflated measure of DII shown in **Fig. 2**—"DII (Clausing)." Although she notes this mistake in Clausing (2020) she does not share the effect of this faulty adjustment on the magnitude on her previous estimates of U.S. revenue loss.

Fig 2. Comparison of BEA Measures of Income *as % of GDP*



Misunderstanding the data not only leads researchers to overstate the amount of MNC income in tax havens, it mechanically leads to greatly exaggerated estimates of the effects of profit shifting. Following Dr. Clausing's methodology from Clausing (2016) but incorporating the correct measure of income, **Fig 3.** shows that her estimates are extremely sensitive to the BEA measure of income that she chooses. Our replication of Clausing (2016) confirms a U.S. revenue loss in 2012 between $77 and $111 billion using her preferred income measures—pre-tax income and her inflated DII (the top two lines showing in **Fig 2**). When we use DII without making Dr. Clausing's adjustment, or the correct income measure to study profit shifting, the estimate drops to $43 and $10 billion, respectively. Despite recognizing the faulty adjustment to DII, she continues to reference the inflated $77 billion estimate from Clausing (2016) in her current work.

Fig 3. Inferences about the Magnitude of U.S. Revenue Loss (in $ billions)



In **Fig. 3**, we also extend our replication analysis for 2012 to show the (hypothetical) trajectory of Dr. Clausing's estimates through 2017 (the top two bold lines in **Fig 3**). Note that if she had continued to use her preferred income measures and methods from Clausing (2016), she would estimate a U.S. revenue loss in 2017 of be-

tween $154 billion and $168 billion. We note that this amount is more than half of U.S. corporate tax revenue collected in 2017. The estimate using the correct income measure, adjusted pre-tax income, would be $26 billion.[7]

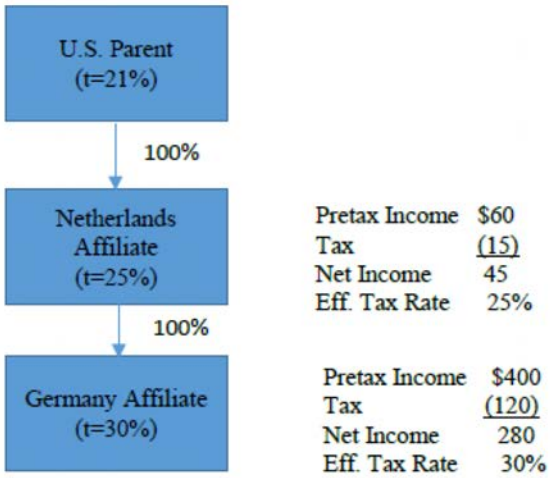
It is very difficult for a casual reader of Dr. Clausing's work to reconcile **Fig. 3** to her "preferred estimate" of "over $100 billion" of 2017 corporate tax revenue lost to profit shifting described in Clausing (2020) and in her Senate testimony.[8] Unfortunately, the headline results from Clausing (2016) and Clausing (2020) are not comparable because they are each generated using different data and methods.[9]

III. MEASURING U.S. MNC ACTIVITY BY COUNTRY. This section provides a simple example to illustrate why adjusted pre-tax income is the correct BEA measure of income to study profit shifting. At the same time, this example will make clear why pre-tax income and DII are not appropriate for studies on profit shifting.

Consider a hypothetical MNC as shown in **Fig. 4.**

The U.S. parent directly owns the stock of a subsidiary in the Netherlands that generates $60 of pre-tax income from its Dutch operation. After-tax income is $45 with an effective tax rate of 25% (15 tax/60 pre-tax income). This Dutch entity in turn directly owns the stock of a German subsidiary. The German entity generates $400 of pre-tax income from its German operation. After-tax income is $280 with an effective tax rate of 30% (120 tax/400 pre-tax income). The German entity pays a $10 dividend to its parent company in the Netherlands.

Fig. 4. Organization and Activity of a Hypothetical U.S. MNC



[7] Note that estimates using adjusted pre-tax income and DII will become more similar over time if U.S. MNCs change their ownership structures to become "flatter"—*i.e.,* with more foreign affiliates directly owned by the U.S. parent (you can see this in our examples in Section III). Anecdotally, this already happening in U.S. MNCs. This is important because estimates of profit shifting over time using DII data will decline as MNCs alter their ownership structures to become flatter, not because they decrease their profit shifting per se. Adjusted pre-tax income data, in contrast, is not influenced by ownership structure decisions.

[8] At least one other paper cited in Dr. Clausing's testimony as supporting the $100 billion amount has also misinterpreted the role of accounting standards in the estimate of revenue lost to profit shifting. The other two papers cited by Dr. Clausing provide an estimate of the revenue lost across all 34 OECD nations not just the U.S.

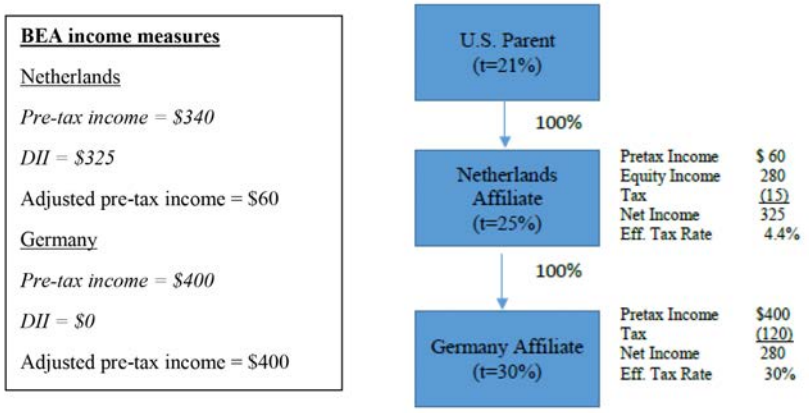
[9] Interested readers can request an Excel file from the authors that reconciles the data and methods used in Clausing (2016) and Clausing (2020). The $100 billion estimate is obtained under a precise combination of data and methods in 2017 that do not correspond to any combination of data or methods she used previously.

In aggregate, the foreign pre-tax income of this U.S.-based MNC is $460, tax is $135, and after-tax income is $325. Due to the direct ownership of the German affiliate by the Dutch affiliate, accounting rules require the Dutch entity to account for the German entity's operations in its books and records.[10]

In **Figs. 5a** and **5b** we illustrate the two primary methods for accounting for subsidiary earnings that influence countries' measures of MNC activity.[11] In this example, the primary difference between these two methods will focus on the financial statements of the Dutch entity. The BEA requires U.S. MNCs to use the *Equity Method* and publishes aggregate foreign income, income taxes and equity income.

Under the equity method, the Dutch entity includes the Germany entity's $280 of after-tax income in its pre-tax income in the year it is earned by the German entity. The BEA labels this income statement line item as "equity income." Equity income is not a cash flow or other movement of assets from Germany to the Netherlands.[12] The $280 of after-tax German income is simply being duplicated in the financial statements of the Dutch entity. Notice that the pre-tax income (see **Fig. 2**) double counts German income: aggregate after-tax income is $605, which is comprised of $325 in Netherlands and $280 in Germany.

Fig 5a. How do Accounting Standards Affect MNC Data? – "Equity Method"



Dr. Clausing recognized the double counting issue but did not correct for it despite the simplicity of the adjustment.[13] Rather than removing the BEA-provided measure of equity income from the Dutch entity's income,[14] Dr. Clausing turns to using the BEA-provided DII (with her adjustment) because she believes that DII "excludes all equity income". Unfortunately, this is not true. Although DII does not duplicate the income of lower tier subsidiaries, the measure does include equity income (thereby attributing the income to the wrong jurisdiction).

Referring again to the example in **Fig 5a**, DII considers only the income of entities that are owned directly by the U.S. parent. When Dr. Clausing uses DII to study profit shifting, she sees only the $325 of after-tax income in the Netherlands and nothing in Germany. Importantly, DII includes $280 of equity income. Aggregate foreign after-tax income is $325, which is correct, but $280 of it—the equity income—is attributed to the wrong country. Note that she would also fail to recognize

[10] This is analogous to individual investors including the change in value of the stocks that they hold in their net worth calculations.

[11] There is a third method referred to as Consolidation is commonly used in MNCs' publicly available financial statements. This method is not permitted by the BEA in U.S. national statistics' surveys.

[12] Under the equity method used by the BEA, the $10 dividend is not reported as income by the Dutch entity because the entire after-tax income of the Germany entity is included in the Dutch entity's income statement when earned. The dividend would increase cash (increase an asset) in the Netherlands and decrease the Dutch entity's investment in its German subsidiary (reduce an asset). This differs from the cost method which we explain next.

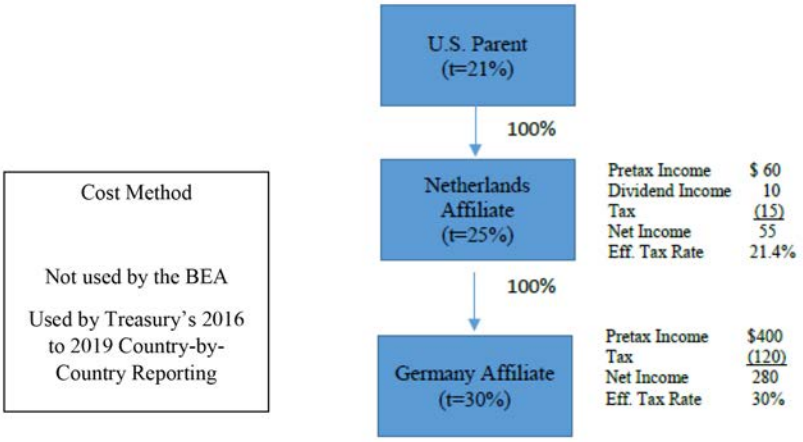
[13] *See* Clausing (2016), pg. 911.

[14] The BEA describes this adjustment here: *https://www.bea.gov/help/faq/1402.*

that $120 of German taxes were paid on the German income using DII. Since U.S. MNCs often use haven affiliates as holding companies for other foreign affiliates, DII systematically overstates the amount of income generated in tax havens. As such, DII is a biased measure to study the effects of tax policy on income shifting.

The other accounting method used to measure MNCs' foreign activity is the *Cost Method.* In contrast to the equity method, the cost method requires the Dutch entity to include the German entity's income in its financial statements *only when it receives a dividend from Germany.* **Fig 5b** illustrates that under the cost method, only $10 of German income would be duplicated, or attributed to the wrong location. The measurement issue arises precisely when the Germany entity pays a dividend. If there were no dividend, the cost method provides accurate information about the amount and location of income. Even if there were residual tax due on the dividend in the Netherlands the operating income was earned and taxed in Germany.

Fig 5b. How do Accounting Standards Affect MNC Data? – "Cost Method"



Finally, it is worth noting that the double counting and misattribution of income to the wrong location will also produce biased effective tax rates. For example, in **Fig 5a**, not removing equity income from the Netherlands will generate an effective tax rate of 4.4% rather than the actual 25% tax rate (see **Fig. 4**). **Fig 5b** also reveals that the cost method can result in an understated tax rate for the Dutch entity.[15] Notice that the tax rate becomes more understated as dividend income increases.[16]

IV. TREASURY COUNTRY-BY-COUNTRY REPORTING DATA. Although our comments have focused on the BEA data, we also want to comment on the data used in the JCT's "U.S. International Tax Policy: Overview and Analysis" and in Dr. Clausing's most recent publication in the *National Tax Journal* that she references in her testimony. Dr. Clausing states: "these data are new, but they may provide a more accurate measure of where U.S. companies are booking their income."[17]

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[15] Due to the predominant use of source-based taxation, intercompany dividends typically are not taxed in the jurisdiction to which they are paid. In our example, Netherlands will not tax dividends paid to the Dutch affiliate by the German affiliate as the income underlying the dividend has already been taxed in Germany.

[16] Moreover, while our public statement focuses on how accounting impacts measures of income and tax rates, the amount of assets in havens will also be overstated by failing to consider the accounting standards that produce the data. For example, in the example in **Fig 5a**, the assets of the Dutch entity will increase by $280 but this increase is attributed entirely to its equity investment in the Germany subsidiary rather than an increase in cash or other assets in the Netherlands. As tax havens often serve as holding companies, their total assets too will appear outsized relative to employees or other measures of economic activity, relative to entities in other countries.

[17] *See* Clausing (2020), pg. 3 *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3503091.*

Unfortunately, we are unaware of any empirical evidence that supports the notion that Treasury's Country by Country Reporting (CbyCR) data reported on Form 8975 does not suffer from measurement concerns. OECD commentary on the CbyCR data has revealed that these data are affected by concerns with the duplication of earnings and the resulting misattribution of earnings that we highlight above. In particular, until 2020, CbyCR data was being filed using the cost method we highlight in **Fig. 5b**. Notice that the cost method results in intercompany dividends duplicating income within the MNC's foreign affiliates.[18]

Because of the duplication of income, intercompany dividends will also unduly influence the tax rates that are estimated from the CbyCR data. This is illustrated in **Fig 5b**. While the true tax rate on the earnings generated in the Netherlands is 25%, the inclusion of the German dividend in the income reported in the Netherlands results in a decline in the estimated tax rate to 21.4%. This 21.4% is analogous to the average tax rates reporting in the JCT report.

As the TCJA required that U.S. MNCs pay tax on their entire balance of unremitted foreign earnings, it seems likely that these firms saw increased intercompany dividend activity in 2018. Higher dividends will result in tax rates estimated from the CbyCR data to be biased downwards.

Referring back to the example in **Fig 5b**, if the dividend paid by the German affiliate to the Dutch affiliate was $280 instead of $10 (a 100% payout ratio) then income measures that use the cost method would look identical to the income measures that use the equity method. The tax rate would be 4.4%. The OECD is aware of the issue concerning intercompany dividends and issued guidance in late 2019 that stipulated that intercompany dividend should not be included in income measures. Until CbyCR omits intercompany dividends from its income measures, policy makers and researchers should be refrain from relying on these data to infer the implications of the TCJA on U.S. MNCs' tax burdens.

V. CONCLUDING REMARKS. We wrote this comment to inform policymakers of an important source of mismeasurement that currently underlies many profit shifting studies that are referenced and presumably relied upon in policy debates. Accounting standards impact MNC data in very important ways that, if not understood, can inaccurately shape our perceptions about the level of business activity of MNCs' abroad.

The current international tax proposals are predicated, in part, on the presumption that there is a significant amount of tax revenue to be collected by limiting profit shifting. We do not dispute that the U.S. does lose revenue due to profit shifting. But given the data limitations we address above, we suggest that revenue actually lost is far lower than suggested by Dr. Clausing's work.

With existing proposals to aggressively tax the foreign income of U.S.-based multinationals, it is imperative that these measurement issues be considered when evaluating both the behavioral and revenue consequences of policy changes. We believe that it would be prudent to evaluate the merits of international tax policy reforms without regard to the suspect estimates of revenue consequences. For example, estimates of revenues to be raised from current proposals such as the reforms to the Global Intangible Low-Tax Income are likely to be overstated.

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[18] Using 2017 CbyCR data, Horst and Curatolo (2020) suggest that the duplication of income through intercompany dividends only results in CbyCR overstating income by approximately 14.4%. *See,* Assessing the Double Count of Pretax Profit in the IRS Summary of CbC Data for Fiscal 2017, *Tax Notes* (April 27, 2020), 427. However, we believe that U.S. MNCs' intercompany dividends were relatively low before 2018 due to the U.S.'s worldwide tax regime. In a report issued by the Board of Governors of the Federal Reserve System *(https://www.federalreserve.gov/econres/notes/feds-notes/us-corporations-repatriation-of-offshore-profits-20190806.htm)*, intercompany dividend paid from MNCs' foreign affiliates to their U.S. parent increased from 2017 to 2018 by roughly 400% (from $155 billion to $777 billion). Additionally, preliminary data by the BEA for 2018 indicate a 111% dividend payout ratio in foreign affiliates of U.S. MNCs relative to 2017 of 49% (note that these are dividends paid by affiliates up an ownership chain that may or may not have been ultimately received by the U.S. parent). Thus, the Horst and Curatolo analysis of CbyCR in a low dividend paying year does not provide evidence that CbyCR data do not double count income.

LETTER SUBMITTED BY DR. RACHEL BRATLIE

I am a proud citizen of the United States of America. I lived outside the United States in New Zealand, where I was a tax resident and where I am still subject to taxation.

I was an American expat. I was temporarily living outside the United States for reasons of work and career advancement, for 5 years. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I paid a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I was temporarily living abroad doesn't mean that I didn't have to plan for retirement.

I did not live "offshore." I do lived in a country where I paid very high income taxes. I also paid additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I was (and still am) subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside. I started a retirement account in New Zealand, thinking it was the equivalent of a 401(k), but it most certainly is *not* treated that way by the U.S. tax code. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national," currently residing back again in the United States. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I lived and established a retirement account, with a view to eventually live between both countries in retirement. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities that were taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when New Zealand does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and New Zealand, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MARK BREITER

I am a citizen of the United States of America by birth. I have lived outside the United States for all of my adult life, and currently reside in Switzerland, where I am a tax resident and where I am subject to full taxation.

I run a small business in Switzerland, where I am an *immigrant.* Look around you at immigrants in the U.S., from every country in the world, and you will find *many* of them operating small businesses, ethnic restaurants, small service companies. Why?

Many American immigrants overseas will find it easier to earn money operating a small business than find gainful employment, because of language, cultural and qualification barriers. I am trained as a computer programmer, but because I don't have a computer science degree from a Swiss university, and because I don't speak and write fluent German and speak Swiss German dialect, I have virtually no chance of being hired as a programmer by a Swiss company.

My business is not a multinational corporation. I'm an immigrant to Switzerland running a local company to offer my services directly to Swiss clients, because that's the best way I've found to make sufficient income to support myself and my family.

Because I am a U.S. citizen, U.S. tax code treats me, *an individual,* the same as a massive U.S. multinational corporation like Apple or Google, and my vanishingly small Swiss company the same as subsidiary of a massive U.S. multinational. Perhaps the attorney that wrote this section of the tax code envisioned that any American living overseas and having a company must be a millionaire. Nothing could be further from the truth.

These companies, the Apples, Facebooks and Googles of the world, have the resources to afford expensive international tax attorneys and accountants to comply with the extremely complex, ever evolving U.S. tax law that applies to them.

I don't have the financial resources, no where close, to afford the consulting services that are absolutely necessary to comply with U.S. tax law as it currently applies to me and my company. That is not a comfortable place to occupy when the fines for incorrect or non-compliance run potentially to hundreds of thousands of dollars, prison, and the revocation of my passport.

Under Swiss law, I am obligated to use a local business structure that has a separate identity known here as a GmbH or Sagl that's treated as a corporation under U.S. tax law. As a U.S. citizen by birth, I forced to comply with the same tax regulations as massive U.S. corporations that have foreign subsidiaries, as if I'm making millions to billions of dollars of income from U.S. sales and shifting those profits from my U.S. parent company, ***which I do not have,*** to my tiny Swiss company, which only has a few Swiss businesses as clients and a single employee, me.

The fact that U.S. tax regulations that apply to large multinationals, the requirement to file form 5471, the transition tax, the GILTI tax, also apply to me, as an immigrant in a country that is not the United States, is insane. If that sounds like too strong a word, sorry. My apologies. We can call it wrong. We can call it unjustified. We can call it misguided. But here's why it seems insane to me.

There are only very few specialist accountants and tax attorneys that fully understand the tax laws that apply to me. I can't afford them, no where close, so I've had to do my best to comply with them on my own. There are a variety of CPA's to be found on the Internet that advertise these services, but it is *very* difficult to sort out which of them are truly competent. It took me years of searching to find one that seemed to know precisely what she was doing in the realm of American expatriate taxation, and I asked her point blank, "How do you know if you've completed the 5471 correctly for a client?" She told me she *doesn't* know that. *Cannot* know it. "Ultimately it depends on the interpretation of the IRS agent reviewing your return. The agent will base that interpretation on the current tax code and evolving tax case law. It is very, very complex. I do the best I can, but I can't predict how the IRS will respond."

Since the fines for incorrect completion of the 5471 are very steep, *https://www.irs.gov/pub/irs-prior/i5471--2021.pdf,* the fact that it is very difficult to discern how to do it correctly is deeply disturbing. The regulations clearly state that the individual taxpayer is fully responsible for any errors a preparer makes on the 5471. All I know is I have tried multiple times to attempt to understand it, and I simply cannot. It is well beyond my ability.

It took me months of evenings and late nights trying to figure out how to file my 2017 tax return. I had to hire a specialist CPA to do my 5471, but I could not afford her help to handle the transition tax aspects of the filing. She told me at the time that her understanding of the transition tax requirements was vague at best. Throughout 2018 when the 2017 return was due, there were no published instructions how to complete the transition tax requirement.

Very very long story short, the IRS agent that processed my return did not understand anything about the transition tax or the deductions it allowed and made *major* mistakes when assessing my return. I contested it, on my own. It took me a solid month of time to read through the applicable tax code, much of which I could not understand because I do not have the legal background to interpret the utter complexity of the tax law that applies to multinational corporations, and develop a 10 page brief, attached to which were 100's of pages of highlighted tax code. My brief referred to the tax code and IRS instructions available in 2018 (or utter lack thereof, so everyone was relying on the tax code directly—which should not be a problem for a multinational like Apple).

As far as I know, my 2017 tax issues are still not resolved. I've had at least 50 phone calls with the IRS and Taxpayer Advocate Service, many of them *long* calls as I struggled to explain to confused and befuddled rank and file IRS staff what the transition tax involved, what section 965 income is, why the IRS was taxing a Swiss company via me as an individual. Everyone I've spoken to at the IRS, *every single person,* did not understand this section of U.S. tax law. Some thought what I was describing was simply not true. When I attempted to refer directly to the provisions of the tax code that I thought highlighted my arguments against how the IRS had interpreted my return, I was simply told that agents did not receive training to that depth.

The fact of the matter is that my return, as a low to middle income American, like the millions of other low to middle income Americans living overseas, is processed by staff that are not trained to deal with "complex multinational tax returns." I've received dozens of letters from the IRS stating that they needed more time to resolve my case.

My 2017 return has been pending with the IRS for 2½ years. I made $24,615 in 2017, and the IRS has spent years attempting to figure out how to correctly interpret and process my return. This is what happens when extremely complex international tax law is applied to low or middle income American individuals resident overseas.

In addition to the $24,615 of wages, my 2017 return includes $17,927 of "Section 965" transition tax income that assumes that a pro-rated share of the cumulative profit my Swiss company made over all the years of its existence since 1986 was, for purposes of U.S. taxation, remitted to my U.S. parent company, *which I don't have.* So that cumulative profit should be retroactively taxed because my U.S. parent company enjoys all the benefits of the services the U.S. Government provides. That's insane, or if you like, delusional, on 3 counts.

(1) I don't have a U.S. parent company.
(2) I never received that money from my company. If I had, I would have needed to declare it as income on my Swiss and U.S. personal income tax statements, and I would have had to declare it as an expense in my company accounts. There is no "fudging" to avoid taxation possible.
(3) I am not a U.S. parent company, enjoying the benefits of the services the U.S. Government provides to the companies resident in the U.S.

Even as an individual that lives in another country, *I don't enjoy any of the benefits of the services the U.S. Government provides.* The U.S. Government doesn't fix the roads I use. It doesn't provide the water and sewer systems I need, the garbage collection, security, fire protection . . . nothing. I pay for those services with the taxes I pay in Switzerland. The U.S. doesn't pay for any of it, not a penny.

As I said, it has taken the IRS more than 2½ years to resolve my 2017 tax return. I have heard from my Taxpayer Advocate Service representative that the case has

been escalated to one of the top tier agents that deals with international tax law. Really? The IRS is using staff members that deal with Google's tax returns to process mine? Have you ever considered what a drain it is to uselessly tie up the limited capacity of the IRS with hundreds of thousands of tax returns like mine, because the tax code mistakenly identifies me as a "U.S. parent company" with a foreign subsidiary potentially used to avoid U.S. taxation.

Now let me draw your attention to something that should be obvious, but does not seem to be from the way the tax code is written.

The ***vast*** majority of U.S. citizens living outside the U.S. are not wealthy, and they definitely are not operating businesses overseas to shift profits and avoid taxation. And yet the U.S. tax code treats them as if they are.

Look around you. Are all the immigrants in the United States, from Asia, South America, Central America, Europe, are *all* these people millionaires shifting profits from their countries of origin to avoid taxation? No, of course not.

The vast majority of Americans these extremely complex tax laws apply to *are just like those immigrants.* We are running small businesses to simply get by where we live, like the Thai family that owns and operates a restaurant in your neighborhood.

Consider how it would seem to you if Italy decided to levy a 21% tax on the profits of any Italian restaurant in the United States if the owner was of Italian descent, via the Italian individual, because the Italian government decided that all Italian restaurants in the U.S. were corporate structures designed to avoid Italian taxation. Would that seem rational?

I do not live "offshore". I live like that Italian immigrant running a restaurant in an American city. He can't speak the local language perfectly, he has an accent, he might be intelligent and resourceful, but he doesn't have a degree from an American university. So he does what he can to get by. *Every* American I know in my region lives on that same fringe of society, either running a small business, or working informally for clients.

I should point out that both I *and* my company pay taxes in Switzerland, including VAT. Even though I have only managed to make a modest income here so far, the amount of taxes I and my company have paid have been substantial, particularly because of VAT.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other country in the world that imposes such extraterritorial taxation.

Why? Why isn't Italy and Germany and the UK and France, China, Thailand, Mexico, Poland, Canada, Japan, Austria, Bolivia, Ecuador, Brazil, etc., why are they all not levying taxes on their emigrants living in the United States and the businesses they run??? They certainly all need the tax revenue! The U.S. is the richest country in the world. Cuba, for instance, has a large expatriate community in Florida. I'm sure many of these Cuban immigrants run small businesses that Cuba could levy a tax on. Why isn't Cuba taxing them?

I would like to make an observations about the hearing on March 25th. As I said, the vast majority of U.S. citizens living outside of the U.S. are neither wealthy, nor are they operating businesses in the countries they live in to shift profits away from phantom U.S. parent companies or any other nonsense like that. They are simply operating business to get by as best they can.

But your hearing exclusively focused on U.S. multinational corporations, ignoring the millions of U.S. citizens living overseas that operate small businesses and are profoundly and negatively affected by the fact that U.S. tax code can't tell the difference between a small business owner based in another country and a massive multinational corporation based in the United States.

It's not that hard to tell the difference.

Just because I was born in America does not make me, as an individual, "the parent company" of a multinational corporation for U.S. tax purposes. I don't have the capacity, as a middle to lower class individual, to deal with be treated as a tax-dodging U.S. parent company, *at all.*

And why should I be required to pay taxes to the United States at all when the United States does not provide any revenue whatsoever for the services I or my

company require where I live? Even if I was caught up in a terrorist attack here in Switzerland, it is the Swiss security services that would come to my aid. Not only would the U.S. military not show up to help me, the Swiss authorities would not allow them to operate here.

And now, the U.S. tax code has the audacity to demand that my Swiss company pay a 21% GILTI tax on its annual profit. What for?

What services does the U.S. Government provide to either me, as a phantom U.S. parent company, or my Swiss company, in exchange for these taxes and required complex filings, the threats of severe fines and prison time, and the fact that my ability to utilise the financial services in the country I live has been completely undermined by FATCA, the U.S. Government's strong arm tactic to force the international banking community to help enforce their extraterritorial tax regime?

None. 0

The U.S. Government allocates no revenue whatsoever to Americans living overseas to provide the services that taxpayers require from their governments in exchange for taxation. Not for our roads, our schools, our health care, the infrastructure we depend on, our security. Neither does the U.S. Government provide *any services* whatsoever to our small businesses that we establish to provide for ourselves and our families in the countries we live in. On what grounds can any taxation be justified in this case, much less a 21% GILTI tax on my company.

The simple reason taxation is local throughout the world is because the collective services that government provides with the tax revenue collected, those roads and schools and fire departments, the water systems, health care, *are all local.*

It is admittedly not fair when a large U.S. multinational corporation headquartered in and run from the United States avoids paying taxes for the local services that U.S. and state governments provide, which enable that business to exist and operate, by shifting its profits overseas.

However, it is also unfair, grossly unfair, when the U.S. Government imposes taxation on U.S. citizens resident in other countries and the small businesses they run in those countries, without providing *any* services in return, no revenue whatsoever to pay for them, while destroying their ability to obtain loans, mortgages, open bank accounts, form partnerships with American companies with their use of force and threats of force against the banks in the countries we live in.

Can you tell the difference between these 2 cases? Let me state it plainly. If the U.S. is not providing the collective services that taxation funds in a region of the world that an individual lives in, or a company is based in, *then there is no basis whatsoever for the U.S. to tax that individual or company.* Why?

Because it is not a fair exchange.

It is conceivable, in fantasy, that the United States could collect taxes from me and the approximately 10 million U.S. emigrants round the world and *fairly* distribute that revenue to meet our needs. If U.S. emigrants were organised as a state, we'd rank about 10th in terms of population and be allocated something in the range of $10 billion in federal spending. However, practically *it makes no sense whatsoever* for the U.S. Government to: (a) Collect taxes from me and my company; (b) negotiate with all my local providers of government funded services, the trash collector and recycling services in my region, the water and sewer companies, the police department, the fire department, the road maintenance companies, the Swiss military, the Swiss rescue services, etc etc to compensate them all directly on my behalf; and/or (c) coordinate with my local tax authorities on the federal, state and municipal level to provide them with funds from the taxes the U.S. Government collects from me and all other American citizens that live in my village, state and Switzerland as a whole and ensure that an equivalent amount is deducted from my Swiss taxes; (d) do that for every American emigrant throughout the world, dealing with thousands of tax jurisdictions in hundreds of languages.

Practically, this is impossible. It is impossible to tax American emigrants and fairly distribute the revenue collected to fund the services they use in their countries of residence.

Hence, the only thing that makes sense in a fair system of taxation is to let *local* tax authorities handle the allocation of funds they collect via *local* taxation for *local* services in the countries American emigrants live in.

What the United States is doing when it extracts money from U.S. persons living in other countries, and their small businesses they use to support themselves where they live, without providing anything in return drifts over the line from taxation into extortion, or theft. It is not a fair exchange.

If that is difficult to take in, consider what would you call it if Germany decided to levy a 21% tax on every American company with an owner of German heritage, using sufficient leverage to frighten the entire U.S. banking sector and government into enforcing this German tax regime, and then Germany simply took all the money, sucked it out of these businesses and the American economy without providing anything in return. Would that seem like taxation to you, or is extortion a better term for it?

There is no justification whatsoever for America's extraterritorial tax regime, particularly in its application to individuals living overseas and their small businesses. However, the most damaging part of this entire American effort to leverage its position in the world to enforce its misguided approach to worldwide taxation is FATCA, the Foreign Account Tax Compliance Act.

I've been a resident of Switzerland since 2006. I am married to Swiss woman. In terms of a residency permit, I have the equivalent of a permanent "Green Card", nearly all of the rights of citizenship except the right to vote. Because of FATCA, we cannot get a mortgage. Because of FATCA, I cannot get a loan for my business. Because of FATCA, I cannot open a new bank account. Because of FATCA, I cannot start a new company because no bank will open an account for that company if I am a part owner. Because of FATCA, I cannot create a partnership or a joint venture with another company.

Why? Because every bank's compliance costs, and risk of being fined by the United States under FATCA are so great that I not welcome as a client. I am treated just like a sanctioned individual by the banks, because to them, I have the same risk profile. They are simply opening themselves to severe fines and legal costs.

Not only that, but banks here closely question every person wanting to open an account about any ties they might have to either America or a person they know to be American, even when the person is obviously Swiss, born and raised here. They ask Swiss residents if they have any American friends. Why? Because they are afraid a sympathetic Swiss might open an account in their name and allow an American living here to use it, which would open the bank to FATCA liabilities. They don't ask new client if they know an African dictator that might be sanctioned, or a Russian oligarch close to Putin. They ask if they know an *American.*

So the vast majority of Americans living in other countries, all of us who are low to middle class, are simply the collateral damage of the American effort to impose taxation on emigrant Americans. I cannot explain to you how deeply it has undermined my ability to support my family. You wouldn't understand what it is like to walk into your local bank, where you have lived for 15 years, ask to open a bank account, explain that you are an American citizen, and be asked to "Please leave the premises. We do not open accounts for Americans." She pointed at the door.

Outside the bank, I stopped, broken, looking at the sidewalk. The only thought in my mind was "How am I going to be able to support my wife like this?"

It is for her that I have written this letter.

Please stop the taxation of emigrant Americans and their small businesses overseas, particularly the low to middle class that make up the vast majority of us. At the most fundamental level, it is simply wrong. And with it, abolish or change FATCA to leave us out of it in a manner that banks worldwide are assured they will not be hit with a multi-million dollar fine or be forced to compromise their local privacy laws.

You can restructure the legislation that is aimed at multinational corporations based in America to *only target those companies.* It is easy to tell the difference between an American of modest means living in another country and an American multinational corporation.

There is no benefit whatsoever to the United States of America in causing significant damage to American emigrants' capacity to support themselves. There is no benefit to criminalising us, we don't have the money you are looking for. There is no benefit to marginalising us in the countries we live in as *persona non grata.*

Regards,

Mark Breiter

LETTER SUBMITTED BY JULIA BRENAN

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Canada where I live, but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the Canadian tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to Canada get an education without going into debt. I am not wealthy, I am a student. I do not have room in my household budget to spend on tax return preparers, and I certainly cannot afford to be double-taxed. Not to mention the higher tax rate I already pay in Canada.

My partner and I were considering buying a house instead of continuing to pay rent, the obstacle for this life changing decision that allows average people to a crew wealth, was the complications from my US taxes. We considered putting the house in his name only, but this leaves me financially vulnerable if we were to ever separate.

Additionally, I'm terrified of saving for retirement in Canada. U.S. tax obligations are out of date for the types of retirement funds currently offered and it scares me that as hard as I try to comply with this arcane system, I may still be reporting incorrectly without knowing it.

We are not trying to be wealthy, I just want to live an average life without the added stress of this citizenship that I have gone from cherishing to feeling is a burden.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks and saddens me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Julia Brenan

LETTER SUBMITTED BY CHARLENE BROWN

I was born and lived in the U.S. for 30 years and then moved to the UK for love where I have lived now for more than 25 years. I am a UK tax resident and am subject to full UK taxation.

I am an emigrant from America and living abroad for the foreseeable future. I am also a tax resident of the UK as this is where I now live. I organize my financial and retirement planning in the UK as I have now formed a life here with children, grandchildren and friends. As a U.S. citizen, I am subject to the tax system where I live, the UK, as well as the U.S. tax system. Those systems are generally **not compatible.** Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. It is absolutely shocking that the U.S. imposes these rules on their citizens who have chosen to live abroad. How can the United States impose taxation on the non-U.S. income and as-

sets of a person who is a tax resident of another country—with **no economic connection** to the United States?

I do not live "offshore." I do live in the UK where I pay very high income taxes. I also pay additional kinds of taxes (example VAT, council tax, road tax) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, the UK. **There is no other advanced country in the world that imposes such extraterritorial taxation.**

I do appreciate that the average American living in the U.S. when hearing this "plight" says, "Well, just give up your passport." Or "Isn't it worth it to be an American?"

The argument is more complex, as living an extremely ordinary life in another country should not require the paperwork and constant threat of penalties as well as expense as a result of non compatible tax systems. Each country gives and takes in their own tax code and when you are subject to two conflicting tax codes it's a lose lose situation for the individual.

The March 25 hearing suggests that the overall view of any person or company that operates outside the U.S. only does so to avoid U.S. tax. It seems that the U.S. is such a large country people seem to be oblivious to Americans actually working and living outside the country for reasons other than tax avoidance. Because of this, when an American starts a small business in say the UK for work, they are punished by the CFC rules, hardly the American way. Large Gilti tax payments are due when all you're doing is just trying to live and make a little money for retirement. American living abroad who are small business owners are being unfairly treated.

I would like to make two further observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. The U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. As an individual, why isn't the focus on recognizing how U.S. individuals are being affected? Isn't that the point of the hearing?
2. Where are the witnesses with first hand experiences? I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a very average "dual-national" living in my country of second citizenship with my family. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States while living in the UK.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. Even, standard plain vanilla style mutual funds invested in the UK are considered PFICs and the income is penalized for the U.S. investor. And furthermore, U.S. mutual funds won't take Americans as investors with a non-U.S. address! Why can everyone else take advantage of the stock market with mutual funds but not Americans abroad???

My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my

life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. And it really is the worst of both systems. Very unfair, actually mean.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

The U.S. extraterritorial tax regime is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Please represent American individuals abroad as you would your own constituents because we are your constituents. Please do not miss your opportunity to make a fair system for all of us.

Yours sincerely,

Charlene Brown

LETTER SUBMITTED BY CHARLES BUCKLEY

I'm one of many who have had their lives turned upside down by misguided U.S. extraterritorial tax policies. I managed the additional costs, paperwork, and trouble with difficulty until FATCA went into full force in 2011. After that, Americans became perceived as instant liabilities as far as spouses, business partners, and employers were concerned. It has become difficult to survive.

U.S. tax policy is bad for the U.S., who are known for designing excellent shrink-wrapped products and selling them overseas through expensive country networks. But U.S. tax policy effectively precludes service and small business international commerce. U.S. businesses and U.S. persons face obstacles that citizens of other countries do not. These countries are eating the U.S. lunch, as I discovered first-hand, competing to sell value-added services against the Chinese in Africa and the Middle East.

Once a competitor at a Chinese company made fun of me—at a conference banquet in Cairo, he led me through an account review (!) of the customers he was working on in countries on the Denied Persons List, knowing there was nothing I as a U.S. person representing a U.S. company could do to compete with him. It was humiliating.

I closed my local company after it became apparent the decks were stacked against us. U.S. accounting would never have tolerated the tricks that Swiss headquarters must engage in. Subsidiaries are a different story. Apart from these, Swiss have become wary of anything with an American "taint," and just avoid Americans like the plague. Even "regular employment" is difficult—obligatory Swiss pension schemes don't take Americans, even though the Swiss FATCA IGA exempts these from reporting. So no companies hire Americans. Forget getting a mortgage. You're lucky to keep your bank account. Investing? Meh!

This hit me particularly hard—just as the full effects of FATCA were felt, my partner was diagnosed with frontal temporal dementia (which made her crazy, not forgetful). She needed to stay in Zürich, with which she was familiar. Transplanting her, as we later tried, would be deadly (as it ultimately was). Had I abandoned her, she would have been institutionalized, which would have been inhuman. She died Christmas Day 2019, so I could at least stop bleeding money keeping her out of trouble and happy. Since then I've been trying to pick up the pieces of my life in the midst of massive anti-American discrimination and the COVID craziness. It's like the perfect storm.

I don't hold the U.S. government responsible for the world economy. But I do expect the U.S. to clear regulatory obstacles for their citizens living abroad. There should be no basis for their foreign employers and business partners to discriminate against them because they hold a U.S. passport. The only way out of the spiraling deficit trap is for the U.S. to export massively. This will never happen if Americans can't sell things American without committing financial suicide. Get out of the way, and let those who can add value do so. When you do, tax revenues increase. It's that simple.

Charles Buckley

LETTER SUBMITTED BY WINNIE BULTHUIS

I am a proud citizen of the United States of America. I live outside the United States in the Netherlands where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America, I was born and raised there. But, we never know where life will take us and I moved to the Netherlands in 1990 and have lived here ever since, raising our family and making a life here. I long ago realized that although I will always love America, I now live permanently abroad. I am a tax resident of the Netherlands and thus organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. For example, opening a new bank account or applying for a mortgage has become nearly impossible. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both

the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your attention to this matter.

Kind regards,

Winnie Bulthuis

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Doug McMillion
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President and CEO
Joshua Bolten
Business Roundtable

Business Roundtable, which represents over 220 Chief Executive Officers (CEOs) of the largest American companies from all sectors of the economy, appreciates the importance of this hearing and the interest of this Committee in understanding how U.S. international tax policy affects the strength of the U.S. economy and its ability to increase jobs and wages of American workers.

Business Roundtable CEO members lead companies that operate throughout the United States and globally. Business Roundtable member companies employ 20 million workers, invest $225 billion annually in research and development, and generate more than $488 billion in sales for small and medium-sized businesses annually.

As business leaders, we wish to work with Congress and the Administration to help design policies to quickly bring an end to the pandemic and usher in a strong economic recovery. At the same time, we caution lawmakers against pursuing policies that would slow growth and job creation. Those policies include some of the proposed changes to the U.S. international tax system discussed during today's hearing.

Generating long-term U.S. economic growth and opportunity for more Americans depends, in part, on a competitive U.S. tax rate for companies and tax rules that allow American companies to compete on a level playing field internationally with their foreign-owned challengers. Globally competitive American companies benefit American workers as they increase the ability of American companies and their U.S. suppliers to sell products and services to the entire world. In contrast, if uncompetitive tax policies cause American companies to withdraw from foreign markets, they will also contract at home, leading to reduced employment for American workers and lower wages.

Ensuring American companies can compete on the international stage means more companies are equipped to invest in workers back home. When companies can compete around the world, they can expand at home and create jobs for American workers. We look forward to working with Congress and the Administration to prioritize policies that enable the strongest recovery possible and sustained economic growth.

1. Pre-Pandemic Economic Growth was Strong—We Can Return to Strong Economic Growth

A strong economy can maximize opportunities for good jobs and growing wages for American workers. The economy was making historic progress and providing gains for all income groups just prior to the pandemic.

- Prior to the pandemic, the 3.5 percent unemployment rate was the lowest rate since 1969 and nearly 3 percentage points below the average for the 15 years from 2003 through 2017.
- There were more job openings than unemployed workers starting in 2018 and continuing through February 2020—the first time since the job opening statistics began in 2000.
- Low unemployment was driving wage growth—median real wages grew by 4.9 percent from the end of 2017 through the end of 2019, almost double the *total* growth in real wages over the 15 prior years. The Atlanta Federal Reserve Bank found low income workers to be the greatest beneficiary as wage growth in 2018 and 2019 was largest for those in the lowest quartile of the wage distribution.
- Many groups that historically faced economic disadvantages in the labor market benefited from the strong economy in 2018 and 2019.
  - The unemployment rate for African Americans fell to 5.2 percent in 2019, the lowest rate on record since the series began in 1972, and down from the past recession peak of 16.8 percent in 2010.
  - The unemployment rate for Hispanics fell to 4.0 percent in 2019, the lowest rate on record since the series began in 1973, and down from the past recession peak of 13.0 percent in 2009.
  - The unemployment rate for those with less than a high school education fell to 5.0 percent in 2019, the lowest rate on record since the series began in 1992, and down from the past recession peak of 15.8 percent in 2010.
- Low unemployment and higher wages served as a magnet for Americans to reenter the workforce—the labor participation rate for Americans in their prime working years, ages 25 to 54, was at its highest level in more than a decade.

Low unemployment was driven by businesses. Businesses were adding employees and increasing investment prior to the pandemic.

- Economy wide, business investment was a larger share of real (inflation adjusted) GDP in 2018 and 2019 than at any time in the past two decades.
- Among the large companies represented by the S&P 500, capital expenditures were up 20 percent over the 2-year period 2018–2019 compared to the 2 previous years.
  - Total capital investment by S&P 500 companies was $1.4 trillion over 2018–2019.
- R&D investment by S&P 500 companies was up 25 percent, to $707 billion over 2018–2019.

The pandemic has caused the economy to retreat from its historic gains achieved in recent years. Beyond the lives lost, the pandemic has caused devastating job losses and economic hardship, with lower income workers bearing the greatest burden. Business is ready to help rebuild America. A strong recovery is essential now.

2. Globally Engaged American Companies Are Key Contributors to the U.S. Economy [1]

In 2018, globally engaged American companies:

- Directly employed 26.6 million workers in the United States and paid their American workers $2.3 trillion in compensation.
- Invested $722 billion in capital expenditures in the United States.
- Performed $322 billion of R&D in the United States.[2]

Globally engaged American companies have the vast majority of their operations in the United States.

In 2018, globally engaged American companies:

- Employed two-thirds of their global workforce in the United States and paid 79 percent of their total compensation to American workers.
- Invested 79 percent of their global capital expenditures in the United States.
- Developed 85 percent of their R&D in the United States.

In addition to these direct effects, globally engaged American companies add substantial support to the U.S. economy through their U.S. supply chains and the boost

[1] We define globally engaged American companies as U.S. companies with a direct investment in a foreign affiliate, defined as multinational enterprises by the Bureau of Economic Analysis.
[2] The most recent year for which data are available is 2018. *See,* Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018.

to U.S. consumer spending from the incomes of their employees and those of their supply chains.

A Business Roundtable study found these benefits to be substantial: each direct U.S. job in a globally engaged American company on average supported 2.3 additional U.S. jobs in businesses that don't have global operations.[3] Altogether, globally engaged American companies directly and indirectly supported 48 percent of private sector employment and contributed 57 percent of private sector GDP in 2013.

As American companies expand globally, they support jobs at home. Approximately 90 percent of the sales by the foreign subsidiaries of American companies are sold to foreign customers.

Global operations open up export markets for goods and services produced by American workers. In 2018, $834 billion of goods were exported from the United States by globally engaged American companies and by other U.S. businesses to the foreign affiliates of globally engaged American companies.

In 2017, the most recent year for which data are available, over 90 percent of U.S. exports of selected business services were by globally engaged American companies or to their foreign subsidiaries from other U.S. businesses. Significant U.S. business services exports include charges for the use of intellectual property, financial services, professional and management consulting services, research and development services, and telecommunications, computer, and information services.[4]

Research has shown that when U.S. companies expand abroad, they generally also expand at home because their foreign activities complement their U.S. activities, rather than substitute for them. Increased foreign employment within the company generally leads the company to increase its U.S. employment, investment, R&D, and exports.[5]

When globally engaged American companies succeed in foreign markets, they expand at home. As Treasury Secretary Yellen has noted with respect to demand for U.S. products from other countries, "This demand for American products creates U.S. jobs that pay better. Studies have shown that women, in particular, could earn as much as 20 percent more in these export-based jobs."[6]

3. A Level Playing Field for American Companies Benefits American Workers

Given the important role of globally engaged American companies in the U.S. economy, U.S. tax policy should seek to provide a level playing field for American companies relative to their foreign-headquartered competitors. A level playing field is determined by how U.S. companies are taxed on their U.S. income and how they are taxed on their earnings in foreign markets.

The corporate tax rate, the income base against which it is applied, and the way in which the U.S. taxes income earned in foreign markets all affect the incentive to invest and create jobs in the United States. A more attractive U.S. tax environment gives both U.S. and foreign-headquartered companies an incentive to invest more capital—equipment, technology, and other facilities—in the United States. Economists agree that increased investment increases wages by making workers more productive.

It is because of this widely accepted cause and effect relationship that a significant share of the burden of the corporate income tax falls on workers. For example, the Congressional Budget Office and the Joint Committee on Taxation each assume that 25 percent of the corporate tax burden is borne by workers in the form of lower wages. The Treasury Department assumes that 18 percent of the corporate tax bur-

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[3] Economic Impacts of Globally Engaged U.S. Companies: Employment, Labor Income, and GDP (May 2016), available at: *https://s3.amazonaws.com/brt.org/archive/Economic%20Impacts%20of%20Globally%20Engaged%20US%20Companies_FINAL%20for%20Distribution_0.pdf.*

[4] Jennifer Bruner and Alexis Grimm, A Profile of U.S. Exporters and Importers of Services, 2017, Bureau of Economic Analysis, December 2019.

[5] Studies include Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Domestic effects of the foreign activities of U.S. multinationals," *American Economic Journal: Economic Policy,* February 2009; Gary C. Hufbauer, Theodore H. Moran, and Lindsay Oldenski, Outward Foreign Direct Investment and U.S. Exports, Jobs, and R&D: Implications for U.S. Policy, 2013. For a summary, *see* Theodore H. Moran and Lindsay Oldenski, How Offshoring and Global Supply Chains Enhance the U.S. Economy, 2016.

[6] Remarks by Secretary of the Treasury Janet L. Yellen on International Priorities to The Chicago Council on Global Affairs, April 5, 2021.

den is borne by workers. A range of economic studies estimate that workers bear a greater share of the corporate tax burden than assumed by these government offices.[7]

Even the relatively small share of the corporate tax burden that the Treasury Department assumes is borne by labor reduces the progressivity of the corporate income tax. In 2016, Treasury estimated that families with income below $379,000 in 2017 incurred more than half of the total burden of the corporate income tax, with higher income families bearing the remainder.[8] Treasury's estimates also show that those with less than $37,500 of income faced a greater tax burden from the corporate income tax than from the individual income tax in 2017.

A corporate income tax increase would be broadly borne by all Americans, including those with far less than $400,000 of income. Wages and economic growth are enhanced by providing a competitive corporate income tax.

U.S. Corporate Tax Rate

The current U.S. tax rate is not low. In 2020, the U.S. combined federal and state corporate tax rate of 25.8 percent was higher than the 23.4 percent average corporate tax rate of other OECD countries by more than 2 percentage points.[9] The U.S. rate was 12th highest of the 37 OECD countries, placing the United States well above the median of advanced economies.

Any increase in the U.S. rate would reduce the attractiveness of the United States for investment. A 28 percent federal corporate tax rate, as proposed by President Biden, would give the United States a combined federal and state corporate tax rate of 32.3 percent—once again the highest in the OECD.[10] It would saddle the United States with the least favorable tax regime in the developed world for new investment.

In Treasury Secretary Yellen's confirmation hearing, she stated that the 28 percent corporate rate proposed by President Biden is "the midpoint of the pre-2017 level and the rate imposed after the tax act" and "would be substantially below the level that had been in place for decades."[11] But based on Joint Committee on Taxation analysis of the 2017 act, had the act only reduced the corporate tax rate to 28 percent, corporations would have paid more in tax than they did prior to 2017 due to other business and international tax increases on corporations.[12]

The President's proposed increase in the corporate tax rate in combination with the expanded tax base on corporate income put in place by the 2017 act would make many U.S. companies less competitive than prior to the 2017 act.

For over a decade, the Senate Finance Committee sought to lower the U.S. corporate tax rate to enhance the attractiveness of the United States for companies to invest and expand their operations in order to maintain and create well-paying jobs. A higher rate would counter these goals. At a time when we are seeking to restore jobs as quickly as possible, a higher corporate tax rate on the horizon could curtail the return to full employment.

U.S. Taxation of Earnings in Foreign Markets

When globally engaged American companies can compete on a level playing field with their foreign-owned counterparts, the American worker wins. Success in foreign markets allows American companies to expand at home.

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[7] For example, Stephen Entin's survey of the literature concludes that "labor bears between 50 percent and 100 percent of the burden of the corporate income tax, with 70 percent or higher the most likely outcome." *See,* Stephen Entin, Labor Bears Much of the Cost of the Corporate Tax, Tax Foundation, October 2017.

[8] *See* U.S. Treasury Office of Tax Analysis, Distribution of Tax Burden, Current Law, 2017 (March 2016), available at *https://home.treasury.gov/system/files/131/Distribution-of-Tax-Burden-Current-Law-2017.pdf.*

[9] The combined U.S. federal and state corporate income tax rate is computed by the OECD to include the 21 percent federal corporate tax rate and an average state income tax rate of 6.03 percent. After accounting for the deductibility of state income taxes, this results in a combined corporate tax rate of 25.8 percent.

[10] The 32.3 percent combined rate is the sum of the 28 percent federal rate and the average state income tax rate of 6.03 percent (4.3 percent after accounting for deductibility against federal tax).

[11] *See,* Responses by Dr. Yellen, Finance Committee Questions for The Record, United States Senate Committee on Finance, Hearing on the nomination of Dr. Janet Yellen, January 21, 2021.

[12] Joint Committee on Taxation, Estimated Budget Effects of the Conference Agreement for H.R. 1 (JCX–67–17), December 22, 2017.

The United States is currently the only advanced economy that taxes the active foreign business income of its companies under a global minimum tax. While the OECD and the Inclusive Framework countries are discussing an approach for broader adoption of minimum taxes by other countries, the current U.S. minimum tax—the tax on global intangible low-taxed income ("GILTI")—is acknowledged by the OECD Secretariat to be in many ways already more restrictive than the OECD's blueprint proposal.[13]

An even stricter U.S. GILTI as proposed by President Biden, which would more than double its effective rate of tax, would severely handicap the ability of American companies to compete successfully against their foreign-headquartered counterparts.

The Administration has said that it wants to stop a "race to the bottom." A unilateral approach by the United States—to impose a higher minimum tax on its companies while waiting for the rest of the world to follow—will not succeed. The rest of the world failed to follow when the United States kept its high corporate tax rate for over three decades: instead they purposefully set out to provide a more competitive tax system to attract global investment and jobs for their workforce. Nor did the rest of the world follow when the United States kept to its system of worldwide taxation: instead they adopted territorial tax systems that better allowed their multinational companies to compete in foreign markets and provide good jobs at home.

Prior to 2017, many U.S. companies were approached by M&A dealmakers to consider combining with a foreign headquartered company and reincorporating in the foreign company's country. This would provide the U.S. company a more attractive tax system for its non-U.S. earnings and greater future growth opportunities. Those deals came to a halt after the 2017 act because the United States had established a more level playing field. Companies that had once left the United States began to return.[14]

A return to a noncompetitive international tax system risks again reducing the ability of globally engaged American companies and their American workers to succeed in global markets. Thank you for the opportunity to submit a statement for the record for this hearing. Business Roundtable appreciates the opportunity to continue working with Congress and the Administration to ensure a competitive tax system.

LETTER SUBMITTED BY ANNE-MARIE YARBROUGH BUZATU

Dear Committee Members,

I was born and raised in Texas, where I lived most of my life until I and my family moved to Switzerland more than 15 years ago. We didn't feel we had much choice. In August 2005, my husband was laid off from his job in the high-tech sector. We had two young boys aged 4 and 7, and I was working as a part-time consultant and a more than full-time mom. Once my husband lost his job, we suddenly were faced with extremely high health insurance costs (COBRA), significant student loan debts and a high monthly rent with no income. My husband applied for several jobs and had a few interviews, but the one he got was working in IT for the International Computing Center, a UN-affiliated computer services organization, located in Geneva, Switzerland.

In Switzerland, I went back to school studying the impact of war and on international security and human rights. I subsequently managed to carve out a really fulfilling career where I work to limit the negative impacts of businesses on human rights, as well as work with the private sector to foster positive change, both on the ground as well as in the halls of international policy.

I love the U.S. and have close ties with family members and several good friends who live there. In particular, both of my elderly parents are alive, but have been experiencing some serious health issues of late. Before the pandemic, I typically would visit them at least once a year, and it has been tough waiting on the sidelines, hoping that I will be able to see them again before too long. It is important

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[13] Relative to GILTI, the OECD's blueprint has a lower effective tax rate, a broader substance-based carveout for tangible assets and payroll, and carryforward of losses and excess taxes. Further, GILTI allows only 80 percent of foreign taxes to be creditable and reduces the credit for foreign taxes through an expense allocation rule. *See,* OECD/G20 Base Erosion and Profit Shifting Project, Tax Challenges Arising from Digitalisation—Report on Pillar Two Blueprint, Inclusive Framework on BEPS (December 2020), p. 19.

[14] Richard Rubin and Jared S. Hopkins, Tax Cuts Help Keep U.S. Companies Home, *Wall Street Journal,* August 2, 2019.

to me that I am able to visit them, and to be able to spend more time with them should they need extra care and support, and more generally I love getting back to the U.S.. There are definitely things that I miss, like really good Tex-Mex (!) in an affordable restaurant, infinite sunsets over a West Texas sky, and easy, laid-back conversations with good friends and family.

What I do not love is the U.S. taxation of people like me who live, work and pay taxes in a completely different tax system, which in many areas is completely incompatible with the U.S. tax system. As a matter of fact, the U.S. has three different distinct income tax regimes which creates different classes of taxation: 1. Residence—For U.S. residents, 2. U.S. Source—For non-resident aliens, 3. Extra-territorial—For Americans Abroad. This last regime to which I and my family are subject means that we don't get the same kinds of deductions and tax credits as our homeland-based compatriots. For example: I participate in an employer-contribution retirement program which is very similar to U.S. 401K programs: the employer matches my contributions, and I do not have to declare the employer nor my contributions on my Swiss taxes as they are paid, only when I take them out after retirement when I am likely earning much less. However, the U.S. taxes me on the employer contributions as well as my own contributions to the tax plan in the year that they are paid, so I am taxed by the U.S. on money I haven't even received, and likely at a higher tax rate than I would be at during retirement. Another example: my son is going to a university located in Berlin, Germany, however the school is not on the list of U.S. recognized educational institutions, so we are unable to deduct his tuition from our taxes.

Furthermore, Swiss income taxes are structured completely differently from those of the U.S., and they are in most cases lower than the U.S. income tax rates. However, the cost of living in Switzerland is one of the highest in the world and is considerably higher than we were paying in Texas. People who visit from the U.S. are shocked at the prices in the stores and restaurants here, and renting/buying homes is extremely expensive. However, because of the relatively high salaries (in Geneva we have an appx. $25/hour min wage) and low taxes, these prices are generally affordable to people who work here. Less so for us: as "U.S. persons," because we are unable to take many of the same deductions as our homeland compatriots, we essentially have to pay higher U.S. taxes than Americans living in the U.S., higher taxes than others who live and work in Switzerland and pay the higher Swiss prices. And to be very clear, we are not earning very high salaries, but rather are at that sour spot of earning just a little more than the Foreign Earned Income Exemption (FEIE) once things like our employer contributions to pensions and other benefits—much of which we don't get in pocket—are taken into account. As such, we pay U.S. taxes at a pretty high rate on income that doesn't make it into our bank account and given the high cost of living we have here, this means we are penalized financially relative to our colleagues who are working similar jobs.

Moreover, as U.S. persons residing abroad, we are not able to take advantage of many of the tax credits that are available to those living in the U.S.. For example, in March 2018 we bought a Tesla Model 3 (the more affordable Tesla) and were under the impression that we would be able to get the $7,500 tax credit to help us offset the still significant cost. However, when we did our U.S. taxes, we learned that this tax credit was only available to those actually living in the U.S., not those living abroad. In a way I understand the rationale: our Tesla would not be directly benefitting those living in the U.S. (although it is contributing to an overall globally cleaner environment), and therefore we should get no incentive from the U.S. to buy it. However, by the same logic, we should not be paying taxes in the U.S. on income that we do not earn from there, to pay for an infrastructure and a Congress that does not directly benefit or represent us.

Coming back to the incompatibility between Swiss and U.S. income tax systems, this is not just limited to the fact that similar Swiss retirement and education tax programs are not recognized by the U.S., but also to completely different approaches in the manner of calculating income tax. For example, in Geneva the way that taxes are assessed in relationship to our townhouse is that the income tax authorities tax us on the fictional "income" we would have earned if we had been renting the house out (which we are not). The way they calculate this is very complicated and not fully known to me, but it has something to do with the type of property, when the property was built, where it is located, and the amount of income that we earn from our work (this last element helps to ensure that we will not be priced out of our home by property taxes even as property values rise). Furthermore, it is something we find out long after the fact of filing taxes. For example, for tax year 2020, we will file our Swiss tax returns in June of 2021 and we will get the calculation of

this "income tax on our property" somewhere in October–November 2021, long after our U.S. tax returns are due and interest is being assessed on any unpaid amounts. Furthermore, its incompatibility with how U.S. assesses income and property taxes makes it really difficult to know how to include that in our tax returns. We tried to do it for a couple of years, but this did not seem to be accepted by the IRS, and then we had to pay additional taxes with penalties and interest. Now we do not even try to include these taxes we pay on our U.S. tax return, and so we are being double-taxed by both Swiss and U.S. jurisdictions on that income.

When it comes to trying to get information, help and guidance from the IRS so that we can navigate these difficulties more easily, this is also not set up for those of us living abroad. Most of the time when I call the IRS, I get a message that the line is too busy and they are not accepting calls at that time. Sometimes I have gotten a message saying that the estimated wait is between a certain time, such as 7 to 10 minutes, and then finally hung up after being on hold for more than 30 minutes. Needless to say, there are no toll-free numbers for U.S. persons abroad, so of course we have to pay international long-distance rates. However, even many of the IRS online services are not available to those of us living outside of the U.S. (see below for an example).

Another problem is that as "U.S. persons", nearly ALL banks will simply not open an account for us, which has huge implications on, for example, shopping for affordable mortgages from local/cantonal banks.

Further, we are effectively banned from investing in any kind of stocks, bonds or mutual funds in our country of residence *and* nationality. We are getting older, and we wanted to try to invest in a mutual fund here to put aside a little extra money for our golden years. However, the only bank we found in Switzerland that would accept us as customers had a 250,000 Swiss Francs (about $270,000) minimum investment requirement—something that is definitely out of our league! Furthermore, we learned that even if we could and did invest in a mutual fund here in the country where we live (and now are also citizens of), that it would be treated by the U.S. as a "Passive Foreign Investment Company" and would be taxed at an exorbitant rate.

Discrimination against me as a "U.S. person" has also impacted me professionally. After I was hired as the COO for a very small, non-profit Swiss NGO we learned that if I were given signatory rights on our organizational bank account, that the financial records of this Swiss organization would have to be sent to the IRS. Therefore, I do not have these rights, and I can't perform all of the functions of my role.

Furthermore, filing and paying taxes in the U.S. is extremely complicated, and calculations/corrections made by the IRS are not transparent. We have consistently filed and tried to pay our taxes in accordance with the rules as we understand them, although the tax code is not exactly straight-forward especially for people like us living outside the U.S.. Sometimes we get bills years later without any explanation as to why or how new calculations were made. For example, we recently got a bill from the IRS from 2014 for nearly $8,000(!) This is a lot of money for us. I wrote the IRS and asked for an explanation of how they calculated this amount more than six years after the fact and got no response except for a threatening letter that they are going to levy taxes on our assets. I tried to go online to get a transcript of how they calculated this tax, however the online service is not available to persons who live abroad! There is a phone-in/write-in service to obtain tax transcripts, but it only goes back to the previous three years' returns. I tried to call anyway and was not able to get through.

I am not against paying taxes, and fully recognize the necessity of them. If I were to earn any money from U.S. sources, it would make sense that I pay U.S. tax rates under the U.S. tax system, but not that I pay Swiss taxes on top of them. If every country taxed because of nationality (or even former permanent residence status) with no regard to the other nationalities and their accompanying tax systems, the impacts would be devastating: many persons here in Geneva have 3, 4 or even more nationalities, and having to satisfy the requirements of multiple different, incompatible national income tax systems on income earned in one country would not be sustainable, nor would it be fair. In this respect the U.S. is the only country (outside of Eritrea) that taxes on the basis of nationality/permanent residence, but this also highlights how incongruent and out of step this practice is with the rest of the world, and for its citizens/permanent residents who happen to reside in other countries. Every time Congress makes a change to the tax code, this directly impacts me and those of us living outside of the U.S. who are also subject to other tax code regulations. However, these impacts are rarely if ever discussed by members of Con-

gress, and certainly not studied in depth as to how they will impact/interact with the other 190+ countries' income tax regimes where U.S. persons may be living, resulting in devastating unintended consequences on ordinary folks: if I were rich, or a multinational, I would have the resources to figure out how to get around the tax system, but I am not.

Finally, I cannot express the anger and frustration I feel when I read that Amazon and 54 other major U.S. corporations, as recently reported in *The New York Times,*[1] paid ZERO income taxes on incredible, record-setting profits in the many billions. How is it that we, a middle-class family who hasn't even lived or earned any income in the U.S. for more than 15 years, are effectively paying more income taxes than Amazon?

Therefore, we ask you to:

(1) Change the system of citizen-based taxation of individuals to that of individual taxation on income earned from U.S. sources (for a relatively simple and fast interim fix to this issue by the U.S. Treasury while waiting on lengthier legislative processes, please read this article);[2]
(2) Create a special committee that looks at the impacts of U.S. taxation on its nationals residing abroad so that any changes made to the tax code are reviewed by this body to ensure that our situations are taken into consideration in such regulation and to protect against unintended consequences; and finally
(3) To include formal representation of Americans living abroad in our representative bodies, as the approximately 9 million of us living abroad need a voice. Switzerland and France include seats for their citizens residing abroad in their Parliaments, and the U.S. can and should do the same.

We should not be penalized and discriminated against just because we were born in, had American parents or lived a significant time in the U.S., and reside in another country. Furthermore, we can be an important resource to the U.S.—we can play the role of "local ambassador" in our countries of residence, helping to bridge differences and forge understandings between the U.S. and the countries we call home, which is increasingly important in our highly interconnected, shrinking world.

As a last note, it is more than somewhat ironic that the U.S. ostensibly got its start over a tax dispute with its overseas colonial parent, with American revolutionaries crying out the slogan "no taxation without representation," launching a war that brought about the birth of our nation, and yet it taxes folks like me who earn their income completely outside the U.S. system and have no effective representation on the U.S.-created impacts we face living abroad. That notion of justice, of democratic representation and fair taxation is fundamental to the very identity of the United States, and yet somehow it is the only developed country that burdens individuals such as myself with a tax imposition that does not take into account the situations in which we are living, and which prevents us from fully participating in the societies of which we are part.

Many have said that you, our representatives, don't care for U.S. persons residing abroad, that we don't matter enough in terms of votes or funding, that our situations don't play well on media platforms in terms of messaging, that we don't have enough pull or importance to get any attention. However, I am still hoping that you can care about something that is wrong and unfair, even if it isn't politically expeditious. In fact, it is my American-bred idealism and pragmatic, can-do spirit that make me believe that we can work together to develop an income tax system that is fair and not unduly burdensome, and that honors those fundamental American values which we all hold dear.

I thank you for your time and attention, and hope that this submission will be fully considered by the Committee. I would be happy to provide any additional information or support to help you better understand the implications of the U.S. income tax system on folks like me who live in other countries.

Sincerely,

Anne-Marie Yarbrough Buzatu

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[1] *https://www.nytimes.com/2021/04/02/business/economy/zero-corporate-tax.html.*
[2] *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3795480&fbclid=IwAR10eXmPraGW3Wuaa_VgnL7HYObjUBZz3302cglQOsT2rPyxtmy5SS7ibgU.*

LETTER SUBMITTED BY AUSTIN M. BYRNE

I am a proud citizen of the United States of America. I was born and bred as an American and a Texan, and I carry that as part of my identity wherever I go. I live outside the United States, in Australia, where I am a Permanent Resident, a tax resident, and where I am subject to full taxation.

We are due with our first born next month. We hope to return to America in the next few years, though we're worried the cost of taxes will extend our plans, requiring us to save for many more years.

As high income earners, my wife and I are subject to double taxation on the majority of our salary and benefits. My tax bill to the U.S. is often in the hundreds of thousands of dollars at the highest marginal bracket. I pay a similar amount to the Australian Tax Office each year. Our effective tax rate for 2019 was around 60%. Our accountants are wealthy from preparing our returns. As a result, we have struggled to save for a home to raise our new family.

I moved from America three years ago, to pursue career opportunities. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

Surely the U.S. budget doesn't hinge on the taxable income of a few million citizens abroad.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational". I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't—for me and many others. If you want your skilled, high income earners to bring their experience and money back into the U.S., make it easier for them to do so. The current rules make it harder to move back to the USA.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY CAROLYN DARA CAMPEAU

To Whom It May Concern:

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Canada where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the Canadian tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to Canada when I was 16 years old with my family (my father accepted an opportunity to work in Canada). I have lived in Canada for 50 years. I am not wealthy. I don't have room in my household budget to spend on tax return preparers, and I certainly cannot afford to be double-taxed.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Carolyn Dara Campeau

LETTER SUBMITTED BY AMY CATT

I am a proud citizen of the United States of America. I live outside the United States in Great Britain where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I lived in America the first 32 year of my life, but we never know where life will take us. I met my British husband and moved to the

United Kingdom 20 years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me and my family to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. When FATCA was imposed, I had to give up all joint finances with my husband. This was to protect my foreign spouses income from being reported to a foreign government as he is not a USA citizen. How can this be fair? How can the United States set Womens rights back a few hundred years so I don't have access to my "foreign" husbands bank account that pays our household bills? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example 20% VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. I do not own property in the United States, I work for a UK registered charity. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the U.S.A. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on with my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ULISES CEJA

I am a proud citizen of the United States of America. I live outside the United States in *Paris, France* where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for work and career advancement reasons. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot in taxes. I can also tell you that the U.S. tax system treats my non-U.S. income unfairly. The fact that I am temporarily living and working abroad doesn't mean that I don't wish to plan for retirement, whether that is France or eventually back home in the U.S..

I do not live "offshore." I do live in a country where I pay high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not currently live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one. This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experience running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." But I am an American citizen currently living in another country. It doesn't make me less American. It does, however, mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States if I choose to start a small business (as many other U.S. expats have) and/or while I reside outside of the U.S..

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because most of these essential activities are taking place in my country of residence and not in the United States. Some of my retirement investments will look like foreign investments for the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the

exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

Foreign tax rules and/or the IRS's Foreign Earned Income Exclusion do well with solving some of these problems. But please don't believe that they solve everything. I have learned that other fellow expats, especially hardworking small business owners, are subject to heavy tax obligations.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The timing is right for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Looking forward to hearing from you and learning more about the progress the Committee expects to make on this important topic.

Kind regards,

Ulises Ceja

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Statement of Michael G. Bindner

Chairman Wyden and the Ranking Member Crapo, thank you for the opportunity to submit these comments for the record to the Committee on Finance. Our comments will begin where our submission from March 16th on the Effect of the U.S. Tax Code on Domestic Manufacturing left off. We are adding an additional attachment of the 2017 Tax Cuts and Jobs Act. To complete the record for this hearing, we are also including attachments on tax reform and trade policy.

The main feature of the last tax reform, which I call the Tax and Job Cuts Act, was the decrease in the corporate tax rate, which was designed to bring money being held offshore for tax reasons back to the United States, where it could be used for investment in plant and materials, leading to job growth.

To not pervert incentives toward choosing the corporate form, pass-through provisions were added to the tax code. Thus, taxing the returns from capital from any source would be within the same range, roughly 21%, give or take, to include Affordable Care Act and Pease provisions.

Generally, when doing tax reform, the idea is to lower rates while broadening the base. This was not done in the Job Cuts Act. Without cuts to tax benefits to reward profit, the Act was simply a give-away.

The impact of the Act was to ring a starting bell in a race to the bottom for other nations to cut their corporate rates further. Now the race is on to find new sources of revenue lost due to this race, like additional tax on online profit.

Whether intentionally or not, the Act was essentially a test of trickle-down economics, It failed.

Even before the pandemic, GDP growth slumped from the 3% range experienced in the last few years of the Obama Administration, which carried over through the first two years of the next administration. The growth remained the same because tax policy had not changed. Changing tax policy took money out of consumption and put it into speculation.

The cuts overall gave Wall Street the seed money to further fuel cryptocurrency and to bid up the price of exchange traded funds. The new feature in ETFs was the addition of mortgage backed securities which allowed Steve Mnuchin and Wilbur Ross, with their partners, to cash out the value of their single family rental holdings.

Stop me if you have heard this story before.

Without the pandemic and the associated assistance to prop up the bonds in question, the crypto and EFT bubbles were about to burst.

Investment in savings instruments is not really investment as it exists as part of Gross Domestic Product. GDP is based on productive activity in the real economy:

government purchases, household consumption, net exports and investment in plant and equipment.

As an aside, the government's impact comes in more than just buying stuff. It is a major contributor to household consumption through others and including the stuff it buys. It buys or creates natural resources (food, oil, land, and water), supplies, buildings, military assets, health care (military, civil service, old age, disabled, Indian, international, indigent), transportation infrastructure roads, airports, bridges, spaceports, and private capital used to make government purchases.

It also distributes current and future household income via employee salaries, military pay, government pensions, old age, survivors and disability income, interest on government trust funds, contractor pay and benefits, Temporary Assistance to needy Families, Food Stamps, supplemental security income, temporary disability income, refundable income and child credits, pays net interest to bondholders, and distribution of resource payments to tribal nations (land rentals and resource extraction). This amounts to more than half of household income resulting in consumption and savings.

Consumption from these income streams also creates private sector income, leading to consumption and savings (second and third order—which is private sector spending and savings resulting from private sector consumption). All of this leads to investment in land, plant and equipment for household consumption and exports.

Tax collections and double counting are the means by which all this spending goes round and round. The double and triple counting is what is known as the multiplier effect.

Investment in plant and equipment happens when households have money (for example, through a higher minimum wage or child tax credit, so they buy more goods and services. More goods and services on a long term horizon cause manufacturers to purchase what is needed to make more: plant and equipment.

The cost of funds has no impact on the decision to invest, only on how to raise the money. Firms with an excess of money, but a smaller customer base, will not invest. Firms with an expanding base will find the money. Any investment decision which depends on bringing money back to the U.S. for tax reasons is probably not wise in the long run.

So where did the money go? It certainly did not go to workers. GDP the year following the Act declined by 1% (the one year lag is how long it takes for tax and spending changes to circulate through the economy). Answering the question would require an analysis of the executive compensation information provided in the annual reports of firms whose tax rates were reduced.

To date, I have not seen such an analysis. No think tank who is funded by donations from the holders of capital would ever fund such a thing.

Taxing labor and profit in separate systems generally distorts the allocation between labor and capital. Consumption taxes, by nature, tax all value added at the same rate. This is much better for workers and makes subsidies built into the tax code favoring one or another activity impossible.

The existence of corporate income tax subsidies carry with them the very justified impression that less well connected industries must pay higher taxes in order to preserve these tax subsidies. Worse is the perception, which would arise with their use in an invoice or subtraction value added taxes (I–VAT and S–VAT), that such subsidies effectively result in lower wages across the economy. Such a perception, which has some basis in reality, would be certain death for any subsidy.

One must look deeper into the nature of these activities to determine whether a subsidy is justified, or even possible. If subsidized activities are purchased from another firm, the nature of consumption taxes alleviate the need for any subsidy at all, because the VAT paid implicit in the fees for research and exploration would simply be passed through to the next level on the supply chain and would be considered outside expenditures for subtraction VAT calculation and therefore not taxable.

In the oil industry, if research and exploration is conducted in house, then the labor component of these activities would be taxed under both the I–VAT and the S–VAT, as they are currently taxed under personal income and payroll taxes now.

The only real issue is whether the profits or losses from these activities receive special tax treatment. Because profit and loss are not separately calculated under such taxes, which are essentially consumption taxes, the answer must be no. The ability

to socialize losses and privatize profits through the S–VAT would cease to exist with the tax it is replacing.

To return to the corporate, pass-through, dividend, Pease, Affordable Care Act SM taxes and capital gains taxes, a uniform tax rate will limit gaming. We propose enactment of an Asset Value Added Tax, as described in Attachment Two.

The range of acceptable rates has been narrowing over the past 40 years. President Reagan set the tax to 28% at the top, with a 33% bubble. Bush 41 settled on a 31% rate, which raised more from the highest incomes but, in a quirk of math, when combined with the impact of the FICA cap, left a proportional tax rate of 30.9% in place for everyone. The increased money from the wealthy still caused later growth.

President Clinton took rates higher (with a top rate on capital at 39.6%). He then cut that rate to 28%, which fueled the tech bubble (our best minds were working on IPOs, not innovation). This led to recession as the bubble burst—and the further cutting of capital tax rates by Bush 43 to 20% (but leaving corporate rates at 35%). Obama put individual capital rates back to 25% (including Pease and ACA SM), which Trump-Ryan notched down by a bit over 1%. President Biden now proposes a 28% rate for everything (as far as I know—not moving it all to the same rate invites gaming).

We propose an asset value tax with a compromise 26% rate (halfway between the current 24% and the Biden 28%). We also propose higher tier subtraction VAT rates for salaried income, with a top tier rate of 26% on all income over $340,000. At $425,000, additional salary surtaxes paid by individuals would kick in, with a top surtax rate of 26% for salaries over $680,000. At this level, all additional dollars received, whether through asset or salary income, would be taxed at 26%. Shifting to a separate business entity would result in a 26% top rate after $340,000. Setting up multiple businesses to minimize taxation would be penny wise and pound foolish. It would cost more to pay the accountants than to pay the full tax, and anti-abuse language could guard against this.

Why would wealthy taxpayers agree to such reforms? We cannot simply vote in more than the cosmetic reforms proposed by the President and not expect backlash in 2024. As was the case with establishing Social Security, the rich need to want this. I discuss why they should in Attachment Three on the national debt. The issue has come up recently. Let me provide light to balance the heat.

The table is a bit out of date. It is based on the debt figures from last summer and the 2017 tax year. Revisions are ongoing and will be released (with copies to the Committee) within the next 6 weeks.

Attachment Four discusses how tax reform affects trade, both in terms of union rights and in joining everyone else in using the zero rating of value added taxes for export, making American manufacturing more attractive. We also note how internationally based employee ownership of both subsidiaries and supply chains discourages wage and currency arbitrage, which is the best way to share the gains of reform with workers internationally while removing the incentive to send production outside our borders.

Note that adding border-adjustable goods and services taxes allows the removal of other trade barriers with no loss of jobs. The last four years have shown us an extreme example of how not to use tariffs. The prior administration used economic policy as gunboat diplomacy, but without having a navy.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment One—The Tax and Job Cuts Act

The Tax and Job Cuts Act (not a typo) was a classic piece of Austrian Economics, where booms are encouraged and busts happen with no bailouts. Strong companies and best workers keep jobs and the devil takes the hindmost. It is economic Darwinism at its most obvious, but here is a safety valve. When tax cuts pass, Congress loses all fiscal discipline, the Budget Control Act baseline discipline is (as it should be) suspended and deficits grow. Bond purchasers pick up the slack caused by the TCJA, which they will as long as we run trade deficits, unless the President's economic naivete ruins that for us.

Modern economics has become infected with the idea that higher tax rates and lower public spending hurt the economy. By definition, this is not the case. The exact opposite is true. To refresh our memories of what is in the U.S. Code and most basic economics textbooks, Gross Domestic Product equals equal government pur-

chases, consumption from government employee, contractor, transfer recipient and second order private sector spending, which leads to private sector investment, and exports net of imports (which creates a source of funds for debt finance).

Anything that is not part of GDP is considered "savings" or in reality, is asset inflation. If you want to end poverty, give poor people and retirees more money and the economy will grow. Increase government expenditure (even bombers) and the economy will grow, including for the now notorious upper middle class.

Lower tax rates also made money available to chase the same supply of investment instruments, which bid up their price, and caused the invention of a whole range of new products which would be built up and sold by the emerging financial class, who would profit-take and watch what they created go bust and start yet another modern recession, especially the Great Recession just experienced. Only higher tax rates or increased deficit spending control such asset inflation (and the consumption cycles associated with them—which Marx thought was the driver of the boom bust cycle—Marx had a failure of imagination).

A key part of our proposals is to increase income tax revenue from the very wealthy through our income surtax. The higher the marginal tax rate goes, the less likely shareholders and CEOs will go after worker wages in the guise of productivity while pocketing the gains for themselves. Since shareholders usually receive a normal profit through dividends, it is the CEO class that gets rich off of workers unless tax rates are high enough to dissuade them.

Attachment Two—Tax Reform, Center for Fiscal Equity, March 5, 2021

Individual payroll taxes. These are optional taxes for Old-Age and Survivors Insurance after age 60 for widows or 62 for retirees. We say optional because the collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. Higher incomes for most seniors would result if an employer contribution funded by the Subtraction VAT described below were credited on an equal dollar basis to all workers. If employee taxes are retained, the ceiling should be lowered to $85,000 to reduce benefits paid to wealthier individuals and a $16,000 floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Wage Surtaxes. Individual income taxes on salaries, which exclude business taxes, above an individual standard deduction of $85,000 per year, will range from 6.5% to 26%. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction. Transferring OASDI employer funding from existing payroll taxes would increase the rate but would allow it to decline over time. So would peace.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes, dividend taxes, and the estate tax. It will apply to asset sales, dividend distributions, exercised options, rental income, inherited and gifted assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed.

As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S–VAT surtaxes. This tax will end Tax Gap issues owed by high income individuals. A 26% rate is between the GOP 24% rate (including ACA–SM and Pease surtaxes) and the Democratic 28% rate. It's time to quit playing football with tax rates to attract side bets.

Subtraction Value-Added Tax (S–VAT). These are employer paid Net Business Receipts Taxes. S–VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S–VAT will not be border adjustable.

The S–VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not. S–VAT funded retirement accounts will be equal-dollar credited for every worker. They also have the advantage of drawing on both payroll and profit, making it less regressive.

A multi-tier S–VAT could replace income surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits. Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I–VAT) Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S–VAT, then they would be funded by the I–VAT to take advantage of border adjustability. I–VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A–VAT and I–VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low-income Tax Gap.

I–VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I–VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.5% to 13%).

As part of enactment, gross wages will be reduced to take into account the shift to S–VAT and I–VAT, however net income will be increased by the same percentage as the I–VAT. Adoption of S–VAT and I–VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C–VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C–VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

Summary

This plan can be summarized as a list of specific actions:

1. Increase the standard deduction to workers making salaried income of $425,001 and over, shifting business filing to a separate tax on employers and eliminating all credits and deductions—starting at 6.5%, going up to 26%, in $85,000 brackets.

2. Shift special rate taxes on capital income and gains from the income tax to an asset VAT. Expand the exclusion for sales to an ESOP to cooperatives and include sales of common and preferred stock. Mark option exercise and the first sale after inheritance, gift or donation to market.

3. End personal filing for incomes under $425,000.

4. Employers distribute the child tax credit with wages as an offset to their quarterly tax filing (ending annual filings).

5. Employers collect and pay lower tier income taxes, starting at $85,000 at 6.5%, with an increase to 13% for all salary payments over $170,000 going up 6.5% for every $85,000–up to $340,000.

6. Shift payment of HI, DI, SM (ACA) payroll taxes employee taxes to employers, remove caps on employer payroll taxes and credit them to workers on an equal dollar basis.

7. Employer paid taxes could as easily be called a subtraction VAT, abolishing corporate income taxes. These should not be zero rated at the border.

8. Expand current state/federal intergovernmental subtraction VAT to a full GST with limited exclusions (food would be taxed) and add a federal portion, which would also be collected by the states. Make these taxes zero rated at the border. Rate should be 19.5% and replace employer OASI contributions. Credit workers on an equal dollar basis.

9. Change employee OASI of 6.5% from $18,000 to $85,000 income.

Attachment Three—The Debt as Class Warfare, September 24, 2020

Visibility into how the national debt, held by both the public and the government at the household level, sheds light on why Social Security, rather than payments for interest on the public debt, are a concern of so many sponsored advocacy institutions across the political spectrum.

Direct household attribution exists through direct bond holdings, income provided by Social Security payments and secondary financial instruments backed with debt assets. Using the Federal Reserve Consumer Finance Survey and federal worker and Social Security payment and tax information, we have calculated who owes and who owns the national debt by income quintile. Federal Reserve and Bank holdings are attributed based on household checking and savings account sizes.

Responsibility to repay the debt is attributed based on personal income tax collection. Payroll taxes create an asset for the payer, so they are not included in the calculation of who owes the debt. Calculations based on debt held when our study on the debt was published, distributed based on the latest data (2017) from the IRS Data Book show a ratio of $16.5 of debt for every dollar of income tax paid.

This table shows a summary level distribution of income, national debt and debt assets in three groupings based on share of Adjusted Gross Income received, rather than by number of households. This answers the perennial question of who is in the middle class.

Descending cumulative percentiles	Millions of Returns Filed	Millions of Returns Paying Tax	AGI	Income Tax Paid	Gross Debt (Factor) 16.55	Held by Federal Reserve and Banks	Held in Bonds	Held in Personal Accounts	Held in Government Debt	Assets Net of Debt Liability
			Amounts (Billions)							
All returns, total	**143.3**	**99.4**	**10,937**	**1,601**	**26,500**	**5,238**	**4,222**	**3,854**	**5,384**	**(7,802)**
Top 5% IRS, 8.5% CPS, $208,053	7.2	7.2	3,995	947	15,671	2,926	3,693	2,411	294	**(6,347)**
5%-25% IRS, 8.5%-37.2% CPS, $83,682	28.7	28.3	3,566	432	7,146	1,399	529	1,046	1,238	**(2,934)**
Bottom 75% IRS, 62.8% CPS, $0	107.5	63.9	3,375	223	3,683	913	-	397	3,852	**1,479**

The bottom 75% of taxpaying units hold few, if any, public debt assets in the form of Treasury Bonds or Securities or in accounts holding such assets. Their main national debt assets are held on their behalf by the Government. They are owed more debt than they owe through taxes.

The next highest 20% (the middle class), hold few bonds, a third of bond-backed financial assets and a quarter of government held retirement assets.

The top 5% (roughly 8.5% of households) own the vast majority of non-government retirement holdings and collect (and roll-over) most net interest payments. This stratum owns very little of retirement assets held by the government, hence their interest in controlling these costs. Their excess liability over assets is mostly attributable to internationally held debt. Roughly $4 Trillion of this debt is held by institutions, with the rest held by individual bond holds, including debt held by members of this stratum in off-shore accounts.

Source: *Settling (and Squaring) Accounts: Who Really Owes the National Debt? Who Owns It?* available from Amazon at *https://www.amazon.com/dp/Bo8FROFF8S*.

Attachment Four—Trade Policy

Consumption taxes could have a big impact on workers, industry and consumers. Enacting an I VAT is far superior to a tariff. The more government costs are loaded onto an I–VAT the better.

If the employer portion of Old Age and Survivors Insurance, as well as all of disability and hospital insurance are decoupled from income and credited equally and

personal retirement accounts are not used, there is no reason not to load them onto an I–VAT. This tax is zero rated at export and fully burdens imports.

Seen another way, to not put as much taxation into VAT as possible is to enact an unconstitutional export tax. Adopting an I–VAT is superior to its weak sister, the Destination Based Cash Flow Tax that was contemplated for inclusion in the TCJA. It would have run afoul of WfO rules on taxing corporate income. I–VAT, which taxes both labor and profit, does not.

The second tax applicable to trade is a Subtraction VAT or S–VAT. This tax is designed to benefit the families of workers through direct subsidies, such as an enlarged child tax credit, or indirect subsidies used by employers to provide health insurance or tuition reimbursement, even including direct medical care and elementary school tuition. As such, S–VAT cannot be border adjustable. Doing so would take away needed family benefits. As such, it is really part of compensation. While we could run all compensation through the public sector.

The S–VAT could have a huge impact on long term trade policy, probably much more than trade treaties, if one of the deductions from the tax is purchase of employer voting stock (in equal dollar amounts for each worker). Over a fairly short period of time, much of American industry, if not employee-owned outright (and there are other policies to accelerate this, like ESOP conversion) will give workers enough of a share to greatly impact wages, management hiring and compensation and dealing with overseas subsidiaries and the supply chain—as well as impacting certain legal provisions that limit the fiduciary impact of management decision to improving short-term profitability (at least that is the excuse managers give for not privileging job retention).

Employee-owners will find it in their own interest to give their overseas subsidiaries and their supply chain's employees the same deal that they get as far as employee-ownership plus an equivalent standard of living. The same pay is not necessary, currency markets will adjust once worker standards of living rise. Attachment Three further discusses employee ownership.

Over time, ownership will change the economies of the nations we trade with, as working in employee-owned companies will become the market preference and force other firms to adopt similar policies (in much the same way that, even without a tax benefit for purchasing stock, employee-owned companies that become more democratic or even more socialistic, will force all other employers to adopt similar measures to compete for the best workers and professionals).

In the long run, trade will no longer be an issue. Internal company dynamics will replace the need for trade agreements as capitalists lose the ability to pit the interest of one nation's workers against the others. This approach is also the most effective way to deal with the advance of robotics. If the workers own the robots, wages are swapped for profits with the profits going where they will enhance consumption without such devices as a guaranteed income.

LETTER SUBMITTED BY JOHN CHIDIAC

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America because I could not find decent employment in the United States over 50 years ago and was not able to find employment despite trying from 1980 to 1990. I therefore had to retire in Canada because I could not afford to move back to the United States and pay for health insurance and expenses.

How can the United States impose taxation on non-U.S. income and assets of a person who is not a resident of the United States? Didn't the revolution of 1776 settle the question of "taxation without representation"? Has the United States Congress one as mad as King George in imposing taxes on tea in the colonies?

Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the

U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY PETER CHIDIAC, PH.D.

I am a citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I moved from America with my parents many years ago. I was only a teenager at that time, but although I was sad to leave Wisconsin, Canada became our new home and I long ago realized that a I am not going to relocate from here. As a tax resident of Canada, I am required to organize my financial and retirement planning here. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Sincerely,

Peter Chidiac, Ph.D.

LETTER SUBMITTED BY MARILYN CHOTEM

I am a proud citizen of the United States of America. I live outside the United States in North Vancouver, BC Canada where I am a tax resident and Canadian citizen and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxed on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Yours sincerely,

Marilyn Chotem

LETTER SUBMITTED BY SUSAN E. CLARK

I am a proud citizen of the United States of America, born in 1957 and raised in New Jersey. I lived and worked in the United States for at least half of my adult life, studied law In Washington DC and had a successful practise. In 1992, however, I met and fell in love with a man from Norway. We decided to marry and discussed where we should live. I received a job offer from a firm in Oslo and that made our decision in favour of Norway. I moved to Norway in September 1992 and have lived and worked here ever since. I am a permanent resident of Norway where I am subject to full taxation. Over the years, I have considered moving back "home" to the United States, but I have two Norwegian children now and they, my work, my home and my life is here. I write to you to explain how difficult it is to be a U.S. citizen abroad, especially one who like me is fully tax compliant. The difficulty arises because of U.S. tax laws which not only tax me, but unfairly penalize me for living abroad.

Since moving to Norway, I have always filed my U.S. tax returns and am fully tax compliant. I have also filed FBARs with the U.S. Treasury. My U.S. tax return requires me to hire an accountant because of the complexity of the laws, including the calculation of the alternative minimum tax. My 2019 tax return was 64 pages long and I do not have a complicated tax situation, other than that I live abroad. I have been audited three times by the IRS for no apparent reason. The first two audits resulted in no additional tax or penalties, but cost me time, money and a lot of stress. The last audit in 2016, again cost me time and money and a lot of stress. Two years later, the IRS finally backed down and properly afforded me the benefit of their own rules on foreign income for bona fide residents of another country. The IRS agent in charge of my case this time knew nothing about international taxation or of the tax treaty between the United States and Norway and she treated me like a criminal for living abroad and "making money". The whole experience was a nightmare and one I never wish to repeat.

Like most working people, I have tried to save for my retirement, both before and after moving to Norway. Little did I know when I decided to move to Norway, that my savings in the United States in the form of an IRA would be taxed by Norway as "wealth" and subject to increased taxation in the United States when I withdraw the funds on retirement solely because I live abroad. With respect to my savings here in Norway, I understand that they may be subject to draconian taxes by the United States. I am literally stuck between a rock and a hard place. But what I need to convey to this Committee is that my attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws.

How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country? I am not trying to evade U.S. taxes; I do not live "offshore;" I am not a multinational corporation. I am simply a U.S. citizen who lives in Norway where I pay high income taxes (I am subject to a tax rate of 49%), taxes on my investment income and my home (Norway has a wealth tax), property taxes and a sales tax of 25%.

Yet, because I am a U.S. citizen, I am also subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation. I envy my colleagues from Britain who, like me, live and work in Norway as Britain has residency-based taxation.

I would like to make two general observations about the hearing on March 25, 2021.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals.

2. I was shocked that there no witness testified to personal experience with working abroad or with running a small business outside the USA. I respectfully suggest that subsequent hearings include such witnesses, and I would gladly come and speak with you if given the chance.

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individ-

uals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax. Simply because I, like many other small investors, have saved money in a mutual fund should not make me subject to taxes under the GILTI or the PFIC regimes. Even under the present tax regime, I do not understand why Congress cannot make an exception to rules which apply to corporations for individual taxpayers who are bona fide residents of another country. The residency test for individuals is used now with respect to the exclusion for foreign income, so why could not the same test be applied so that an individual is not taxed for simply having an account with a mutual fund? An individual who holds shares in a foreign mutual fund is not a tax evader or a criminal, but simply a small investor who wants the protection and experience of the managers of such funds rather than going it alone and purchasing stocks.

The U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way as a result of nothing more than the fact that I live and work in Norway. My retirement investments (save for my U.S. IRA) are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example, the sale of principal residence) when my country of residence does not. Although there is a treaty between the U.S. and Norway that should protect me from double taxation, there is a so-called "savings" clause in the treaty that allows the United States to tax its citizens on income that is already subject to Norwegian tax. Because I am required to live my life with the USD as my functional currency, I am also subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve any of these problems. Unfortunately, they do not.

The U.S. tax system as applied to its ex-patriots is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address the issues they face. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the civilized world in adopting a system of residence-based taxation. I ask this Committee to allow me to live my life and enjoy my retirement without undue interference from the IRS or U.S. tax laws which penalize me simply for living abroad.

Yours faithfully,

Susan E. Clark

LETTER SUBMITTED BY JENNIFER CLAYBURN

I hope you are receiving multitudes of statements that start the same as this one.

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident, subject to full taxation.

I echo all of the same sentiments in these letters, but I will get to my personal points quickly.

Regarding the hearing, the title itself stated that the impact of International Tax Policy on American workers would be addressed. Instead, the hearing focused on U.S. multinational corporations. I am not a multinational corporation; I am an American individual citizen. I would like to politely request that the impact of International Tax Policy on American workers living abroad be considered in your reforms.

The roots of today's current citizenship-based taxation date back to the Civil War when the first legislation was put in place to raise revenue through increased taxation of U.S.-based revenue of citizens living overseas. It was seen as payment in lieu of civic engagement. The laws continued to be expanded ever since, resulting in today's taxation of non-resident-citizens on their worldwide income. Despite how hard it can be to vote abroad and have your voice heard, I am an engaged member of the American community. I should not be taxed to prove my ties to and love of my country.

In the 1920s, the Supreme Court's justification for upholding citizenship-based taxation was about inherent benefits of being a U.S. citizen. With these benefits never clearly stated and the fact that there is now a clear burden from FACTA, the discussion has since then revolved around Foreign Earned Income Exclusions and Credits.

These current treaties and credits do not solve the fundamental problems of citizenship-based taxation. To gain a better understanding of the minimal impact of the FEIE on just one of the millions of Americans abroad's individual circumstances, take some time to read through each publication, complete each schedule and form, only to be shocked by the amount you owe the U.S. after already paying taxes to your current resident country. Left without confidence in your work, research and find a knowledgable international tax consultant that won't overcharge you, and pay the-still-insanely-expensive fees for their expert knowledge to complete your filing and back you up in the imminent audit.

There is no other advanced country in the world that imposes such draconian extraterritorial taxation. Does the U.S. intend to be associated with the same values as these countries, such as Eritrea? Even worse, when included in their ranks the severity of taxation by the U.S. is incomparable—Eritrea taxes at a flat 2% rate.

I have moved abroad to expand my children's outlook to a global view of world events while furthering my and my husband's careers. It is hypocritical of the U.S. to express concern over other countries' local-first hiring policies, for example in Malaysia, as it may inhibit FDI and the sharing of knowledge internationally, while at the same time treat your citizens working abroad as exports to be taxed for participating in that experience exchange and global economic success. I truly believe in global experience exchange as a way to improve business and government, but it comes at a higher cost to expats.

For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. There has been little success in large part because this way of taxation affects a minority. As we continue as a country to review and revise our opinions of history and the treatment of marginalised populations, U.S. citizens living abroad should be provided a platform for justice. When the State Department estimates that nine million U.S. Citizens live abroad, how can you ignore an entire population comparable in numbers to New York City. Even third-parties estimate minimum numbers of tax-paying expats at over one million, equal to allowing the San Francisco Bay to flood the entire population of San Jose's Silicone Valley.

In a final thought, Myanmar is the most recent country in the world to reform their extraterritorial tax regime. If the U.S. is currently ceasing trade with Myanmar until return of the same democratic government that implanted the reform, it is time for the U.S. to step in line with the values they are trying to uphold in other countries. Now is the time to adopt a system of residence-based taxation.

COALITION FOR AMERICAN INNOVATION

The Coalition for American Innovation is an ad hoc coalition of U.S. multinational companies across numerous industries that share the common objective of making the United States a more desirable location to do business.[1] We believe the Foreign-Derived Intangible Income ("FDII") deduction is critical to promoting U.S. innovation and job growth, preserving U.S. competitiveness, and protecting the U.S. tax base.

The competitive tax rate resulting from the FDII deduction creates a powerful incentive to invest and hire in the U.S. for the development and manufacture of products and provision of services for global sales. The deemed tangible income return limitation ensures these are innovative, high value investments.

It is vitally important that the U.S. tax code establish competitive conditions for U.S. (and foreign-owned) businesses to generate and retain the economic ownership of intellectual property ("IP") and its associated tax revenues in the United States. The FDII regime achieves this goal while also providing an incentive for U.S. investment and jobs. The creation of IP represents the first step in the manufacturing and services life cycle, and the maturation of IP requires significant investment in factories, equipment, and jobs to produce the product or service covered by the IP.

FDII promotes the retention and utilization of IP in the U.S. and further enables the U.S. to be competitive with tax regimes of our major trading partners (including

[1] CAI includes Amazon, Cisco Systems, Inc., Disney, Dow Inc., Intel, Lockheed Martin Corporation, Qualcomm and The Boeing Company, among numerous other members.

China). In doing so, it helps the U.S. protect its corporate tax base, reduce previous incentives to source IP offshore, and encourages U.S. investment and jobs.

We appreciate the Senate Finance Committee's interest in this extremely important topic on international tax policy. While there may be some improvements we can suggest to make the FDII operate more efficiently, a provision of this type is imperative for U.S. innovation and global competitiveness. We are available as a resource as the committee navigates the challenging and competitive tax landscape.

COALITION FOR A PROSPEROUS AMERICA
PO Box 283
Southwick, MA 01077

Statement of David M. Morse, Tax Policy Director

As the Senate Committee on Finance conducts a review of U.S. international tax policy about American employment and investment, the Coalition for a Prosperous America (CPA) would like to offer its views as a nonprofit, nonpartisan organization representing the interests of 4.1 million households, including manufacturing, agricultural, and labor members.

Key Points

American domestic companies can no longer accept the tax status quo in light of the pressing need for American production for jobs and strategic industrial security:

1. Multinational corporate profit shifting affects domestic American companies by rewarding the companies who move profits and jobs overseas.
2. The Tax Cut and Jobs Act did reduce inversions and resolved the byzantine tax deferral system. However, profit shifting did not end despite the Global Intangible Low-Taxed Income (GILTI) provision. The Border Erosion Anti-Abuse Tax (BEAT) and the Foreign-Derived Intangible Income (FDII) especially failed to meet expectations.
3. The international tax provisions of the Tax Cuts and Jobs Act (TCJA) are complicated. The intermediate results have not inspired confidence that they will ultimately address the resulting "tax disparity" between domestic companies and their multinational competitors. The "Tax Morale" of American businesses requires a more straightforward and fair tax system.
4. Equal to the need for simplicity, efforts to reward the reshoring of jobs remain of paramount importance. The United States no longer rewards American production and has incentivized offshoring. Incentives are half of the solution to this problem.
5. American domestic businesses need penalties for offshoring of jobs to reverse the decades-long trend of American job flight. Loyal domestic production will not benefit from additional incentives, but they need protection from the offshoring competition that our tax system helped create.

1. Overview

This testimony incorporates CPA's economic analysis of the S&P 500 corporate tax reporting under the TCJA and the benefits of a Sales Factor Apportionment solution. The TCJA did reduce the headline rate of corporate tax from 35 percent to 21 percent. Many businesses appreciated this short-term goal to bring the United States closer to the average global corporate tax rates. In the long-term, Congress needs to address the "Race to the Bottom" tax system. Preserving our confused system of international taxation retains the tax avoidance strategies that reward the largest multinational corporations.

Currently, the international tax system has three problems:

- It distinguishes sharply between U.S. and foreign headquartered companies. The differences create imbalances between tax rules that apply to U.S. companies compared with foreign headquartered competitors. The residency distinction generates realistic fears of advantageous tax regimes permitting foreign buyouts and inversions.
- Meanwhile, the current tax system is unrealistic because it treats every subsidiary of a company independently and separately, but multinationals don't behave as if every subsidiary was separate. Attempts to prove the company did not behave properly are complex and costly.
- Third, the tax system still relies on a Physical Presence test, an outdated early 20th-century concept. Especially during the pandemic, the country learned how little commerce relies on a physical presence.

Destination-Based Sales Factor Apportionment solves the three problems. The multinational parent and its subsidiaries are treated as a group. Then, the group's attributed total net profits are based on the percentage of sales they make to the United States. The American vs. Foreign headquarter distinction is eliminated. Internal transactions are ignored, so the sales that matter are sales outside the corporation group. Digital and other similar concerns no longer apply as the physical presence test is replaced with an economic test.

The sales-based formula does not include capital or labor taxation to avoid the flight of inputs outside the United States. Tax rests solely on participation in the large U.S. market. Some outdated rules, such as Transfer Pricing and the Arm's Length Principle, would give way to a simpler and fairer tax system. But Congress could embrace this proper territorial tax, allowing all multinationals to pay U.S. taxes as American domestic companies do.

2. Current Tax Disparity Reduces U.S. Industry Competitiveness

The TCJA attempted to improve the situation by limiting U.S. taxation to profits linked to U.S. activities while adding several innovations to reduce the incentive to shift profit out of the country to low-tax or zero-tax jurisdictions. The United States moved from worldwide taxation to quasi-territorial taxation, and the effort was commendable.

However, Congress must ameliorate the retained complexity in the tax code while denying the tax avoidance strategies to multinationals. The American government must allow U.S. domestic corporations to compete fairly. Currently, American multinational and domestic corporations fear their tax planning is not aggressive enough to reduce the tax rate versus their competition.

When a domestic business faces a competitor in the American marketplace, they expect to compete on quality, the scale of production, service, etc. These inputs all have a price. But the ability to hire numerous expert tax professionals to implement tax strategies involving foreign tax havens is not a fair input. Congress needs to end the creation of this "tax disparity" between domestic companies and Multinational Enterprises.

3. GILTI, BEAT, and FDII

GILTI receives a significant amount of attention, primarily because it affects American headquartered corporations. But all three of the Tax Cut and Jobs Act's international provisions are worthy of attention. Domestic companies need working international tax provisions to reduce the tax disparity.

Its exemptions hampered GILTI's effectiveness. Designed as a global minimum tax, companies can avoid GILTI liability on their tax haven operations using tax credits from higher-tax countries. GILTI liability permitted the blending of tax haven reporting with higher tax jurisdiction reporting. These efforts negated the effectiveness of combatting tax haven usage. Additionally, GILTI was abnormally generous on what it considered deemed routine profit returns. A 10 percent return on investment is an abnormally stellar year for most domestic companies. A reduced Qualified Business Asset Investment calculation could have kept in line with domestic rates of return. However, the incentive to increase overseas assets would have remained.

The BEAT was too limited in scope to achieve the promised return, with too many detrimental effects to consider keeping. The BEAT promised to protect from foreign multinational corporations' profit shifting. But the exemptions were so vast that it was never going to raise the amount of money projected in 2017. With a small inversion exception, the BEAT does not apply to payments for the cost of goods sold. Accounting advice routinely recommended increasing the cost of goods sold on financial statements to avoid the BEAT tax included. This provision's response provided the clearest line of demarcation why the tax system could not be fixed within the currently accepted confines known as Transfer Pricing and the Arm's Length Principle. Congress should not be implying that simple reallocation of profits to different categories in a foreign subsidiary is a permissible use of the U.S. tax system to profit shift sales from American customers.

While marketed as a benefit to all domestic companies, FDII remains most beneficial to multinational companies for officially locating their I.P. in the United States. Finding the FDII requires splitting regular income from excess income over a fixed return on specific assets. This division creates two pots of money taxed at different rates, and it is better to have the money in the unique FDII pot. But the FDII pot is only received above a 10 percent return on a corporation's domestic tan-

gible assets. Most domestic companies don't achieve many profits in this special FDII pot effortlessly. So either we encourage domestic companies to reduce tangible investments in the United States, or we accept the FDII is mainly a subsidy for multinationals to land their I.P. here with no ties to increased R&D. CPA supports neither concept.

Congress designed these components to work in concert with the low 21 percent corporate tax rate, and the low corporate tax rate was the most effective component to reduce inversions. However, the low tax rate's benefits may not be sustainable because another country can offer a better corporate tax rate. While this may be a desirable option in some circles, the tax rate is a less immediate concern to domestic companies than the tax disparity.

4. Tax Complexity

Despite disagreements regarding the international tax provision, almost all parties accept that they are complicated. New proposals regarding these provisions rarely consider the detriment of retaining this complexity. The Department of the Treasury and the Internal Revenue Service have taken years to write the resulting administrative code to implement these aspects of TCJA. Their task was recognized as "Herculean."

While these efforts are appreciated, the resulting complexity remains one of the major stumbling blocks for the law's broad acceptance by American business professionals. Most don't understand it. The largest multinational enterprises have experts that allow them to parse through the application. But smaller corporations cannot afford these employees. Moreover, the last few years reporting of Corporate tax data did not inspire confidence that complexity is the solution to ending companies' profit shifting.

Tax Morale is the measurement of taxpayer perceptions and attitudes towards paying and evading taxes. Without simplification of the tax code, American domestic businesses will be dubious of efforts to reduce tax avoidance through profit shifting. Simplicity and transparency without sacrificing effectiveness would be incredibly beneficial for American tax morale.

The U.S. has vital interests in strategic industries like chip manufacturing. Micron, the largest American chip manufacturing company, is a shining example of a company that the U.S. should incentivize to expand and grow in the United States. But according to Micron's recent 2020 annual 10k provided to the U.S. Securities and Exchange Commission, they reported operating "in a number of jurisdictions outside the United States, including Singapore, where we have tax incentive arrangements. These incentives expire, in whole or in part, at various dates through 2034 and are conditional, in part, upon meeting certain business operations and employment thresholds."

Micron is in an incredibly competitive field, and they need every advantage they can get. By failing to address the international tax system and the tax disparity, Congress has incentivized a strategic company to offshore production that could be conducted in the United States. But until Micron's foreign competitors are expected to pay similar tax rates on profits made selling to U.S. customers, Micron will worry about being at a disadvantage. Domestic corporations need to know American multinationals will pay an equivalent effective tax rate and American multinationals need to know foreign multinationals will similarly pay such a rate. As stated previously, a more straightforward tax system, such as Sales Factor Apportionment, could achieve these goals. But the damage has already been done, and the U.S. has immediate needs to regain lost production.

5. Reshoring Tax Incentives

In previous testimony before this committee, many multinational corporations' representatives embraced tax incentives to reshore manufacturing and good-paying jobs to the United States. In this regard, CPA wholeheartedly agrees. The United States must have a vibrant and robust manufacturing industry. Congress should consider tailored tax incentives to ensure products are made in America and not just in name. These tax incentives should be tied to U.S. inputs, production, and jobs created. At every juncture of production, the United States has lost a step over the years of neglect. Many production inputs are now imported, manufacturing facilities lie dormant or neglected, and the middle class's quality jobs are just not available. All tax incentives must be viewed through this lens first. U.S. manufacturing deserves to be able to compete fairly again.

6. Offshoring Tax Penalties

Many loyal American owners stayed in the United States and struggled to compete but refused to give up. Some of the more successful ones will be able to take advantage of incentives. But all American manufacturers need to be protected from offshoring efforts. Incentives are only half of the immediate solution. Currently, the U.S. tax code can reward offshoring. This loophole should end. But additionally, a penalty should be assessed for moving jobs offshore for a tax benefit.

The United States has to invest in a better tax code for American companies, but this investment must partner with American companies' commitment to the country. The Biden campaign proposed a surcharge tax penalty for offshoring. CPA believes that such a penalty would protect American jobs.

7. Conclusion

Destination-Based Sales Factor Apportionment solves many of the issues raised in these discussions and provides a 21st-century framework for a 21st-century economy. It could be implemented in part to replace the BEAT for foreign multinationals or as a whole. But it is essential to recognize that the system is not working, and American domestic companies need short and long-term solutions to allow the country to build up manufacturing and jobs.

LETTER SUBMITTED BY JAMES WEBSTER COATES

I am a citizen of the United States of America, duly registered to vote in the 3rd Congressional District of Pennsylvania. I live outside the United States, in Japan, where I am a tax resident and where I am subject to full taxation on my worldwide income.

I moved to Japan in May 2001, immediately after graduating from college. I have lived and worked in Japan for my entire adult life, and am married to a Japanese citizen, with whom I have two young sons. While I am proud to be an American and enjoy visiting the United States once a year to see family and friends, I have made my life in Japan and this is my permanent home. This makes me an emigrant from America, just the way my ancestors left England and Scotland to build a new life in the colonies/states.

Since my employment income is generated in Japan and denominated in Yen, as are all of my living expenses, I need to organize my financial and retirement planning in Japan. I am employed at a life insurance company. I own my home in Tokyo. I am trying to save and invest for my children's education expenses and for my own retirement. I need to have life insurance, medical insurance, and auto insurance. I have a defined contribution pension here in Japan.

The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. You see, they are subject only to the Japanese tax system and can organize their finances appropriately. As a U.S. citizen, I am subject to the tax system here in Japan and the U.S. tax system. Those systems are not compatible. Most attempts at responsible financial/retirement planning here in Japan are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—often with no economic connection to the United States? Not only that, but the compliance costs are egregious. My annual accounting fees are have frequently been higher than the ultimate amount of my U.S. Federal tax liability.

Honorable Senators, are you aware of some of the practical problems which result from the U.S. system of citizenship-based taxation?

- Did you know that "non-U.S. citizen spouses" are treated differently than U.S. born spouses? In order to take advantage of lower tax rates for individuals who are "Married Filing Jointly," I can make an irrevocable election to include the income of my "alien" spouse on my return. That means that we have to track and report all of her income in the same way as that of a U.S. citizen. However, since she is a "non-U.S. citizen spouse," I am limited in my ability to transfer assets into her name as a gift or as a part of my estate after my death. That is incredibly unfair.
- Have you thought about the impact of the rules requiring all individual taxpayers to use the U.S. dollar as their "functional currency" for tax reporting? Imagine what would happen if I bought a Japanese Government Bond with a

face value of JPY 100,000 when the exchange rate was JPY 110 to the dollar. My basis in the investment is $909. If the bond pays 1% interest, I would receive a coupon payment of JPY 1,000 ($9) and pay U.S. Federal income tax on that income. But, what if the exchange rate is JPY 90 to the dollar when the bond matures? The bond would now be valued at $1,111 for U.S. tax purposes, and I would have to pay capital gains tax on a phantom gain of $202. In this situation, I am effectively barred from buying a savings bond in my home country.

- Did you know that the same issue applies to home ownership? But, it's worse. U.S. citizens who reside in the United States can often sell their principal residence without owing any tax on the capital gain. However, due to the U.S. dollar "functional currency" rule, we overseas residents are required to calculate the change in value of the home in U.S. dollars. The currency calculation is also applied to the mortgage balance, with devastating consequences if there is a forgiveness or extinguishment of the debt balance.
- Did you know that local pension programs might get caught up in onerous reporting requirements designed to apply to "foreign trusts"? Did you know that there is a special excise tax on purchases of foreign life insurance? These things aren't "foreign" to me. They are necessities to protect my family and responsibly prepare for retirement.
- Do you know what happens if I were to invest in a mutual fund in Japan? A foreign mutual fund is categorized as a "Passive Foreign Investment Company" (PFIC), even if it is just the local version of a Blackrock or a PIMCO fund that is also sold in the United States. Each mutual fund must be treated as a PFIC and filed on a separate Form 8621, requiring reams of computations by my expensive tax accountant. As a result, these mutual funds are also subject to punitive taxation on "excess distributions," which do not apply to the equivalent U.S.-based financial product.
- Do you know how hard it is for us U.S. citizens to open financial accounts? U.S.-based financial institutions generally won't open accounts for us because we have no address in the United States. Financial institutions in our home countries often decline to do business with us due to the complex FATCA reporting requirements.
- Can you imagine the fear we constantly feel because of the excessive penalties that could be applied if we make an honest make in our tax compliance? For FinCEN Form 114, the Report of Foreign Bank and Financial Accounts (FBAR), the penalty for misfiling is the GREATER OF 50% of the maximum balance of the account in question or $100,000. For Form 8938, which is similar to, but different than the FBAR, the penalty is $50,000 per mistake. For Form 8621 related to mutual funds, the penalty is $10,000 per form per year. Imagine if you reported your mutual fund dividends on Schedule B of the 1040 the same way U.S. residents do but didn't realize that you were actually supposed to report them as a PFIC on Form 8621. What if this happened to you for multiple mutual funds over a multi-year period? The penalties would be astronomical! Even if you are trying to be fully-compliant, you can easily get caught up in an issue like this.
- Now, you may ask, don't you get foreign tax credits that prevent double taxation? Nope. It doesn't work out so well. For example, the 3.8% Net Investment Income Tax (the Obamacare surtax) cannot be reduced by foreign tax credits. Also, I can't get credit on my Japan tax return for taxes paid to the U.S. because I don't have any non-Japan workdays, so from Japan's perspective, all of my income is effectively connected to Japan. Logically, Japan thinks I shouldn't have any non-Japan tax liability, and foreign tax credits are generally not available. (By the way, in case you are curious, I pay taxes and fees supporting the healthcare system here in Japan, so I don't benefit from Obamacare or other programs for U.S. residents which are supported by the Net Investment Income Tax.)
- How about the U.S.-Japan Tax Treaty? Surely that must eliminate the double-taxation? After all, the full name of the treaty is the "Convention between the Government of the United States of America and the Government of Japan for the Avoidance of Double Taxation." Nope. This is unbelievable, but the United States inserted a provision in Article 4 Paragraph 3 of the treaty (the so-called "savings clause"), which reserves the right of the United States to tax its citizens based on citizenship, effectively overriding the other provisions of the trea-

ty which would otherwise provide some margin of relief for U.S. citizens. For example, Articles 17 and 18 state that pension distributions are to be taxed based on residency, but that does not apply to U.S. citizens, so I will pay double tax once I retire and begin to draw a pension.

Luckily, I am an ordinary company employee. I don't own my own business. If I did, there would be additional issues, such as the "GILTI" tax which was intended to apply to subsidiaries of multinational corporations, but also applies to the undistributed profits of a small business owned by an overseas U.S. citizen in their country of residence. Sole proprietors have similar issues with the application of "self-employment tax" in a way that is duplicative with local taxes in their country of residence.

I do not live "offshore." I do live in Japan, where I am responsible for paying tax on my worldwide income at rates of up to 55%. Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am already fully taxed on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

The good news is that the fixes are extremely simple. I plead for you to take the following actions:

1. The definition of "individual" in Treasury Regulation, 26 Section 1.1–1 should be modified to include only "residents." U.S. citizens who are tax residents of other countries would continue to be liable to pay U.S. Federal Income Tax on any income which is effectively connected with the United States, as all non-resident aliens do, by using Form 1040–NR instead of Form 1040.
2. All FATCA and FBAR reporting requirements (both for Foreign Financial Institutions, and on the FBAR and Form 8938 for individual taxpayers) should be modified to exclude financial accounts held by individuals in their country of residence.
3. The GILTI tax should not apply to small businesses owned by U.S. citizens in their country of residence.

The tax compliance industry of lawyers and accountants will hate these suggestions because they remove red tape which drives billions of dollars of business to their industry. But the reality is that by solving these issues for ordinary U.S. citizens who live in other countries, the United States would sacrifice a relatively small amount of tax revenue, while freeing up IRS resources to focus on other larger priorities.

Thank you for reading my entire statement.

James Webster Coates
Tokyo, Japan

LETTER SUBMITTED BY JANE COLANDREA COBLENCE

I am a proud citizen of the United States of America. I live outside the United States in France where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America 42 years ago for love (I married a Frenchman). Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. My 3 children live in Europe and I couldn't imagine living too far away from them. I am a tax resident in France. I am required to organize my financial and retirement planning here. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the French tax system and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I have no bank account or assets in the U.S.!!

I do not live "offshore". I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) in France.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when France does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and France, I get the worst of both tax systems. What one giveth, the other taketh.

A concrete example. I set up my company, a mergers and acquisitions advisory firm, in 2015. For the first 3 years of business, I did well and had good income and profit. The following 2 years were slow for me and I lost money each year. This is normal in an M&A practice, the good years we put aside money to cover expenses for the less good years. However, since my cash position was high in 2017, I had to pay almost 15% of my CASH, which had paid French taxes, to cover the GILTI and transition taxes for the U.S. Government. This is not fair. As I retire, I was expecting the cash in my company which I would distribute as dividends, to supplement my income which is currently insufficient to cover my living expenses. These taxes have put a huge damper on my retirement plans.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY GEOFFREY W. CONNOR

Dear Committee Members,

I am an American citizen/Australian permanent resident who immigrated to Australia in August of 2019 with my Australian wife of 25 years. She is a dual Australian/American citizen. I am 70 years old and retired and she is 58 years old and working part time. I draw Social Security of USD$1,062 per month. My wife earns approximately AUD$25,000 per annum. We do not owe U.S. taxes on our combined income plus our savings and investments, yet we are required to file form 8938, Statement of Specified Foreign Financial Assets and FinCEN form 114, commonly known as FBAR along with our Form 1040. The cost to have these returns prepared and filed this year was AUD$1,127. Plus we pay to have our Australian taxes prepared and filed for the tax year that ends June 30th of each year. We live on a modest income and this added expense stretches our budget. We feel that it is unfair of the U.S. to require its citizens to file returns and report income that they earn when living abroad (even though we owe nothing). The time and expense involved is unfair. We urge the committee to act now and rescind these unnecessary and unfair requirements. At the very least, these requirements should be waived for those earning below a certain income threshold. Thank you for your time.

Sincerely,

Geoffrey and Joanne Connor

LETTER SUBMITTED BY SAMANTHA COOK

I am a citizen of the United States of America. I have studied, worked and lived outside the United States in Canada since I was 19, and in 2020 moved to New Zealand with my Kiwi partner. In 2020, I will have the impressive task of filing taxes in three counties: Canada, New Zealand, and the USA, and I will be subject to full tax residency and taxation in Canada and New Zealand, as per their reciprocal agreements.

I run a small business in Canada, which I continue to run from New Zealand (it will remain a Canadian corporation). We make video games and help other Canadian companies make them. Video games is one of the faster-growing industries,

and blends the cutting edge of technology with arts and culture. My business is not a multinational corporation and while its sales income is worldwide, we pay full sales taxes where applicable, and payroll taxes and all other normal corporate tax in Canada.

However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. Since I use a Quebec business structure that's treated as a corporation under U.S. tax law, I'm forced to fill in the same form 5471 that Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though only a fraction of our business is in U.S. dollars. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with? And where will I come up with money to pay this new tax bill? I own my company alongside three Canadian partners (I became Canadian a few years ago), and cannot take money out of the company on a whim just to satisfy a tax bill. As it is a young company that has yet to be particularly profitable, I pay myself only $50,000 CAD a year—that's a little less than $40,000 USD/year. Finding the money to pay a big tax bill due because of my company every year will be next to impossible.

In addition, because I am running a video game company, our major expense every year is salaries (we own no property; sell no clothes or groceries), so on paper, most of our value is in cash. This means **we come perilously close every year to meeting the definition of a Passive Foreign Investment Corporation (PFIC), which would demand that my individual stake in the company be taxed as if it were a mutual fund. Of course, it's not a mutual fund or a PFIC: it is a living, breathing company with employees and products. If I were running it in the USA, there would be no problem at all—it would be seen as the normal company it is. However, because it is abroad (and only because it is abroad), the dragnet that is intended for larger companies tries to pick me and my company up every year. On a 40k annual salary, I cannot afford the tens of thousands of dollars—annually!—that this would cost me.** Should my company accomplish even average success or profit, I will be on the hook for a tax bill I would not know how to pay. This thought keeps me up some nights, and a change in the U.S.'s international tax laws is the only recourse possible, outside of giving up the company, or even my U.S. citizenship, two terrible choices.

My company was not moved to Canada to avoid U.S. laws—it is just a normal, everyday company that I happened to start in Canada, with other Canadians. It's not "offshore," it's Canadian, and it and I pay high income taxes provincially and federally, sales tax, and all the rest of it.

But because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. For years now, it has been exhausting to me that the U.S. tax system rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. No participant at the hearing recognized how individuals are affected by these rules. Yet the focus of the hearing was supposed to be about individuals. This must change at the next opportunity.
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not theory driven conversations that ignore important stakeholders.**

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. **Individuals are not immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax. I implore you to also investigate the true effects on the PFIC policy on small businesses.**

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. **As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. For example, most New Zealanders open a "Kiwisaver,"** *i.e.* New Zealand's 401k, but I should not: it invests in "foreign" (*i.e.* non-American) mutual funds, and the IRS taxes them. Therefore I would be taxed on income I wassetting aside for retirement, in a way that a 401k would not be.

Foreign tax rules and treaties and the Foreign Earned Income Exclusion do not solve these problems.

This issue is troubling to myself and so many other Americans abroad. Americans abroad have been attempting to get both Treasury and Congress to address these issues for many years, and I hope this is the year that our voices will be heard, despite the fact that we are individuals who do not have much combined lobbying power, and have a hard time representing ourselves in the country of citizenship in which we do not live.

Please consider abandoning or significantly changing the extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time and kind attention to this important matter affecting your constituents.

Sincerely yours,

Samantha Cook

LETTER SUBMITTED BY SHERRY COOK

Please add this to the comments for this Senate hearing regarding "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment."

From Sherry Cook, formerly a dual U.S.-Australian citizen but now only an Australian citizen, having had to renounce her U.S. citizenship to protect her Australian retirement income:

It is extremely unfair to have U.S./U.S. dual citizens living overseas taxed on their world wide income as they are not able to avail themselves of any U.S. services that those tax dollars pay for!! As I commented to my Australian accountant handling my Streamline process (to renounce my U.S. citizenship), the U.S. government wouldn't care one bit if I ran out of money in my old age and that they would "flick me off like a dead fly" if I did. I can't receive any Social Security income as I didn't work long enough in the U.S. and pay into this long enough to qualify for it. As a result, I also lost several thousand dollars which I had previously paid into Social Security after I finished high school and worked for a few years before moving to Australia, when I was 24, for professional employment (which I couldn't get at the time in the U.S.). Almost all of the U.S. tax that I found out I owed came as a result of my Australian retirement funds (called superannuation in Australia) which I contributed into during and after my employment as a teacher in Australia and which is considered taxable by the IRS under the current system. This is despite paying 15% tax on the earnings of these funds to the Australian tax system (which is a flat tax by the Australian tax system unlike the one to the IRS which is based on the tax bracket you are in). Additionally, the whole process of going through the Streamline process with an accountant was extremely expensive, but considerably less money than I would be paying long term if I had retained my U.S. citizenship, just to be able to call myself a U.S. citizen!

As I was born and raised in the U.S., I still have a strong cultural heritage and personal history from that country which I feel as well as having family and friends there. It is very sad and totally unfair that I was forced, from a financial aspect, to renounce my citizenship, as I don't want my life financially adversely impacted with potentially a life in poverty in my old age (I am currently 70 years old) as a result of this totally unfair international tax policy.

LETTER SUBMITTED BY LOUNA COUMERI

I am a proud citizen of the United States of America. I live outside the United States in—UNITED KINGDOM—where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MELVIN L. CROSS

Dear Senators:

I understand the Senate Finance Committee is considering the impact of America's program of citizenship-based taxation on Americans who live and work abroad. I am

an American who has lived and worked in Canada for over 40 years. I am proud to be an American citizen. Living in Canada makes me no less proud to be an American. A list of the effects I have experienced because of America's citizenship-based taxation follows. I believe the list typifies the experience of all Americans who live and work abroad.

- I pay PricewaterhouseCoopers approximately CA$3,000 to prepare my annual U.S. tax return. This is an implicit tax on my financial resources. In many years, I have owed no American taxes. The payment to PwC always has exceeded my payment to the U.S. Treasury by a wide margin.
- I spend many hours each year compiling records that are necessary if PwC is to prepare my annual U.S. tax return. This is an implicit tax on my time.
- I am compelled to limit my investment options. Two examples illustrate this point. Professional tax preparers have told me not to open a Canadian tax-free savings account. A TFSA is the Canadian counterpart of a Roth plan. Professional tax preparers also have told me to be wary of opening a Canadian mutual fund. They have advised that these accounts are toxic for Americans because the cost of extracting and compiling data required for a U.S. tax return easily could exceed any return these accounts would provide. This is another implicit tax. Its sole purpose is to ease the work of American tax collectors.
- Two professional preparers of Canadian tax returns have told me they will not prepare my annual Canadian tax return. They believe that innocent, trifling errors on an American tax return filed from abroad can attract confiscatory penalties. The degree of risk which they would accept by associating with someone who might incur such penalties is unknown to them. But large or small, it is a risk they need not accept. Prior to 2014, a small, local firm was preparing my annual Canadian tax return for less than CA$100. Beginning in 2014, when the full weight of the Foreign Account Tax Compliance Act (FATCA) came into effect, I have been paying PwC CA$1,500 Cdn to prepare my annual Canadian tax return. This is another implicit tax on my resources.
- I have been asked twice to act as treasurer for a Canadian charitable organization. In both cases, a brief conversation resulted in a cordial statement that the organization would look elsewhere for a treasurer. I explained that if I had signatory authority, FATCA required me to report details of the organization's bank accounts to the IRS and that I also was required to report their financial affairs to FinCEN.
- FATCA compels banks and other Canadian financial institutions to collect and report accounts of any clients they think might be Americans to the Canada Revenue Agency. The CRA relays this information to the IRS. Clients whose accounts are reported to the IRS receive no information about what is relayed to the IRS. We have no opportunity to check or correct errors that might occur.
- FATCA compels the CRA to identify and report to the IRS the financial assets of Americans who live and work in Canada. Americans in Canada become potential conduits through which the IRS can extract revenue from the Canadian economy. I object to being conscripted in this manner.

Benjamin Franklin, like all America's first patriots, argued that if the interests of the colonists were to be represented in Parliament, then colonists required their own representatives in the British Parliament. Instead, King George III and the British Parliament implemented taxation without representation. I vote for Montana's representatives in Congress because my last American address was in Montana. Americans abroad cannot vote for Congressional representatives that represent them because Congress provides no delegation that represents the interests of Americans who live and work abroad.

Citizenship-based taxation is taxation without representation. Congress can end this in either of two ways. It can provide a Congressional delegation that represents Americans who live and work abroad and that is apportioned in the same way representatives of each state are apportioned, or Congress can legislate residence-based taxation. Either way, an end to taxation without representation for all Americans, not only those who live and work in the homeland, is long overdue.

Sincerely,

Melvin L. Cross

LETTER SUBMITTED BY BENJAMIN CURTIS, PH.D.

I am a citizen of the United States of America. I live outside the United States in the Czech Republic where I am a tax resident and where I am subject to full taxation.

I am an emigrant from the United States. In the future I may or may not return to live in the U.S.. Currently I am a tax resident of the Czech Republic. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live, both Czechs and other expats. This is because they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair or sensible? Imposing taxation on the non-U.S. income and assets of a person who is tax resident of another country makes so little sense that no other advanced democracies do it.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. Again, there is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a U.S. citizen living in my country of second citizenship. This situation doesn't make me less American. But it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because many of these essential activities are taking place in my country of residence and not in the United States. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and the Czech Republic, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Sincerely,

Benjamin Curtis, Ph.D.

LETTER SUBMITTED BY PAUL DALE

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

I am an "accidental American." I was born in the U.S.. But I was removed from America (by my British parents) 4 weeks after my birth. I don't remember ever living in America. My only experience of America is from television, movies and the occasional American tourist I meet. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. But, it gets worse. I am also required to file complex information returns describing the details of my finances to America. I can't even understand the forms. How can this be? What is the reason for this? No other country does this! Of course, I am proud to be an American. Who wouldn't be? But, I have no idea how to comply with the rules imposed on me. Ever year I must use expensive consultants to prove that I owe nothing to the IRS, which is a waste of everybody's time and money, my money that would best spent helping our family, and also taxpayer money, who fund the IRS to process these thousands of zero revenue forms. I simply want to be left alone in my country of residence, and be treated the same as my fellow citizens, but with the overreach of U.S. tax law, this is not possible. I cannot save for my retirement in the same way as my neighbors can, or I cannot plan for my children's future as my neighbors can, I cannot have financial signatory rights in my company as my neighbors can, or have to maintain separate accounts to my wife (non-U.S. citizen) which my neighbors do not have to, and many, many, more issues caused by following two incompatible tax systems. But what am I supposed to do? Renounce my U.S. citizenship? I can't afford the U.S.$2350 renunciation fee to do so, I barely save enough each year (~$450) for the filing to a tax consultant,. thus leaving me stuck in a vicious cycle. I simply don't know what to do and I can't deal with the stress.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not a FATCA or GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses out-

side the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY DEREK SEAN DALTON

I am a proud citizen of the United States of America. I live outside the United States in the city of Derby in the United Kingdom, where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. My family—my father, and my uncles, and my grandfather, all served in branches of the U.S. military. I thought once I would follow in their footsteps, but we never know where life will take us.

I moved from America about a dozen years ago; although the days sometimes go slowly, the years go quickly. I never thought I'd be here that long when I moved in 2009, but in the past decade I've established a life here and married another emigrant, a wonderful French woman. I long ago realized that although I will always love America, I am living permanently abroad; if I leave the UK, I am more likely to relocate to France to be closer to my wife's family than to return to the U.S.. From our military roots, my family is spread out all across the U.S. in any event.

I am a tax resident of the United Kingdom. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

It is particularly onerous to plan my retirement as an expat, as many UK long-term savings accounts (like the Lifetime Individual Savings Account/LISA or Self-Invested Pension PLAN/SIPP) aren't covered by our dual taxation treaty. This means that investing in any sort of index fund to help secure a comfortable retirement is almost impossible, either due to the PFIC reporting burden or the fact that most investment firms won't even accept me as a customer because of my U.S. citizenship.

I do not live "offshore." I do live in a country where I pay very high income taxes: I earn a solidly middle-class income by both U.S. and UK standards; but in the UK I'm subject to a top marginal tax rate of 42% plus VAT of 20% on most purchases, while I'd pay only 22% in the U.S.. And to ensure I don't fall foul of complex tax reporting (and any nuanced changes in tax law), I pay approximately $2000 per year to file with the IRS (I have never owed any tax since moving away, but still have to file each year) and Treasury (having to declare details of all accounts I own, on penalty of forfeiture). This legislation is designed to prevent crime, but it has ensnared completely ordinary people, making their lives more difficult needlessly.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a dual-national living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Respectfully,

Derek Sean Dalton

LETTER SUBMITTED BY NICHOLAS RYAN DANIELS

I am a citizen of the United States of America. I live outside the United States in the Czech Republic where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system

where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

It has come to the point where I must now choose to stay American and be penalized for living in the Czech Republic or renounce my citizenship and risk never seeing my American family again.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY ANDREW D'ARCY

I was born outside Ireland, and worked most of my life outside the United States. I paid taxes in different countries where I worked. That, would now fall under OEDC guidelines, as most international tax treaties seemed to be based on their template. The failure of the United States to adhere to those same guidelines in its interpretation of the same tax treaties, puts the American Worker at a disadvantage to all other workers, when working overseas.

While working overseas, most people follow wise advise; "when in Rome, do as the Romans do" and pay there taxes to the democratically elected government of the jurisdiction that takes responsibility for their immediate well-being. If they don't like that, they are free to move. There is little information given about paying tribute to an empire who are overlording the system while providing no benefits. Indeed in recent years the USA has been effectively banishing people from the banking systems and undermining the tax authorities of these democratically elected governments. This is confusing.

The idea of the U.S. having the right to tax people with no representation, and no state that is part of the United States is recent and bad. It is a reversal of the idea that propelled the United States into existence, born of data base capabilities and greed. No wonder efforts have been made to keep it a secret.

When in Ireland, I used the Irish tax website *www.revenue.ie* there reading the U.S.-Ireland tax treaty. Many years later I read the exact same treaty on the IRS website, only to find it modified by a "Technical Explanation". The meaning of the treaty is different. I had been duped.

Tax advisers in democratic countries will not have read this, "Technical Explanation". The American Worker will receive bad tax advice. So too will the workers employer, and the American Worker will be left paying fines that are not related to his income, as the Empire is not constrained by constitution or democratic niceties.

It would benefit the American Worker and his advisors if the IRS advised agencies such as HMRC, SAT, CRA and Revenue, Irish Tax and Customs to publish "Technical Explanation" along side the U.S. tax treaty. It would save lives and livelihoods. It is not a lot to ask. Please get this done, soon.

If the IRS cannot co-operate with their OEDC counterparts, and need "Technical Explanations" hidden. The empire will gain in fines a small measure of what everybody will lose in economic well-being.

I have seen too many U.S. Workers put in the hospital, have their diabetes flared-up, and their careers ruined because of bad advice and a callous IRS, to remain ignorant of the dangers. Many U.S. workers will not follow U.S. manufactured goods overseas for warranty work, because they know the dangers. This harms U.S. Manufacturing.

Thank you for your time.

LETTER SUBMITTED BY MAJA DEBELJAK

I was born outside the United States. I became a naturalized American citizen after marrying my husband, who is an American citizen. I lived in the United States for five years. Now my and my husband live in Sweden where both of us are tax residents and where we are subject to full taxation. My husband and I are struggling to find a bank or financial institution due to the FATCA. It is almost impossible to build economic security for the future because of an unfair international tax policy. We have two small children who are also negatively affected since we are struggling to open a savings account for them due to the legal restrictions. It is very sad and totally unfair that our finances are adversely impacted with potentially a life in poverty as a result of this totally unfair international tax policy.

It is extremely unfair to have U.S./U.S. dual citizens living overseas taxed on their worldwide income as they are not able to avail themselves of any U.S. services that those tax dollars pay for! I cannot receive any Social Security income as I did not work long enough in the U.S. and pay into this long enough to qualify for it.

I do not live "offshore." I do live in a country where I pay very high income taxes.Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposed taxation on my non-U.S. income

even though I was and am fully taxable on that income, in the country where I reside. This was true even though I did not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that foreign tax credit rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

American extraterritorial taxation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time.

LETTER SUBMITTED BY ANTHONY JAMES DEGRAFF

I am a proud citizen of the United States of America. I live outside the United States in Paraguay where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can

the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

DEMOCRATS ABROAD
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U.S. Senate
Committee on Finance

Dirksen Senate Office Building
Washington, DC 20510–6200

March 31, 2021

Democrats Abroad is pleased to respond to the Committee's invitation to comment on U.S. international tax policy as it impacts Americans living, work, saving and investing abroad. Americans living abroad manage U.S. businesses and other enterprises, promote U.S. interests, and serve as unofficial ambassadors of American culture and values. We thank Chairman Wyden and Ranking Member Crapo for holding this important full committee hearing and hope that the voices of everyday working-class Americans living abroad may resonate and be remembered in crafting future tax reform.

In the development of international tax policy, too often the community of Americans living abroad suffers from the grave misperception that they are tax cheats and money launderers. The body of tax policy resulting from this stubborn, apocryphal stereotype includes provisions that: double tax many forms of income, including those of low-income, elderly and disabled Americans abroad; create material barriers to banking, saving and investing; and, through their inordinate complexity, force ordinary, middle class Americans abroad to engage expensive tax return preparers able to contend with the convergence of two (and sometimes more) tax jurisdictions.

A large number of individual tax code changes would be required to address the many forms of discrimination against Americans abroad that are inherent in the Internal Revenue Code (IRC). **A switch from the current system of Citizenship Based Taxation to Residency Based Taxation would sweep away most of these tax code injustices** with minimal effort required by Congress. Legislative approaches and proposals for introducing Residency Based Taxation discussed with members of Congress in detail in recent years can be made revenue neutral to the federal government and can be protected with robust provisions for preventing abuse of offshore residence for the purpose of tax avoidance.[1]

As evidenced from our myriad in-person meetings over many years, U.S. lawmakers and regulators, in general, lack an adequate understanding of the Americans abroad community and the personal and financial harm that discriminatory U.S. tax policy causes for individuals who live and work outside the country. **We join our colleague organizations advocating on behalf of Americans abroad in asking the Senate Committee on Finance to conduct hearings on the taxation of Americans living abroad and the implications of a switch to Residency Based Taxation. We encourage you to invite testimony from scholars, economists, regulators, employers, industrialists, investors, agencies and officials with research and expertise on the Americans abroad community, their families, their work and the contribution they make to the U.S. economy, industry, foreign relations, incoming investment and cultural exchange.**

Understanding Americans Abroad

Research published in 2019 at the behest of Congress and Congressional committee staff demonstrates that the vast majority of the estimated 9 million Americans living outside the U.S. are not a lot different from Americans living in communities across the country when it comes to age, marital status, employment and household income. They are ordinary, middle class Americans who left the U.S. for a marriage/relationship (32%) or study/adventure (24%). Almost one in four (24.5%) moved abroad for work. Household income data confirms they are not wealthy "fat cats" and high rollers living overseas to game the international tax system. In fact, most Americans abroad live in countries with a higher overall tax burden than the U.S.[2]

Americans abroad face taxation in both the jurisdiction where they live and in the U.S. The U.S. is essentially alone in taxing non-resident citizens on their worldwide income, putting Americans abroad seeking jobs and starting businesses at a competitive disadvantage.

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[1] *https://www.americansabroad.org/media/files/files/dc1e1c4e/DEG_short_memo_on_RBT_proposal_11.06.2017.pdf.*

[2] "Tax Filing From Abroad: Research on Non-Resident Americans and U.S. Taxation", March 2019.*https://democratsabroad.atlassian.net/wiki/download/attachments/4257416635/Tax%20filing%20from%20abroad%20-%202019%20Research%20on%20Non-Residents%20and%20US%20Taxation.pdf?api=v2.*

U.S. Tax Code Discrimination

Although the *Foreign Earned Income Exclusion* ensures that a large amount of ordinary income is not subjected to U.S. taxation, many types of income are left out of the exclusion and so are taxed both by the U.S. and the country where the income is generated. The *Foreign Tax Credit* often does not zero out taxes owed to the U.S. Several types of retirement/investment income are subjected to highly punitive *Passive Foreign Investment Company (PFIC)* tax treatment. The preparation of *PFIC* returns is so complex that advice is known to run into the thousands of dollars. The retirement and investment instruments Americans abroad choose in the countries where they live are not, after all, "foreign" to them and many are mandated by statute. *PFIC* treatment is, therefore, a great injustice to Americans living abroad.

Types of income subjected to double or punitive tax treatment include, amongst others:

- ✓ Distributions from pensions and 401k-style retirement plans.
- ✓ Dividends, interest and all investment income.
- ✓ Foreign retirement, education and other savings plans.
- ✓ Capital gains.
- ✓ Non-qualified non-U.S. pension plans.
- ✓ Social welfare payments (aged, indigent, disability, unemployment, childcare, parental leave) from foreign governments.
- ✓ Bequests to surviving foreign spouses.

U.S. Tax and Financial Account Reporting Compliance

U.S. taxpayers declare income earned abroad on IRS forms designed to capture detailed information about the source of the earnings, especially investment income. Preparing and filing these forms is stunning in its complexity. 2019 research shows 55% of non-resident filers require the assistance of a specialist tax return preparer experienced in dealing with the tax issues of non-resident Americans. These specialist services cost them more than twice what Americans based in the U.S. pay for tax filing services.[3] For non-resident taxpayers, preparing and filing the forms reporting income earned abroad is inordinately costly, confusing and frightening, *even when no tax is due.*

IRS outreach to Americans abroad about tax compliance has been woefully inadequate for many years. As a result, many Americans abroad—including officials in U.S. embassies and consulates—are ignorant, misinformed or confused about U.S. tax filing and reporting rules and obligations. IRS helplines are expensive and inconvenient to call and are manned by agents without an adequate understanding of the issues particular to non-resident filers. Though some of the free online systems available from IRS Free File partners include Americans abroad in their eligibility criteria, they do not include the full complement of forms needed by non-resident filers. The IRS's *Volunteer Income Tax Assistance (VITA)* and *Tax Counseling for the Elderly (TCE)* programs offering free basic tax return preparation to qualified individuals is also not available to Americans abroad. In summary, Americans abroad do not have easily accessible advice and support from the IRS to fulfil their filing obligations accurately and in a timely manner.

The burden of tax filing under Citizenship Based Taxation is compounded by the foreign financial account reporting requirements that support its enforcement. The *Foreign Account Tax Compliance Act (FATCA)* fully implemented double-disclosure foreign account and financial asset reporting in 2014. Since then, Americans abroad have reported impaired access to even ordinary financial products and services where they live.[4] They are "locked out" by banks choosing not to service U.S. Persons rather than comply with FATCA; this seriously restricts their ability to pay their bills, take out home mortgages and save for the future.

Failure to file the *Report of Foreign Bank and Financial Accounts (FBAR)* (the mandatory, electronic reporting of foreign bank and other financial accounts impacting those with at least $10,000 in aggregate in foreign financial accounts) carries heavy penalties. FBAR compliance penalties are far out of proportion to the violation when the taxpayer lapse is attributable to issues like ignorance born of IRS neglect, language barriers or lack of ability to use or to access electronic devices for filing.

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[3] "Tax Filing From Abroad: Research on Non-Resident Americans and U.S. Taxation", March 2019.

[4] "FATCA: Affecting Everyday Americans Every Day", September 2014. *https://democratsabroad.atlassian.net/wiki/download/attachments/1986232508/Democrats%20Abroad%202014%20FATCA%20Research%20Report.pdf?api=v2.*

Although individuals who move abroad are on their own in dealing with U.S. tax complexities, companies that hire Americans to fill jobs in other countries often offer "tax equalization" to their American employees, *i.e.* support to ensure that they do not pay more in U.S. tax than they would if they were still resident in the U.S. Tax equalization, along with support to meet the cost of tax preparation services, makes Americans more expensive to hire and maintain abroad than third country nationals, and thus less competitive. Further, American companies risk being at a competitive disadvantage vis-à-vis their foreign competitors, when their U.S. staff is less skilled in the ways of the global marketplace than their foreign counterparts.

In addition, U.S. financial account reporting and compliance requirements make Americans abroad unattractive as business partners to those averse to sending their business's financial information to the U.S. government.

The *Repatriation Tax and GILTI Tax* in the *2017 Tax Cuts and Jobs Act (TCJA)* have caused an enormous crisis for Americans abroad who own small to medium size businesses. The *TCJA* enacted a system of "territorial taxation for corporations" that provides enormous tax relief to U.S. corporations that own companies registered abroad. They can now repatriate profits at a deeply discounted rate with lots of offsets that ensure little to no tax is due. The impact on U.S. citizens abroad that own small to medium sized companies abroad, however, has been devastating. Owners of small to medium sized businesses without access to employer-provided retirement saving schemes often retain profits in their businesses to save for retirement. The *TCJA's Repatriation Tax* provisions require them to show these unrecognized company profits on their personal tax filings and provides them with none of the offsets or credits available to U.S. corporations that own companies abroad. *Repatriation taxes* will devastate their retirement savings. The *TCJA's GILTI Taxes* on all future earnings—earnings already taxed in the country where the business is registered—must also be declared on the owner's personal tax filing, again without the offsets and credits afforded to U.S. corporations that own companies abroad. The GILTI Taxes will force many to close their small to medium size businesses after years of investment and effort, or to undergo costly corporate re-structuring.

Conclusion

Congress enacts laws and regulations without considering the impact on Americans abroad. These laws have grave, unintended consequences for ordinary, non-resident Americans. Given the harm they suffer, it is not difficult to understand why Americans abroad have come to believe they are being punished for moving away from the U.S. They are proud of their U.S. citizenship and deeply resent the presumption that they are tax cheats and money launderers. They need Congress to understand that filing from abroad is extremely costly and stunning in its complexity. They need Congress to understand that the IRC is highly punitive to ordinary American families living middle class lives abroad and is, therefore, unjust.

Not since the Carter Administration has there been a hearing in the U.S. Congress on Americans living abroad and the range of serious personal and financial problems U.S. taxation causes for them, their families, their businesses and the U.S. and non-U.S. entities they do business with. **Americans abroad believe it is past time that their issues be heard, documented in the public record, and addressed by the government they help elect.**

Thank you for your interest in these matters. Please contact Carmelan Polce of our Taxation Task Force (+61 404 767 088 or carmelan@democratsabroad.org) or the undersigned with any questions about the information and recommendations provided herein.

Sincerely,

Julia Bryan
Global Chair
+1 (843) 628–2280
chair@democratsabroad.org

CC: The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives

The Honorable Charles Schumer
Majority Leader
United States Senate

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives

The Honorable Mitch McConnell
Minority Leader
United States Senate

The Honorable Ron Wyden
Chairman
United States Senate
Committee of Finance

The Honorable Mike Crapo
Ranking Member
United States Senate
Committee of Finance

The Honorable Richard E. Neal
Chairman
U.S. House of Representatives
Committee on Ways and Means

The Honorable Kevin Brady
Ranking Member
U.S. House of Representatives
Committee on Ways and Means

The Honorable Carolyn Maloney
Americans Abroad Caucus

The Honorable Dina Titus
Americans Abroad Caucus

LETTER SUBMITTED BY ROBERT DENNIS

Dear Esteemed Senators and Congresspersons,

My name is Robert Dennis. I am writing to urge most respectfully that the Senate Finance Committee hold hearings to review and consider the matter of the taxation of U.S. citizens residing abroad.

As you are all no doubt well aware, Americans are the only citizens of the developed world who are called upon to pay taxes both where they live as well as where they do not, or no longer live.

As residents of another country, we do not depreciate the infrastructure of our homeland.

We do not call upon its resources (if Turkey attacks Greece, It'll be the Hellenic Air Force coming to our aid).

We are not protected or served by the employees of its federal agencies.

But we are required to pay for them all the same.

My wife and I have been living in Greece for the past 3 years. I love America and was deeply reluctant to give up my life in New York City, where I lived since 1977. However, practicalities demanded that I first consider, and then undertake, just such a move.

After undergoing several surgeries within 15 months to address various medical concerns (one of the "rewards" of getting older, I suppose) it became clear that aging in America might be too expensive for me.

The financial impact of the accumulated co-payments required for the procedures was deeply burdensome and required every ounce of income I had gained in the years leading up to them.

I came though the experiences okay physically, but the fear of what would happen to my finances if the problems had been even more serious impelled me to find somewhere else to go.

And now, I'm there. A lovely place to be sure, but it isn't "home"—or not my real home anyway.

My wife and I are subject to taxation locally of course, and require the services of a local accountant to ensure that they are properly prepared, filed and paid.

The additional taxes levied by the USA, where we no longer reside, also require us to pay an accountant for their proper preparation and filing—even when we owe no tax to the IRS.

And when no payment is due from us, even a small error or oversight in our filing could find us liable for severe penalties.

No other country (except, I believe, Eritrea) treats its citizens who reside abroad so excessively.

We like it here. It's nice. But it's a life without Baseball or Bagels, Brooklyn or Broadway.

We should not be compelled to bear the same tax burdens and liabilities as those who have access to the services they pay for (as well as that bouquet of beautiful "B−" items).

I respectfully ask your consideration and determination that the tax status of those like us, living outside of American soil, is not on par with those who reside upon it.

Faithfully yours,

Robert Dennis

LETTER SUBMITTED BY SUSAN DE PAUL

I am a proud citizen of the United States of America. I live outside the United States in Switzerland where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I am proud to be an American, but one never knows where life will take us. I moved from America many years ago. I long ago realized that although I will always love America, I am living permanently abroad in a mixed-nationality family, not all of whose members have U.S. citizenship. I am a tax resident of my country of residence and am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it difficult for me to live the same kind of life that my friends and neighbors live. My friends (in both America and in Switzerland) are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. These systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws, which prevent me from investing where I live, and provisions such as the Know-Your-Customer rule of the Patriot Act, which prevent me from investing with U.S. banks (since I do not have an address there). How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I do not have a U.S. credit rating and do not even meet the requirements to track the status of my tax return on the IRS website since I do not have a U.S. source of financial debt (mortgage, car loan, or U.S.-based credit card).

I do not live "offshore." I live in a country where I pay income taxes. I also pay additional kinds of taxes that have no U.S. equivalent to my country of residence.

However, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and I neither live in nor earn income from the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. However, here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh-and-blood individual person with a middle-class income, not a single participant recognized how individuals are affected by these rules despite the fact that the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground.**

I am not a "mini-multinational" corporation. I am a "dual-national" wage earner living in my country of second citizenship. It doesn't make me less American. It does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States, especially those running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for people like me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States but local to me. In addition, the United States impose taxes on things (for example, sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to taxation of "fake income" due to nothing but changes in the exchange rate (and sometimes corresponding to a loss rather than a gain in my local currency). As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh. Sometimes both systems take.

Please do not believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They do not! The Foreign Earned Income Exclusion is a help for many but does not cover unemployment pay, which is subject to full U.S. taxation (because it is considered "unearned"). Despite the FEIE and the foreign tax credits, I am doubly taxed on my employer's contribution to a mandatory retirement plan (similar to a 401(k) except that it is required by Swiss law). My employer's contributions and the (unrealized) growth in the plan are considered "unearned" income to be declared each year, and since the Swiss government only will tax these contributions upon retirement, I cannot offset this annual pseudo-income with foreign tax credits. Thus, I am doubly taxed on this income: by the U.S. as it is paid in and by the Swiss as it is paid out. This is in contrast to ordinary Swiss (or to Americans with 401(k) plans) who can benefit from tax-favorable treatment.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues but sadly have received little sympathy or understanding.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation!

LETTER SUBMITTED BY DAVID DEPMAN

I am a proud citizen of the United States of America. I live outside the United States in Prague, Czechia. am a tax resident here and I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America 20 years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY SUSAN DE WITTE

To the Members of the Committee,

My U.S. citizenship used to be part of my DNA. I live outside the United States in Belgium, where I am a tax resident and where I am subject to full taxation. As a result of U.S. tax policies and FATCA I was forced to renounce my U.S. citizenship. I am writing in the hopes that in a small way, my experience will help with change—changes that will give American citizens the freedom to leave the United States and live a prosperous life. To put it simply: The United States must stop exporting its system of extraterritorial taxation and regulation to people who live in other countries.

When I moved abroad I learned a lot. I learned that other countries have well-developed tax systems that require payment of a wide range of taxes, which in turn are used to provide services. In my years of living in Belgium I never once placed a burden on the U.S.. Any and all services I have used are provided by the Belgian government. My Belgian husband has been our sole source of income, still we pay a lot of tax. If we were living in the U.S. our tax income tax bracket would be 12%, but here it's 45%—that's just income tax, we have many other taxes we pay here that do not exist in the U.S.. I find it highly insulting that we should be classified as suspect tax cheats/criminals when percentage-wise our family pays more than some of the wealthiest U.S. residents. We are not "offshoring" anything—our bank is local, it is just around the corner from where we live. We don't have any secret investments or hidden wealth either, we are average law-abiding tax-paying people!

When I first moved here I had no intention of renouncing my U.S. citizenship—I was a very proud American. My mother's family dated back to before the revolutionary war and my paternal grandparents had emigrated to the U.S. from the

Austro-Hungarian empire during the Industrial Revolution. The United States meant a chance to pursue their "American Dream".

My parents were in their 40's when I was born. My early years were filled with the civil rights movement, the equal rights amendment campaign and the Vietnam war. As a young girl my father took me to the bank to open my first savings account, I would learn later that at that time my mother wasn't allowed to open that account. My mom couldn't have an account or credit in her own name—a discrimination that many women of her age would later face when they were widowed or divorced, as they had no financial or credit history in their own name. I still remember the day my mom was able to legally open her own account and get a small credit card in her name. She made a point of opening another small savings account for me at the same time.

I had to grow up fast; while my classmates were giggling over boys and debating fashion, I was a caring for my terminally ill parents and elder brother. My "sweet 16" was spent attending a funeral. I never received any social security child benefit during those years or after I was orphaned. I went to work doing whatever I could to get by while finishing my education. My main area of study was in science and mathematics, which at that time was still very much considered a male field. I graduated with a 4.98/5 GPA—it would have been a perfect 5 if it hadn't been for my absence for a few hours attending funerals (I did attend class straight after the funerals).

I still remember my first "proper" job interview where I was asked if I was planning on getting married, did I have children, did I plan on having children etc. The employer was of the old school thought that women shouldn't be taking "men's jobs", but if legally he had to employ women they were not equal to the male employees. My base salary was $10,000/year but my male co-workers received $15,000/year. The message was clear: be grateful for the privilege of having a job.

In my spare time I carried on my mom's volunteer work with people with special needs, also assisting with programs to help people with literacy and numeracy difficulties. She had always stressed the importance that we should all do our part to help others when and where we can.

I am telling you this because I'm proud that I helped change the attitude towards women. It wasn't easy but through hard work and effort I proved we were just as capable as men and deserved respect. Change was happening even if at times it seemed at a snail's pace.

When my Belgian husband and I married we had made plans for the future. We had a young son who was born in the U.S., and wanted at least one more child. Originally I was going to be temporarily a stay-at-home mom, helping our son adjust to his new life, attending Dutch classes to better integrate here and eventually help me either get a job or start a small business. It wasn't long after that our son was joined by two sisters. What we didn't factor in was that they would all be on the autism spectrum. Thankfully they weren't on the severe end of the spectrum but it still meant a delay in our plans for my return to work as they needed me at home.

We found a small fixer upper home close to the schools and transport links, the mortgage was affordable for our one income family. While we faced our share of obstacles, the future was looking brighter for our family. During this time I ran a free online support group for parents and caregivers of children with autism and other special needs. We discussed the issues our children faced from early years to adulthood.

Our son is more severely affected by his autism but not to the degree that he is disabled. He's intellectually capable but has physical problems so heavy labor work is off the cards for him. The story was the same for other young people like him that were capable of doing more but having no opportunity to show their potential. When they think of autism, most people imagine either the child spinning a plate while sitting on the floor seemingly oblivious to the world around them, or a super genius making complex calculations in their head. People have trouble understanding that there is a whole world in between those two extremes because the fact is, it is a spectrum disorder. Outside of a few government jobs and sheltered work programs that require heavy physical labor there was virtually nothing out there for people like my son. Often they are offered unpaid/volunteer work where they do all the duties of someone that would normally be paid, in order to gain experience. But in the end few end up with a paid job. Autism doesn't magically go away upon reaching adulthood and there is little opportunity to become as independent

as possible. We parents know we will not be around forever so it is up to us to try to provide safety nets for our children.

This gave me the idea that once I wasn't needed to be home for the kids anymore as they became more independent, we might be able to open a small family run business to employ people like our son. I started researching the type of business, the requirements needed, what financial aid through the EU and Belgium might be available, suitable properties etc. We might not have been able to employ hundreds, but at least we may have been able to help some gain much needed opportunity. It may even serve as an example for others.

My focus was on my family and developing our future business plans, so I quit paying as much attention to the U.S.. We knew I was subject to U.S. citizenship based taxation, but I didn't have a paid job (despite what some may think caring for three special needs kids is a full-time job) so that was not an immediate concern. I had yet to gain Belgian citizenship. We were one of many families that were making ends meet, the only thing of monetary value we had was a small mortgaged family home.

When the financial crisis hit in 2008, we weren't hit as hard as some of our friends. The home we had bought was within our means and the mortgage was through our local bank with a fixed monthly payment. My husband had tenure so his job was secure but his employer announced that there would be no pay raises or bonuses for the foreseeable future. We would just have to tighten our belts a bit more but my husband's monthly salary of €2,200 was sufficient for our family of five.

It wasn't long after that we suffered a terrible setback: a freak storm damaged the roof of our house and flooded the downstairs. The work we had put into making a comfortable home was largely undone. An error on the insurance meant that we were not covered for the damage. My husband called our bank to see if we could get a home improvement loan and was told we could get one and for the amount needed to do the necessary repairs. They would prepare the paperwork, it would take a couple of days but then all we had to do is come on in and sign it; we were good clients and not a credit risk. We weren't thrilled with the taking on extra debt but had little choice if we were to make our house a livable home again.

The day came to finalize the paperwork. We went to our local bank to sign only to be told the loan was no longer available. We thought it must have been due to the financial crisis. While we were there I was asked to fill out a form 8938 for the IRS. I had no idea what FATCA was or the pain and stress it would bring to our family. We patched our roof with duct tape as best we could and started gutting the downstairs, we were just going to have to buy things a little at a time as we could afford it. I didn't have the time or energy to focus on anything but trying to make our home livable again and caring for my young children.

When our son's savings account was closed I started looking into what was going on. While visiting expat message boards I found that many people with U.S. citizenship were finding their bank accounts closed, mortgages cancelled, personal and business loans denied and FATCA was the reason behind it all. I kept researching and found out about a new class of U.S. citizen, the Accidental American. Some people well into their retirement years were suddenly having their accounts frozen and being presented with tax bills that more than ate up their pension savings. It wasn't actual tax they owed but mostly fines and penalties. Many never had a social security number, now they were told they had to get one but had no idea how. Their U.S. citizenship was a technicality: born in the U.S. to foreign national parents or outside the U.S. to a U.S. parent within a specified amount of time. I live in Belgium but the closest embassy that handles social security matters is in the Republic of Ireland. As for those whose birth was registered by their U.S. parent abroad, they have to deal with the Department of State in Washington DC. The U.S. requires payment in the form of money order or check—two obsolete forms of payment here, most transactions are digital as we move further into a cashless society.

We only were able to keep our basic bank account because it was originally my husband's childhood account, our mortgage was more than half paid so grudgingly we were allowed to keep that but anything more was a NO because no matter what we did together, I would be somehow attached. My husband couldn't even open a private pension fund meant to supplement his government pension (social security) as long as I remained a U.S. citizen.

FATCA would put intense pressure on us, our only hope would be a fix by the U.S. government or to renounce my U.S. citizenship. It became clear that the U.S. had no intention of fixing the "unintended consequences of FATCA". Out of hope I de-

cided it was time to renounce. Imagine my shock when I finally became a citizen of Belgium and looked into renouncing my U.S. citizenship, to be told that I would have to pay $2,350 for what had been a free service when I moved here. We couldn't afford it, that was our monthly income and with the repairs we needed to do we had no money to spare. I called the embassy to see if there was any way there could be a reduction to the fee, wrote the Department of State but was told there was nothing they could do to help; we would have to pay the full amount. We were trapped by a piece of legislation meant for wealthy people avoiding U.S. tax and criminal organizations.

Unable to afford the renunciations, our dream of a small family business died. We wouldn't be able to help people like our son. As I mentioned before we are law-abiding so when our son—who hadn't lived in the U.S. from the time he was a young child—came of age to register with the U.S. Selective Service, we made an appointment with the U.S. Embassy here. He couldn't do it online and I was not about to allow him to send sensitive documents through the mail.

His appointment was March 22, 2016 early in the morning. His father and he left to take the train to Brussels, we live on the other side of the country. I got the girls off to school and turned on the TV for some background noise as I started my day. I heard the blare of "Breaking News Terrorist Attack in Brussels" Not since 9/11 had I been this absolutely terrified—I remember everything from 9/11: I had been online with some friends before they left for work, and it end up being the day that they were cruelly ripped from this world. Now here my husband and son were potentially in danger and just like on 9/11 I could only watch in horror, feeling helpless. The embassy went on lockdown, they didn't even bother trying to warn my husband and son not to continue on to Brussels. They had the contact details—a simple text or call would have allowed them to return to the safety of their home. From early morning into the late evening they wandered around Brussels in the cold and wet, no way home or place to take shelter. They only had enough money to buy a small snack and drink—with three days to payday our bank account was virtually empty. So please do not feed me the line that the U.S. practice of citizenship-based taxation is justified because of the services they provide especially in times like this—my husband and son were left to fend for themselves. They could have died that day and the only thing the U.S. would have cared about was how much tax revenue they would be able to collect on my inheritance and widow's pension (provided by the Belgian government with zero coming from the U.S. coffers). That was the day my son quit being a "proud American"; he came home and said he wanted to renounce his U.S. citizenship.

Today I use a wheelchair and rely on my family for things I once did with ease. I will never run a half marathon for charity again. We learned I have a chronic illness that will cut my life short but not before the indignity of losing my independence. It started with a few tremors/spasms, a bit of clumsiness. Today I live in constant pain. My doctor asked why I didn't collect the assistance I was entitled to here to help ease the burden my care places upon our family. I had to explain the U.S. citizenship-based taxation, FATCA, GILTI and the cost to renounce. As someone trapped with U.S. citizenship and subject to the very things my maternal ancestors fought against in the Revolutionary war, I could not ethically or morally justify taking assistance from the tax coffers of Belgium only to hand it over to the U.S. government, who contributed nothing. The insult to injury is that the benefit is based on our family income so not taxed here but the U.S. would tax it as unearned income. Like many things this is not covered in the tax treaty.

On September 11, 2019 with help from friends and family I was finally able to renounce my U.S. citizenship. My husband always takes 9/11 off from work because even though it's going on 20 years he knows it is a hard day to get through for me. It was the only day available for me so I was determined to have the strength to make it through. Now it's a day that marks not only the murder of my friends but the death of my U.S. citizenship. We don't live close to Brussels and the long drive was physically stressful, but the experience was emotionally even more painful. At my first appointment I had my citizenship questioned because one of the things was destroyed when our house flooded was my U.S. passport. Since we didn't travel to the U.S. I had no need to replace it, we couldn't afford the cost much less travel to the U.S.. I had my Belgian passport and identity card showing the U.S. as my place of birth—that alone should have sufficed. But the person behind the counter made a point of trying to humiliate me. Nobody would really want to give up citizenship to the "greatest country in the world". By the end of my interview I was in such physical and emotional pain that I asked her what sane person would travel

across the country to eventually pay what amounts to extortion if they didn't need to do so.

On my second appointment I took along a copy of my immigration record as further proof. Can you guess who was the person behind the counter? Same person. This time not only was my citizenship questioned, but upon reviewing my exit tax forms they refused to believe I had no income, savings or anything of value. Everything we have here has been paid for by my husband and is his, he is not and has never been a U.S. citizen. They huffed off and I was returned to the waiting room, where the TV screens showed the towers coming down and a moment of silence was announced. I am not one for public displays of emotion, even when I attended my mom's funeral on my birthday I did not cry. But the memory of the loss of loved ones, the fact I was being forced to renounce citizenship to a country I once took pride in, the treatment I was subjected to in the first and now this final appointment I broke down and started crying and shaking. Shortly after that we paid the fee and a gentleman finished up the paperwork, it was the first show of compassion I was shown during the whole process. Even as I write this I still feel the pain, as if something was torn from me that day. The closest I can compare it to is when I miscarried a child in my second trimester, a feeling of emptiness and loss.

Elise Bean referred to people like me and my son as "insignificant" at the FATCA hearing in 2017, it was my last hope a fix for the pain and suffering needlessly inflicted upon once proud Americans and those classified as Accidental Americans because we don't live in the U.S.. The treatment of Accidental Americans is doubly damning. Other than an accident of birth they have no ties to the U.S., some don't even speak English, but still their lives are destroyed. Watching the hearing all I could see was contempt from her, she did her best Marie Antoinette impression when she said "We have more people wanting to come to the United States than those that leave. They can renounce..." Over and over the message became clear—anyone that was a U.S. citizen living outside the U.S. should be suspect and most likely guilty of something.

Elizabeth Warren zealously continues in her pursuit of anything "foreign" while refusing to realize that just because someone lives outside the U.S., that doesn't mean they don't pay taxes where they live, nor is their local bank an "offshore" bank. The majority of the millions of U.S. citizens outside the U.S. are just everyday people doing their best to live their lives. I wish I could give you exact numbers but the U.S. census doesn't include us, while in our resident countries only one citizenship is usually counted. So if you are a dual citizen, your U.S. citizenship is ignored.

The March 25, 2021 hearing had some major flaws:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or an individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experience running businesses outside the United States and/or witnesses actually living outside the United States. To simplify this, get your heads out of the clouds and look at the reality harming real people. Despite having the same rights and freedoms as any other national in our home countries and in the U.S., we have been downgraded to third class. Though innocent of any wrong doing our U.S. citizenship has been sentenced to death, but not before we pay the executioner an extortionate amount of money.

3. As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

4. More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in our country of residence and not in the United States. What is foreign to the U.S. is local for me.

In addition, the United States impose taxes on benefits (like disability and unemployment benefits) when my country of residence does not. I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

5. And please don't believe that foreign tax credit rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!
6. American extraterritorial taxation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I don't know if anyone will read this or if they will care but I can only hope it will be read, and someone will have compassion and understand I am speaking from my heart—it is past time the U.S. end a reign of terror. U.S. citizens that are women have seen the clock turned back to a time when they cannot enjoy the rights and freedoms generations of women fought hard to obtain. We are dual nationals not multinationals, ordinary people wanting to lead our everyday lives in peace. We want to be proud of our American heritage but it's hard to have pride when the U.S. continues to punish us and our non-U.S. partners/spouses and children just because our home is not in the U.S. I may not be a U.S. citizen anymore but I still care about the people who were my fellow Americans, it's too late for me but not for them. Do the right thing! To quote Sarah Grimké "All I ask of our brethren is that they take their feet off our necks."

Sincerely,

Susan De Witte

LETTER SUBMITTED BY CRISTIANA DIAS

My name is Cristiana Dias, and I am a 24 year old, American-born woman. I have been living in France since I finished high school in 2014 in my home-state of New York.

My decision to leave the United States to pursue a life in France at the age of 18 was one that was taken lightly by neither I nor my parents. My dream to live in France came after a trip to Paris when I was 12 years old. Having traveled quite a bit, with my mother working in the travel industry, I can't quite put my finger on what exactly Paris did to make me choose it as a city for my future, but I know that, in France, I felt as if time slowed down; that time a long, peaceful lunch was something that was valued in daily life; that a decent, minimum amount of paid vacation days was a standard that I could aspire to have; that affordable and accessible healthcare and tuition costs would never be a worry for me; the list goes on. Throughout my high school years, I would attend 3 hours of French language classes in Manhattan, commuting a total of 4 hours every Saturday, to obtain the required level of French proficiency to attend university in France. In leaving the USA after high school, my goals were clear—I was aiming to jump directly into a career in Law at the onset of my undergraduate education, at the yearly price of what a textbook would have cost me in an American higher learning institution, in order to establish a basis to then find a career and settle in the country that had called out to me a few years before.

Ever since 2014, and every day when I wake up here in France, I know that I made the right decision. I do not doubt my thought process, because I have found true joy in a country that is not my birthplace. However, I am 24 years old, and, after starting my first full-time job this past September, I have recently began to research what kind of accounts I can open here in France. My French friends around me speak of "PEAs" or "assurance vies" or many other types of lucrative savings accounts. Me? I can't speak of such accounts, because, just over a month ago, I became familiar with the only aspect of my future objectives that I hadn't factored into my planning: long-term savings plans.

After a few weeks of investigation, after reaching out to numerous emigrants, like myself, across sites such as Facebook, after attending International Tax Seminars on Zoom, and making appointments at multiple French banks, I still have no solution that is adequate enough for my situation. I find it extremely difficult to under-

stand how the United States could be so gracious to allow its emigrants the Foreign Earned Income Exclusion, and yet a similar, maximum cut-off point, can not be arranged for foreign savings/investment accounts. As a 24 year old, I hope to one day reach retirement and not have to worry, the same way I didn't have to worry at the beginning of my adulthood about meeting my basic needs. In order to do so, my only current options are to have a U.S.-based retirement fund, which, aside from being capped at a certain yearly contribution amount, would also require me to jump through many unnecessary hoops, like converting currencies as just an example. The only other option is to open a regular savings account here, collecting nominal interest until I reach retirement.

I would love for the U.S. Senate to understand that although citizen-based taxation is probably beneficial to the U.S. country as a whole, the administrative issues and burdens that U.S. persons have to face when deciding to leave the U.S. make us feel like we do not matter to our country. It is unfair that we, as U.S. persons, have a very limited range of options when it comes to banking, simply because of our affiliation to a country that we no longer live nor work in. I should be allowed to have the opportunity to set-up a long-term savings plan for myself, and benefit from attractive interest rates that every other French tax-resident can benefit from. I should be allowed to grow my money for a future home purchase, for my future children's education, for my own peaceful retirement.

What I do hope is that you all can make a difference for those Americans who want to do the right thing towards their birthplace, like myself, or to their affiliation with the U.S., without having to opt for the last resort, being to renounce any link to the United States. My hope is that there can be some sort of compromise that would allow those who fall under the Foreign Income Exclusion to also be able to benefit from long-term savings accounts abroad that are available to people who share their same tax residence country. My hope is that there can be a solution that can help us everyday people; teachers, nurses, fitness instructors, save money for our future in a proper manner.

LETTER SUBMITTED BY NATALIE DIFFLOTH

In 2003 I moved from the United States to Germany in order to be with my partner. I am now permanently living abroad. Although I live outside the United States, I remain a proud citizen of the United States.

In Germany, I am a tax resident and am subject to full taxation. As such, I am required to organize all of my financial and retirement planning according to German law. This includes having to submit taxes in TWO countries and pay for TWO different (expensive!) tax accountants every year, one German and one U.S.-based. **This remains the case, even though my annual worldwide income has consistently remained under $30,000 USD per year during the last 15 years.**

Whereas my friends and neighbors here are subject to only one tax system, as a U.S. citizen, I am subject to two: the tax system in Germany, where I live, in addition to the one in the U.S., where I do not. These systems are generally not compatible. From my perspective, this is quite an unfair burden.

Because I am a U.S. citizen, the United States imposes taxation on my non-U.S. income even though (a) I do not live in the United States and (b) I am a fully taxable on that income in the country where I reside. There is no other advanced country that imposes such extraterritorial taxation on individuals.

I would like to make two comments regarding the hearing on March 25, 2021.

1. **The March 25th hearing focused on U.S. multinational corporations, not on individuals. But the reality is that U.S. tax laws treat individuals living outside the United States in the same way they treat U.S. multinationals doing business outside the United States.** No one at the meeting addressed how *individuals* are affected by these rules. At the same time, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was surprised that no witnesses were called who had actual *experience* running businesses outside the United States and/or who actually lived outside the U.S. **Subsequent hearings should deal with the reality on the ground and not abstractions.**

I am not a "mini-multinational" I am a "dual-national"—one who is living in my country of second citizenship. This doesn't make me less American. But it does mean that I am subject to the laws of the country where I live.

As a general point, it is important to understand that any and all changes to the taxation of U.S. corporations will have a very major impact on the U.S. taxation of U.S. individual citizens living outside the United. **Individuals are not immune to the effects of raising the U.S. corporate income tax rate and/or the doubling of the GILTI tax.**

Regardless of whether or not one is a small business owner, the U.S. extraterritorial tax regime makes it difficult for people like me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because for me, these essential activities are taking place in my country of residence and not in the United States.

My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on assets (for example, the sale of principal residence) when my country of residence does not. I have no choice in the matter.

In addition, because I am required to live my life with the United States Dollar (USD) as my functional currency, I am subject to "fake income" as a result of nothing other than changes in the Euro-Dollar exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

Foreign tax rules and/or the Foreign Earned Income Exclusion do not solve these problems.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your attention. I hope that the committee will take these matters into consideration.

Sincerely,

Natalie Diffloth

LETTER SUBMITTED BY CLAIRE MARIE DOOLEY

I am a proud citizen of the United States of America. I paid my own way through my undergraduate and graduate university education, and have been an honest hardworking and tax-paying citizen ever since I was a teenager.

In 2020, due to my Danish husband's job, I moved to Denmark, where I am now a tax resident. I am working full-time at a demanding corporate job and I am subject to full taxation. Due to my personal circumstances, I am temporarily living outside the United States, gaining invaluable work experience at a global multinational organization, and getting to know my husband's family, childhood friends, and culture.

When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay **a lot** of taxes here in Denmark. It is very hard not to see the way the U.S. tax system treats my non-U.S. income and assets as unfair. The fact that I am currently living abroad does not mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground. The reality that I live and breathe every day!**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship, and the homeland of my husband. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my career and my life and be able to make a livable income.

Broadly speaking, I have learned since moving abroad that the U.S. extraterritorial tax regime makes it **extremely** difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

Please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY KAREN J. DOWNING

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. **There is no other advanced country in the world that imposes such extraterritorial taxation.**

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Al-

though, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am an American citizen living, working and fully tax compliant in a country other than the United States. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

It is extremely complicated, and often expensive to file from abroad. Many of the tax programs will not accept a foreign address or telephone number. It is not even possible to open an online account with the IRS in order to see transcripts with a foreign address.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your attention.

Karen J. Downing

LETTER SUBMITTED BY CHRISTINE DYMKOWSKI

I used to be happy to be a citizen of the United States of America, but my U.S. citizenship has become my biggest burden. Since 1976, I have lived outside the United States in the United Kingdom, where I am a tax resident and subject to full taxation.

I am an emigrant from America because I fell in love with someone British. I long ago realized that, although I will always feel American, I am living abroad permanently. As a tax resident of the UK, I have to organize my financial and retirement planning here. However, U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live: they are subject to only one tax system, whereas I, as a U.S. citizen, am subject to both the U.S. and the UK tax systems, which are not compatible. Most attempts at responsible financial and retirement planning where I live are frustrated by the need to comply with U.S. tax laws. This is clearly unfair. My income derives entirely from my previous salary and now my pension from the British university in which I worked and on which I have

paid British taxes (which are higher than the U.S. tax rate). How can the United States justify imposing taxation on the non-U.S. income and investments of a person who is a tax resident of another country and who has not had a financial or economic connection to the United States for 45 years?

I do not live "offshore." I live in a country where I pay very high income taxes, and I also pay additional taxes, like VAT of 20%, to my country of residence. My American citizenship means I am also subject to the U.S. extraterritorial tax regime, even though the UK fully taxes my UK income and I do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation, and it very disheartening that, even though American emigrants and emigrant organizations have for many years written to and met with Congressional lawmakers about the problems that citizenship-based taxation causes us, no one listens. When we write about the difficulties we face, our representatives in Congress send back replies that have no relation to our points and complaints.

The hearing on March 25th follows this pattern. I would like to make two general observations about it:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States in the same way they treat U.S. multinationals doing business outside the United States. Although we are flesh and blood people, not a single participant recognized how these rules affect individuals, even though the focus of the hearing was supposed to be about individuals. How did this happen?

2. Most tellingly, there was not one witness who had personal experience with a company or an individual running a business with interests outside the USA. Although this is ridiculous, I'm sorry to say it is not surprising, given past experience of lawmakers ignoring the effects of their laws on American emigrants who are subject to them. I respectfully suggest that subsequent hearings include witnesses who have the experience of running businesses outside the United States and/or of actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national," living in my country of second citizenship. It doesn't make me less American, but it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, although I am not a small business owner, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. Although my retirement investments are foreign to the United States, they are local to me. I planned responsibly for my old age: I invested savings from my fully-taxed British salary in a government-recommended stocks and shares Individual Savings Account (ISA). As I am not a high net worth individual, I did not seek any specialist financial advice before doing so and consequently did not know that the U.S. would regard the mutual funds held in the ISA as PFICs and tax them in what is essentially a confiscatory way—U.S. tax will take not just the gains, but the principal. In addition, because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate: investments that actually lose money in real (pound sterling) terms may show phantom gains as a result of fluctuating exchange rates. Additionally, the United States imposes taxes on things when my country of residence does not. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. How can this be called fair? I can't imagine the U.S. would take kindly to a foreign country taxing U.S. residents earning U.S. dollars and paying U.S. tax.

And please don't claim that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They do not. I have a substantial "tax credit" from the U.S. because I pay higher taxes in the UK on my income than I would in the U.S.,

but the IRS does not apply this tax credit to, for example, interest paid on my UK savings accounts.

Please also note that IRS rules for Americans who live overseas are extremely complex, requiring professional preparers to do our returns. I just filed my 2020 return, on which I owed $10.00 (10 dollars). Because I have to account for all my investments, the return was about 150 pages long and cost £1,854 (about $2,500) to prepare, which is about 7% of my U.S. taxable income.

As I get older, it is getting harder for me to cope with the required paperwork and records and the online FBAR form. I sometimes don't switch money out of a savings account to get better interest elsewhere because I'm afraid I won't keep track, and the IRS imposes draconian penalties on even non-wilful mistakes on the FBAR.

This situation is extremely unjust. For many years, both individual Americans and American organizations abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of **residence-based taxation.**

I very much hope to remain a U.S. citizen until I die: my American-ness is part of my identity. However, if the U.S. fails to abandon its cavalier disregard of the well-being of its citizens who live overseas, that hope is a forlorn one. I will have to expatriate to live my old age in peace.

LETTER SUBMITTED BY ABRAHAM EKSTEIN

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I run a small accounting practice in the country where I live. Obviously, my business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example GST) to my country of residence. Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I am required to fill out complex forms that are beyond regular expertise of regular U.S. tax preparers and have to do that for the following reasons:

- Owning a CAD mutual fund inside a registered plan (similar to a 529 plan) causes me to file a 8621 for PFIC
- Having a corporation requires a 5471 with all the complexities inherent in it,
- FBAR and other similar forms

In effect, If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income.

Furthermore, most CAD corporation are considered as per-se corporation under U.S. tax code and therefore I don't even have the option to treat it as a DRE using a "check the box" election which would have made a bit simpler, therefore my only option is to use the 5471 to declare all my corporate income and assets with all cumbersome calculations that come with it.

How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I am a CPA in Canada, on my way to earning my U.S. title using equivalence, yet I am paying close to $2,000.00 to prepare my U.S. taxes for a very straightforward and simple tax situation, made artificially complex just by the mere fact that I am a U.S. citizen. Needless to say, I am unable to use or recommend any of the regular financial planning techniques available to all other American citizens and CAD citizens (corporate holdings, trusts, estate planning etc) for the simple reason that whatever is legal or advisable in one jurisdiction is not good in the other. In other

words, there will always be double tax situation or at least, triple filing requirement situation.

If the IRC is complex enough for U.S. residents, imagine how it is for non-residents who by virtue of their decision to live outside the USA end up having to navigate the complexities of two tax codes, PLUS having to find a way to reconcile the two.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud. Regular middle class U.S. citizens should not be deprived of a voice just because they can't afford to spend time in Washington!**

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Neither does the tax treaty, an outdated and huge technical beast which doesn't keep up with time.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ASHLEY LYNN ELLIS

I am a proud citizen of the United States of America. I live outside the United States in Mexico where I am a tax resident. I live abroad permanently with my husband and children.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Long ago realized that although I will always love America, I am living permanently abroad. I have no plans of returning to the U.S. because my husband and children are here in Mexico. Our home is in Mexico. I also have no plans of renouncing my U.S. citizenship because I am proud to be an American and my dad and siblings live in the U.S. and I visit them whenever possible. I should be allowed to be a U.S. citizen who lives abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in Mexico. The problem I have is that the U.S. tax

laws make it *very* difficult for me to live the same kind of life that my friends, husband and neighbors live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live AND the U.S. tax system. Two tax systems. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country? Why am I unable to have a life insurance savings account or investment account in the country I *live in* because of U.S. tax code and FATCA? Why is a foreign family life insurance policy not treated the same as a U.S. based insurance? Why can't my husband include me on his business account because of FATCA and FBAR reporting? Why am I not allowed to live a normal life because I live abroad as a U.S. citizen? Why are you not aware of these issues?

I live in a city with many expats, many from Canada, Italy, Russia, etc. *none* of them have the same financial stress from their home countries that I face as an American abroad. They open businesses, invest, adapt to Mexico . . . you know, they live their lives like regular people do. Their countries do not harass them to file taxes or share their foreign bank account information with them, or possibly face life shattering fines for non-compliance. Most of these other expats look at me in disbelief when I tell them about how I have to file Us taxes, cannot invest anywhere, and report foreign bank accounts to the U.S. when I don't even live there. They think it's a joke or that I'm misinformed. Only the other U.S. expats know that it's true. However, the other U.S. expats where I live either are U.S. retirees living off their life long savings and investments from the States, or they are long term "tourists" who do not live here full-time. Many are not "young" expats like me who are living their working years abroad and raising their children abroad. This is my life you are ruining with your un-American tax codes. This is my children's life you are ruining. I cannot invest *anywhere* and I literally don't sleep at night thinking about how my children will have to deal with this same terrible policy one day. The current citizen based taxation policy is incredibly un-American. It breaks my heart to think that if my children want a job like their dad one day, they will have to renounce their U.S. citizenship in order to be allowed to run a business and invest freely. Isn't the United States supposed to be the world beacon of freedom?

How would you feel if you could not save for retirement?

How would you feel knowing your children will also bear this burden?

How would you feel if you were told the U.S. represents "freedom" yet you are not allowed to be free?

I do not live "offshore." I am not a corporation. I am an average, middle-class person!

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial Taxation. It's un-American!

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat **individuals** living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, *not a single* participant recognized how **individuals** are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a not a U.S. resident. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh. The U.S. extraterritorial tax code is **un-American.**

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! I cannot invest anywhere and have ZERO retirement savings plan since I'm not allowed to thanks to the USA.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. We are ignored every single time.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America and pay attention to U.S. citizens abroad! Expat lives matter!

LETTER SUBMITTED BY CONCHITA ELLIS

I am a citizen of the United States of America, living outside the United States in Canada where I am a tax resident and where I am subject to full Canadian taxation.

I was born and reared in the Panama Canal Zone in a proud, staunchly American family until my father's retirement when we moved to the United States. In 1966 I emigrated to Canada to marry a Canadian. After 53 happy years of marriage, living permanently in Canada, I am retired. My husband and I have never owned a business, nor are we independently wealthy. I am not entitled to U.S. Social Security nor any benefits from the United States as I only worked for 19 quarters before emigrating to Canada. I own no residences, businesses, nor hold any source of income from the United States. Yet to file my U.S. taxes each year I now pay $2,350 to have them prepared and filed! Meanwhile, it costs me $25 to personally prepare and file my Canadian taxes.

The United States Internal Revenue Service (IRS) is currently penalizing me a total of $40,000 plus interest, because I had a legal, Canadian Tax-Free Savings Account (TFSA). This TFSA is a legitimate, Canadian government regulated savings account.

Yet because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means that the United States is imposing taxation on my non-U.S. income even though I am fully accountable in Canada where I reside, which is not the United States! There is no other advanced country in the world that imposes such extraterritorial taxation!

This dual taxation has imposed a financial hardship each year on our family at tax time. I have had to penalize myself by cancelling my small tax-free savings account, by paying an accountant every year with U.S. tax knowledge to prepare and file my U.S. tax returns, and now by engaging a U.S. law firm to intercede with the IRS to hopefully reverse their unfair $40,000 penalty!

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship, which is Canada. This doesn't make me less American. But it does mean that I am subject to the laws of Canada, where I live. I am not GUILTY of anything. I ask only to be able to carry on my life without interference and financial hardship from the Internal Revenue Service of the United States.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, and generally behave in a financially responsible way, especially now with this huge, unfair, and currently un-resolved penalty! This is because all of these essential activities are taking place in Canada and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of a principal residence, or ownership of a TFSA) where Canada does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and Canada, I get the worst of both tax systems. What one giveth, the other taketh.

I do not live "offshore" and hide money. I am a law-abiding citizen of the United States of America, living in Canada; and I feel I am being penalized by the U.S. government in their pursuit of illegally hidden incomes. I am sure there are thousands of law-abiding citizens, like me, who are being caught in this terrible, costly dragnet which is creating fear, anxiety, and financial hardship. This is extremely unjust. Where are our rights? For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. We lack even the simple right of approval and agreement to the disclosure of our personal business, like normal citizens while residing in a foreign country. In effect, does that make us 2nd-class American citizens because we live abroad?

I am retired, and every bit of income saved was done by hard work and honest employment! How can my country do this to me? Why am I being treated as though I were a criminal? I have been threatened with liens on my home, garnishment of my retirement income, and cancellation of my passport!

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY J. EMMONS

I am a proud citizen of the United States of America. I live outside the United States in Spain where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings**

should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a private U.S. citizen living in another country. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on with my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time.

LETTER SUBMITTED BY CAROLYN ENGEL-GAUTIER

I am a proud citizen of the United States of America. I live outside the United States in France where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant rec-

ognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. **individual citizens** living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY RENEE ERDMAN-DEN HOND

To the members of the Senate Finance Committee

I am a Dutch citizen living in the Netherlands where I am a tax resident and where I am subject to full taxation. I am also an "Accidental American".

My father was a Dutch Navy officer and was sent to Camp Lejeune , Jacksonville, North Carolina, in 1943 to be trained as a Marine. He married my Dutch mother in Curacao, Dutch West Indies, in 1943 and she accompanied him to Camp Lejeune, where I was born in January 1945. I got my parents' nationality.

My father was sent to the Dutch East Indies in the fall of 1945 to join the war effort in the East and the family left the USA. In 1949 the family settled in the Netherlands, where I grew up and still live. When I was 18, I got my own Dutch passport.

I returned to the USA on a few occasions on holiday, I always applied for a visa and after completing many forms, I always received one. I never claimed to be a special case. Never did any consular diplomat inform me that I was in fact an American by birth and didn't need a visa.

In short: there was never any reason for me to think I might be an American, let alone would have to pay taxes in the USA. Time has come for the USA to reconcider the law that automatically makes every person born in the USA an American person.

Accidental Americans want to be delivered from being a person they never knew they were and they don't want to be. Get us out of this kafkaesque situation. This law and your extraterritorial tax regime are an extremely serious problem for the financial situation of Accidental Americans. Please realize this. A person's financial situation shouldn't be influenced by the place where he was born.

Residence-based taxation is the accepted system all over the world: you pay for services you get.

Please fix this mess and all Accidental Americans will forever be grateful to you and bless the United States!

Sincerely,

Renee Erdman-den Hond

LETTER SUBMITTED BY MAHAN ESFAHANI

I am a citizen of the United States of America. I live outside the United States in the Czech Republic where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses out-

side the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

It has come to the point where I must now choose to stay American and be penalized for living in the Czech Republic or renounce my citizenship and risk never seeing my American family again.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY GAIL P. EVANS

April 6, 2021

U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

To the Senate Committee on Finance:

Thank you for the opportunity to submit this statement for the record of your recent hearing on in the impact of U.S. international tax policy on American workers, jobs and investment. I understand that the March 25, 2021, hearing did not touch on the impact of U.S. tax policy on citizens actually living abroad, whose lives are directly, and often negatively, impacted by resulting U.S. tax laws.

As a Virginia voter who has lived and worked in Belgium for more than 23 years now, I would like to share my observations with you regarding (1) U.S. individual income taxation, (2) foreign financial account reporting, and (3) investing in general. Related filing processes are onerous, expensive and disproportionate to tax revenues raised from citizens like me who live abroad. Policies meant to punish "fat cats" have the unintended consequence of making it difficult for average citizens living abroad to invest like their U.S. resident peers and to save for their retirement.

I urge the Committee to listen to our voices when considering any further changes to U.S. international tax law.

1. INDIVIDUAL INCOME TAX

Tax-avoidance is not the goal of Americans living overseas. The U.S. and Eritrea are the only nations in the world that impose taxes based on citizenship rather than on residency. I have no problem with paying income taxes. If I did, I would not have chosen to continue working in Belgium for 23 years. Here, the top income tax rate is 50% and it kicks in at roughly $47,000. I do not mind—it is a price I am happy to pay to live in a country that values excellent health care and education for everyone. What I do mind is the amount of time, frustration and—now—expense involved each year preparing my U.S. filing while owing relatively little in taxes in the U.S.

Complexity. Each year, I spend multiple weekends over the course of several months completing my U.S. tax filing. Like many American taxpayers living in the U.S., I am employed full-time and have investment income. Yet my 2019 tax filing was 55 pages long. My return includes 11 different forms; 18 pages alone relate to my foreign tax credit. Another 15 pages result from other reporting related to the

practicalities of living overseas. With foreign tax credit computations, spreadsheets tracking unused credit carry-forwards and carry-backs, and brand name tax software that is completely inadequate for expat filers, the process is excessively complicated.

Time and preparation fees spent are disproportionate to taxes owed. I originally moved to Belgium as a U.S. tax advisor, so know more than the average taxpayer about filing requirements. U.S. tax law has changed a lot since I stopped consulting in 2004. I have continued to prepare my own filings, but affordable software available to non-practitioners is inadequate for non-resident returns. For the first time, this year I have agreed to pay nearly $1,000 to a U.S. tax advisor to prepare my taxes (1) to save myself from frustrating software and (2) to give me peace of mind that I am still completing my returns properly. Nonetheless, I will still spend multiple weekends compiling information for my advisor to compute my tax liability. Most of what I owe will be offset thanks to the foreign-earned income exclusion, credits for taxes paid in Belgium, and a tax treaty between the two countries. However, if the U.S. based taxation on residency rather than citizenship, millions of Americans working abroad could save time and money each year, in addition to avoiding double taxation for those who live in countries without tax treaties.

Scarcity of foreign tax expertise. Aside from the time and cost, it is not easy to find an affordable U.S. tax advisor who knows what they are doing in this space. In 2019, an American friend who also lives in Belgium overpaid more than $3,000 in taxes because her U.S. tax advisor did not understand how foreign tax credits work. Fortunately, she mentioned her surprise at the high tax bill to me. I told her what her advisor missed and she was able claim a refund. Had she not mentioned this to me, it is likely she would have never seen that money again.

2. FOREIGN FINANCIAL ACCOUNT REPORTING

Threshold for reporting foreign accounts is low and does not reflect a globally mobile workforce. It is critical that the Department of the Treasury do something to eliminate the disproportionate burden that the Report of Foreign Bank and Financial Accounts (FBAR) puts on U.S. citizens who happen to live and work abroad. The threshold for filing an FBAR is low. At $10,000 in aggregate maximum value of all foreign accounts, the floor has not been adjusted since the form was first published in 1970—nearly $70,000 in today's dollars. People who live their lives overseas will have numerous "foreign" accounts to report: current, savings, employer pensions, personal pensions, mortgage insurance and life insurance; even more if they have signature authority over accounts held with or for other family members. The average American abroad isn't trying to hide assets, but merely establishing the accounts that support their local, every-day needs.

Time required to prepare the FBAR is excessive. The Paperwork Reduction Act notice estimates 30-90 minutes to prepare an FBAR. Based on my own experience and that of American friends abroad, the time just to collect this information each year takes several hours. This is in part because banks do not always provide information in a way that makes it easy to pick out the highest balance for reporting. In addition, following the 2008 financial crisis, individuals pay more attention to spreading savings across many accounts to reduce their risk of loss. More accounts increase the burden of preparing the FBAR. One acquaintance is contemplating giving up his U.S. citizenship to avoid both the stress created by the FBAR filing requirement and potential penalties for getting it wrong. Renouncing citizenship seems to me to be the ultimate penalty. Simply exempting accounts located in one's country of residence from reporting would save significant amounts of time and stress for all Americans living abroad.

Time required to file the form is underestimated. The Paperwork Reduction Act notice estimates that it takes five minutes to file the form. This is incredibly understated. The uploads rarely work with the recent (yet archaic) PDF filing system. Prior to electronic FBAR filing requirement, one could simply update the financial figures in the prior year's PDF file. This is not necessarily the case with electronic filing. In 2020, I spent 70 minutes just to get the upload to work, never mind collecting my account information. In the end, I had to retype the form from scratch the before my submission would go through.

Information security. I have grave concerns about providing the level of account information required on the FBAR. The risk is too high that that the filing can be hacked and my financial assets compromised. Can Treasury confirm that filers' details have not already been hacked?

Duplication of effort. For several years now, U.S. taxpayers are required to provide essentially the same information under FATCA on Form 8938, which is filed with Form 1040, as on the FBAR. Although FINCEN and the IRS are both branches of Treasury, there seems to be no coordination between these two agencies in terms of collecting and sharing information. It is unreasonable to expect citizens to provide essentially the same information to the same department in two different formats.

More modern ways to catch tax cheats and money launderers. Rather than improve the existing process, Treasury should reexamine the bigger picture. How many financial crimes does FINCEN identify or prevent as a result of FBAR filings from the average American living aboard files versus other, more modern means of fraud detection? It is probably a safe bet that any Americans abroad who are trying to shelter assets are not reporting those assets on an FBAR. If the Treasury's goal is to play "gotcha" when they do catch someone who has not reported income from their non-U.S. assets, it is a very high price for the average, law-abiding citizen to pay in terms of time and stress. In Belgium, I must report my foreign financial assets to the Central Bank as a one-time event—not the balances or income, just the fact that the accounts exist. In my case, that means I must report my U.S.-based assets. Then, if I were to open or close an account, I would simply inform the Central Bank as a one-time event. Note that this requirement is residency-based. Belgian citizens living outside of Belgium are not subject to the same reporting requirement because non-resident citizens are simply not subject to income tax either.

3. INVESTING IN GENERAL

FATCA makes it difficult for American abroad to bank and invest. The IRS's Financial Account Tax Compliance Act (FATCA) makes it very difficult for U.S. citizens living overseas to even open bank or investments accounts with their local financial institutions. Most banks and investment institutions want nothing to do with U.S. citizens because they do not want to deal with the reporting obligations. Ironically, the rules also create obstacles to investing transparently via U.S. brokerage accounts, as U.S. brokers become unwilling to open accounts for U.S. citizens who no longer have a U.S. address. As a result, one unintended and punitive consequence of FATCA is that Americans abroad are denied the tools to properly invest for their retirement.

CONCLUSION

Contrary to the way we are portrayed in popular media, Americans living abroad are not the rich 1%, lounging on yachts and actively dodging taxes. We are the 99%, law-abiding citizens whose lives happen to have taken us abroad for work, love, service, or education.

As Congress thinks through any changes to the U.S. tax code or foreign financial reporting, it is critical that it considers the impact and unintended consequences on the nearly nine million ordinary citizens who live abroad. I urge the Committee to hold a hearing to understand the practical implications of U.S. international tax policy on citizens living abroad like me.

Sincerely,

Gail P. Evans
Voting in Virginia (11th Congressional District)

LETTER SUBMITTED BY MICHAEL FERRIS

I am a proud citizen of the United States of America. I live outside the United States in Japan where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY SPYROS FILIOTIS

I am a proud citizen of the United States of America. I live outside the United States in Greece where I am a tax resident and where I am subject to full taxation and a myriad of other Greek financial regulations.

I run a business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even

though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes (over 50%!). I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant in the hearing recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. I am representing America culture and growing American soft power abroad. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my business and life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it basically impossible for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

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April 2, 2021

The Honorable Ron Wyden
Chairman
U.S. Senate
Committee on Finance
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
U.S. Senate
Committee on Finance
Washington, DC 20510

RE: March 25 Virtual Hearing titled "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment"

Dear Chairman Wyden and Ranking Member Crapo,

On behalf of the Financial Accountability and Corporate Transparency (FACT) Coalition, we appreciate the opportunity to comment on your hearing titled, "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment." The FACT Coalition is a non-partisan alliance of more than 100 state, national, and international organizations promoting policies to build a fair and transparent global tax system that limits abusive tax avoidance and to curb the harmful impacts of corrupt financial practices.[1]

For years, the FACT Coalition has warned of the real U.S. economic harm perpetuated by a global race to the bottom on taxes. As it stands, the status quo of the U.S. international tax framework undermines the competitiveness of the American worker, incentivizes the offshoring of U.S. jobs and profits, and detracts from deeper business investment in the United States.

To address these problems, we urge the Committee and its members to consider corporate tax transparency measures and specific international tax reforms, both at the domestic and global level, as central tools in curbing the worst of multinational corporate tax avoidance and its adverse impacts on the U.S. economy.

We endorse recommendations in testimony by Treasury Deputy Assistant Secretary Kim Clausing and Chye-Ching Huang, executive director of NYU's Tax Law Center to reform the Global Intangible Low-Taxed Income (GILTI) tax, overhaul the Base Erosion and Anti-Abuse Tax (BEAT), and consider elimination of the Foreign Derived Intangible Income (FDII).[2] These recommendations have broadly been reflected in the Biden Administration's American Jobs Act plan, announced on March 31, and we hope Congress will work with the Administration to bring it to fruition.[3] We likewise request that Committee members consider legislation requiring multinational corporations to report key financial information—*e.g.,* revenue, assets, employees, taxes assessed and paid—publicly on a country-by-country basis, as an accountability mechanism to ensure corporations are paying their fair share of taxes.

The Problem of U.S. Multinational Tax Avoidance

Profit shifting by U.S. multinational corporations costs the United States, by one estimate, at least $77 billion a year in lost tax revenue.[4] These are much needed resources that should be funding critical public investments in healthcare, education, infrastructure, and other priorities.

Multinational corporations in the United States and elsewhere have long used provisions in the global tax system to shift profits and avoid paying taxes that they would otherwise be required to pay. IRS aggregate data show that U.S. multi-

[1] A full list of FACT members is available at *http://thefactcoalition.org/about/coalition-members-and-supporters/*.

[2] Senate Finance Committee hearing, March 25, 2021, *https://www.finance.senate.gov/hearings/how-us-international-tax-policy-impacts-american-workers-jobs-and-investment.*

[3] White House, "FACT Sheet: The American Jobs Plan," March 31, 2021, *https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/*.

[4] Kim Clausing, "Five Lessons on Profit Shifting from the U.S. Country-by-Country Data," *Tax Notes,* November 24, 2021, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3736287.*

nationals booked 41 percent of their foreign profits in just 10 tax havens.[5] Further, a 2018 report by the Institute for Taxation and Economic Policy showed 90 of the Fortune 500 paid nothing in tax; another 50 paying between 0–5 percent.[6]

It is counterproductive to the goals of a fair and growing economy to allow U.S. companies to pay a lower tax rate abroad than they pay in the United States. Changing the status quo and closing these loopholes will improve the competitiveness of the American worker and make it more appealing for companies to reinvest in here in America.

Recommendation 1: Increase Transparency into Corporate Tax Practices

Any meaningful effort to combat U.S. multinational tax avoidance must shine a greater light on corporate tax practices. We recommend that members of the Committee consider legislation such as the Disclosure of Tax Havens and Offshoring Act[7] to require corporations to engage in public country-by-country reporting (PCbCR) of key financial data—*e.g.,* revenue, assets, employees, taxes assessed and paid. Such reform would greatly inform the U.S. debate on how to make U.S. international tax policy work for all Americans and, in the future, help policymakers monitor the effect of reforms and any tax avoidance strategies multinational companies may employ in the future.

While some of this data is already reported to the IRS under an OECD agreement, *public* disclosure of this data would allow investors, oversight bodies, U.S. Congress, and civil society watchdogs to identify and address corporate profit-shifting strategies.

Last year, prior to joining the Administration, DAS Clausing published research that relied on country-by-country data released by the OECD—aggregated across companies—to demonstrate the scale of the U.S. multinational corporate tax avoidance problem. While aggregated data is helpful, company-level disclosures would illuminate much more: DAS Clausing noted, "Only very limited company-specific information is available, and there is a strong case for the public release of these data" to benefit "potential customers, investors, and employees, as well as community members."[8]

There is strong evidence that public reporting has a powerful deterrent effect.[9] Reports show that PCbCR requirements on Europe's banking industry have reduced the use of profit shifting to tax havens and increased the effective tax rate of covered banks by several percentage points.[10] Increasing tax transparency through public disclosure could even force large corporations to clean up the most questionable tax practices.

Legislators and regulators in other important capital markets are seriously considering new PCbCR requirements. The European Union is currently close to finalizing mandatory PCbCR requirements for all EU-listed companies after a strong push from the European Parliament. The Global Reporting Initiative, an "international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts", also recently introduced the first global standard on tax transparency. Since GRI finalized its standard, Vodafone, Royal Dutch Shell, Spanish oil multinational Repsol, and Danish energy company Orsted have issued PCbCR information, leading *The Wall Street Journal* to hail "the Beginning of the End of Tax Secrecy."[11] Investors, financial analysts,

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[5] Internal Revenue Service, "Table 1A: Country-by-Country Report (Form 8975): Tax Jurisdiction Information (Schedule A: Part I) by Major Geographic Region and Selected Tax Jurisdiction, Tax Year 2017," *https://bit.ly/3dEQfmi.*

[6] Matthew Gardner, Lorena Roque, Steve Wamhoff, "Corporate Tax Avoidance in the First Year of the Trump Tax Law," Institute on Taxation and Economic Policy, December 16, 2019, *https://itep.org/corporate-tax-avoidance-in-the-first-year-of-the-trump-tax-law/.*

[7] *https://www.congress.gov/bill/116th-congress/senate-bill/1609.*

[8] Kim Clausing, "Five Lessons on Profit Shifting from the US Country-by-Country Data," November 24 2020, Abstract, also p. 15, *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3736287.*

[9] "What do we know about the effects of country-by-country reporting?", UNC Tax Center, *https://tax.unc.edu/index.php/county-by-county-translational-research/.*

[10] Michael Overesch and Hubertus Wolff, "Financial Transparency to the Rescue: Effects of Country-by-Country Reporting in the EU Banking Sector on Tax Avoidance", February 8, 2019, *http://bit.ly/Overesch2019. See also* Felix Hugger, "The Impact of Country-by-Coutry Reporting on Tax Avoidance," May 2020, *https://www.ifo.de/DocDL/wp-2019-304-hugger-corporate-tax-avoidance.pdf.*

[11] *https://www.wsj.com/articles/the-beginning-of-the-end-of-tax-secrecy-11576837708.*

small business organizations, and civil society groups further endorse public country-by-country reporting.[12]

Recommendation 2: Close Loopholes in the U.S. International Tax System

It is apparent that there must be real reform to the U.S. framework to ensure corporations pay their fair share of taxes. Chief among our recommendations would be (1) equalizing the GILTI rate with the domestic corporate tax rate and applying it on a per-country basis, (2) amending the Base Erosion and Anti-Abuse (BEAT) tax to increase covered activity and narrow exemptions, and (3) repealing the provision on Foreign Derived Intangible Income (FDII).

The Committee should consider legislation, like the No Tax Breaks for Outsourcing Act (S. 714),[13] that would implement several of these recommendations. The No Tax Breaks for Outsourcing Act would equalize the GILTI foreign tax rate with the domestic U.S. tax rate, apply the GILTI on a per-country-basis, and eliminate the deduction based on tangible assets held offshore. It likewise would repeal the FDII, a deduction under TCJA that effectively favors companies that minimize their U.S. assets, also increasing corporate incentives to move real assets offshore.

Reform the GILTI Tax

Changes to U.S. international tax law instituted through the Tax Cuts and Jobs Act have not only incentivized corporations to shift profits to low tax jurisdictions: they have also offered incentives for corporations to move real jobs and operations offshore. The law guarantees that U.S. multinational corporations will pay at most one-half the domestic rate in federal taxes on their offshore earnings, with many companies paying little or nothing in federal taxes on these earnings. Under the Global Intangible Low-Taxed Income (GILTI) rate, this means that a U.S. multinational company will pay a much lower tax rate if it invests in Ireland than if it invests in Indiana.

The system further incentivizes moving tangible assets—factories, machinery, stores, and the jobs that go with them—offshore. A corporation only pays taxes on the residual foreign profits exceeding the amount equal to the 10 percent value of its tangible assets invested offshore. That means that the bigger the value of tangible assets, the more a company's profits are offset to minimize their tax liability.

Taking this next step—to equalize the corporate tax rate on profits booked domestically or abroad—is the best way to remove incentives for offshoring and tax avoidance.

Overhaul the BEAT

A March 2021 report by the Joint Committee on Taxation demonstrated that the BEAT has had no tangible impact on U.S. multinational corporate tax avoidance practices.[14] In the definition of "applicable taxpayer" under Section 59A(e), Congress should pass legislation to lower the gross receipts exemption level from $500 million to $100 million to make more companies subject to the BEAT tax. Congress should amend Section 59A(e)(C) so that all base erosion payments are taken into account, while removing the arbitrary exemption of less than 3 percent of deductible payments that has incentivized aggressive tax strategies.

Repeal FDII

The FDII deduction under TCJA also increases corporate incentives to move real assets offshore. Functionally, the tax preference rewards companies that reduce their U.S. assets. It also creates a new loophole to move corporate intellectual property to the United States to dodge taxes around the world, undermining the tax base of our allies and contributing to a global race to the bottom on corporate taxation. In addition, FDII may violate the World Trade Organization's rule against export subsidies and risks trade retaliation. The Joint Committee on Taxation estimates that repealing FDII would increase U.S. tax revenue by nearly $127 billion over 10 years.

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[12] For a full list of corporations, small business organizations, and investors who have endorsed public country-by-country reporting, *see* here: *https://thefactcoalition.org/fact-sheet-endorsements-for-country-by-country-reporting.*

[13] *https://www.congress.gov/bill/117th-congress/senate-bill/714/cosponsors?r=12&s=1.*

[14] Joint Committee on Taxation, "U.S. International Tax Policy: Overview and Analysis," JCX–16–21, March 2021, *https://www.jct.gov/publications/2021/jcx-16-21/.*

Recommendation 3: Work with the OECD to Establish a Global Minimum Tax

The Biden Administration, under Treasury Secretary Janet Yellen, has committed to re-engaging in the OECD negotiations to combat multinational tax avoidance. The existing political momentum behind Pillar Two will be exceedingly difficult to replicate in the future. It is therefore imperative to seize the moment and avoid setting a low minimum rate that will drag down corporate taxation far into the future.

The U.S. should strengthen existing OECD and international safeguards against offshore corporate tax avoidance by working with allies to institute a strong, global corporate minimum tax that is no less than the U.S. domestic corporate tax rate, does not exempt routine profits, and is applied on a per-country basis, rather than as a global average. The existing political momentum behind Pillar Two will be exceedingly difficult to replicate in the future. Signals from the Biden Administration and U.S. Congress would have a strong impact on these negotiations. It is therefore imperative to seize the moment and avoid setting a low minimum rate that will drag down corporate taxation far into the future.

Conclusion

It is more important than ever that the U.S. combat multinational tax avoidance to make our tax system fairer, raise critically needed revenue, and encourage job creation here in America.

We appreciate the Committee's interest in this important issue. Should you have any questions, please feel free to contact Erica Hanichak at ehanichak@thefactcoalition.org.

Sincerely,

Ian Gary
Executive Director
Erica Hanichak
Government Affairs Director

LETTER SUBMITTED BY STEPHANIE FLORES

I was born in and am a citizen of the United States of America. I live in New Zealand, where I am a dual citizen, tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example, goods and services tax) to New Zealand.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation. Each year, this creates endless filing requirements from IRS and invoices from my tax accountants to navigate two systems.

In addition to the constant filing requirements (and money paid to accountants who understand U.S. tax law), I am penalised and prevented from making small investments. The current system penalises those of us who are not rich and who want to make smaller investments. Recently, I had to forgo an opportunity to take on some consulting work with the local government where I reside. After speaking with my tax accountant (and getting another quote), I'd not only have more forms to file, but would also have to pay self-employment tax and quarterly estimated payments. Overall, the first $4k of my post-tax earnings would go to accountants for fees.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. Consider the following, while my income is less than USD$70,000 with two children:

- I have paid close to NZD$20,000 to various accountants the past 7 years I have lived in New Zealand to fulfil my filing obligations to the U.S.
- Generally, the child tax credit that I receive goes directly to the accountants' invoices (and 2019 U.S. tax return is still being processed, so no refund to pay the accountants with. I had to use my savings this year to pay the accountants).

- I have closed my New Zealand *employer* pension account due to filing requirements and forms costing more than the account was earning. I unenrolled from my employer-sponsored benefits because they increased IRS filing requirements to the extent that it wasn't worth participating.
- New Zealand law does not allow me to close my New Zealand *government* pension, so I am stuck with it and all of its filing requirements to the U.S. each year. The IRS treats it as a foreign trust and not a foreign pension, which has caused additional problems.
- I am penalised severely for starting a small business, so I have foregone opportunities to use my skills in my community to earn a better living.
- I cannot make small investments without being penalised with forms and filing requirements that only expensive accountants understand.
- I'm fearing for the U.S. tax laws and requirements that my children will have to deal with when they earn their first paychecks in their teens.

This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investment account is foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! If I started a small business, I'd be subject to not only several new forms, but I'd have to pay the U.S. a payroll tax AND pay a similar tax here in my home country (known as ACC).

This is extremely unjust, especially for those in lower and middle incomes (well under $100k with children). For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a dual citizen living in New Zealand, with two children who are also dual citizens. It doesn't make us less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY CHRISTOPHER A. FOROGLOU

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of Canada and am required to organize my financial and retirement planning here.

The problem is that U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to both the Canadian and U.S. tax systems, which are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in Canada, where I pay very high income taxes. I also pay the Goods & Services taxes at both the federal and provincial levels.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in Canada. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States in the same way that they treat U.S. multinationals doing business outside the United States. I am a flesh and blood individual person, working for asalary for most of my career. Now I am self-employed as an IT consultant. (I have investigated incorporating my business but decided against it because of the extremely complex IRS reporting and taxation rules.)

   Not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! I respectfully suggest that subsequent hearings include witnesses who have experienced working as employees and as businesses owners, outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not theories.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States; Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when Canada does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Sincerely,
Christopher A. Foroglou

LETTER SUBMITTED BY BENJAMIN FORTUNE

I am a U.S. citizen and have family all across the country. I live most of the year in Australia, which I also view as my home, looking after my mother and younger sister. I am a dual American-Australian citizen. For tax purposes, my business is headquartered out of Western Australia.

I will always have a love for the USA; depending on how circumstances change I may even see myself returning at some point. However, year after year, as a result of U.S. tax policies and FATCA, I feel I am being slowly forced toward renouncing my U.S. citizenship.

Although I may face no longer being an official U.S. citizen, I would always regard myself as an American. I am writing in the hopes that my experience can facilitate change that will grant freedom to all American citizens living abroad. *The United States Government must stop imposing a system of extraterritorial taxation and regulation on citizens living in other countries.*

I pay significant taxes living here in Australia: to support the services and facilities in the country for which I actively live and work. I do not live "offshore" and I am not attempting to "hide" my earnings. And yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial taxes. This means the United States is imposing taxation on my non-U.S. income even though I do not live in the U.S. and that income is fully taxed in the country where I reside. *There is no other advanced country in the world that imposes such extraterritorial taxation.*

Moreso than this, however, is the threat to my Australian retirement and assets. Portions of my income are automatically redirected into a national retirement program known as "Superannuation". However, for U.S. tax purposes, I've been told that:

"The IRS does not consider Australian Superannuations as social security or a qualifying tax-deductible fund like a 401K, but instead as part of your income even though you will not be able to access your super until you are retirement age."

For my average year's income, I feel forced to pay thousands of dollars to multi-national tax specialists to have my taxes done, to ensure they are being managed correctly. Generally, I don't even owe the U.S. any tax, due to certain tax treaties and given how much higher Australian taxes are. However, when I do owe tax, it's the worst of both worlds: I've been taxed heavily for living in Australia, and when I do owe the U.S., it is because they did not recognise any Australian tax exemptions.

Constantly trying to work between two very different tax systems, hemorrhaging potentially thousands every year to have my taxes done properly, total uncertainty around my retirement and assets. These things have pushed me to the point where it feels like my only option is to renounce my U.S. citizenship. Not to try and "hide" or "avoid" paying tax (which I already do in spades), but because this extraterritorial taxation places undue burden on every financial decision I make, simply because I'm a U.S. citizen living and working abroad.

I would like to raise two general observations that other's have brought forward regarding the hearing on March 25th:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a citizen of the United States, there wasn't a single participant who recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not one! This is crazy. I respectfully suggest that subsequent hearings include wit-

nesses who have experienced running businesses outside the United States and/or actually living outside the United States.

I am not a "multinational corporation" nor am I a "mini-multinational"—I am a "dual-national American citizen" just trying to live my life in my country of second citizenship. I am American; however, I am also subject to the laws of the country where I live. I only ask that Americans abroad are granted the right to be able to carry on small business and/or their lives without these undo burdens imposed by the IRS.

The current U.S. extraterritorial tax regime:

- Adds excessive burdens to U.S. citizens living abroad regarding their savings, retirement, assets, and investments.
- Does not work cohesively with any foreign tax system (*e.g.,* does not recognise Australian Superfunds, Australian tax exemptions, etc).
- Treats my "local" Australian income and assets as "foreign" to the U.S.
- Can tax citizens based on "fake income" which is a consequence of ever-changing exchange rates (which affect all aspects of my tax reporting).
- Supposes tax credits and income exclusions can somehow solve the above problems, when it's clear they're intertwined with the concept of extraterritorial taxation.

This system is fundamentally unjust. For the sake of all citizens abroad, The United States needs to abandon extraterritorial taxation and adopt a system of residence-based taxation, like the rest of the world. Thank you.

LETTER SUBMITTED BY MICHAEL PATRICK FOUNTANDEZ

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America, but still love the country of my birth. I moved from America many years ago; although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of Australia. As such, I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore". I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes, such as GST, to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income in the country where I reside. There is no other advanced country in the world that imposes such extraterritorial taxation.

For the past 8 years, I have earned my living exclusively abroad; I have established a life in Australia, married, had a child, and am well established in my career. Due to the particularities of the Australian and U.S. tax calendars, however, I find that every 6 months it's tax time yet again. Due to the complexity of the U.S. tax system, I must either spend thousands of dollars to employ tax preparers or dozens of hours of time in preparing my taxes myself. While this may seem to be a modest investment, it is something that weighs increasingly heavily as the years have passed. The stress of tax preparation, the cost, and the uncertainty are completely unnecessary; no other advanced nation in the globe collects taxes from individuals who have no local income. The total amount of money contributed by me to the U.S. Treasury as a result of this requirement: less than $5,000. I have, however, spent dozens of hours across more than 8 years on the phone with the IRS; I suspect the time I spent has cost the government about ⅓ of my total tax contribution to date!

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although I am an individual, not a single participant recognized how individuals are affected by these rules. Yet the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. I respectfully suggest that subsequent hearings include witnesses who have experience running businesses outside the United States and/or actually living outside the United States.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both the Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY JASON MICHAEL FRICK

I am a proud citizen of the United States of America. However, I live outside the United States in New Zealand where I am a tax resident and subject to full taxation.

I moved from Gresham, Oregon to New Zealand in 2008 as a teenager to attend university. I since fell in love and built a life here. However, I try to keep involved with the U.S. as much as possible. After all, it's where my family lives and it's where I grew up. I am a member of my Democrats Abroad Chapter, and in the 2020 election cycle, I was the second most active phone banker in New Zealand. I helped several hundred Americans living overseas to get registered and to vote in the last election. I'm really proud of this.

Nevertheless, I am most likely going to reside in New Zealand for the rest of my life. This means that, as a tax resident of New Zealand, I am required to organise my financial and retirement planning around the New Zealand tax system.

The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. These systems are not compatible at all.

The U.S. extraterritorial tax regime makes it impossible for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in what the U.S. tax code

considers to be "a foreign country". **While my retirement investments are foreign to the United States, they are local to me.** All of the retirement planning programmes created by the New Zealand government are frustrated by the need to comply with U.S. tax laws. The U.S. tax code effectively undermines the New Zealand's ability to determine social policy for a not insignificant subset of its citizens.

In addition, the United States impose taxes on things (for example sale of principal residence) when New Zealand does not. Also, because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and New Zealand, I get the worst of both tax systems. What one giveth, the other taketh.

I am effectively prohibited from saving for retirement because I'm caught between two incompatible tax systems. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay comparable taxes to what I would pay if I lived in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax. This has stopped me from starting a business here in New Zealand where I live.

And please don't believe that foreign tax credits and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Ngā mihi nui, Jason Frick

LETTER SUBMITTED BY DR. KAYLA FRIEDMAN

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me

to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I love my job, but please let me be clear- I make a modest salary. I am a single parent household. I am just a normal person with a lower middle-class sort of income. I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT and National Insurance) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and the United Kingdom, I get the worst of both tax systems. What one giveth, the other taketh.

This is compounded now because I have a family. My daughter, who is also an American citizen, is penalized due to the lack of my ability to properly invest for her future like other local parents, or even other American parents living in America due to the tax system. This is clearly unjust and puts not just mine, but her future at a disadvantage.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

STATEMENT OF FABIO B. GAERTNER, UNIVERSITY OF WISCONSIN-MADISON,[1] AND JEFFREY L. HOOPES, UNIVERSITY OF NORTH CAROLINA[2]

Financial Accounting Income Should Not Be Included as Part of the Tax Base

Recently proposed tax policies have financial accounting income (GAAP income, or book income) serve as part of the tax base. These proposals range from a flat tax on book income for corporations above a certain size,[3] to using book income as part of a minimum tax for corporations above a certain size.[4]

We oppose including financial accounting income in the tax base. Our opposition stems from (a) the academic literature in accounting, which identifies clear negative effects associated with taxing financial accounting income; and (b) additional negative effects, though not yet empirically tested, which seem highly plausible given what we do know about incentives faced by corporations.

In short, including financial accounting income in the tax base will result in worse financial information for investors and less efficient tax collection, economically disadvantage companies based in the United States, politicize accounting standards, and require highly complex implementation, which may undermine the intention of current proposals. These arguments can be further understood below.

1. Reduced information to investors and less efficient tax collection.

a. Financial accounting income and taxable income serve distinct audiences, and as such, different purposes. The goal of financial accounting rules is to communicate useful financial information to investors. The objective of tax rules is to raise revenue and establish economic incentives deemed desirable by the political process (Hanlon and Shevlin 2005; McGill and Outslay 2002; McClelland and Mills 2007).

b. Combining audiences decreases the effectiveness of both financial reporting and tax collection. That is because rules that improve the usefulness of financial reporting are often at odds with the collection of revenue, and vice versa. For example, fair value accounting is designed to give investors the most up-to-date picture of a company's assets. It does so by re-valuing certain assets according to their market value. When market value increases, this revaluation results in an increase to financial accounting income. This income increase, however, is an unrealized gain. Taxing unrealized gains results in poor tax collection practices since such gains do not produce cash, and companies may be liable to pay taxes without the liquid assets necessary to do so.

c. Financial reporting would suffer as well. Financial accounting requires firms to make numerous assumptions about the future (*e.g.,* what is the useful life of an asset, what portion of receivables will be uncollectable). Because the future is uncertain, there is often a range of reasonable assumptions that could be made in the financial reporting process. Taxing financial accounting income introduces a downward bias in reporting, as accountants would be incentivized to use whatever estimates in the range that result in the lowest income, rather than using the estimates they think are best. This would result in less information, or lower quality information, being available to investors.

d. Further, when book income was previously used in forming the tax base, companies made accounting choices that altered the communication of financial information and deteriorated the financial information available to investors (Gramlich 1991; Dhaliwal and Wang 1992; Boynton et al. 1992; Manzon 1992).

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[3] *See https://elizabethwarren.com/plans/real-corporate-profits.*

[4] *See https://joebiden.com/two-tax-policies.*

e. Some have argued that conforming book and tax would improve the quality of accounting earnings. However, the empirical evidence so far shows that accounting choices that do not represent economic realty (*i.e.,* earnings management) are more likely to happen in high-conformity regimes (Blaylock et al. 2015; Guenther et al. 1997). Earnings management makes it more difficult for investors to understand which corporations to invest in, including investors at pension funds, retirement accounts, and nonprofit endowments. That is, conforming financial accounting and tax rules result in financial accounting earnings that convey less information to financial markets (Hanlon et al. 2005). This loss of information weakens equity capital markets in the U.S. (Blaylock et al. 2017).

f. Conforming financial accounting and tax rules incentivizes firms to use more non-GAAP earnings (also called pro-forma or street earnings). These alternative disclosures will likely circumvent the original motivation for including financial accounting earnings in the tax base, as companies can manage financial income downwards while inflating non-GAAP earnings. Companies would be able to use non-GAAP earnings as a substitute for the higher, taxed earnings, because financial markets value non-GAAP earnings (Bradshaw and Sloan 2002). A proliferation of non-GAAP earnings would decrease the role of the FASB in guiding financial reporting, making the financial accounting system less useful and investors less safe.

2. Economic disadvantages for U.S.-based companies.

a. One major reason tax payments are much lower than one would expect given financial accounting income is the tax treatment of net operating losses (Christensen et al. 2021). These provisions, which allow companies to offset prior losses against future income, are a major fiscal tool used in helping companies weather economic downturns (which is why, for example, they played a role in the bipartisan CARES Act). Net operating losses are generally universally allowed in other countries, and limiting their effectiveness by taxing financial accounting income would put U.S. firms at a competitive disadvantage.

b. Not all firms that operate in the U.S. are U.S.-domiciled, and not all subsidiaries of U.S. parent firms operate in the U.S. If only U.S. parents are subject to this tax, then U.S. firms will have an added incentive to expatriate.

3. Politicizing of accounting standards.

Including financial accounting income in the tax base would increase the incentives for Congress to interfere with the FASB as an independent accounting standards setter. While government does oversee the FASB through the SEC, the SEC has mostly allowed the FASB to work independently (with a few notable exceptions (Zeff 2005)), shielding financial reporting from political considerations. A politicized FASB would almost certainly produce lower-quality financial accounting standards, damaging the integrity of accounting information and U.S. capital markets.

4. Complex implementation, which stands to threaten the original intent of the change.

One purported advantage of including financial accounting income in the tax base would be its imagined simplicity. However, implementing such a tax would not be straightforward. Addressing the complications would likely create unintended consequences.

a. One specific reason firms report low taxable income combined with high accounting income is the availability of target economic incentives set forth by Congress (*e.g.,* the R&D Tax Credit). Taxing financial accounting income would reduce the effectiveness of these economic incentives, including potential future incentives being considered to help fight climate change or bolster domestic manufacturing, etc. Once Congress starts adjusting the financial accounting values that would be taxed for items such as the R&D Tax Credit or NOLs, they will fall subject to exactly the type of political incentives that some believe have challenged the Internal Revenue Code, adjusting based on the preferences of political interests and not based on the best way to collect revenue.

b. The consolidated corporation that files a Form 10-K with the SEC and the consolidated corporation that files a Form 1120 with the IRS are not the same legal entity. Tax and financial accounting consolidation rules are different, and determining what entity to tax is not trivial. Proposals that tax financial accounting income would require rules for addressing these differences and have potential unintended consequences on business organization.

c. Not all corporations, or even all large corporations, prepare GAAP-audited financial statements (Lisowsky and Minnis 2020). Determining what value to tax for non-GAAP users is a complex endeavor. If only public firms are subject to a financial accounting income tax, this will disincentive firms from going public in the U.S., locking out retail investors and workers with retirement savings from investing in companies that will opt to not go public because doing so would impose a large, new tax on them.

The vast majority of large corporations are already required to reconcile their financial and taxable incomes for the IRS (see Form M-3). Only a very small portion of these differences are thought to come from nefarious activity (Gaertner et al. 2016). Rather, these differences stem from differences in tax law, as purposefully written by Congress and financial accounting standards, as purposefully promulgated by the FASB. If Congress deems the tax law to be deficient in any case, Congress should revise the tax code to resolve the perceived problem directly.

Given the significant potential for unintended disturbances in financial reporting and financial markets, we oppose including financial accounting income in the tax base.

Sincerely,

Fabio B. Gaertner, University of Wisconsin-Madison

Jeffrey L. Hoopes, University of North Carolina at Chapel Hill

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Biographies of Authors

Fabio B. Gaertner is an Associate Professor at the University of Wisconsin-Madison. He received a Ph.D. in Management from the University of Arizona, with an emphasis in accounting. Fabio teaches financial and managerial accounting to MBA and undergraduate students. His research examines the effect of economic incentives on corporate tax outcomes, as well as the economic impacts of tax reform.

Jeffrey L. Hoopes is an Associate Professor at the University of North Carolina and the research director of the UNC Tax Center. Jeff received his Ph.D. in Business Administration from the University of Michigan. He is a CPA in the State of Colorado. Jeff teaches Taxes and Business Strategy and Accounting and Public Policy to graduate and undergraduate students. His research examines issues at the intersection of accounting, public economics and finance.

LETTER SUBMITTED BY MARGARET ELLEN GALLAGHER

I am a citizen of the United States of America. I live outside the United States in Peru where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. I must charge prices relative to the middle-to- low income country that I reside in, which operates at a much lower standard of cost of living than in the United States. This means I typically charge one half or one third of the price as compared to the United States. Simply put, I as a citizen abroad, I am not making the equivalent of U.S. income, nor is my small business.

However, because I am a U.S. citizen, the U.S. tax code treats me the same as a large multinational company like Apple or Google.

I use a local business structure that's treated as a corporation under U.S. tax law, and I am forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income

For me, personally, the form 5471 is not something I, nor my resident country (Peru) accountant can contend with, therefore I must pay a U.S. based tax accountant to comply with the regulations each year. Irrespective that I earn (and live) in a Peruvian economic standard (an amount equivalent to roughly $250 USD is a standard monthly wage here), I must pay the tax accountants I work with based on the U.S. pricing standards. This is money that I could use to support myself and my business here for months, but it is spent to simply comply with U.S. tax laws.

I do not live "offshore." I do live in a country where I pay very high income and business taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States.

I have friends and acquaintances from around the world that live and operate businesses here in Peru. They are shocked when I tell them about the tax burden that the U.S. applies to me and my business. There is no other advanced country in the world that imposes such extraterritorial taxation.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. Also I am living in a country that is far less wealthy, in terms of U.S. Dollars and finances, than that of the United States, and at present, NO allowances to taxation are made based on size or income of the business.

In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Individuals who live and work abroad are not just vessels of large corporate entities. We are small business owners and run the gamut of wealth and income levels, and our ability to comply within this tax system, one which punishes us for being small local entrepreneurs, varied greatly.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I urge you to take this seriously and take into consideration the millions of U.S. residents that this affects each and every year. I know of others that have renounced their U.S. citizenship in order to be released from this onerous tax burden. Due to the fact that my income is so low in U.S. terms, I too have considered this option. It doesn't seem right that I, or anyone, would need to take such a drastic action only for this reason, but sadly it is true.

Please take this time to take action now, and make changes that could impact and improve the very real lives of your very real fellow U.S. citizens that live abroad.

Thank you for your time and attention in this matter.

LETTER SUBMITTED BY DOMINGO GARCIA

I am a proud citizen of the United States of America. I live outside the United States, in Spain, where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example, 21% VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and I do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way that they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or an individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings

include witnesses who have experienced running businesses outside the United States and/or are actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground, and not with the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I only ask to be allowed to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living overseas and running small businesses outside the United States. Individuals are NOT immune to the effects of raising the U.S. corporate income tax rate and/or of doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh away.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both the Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you, and God bless the United States of America!

Domingo Garcia

LETTER SUBMITTED BY SARKIS GARJARIAN

As a U.S. citizen working and living abroad, I feel enormous distress and anxiety by the U.S. extraterritorial taxation/financial requirements including the Foreign Account Tax Compliance Act (FATCA), the Report of Foreign Bank and Financial Accounts (FBAR), etc.

I am not a corporation. I am an ordinary citizen, who works and pays taxes in the United Kingdom.

The above-mentioned policies to me are extremely stressful and difficult to understand.

I strongly urge lawmakers to abandon all extraterritorial tax/financial requirements and to pass laws that work well for U.S. citizens who work and live abroad.

LETTER SUBMITTED BY LAURIE GARRISON

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject

to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

My tiny, one-person freelancing business does not make a profit, but I still find myself spending up to $1,100 per year to fill in the 5471 form and the GILTI form. The GILTI form alone cost me $350 last year—simply for an accountant to fill in a few zeros and submit it. I have no problem doing my own company tax return in the UK and pay nothing for that, but the U.S. system requires so much complex reporting that I have never been able to do the 5471 myself. Now the GILTI form just exacerbates the problem. If I had had any idea how having a company would complicate my tax affairs, I would probably never have started one.

In addition, since I work in consultancy, there should be a number of business opportunities available to me that might involve company co-ownership or account signatory responsibility. I don't dare pursue these opportunities because of the cost and complexity of the IRS's reporting requirements.

Furthermore, I live in a development with a management company owned by residents. Again, I don't dare take up company ownership with my neighbors because of the cost and complexity of the IRS's reporting requirements. I therefore have to live with not having a full legal right to have a say in how the development is managed as I would do if I were an owner of the company.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY BENEDICT GARRY

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. Please treat small business run by U.S. citizens overseas who have small corporation structure differently than huge multinationals.
2. I have a family with one child and if higher taxes on U.S. citizens overseas are imposed it will cause significant hardship and hurt Americans overseas with small business.
3. There should be small business overseas threshold of under $U.S. 400K where gigantic additional U.S. taxes aren't imposed as I'm already paying huge Canadian taxes.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

Please have a separate small business threshold where massive new U.S. taxes aren't imposed on my small business which is being taxed maximally by Canada.

Sincerely

Benedict Garry
Elise Garry—my 4 year old daughter
Small business owner overseas

LETTER SUBMITTED BY MATTHEW GEAGHAN

I am a proud permanent resident of the United States of America. Having lived here for several years, I have established friendships, community, personal and profes-

sional networks, property ownership—a great life in the United States. I have a father, a brother, aunts, uncles, and cousins—my family, here in the United States.

However, my mother lives in Ireland. She is at a time in her life now where she needs support. My brother and I are her only children, and it is time for one of us to be with her as she looks after her ninety-six-year-old father (my grandfather), and her brother who has recently had a heart attack. She has her own home to manage, as well as her job, which now requires technical acumen to accommodate working from home in the wake of the pandemic. She needs her son's help.

It is my wish, and indeed my duty, to put on hold my life in the United States for a period, so that I can be with my mother in Ireland. Achieving this reasonable call to support my family is currently a cause of much stress and uncertainty, given the challenge of being a U.S. tax person seeking to live productively overseas.

I have no intention of avoiding or evading taxes. However, the current U.S. extraterritorial tax regime treats any U.S. person building a life overseas under the same terms as those engaging in criminal activity.

Ireland has a well-developed tax system that requires payment of a wide range of taxes. Personal income taxation in Ireland is some of the highest in the world. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not plan to live "offshore." I plan to live in a country where I will pay very high income taxes. I will also pay additional kinds of taxes (example VAT) to my country of residence. Yet, because I am a U.S. citizen, the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

My options:

- *Abandon my U.S. permanent residency.* I will have to give up everything I have built here in the United States, and no longer be able to continue my life in the U.S., apply for bank loans, work in the country where I have invested so much time and effort to develop my profession and career. The exit tax on top of this will make for a brutally expensive event, undoing everything I have created during my time in the U.S.
- *Apply for U.S. Citizenship.* This will allow me to retain my interests and my place as an American. But what if my time overseas turns into something more permanent, where I am not in a position to leave my mother and return to the U.S.? I will forever be a second-class citizen in my new home country, shunned by banks, burdened with costly filing requirements to the U.S. every year, and a cause of future difficulties to any future spouse or children that I wish to have.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to review its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation for those who qualify. I call to your attention Congressman Holding's "Tax Fairness For Americans Abroad Act of 2018 (H.R. 7358)," as described here: *https://www.americansabroad.org/tax-fairness-act-rbt/*

There needs to be an assessment on Americans who are bona fide residents of a foreign country, such that they can continue to be part of life in the United States, to contribute to the nation through business and investments, yet not be crippled in their efforts to build a life for themselves and their family in their local home.

God bless the United States of America!

LETTER SUBMITTED BY LINDSAY GELB

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation, quite high taxation in fact.

I am an emigrant from America. Sure I love America but, we never know where life will take us. I moved from America close to 8 years ago for love to live with my partner who is Australian. I have realized that although I will always love America, I am living permanently abroad and need to make decisions as this is where I will remain for the rest of my life. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country since this is where I plan to retire with my family. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I left the U.S. when I was very young, I made most of my income in my country of residence and intend to spend it here as well I have 0 economic ties to the U.S. yet because of U.S. tax law that taxes non resident citizens I am forced to deal with and consider U.S. tax law constantly. I can't invest normally for my retirement, obtain a mortgage or many other things people consider normal financial planning. The complexity and stress of it has affected my health. I have to consider many aspects of U.S. tax law that my friends and family located within the U.S. never have to deal with. It seems grossly unjust to subject citizens living abroad to such a harsh reality for no other reason than they chose to live elsewhere. I live in fear that I will do or report something wrong despite my best efforts to do the right thing and be penalised harshly since anything foreign is treated very punatively by U.S. tax law, yet I have no choice since I live in a foreign country. I like to think that if people truly understood

the difficulties and stressors that U.S. expats face no country would wish to treat its citizens this way (in fact none do except the U.S. and Eritrea!). I hope that by sharing this it will bring light to the issues we face as U.S. citizens living abroad in the hope that things can change. I have thought at times about giving up my U.S. citizenship just to avoid the heartache and stress of it all, even though I have never owed any tax—that is how stressful compliance can be—not to mention expensive! I will pay by necessity possibly 10 times as much as my domestic friends and family to organise my U.S. tax affairs, I need to consult lawyers and experts in both countries just to make sense of it all and ensure that I am not running afoul of some law in either country—it's utterly exhausting and grossly unfair. I find it very sad that so many people feel compelled to give up their citizenship to the country they love and were raised in just to live a normal life abroad.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes such as Medicare levies, GST etc to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation. In quite a number of cases I am also subject to double taxation on income that may not be recognised by a treaty, so my ability to adequately save for retirement via tax advantaged saving which all advanced countries allow their residents to do is impacted. I am penalised for this while my foreign resident non-U.S. friends and U.S. resident friends and family are not—how is this fair? Really I am not treated equally under U.S. tax law.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant in the hearing recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witnesses who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experience running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud and if the U.S. continues to insist on taxing based on citizenship (which I hope they do not) then hearings need to consider how domestic laws will impact those abroad. Many people have been caught out because of the simple fact that impact to the individual is just not considered.**

I am not a "mini-multinational". I am a soon to be "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my my life without interference from the Internal Revenue Code of the United States considering I have no financial or economic ties to the U.S..

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency (despite NEVER interacting with USD at all), I am subject to "fake income" on nothing but changes

in the exchange rate so can potentially owe tax to the U.S. on money that I have not actually made—how is this fair? Corporations can choose other currency as their functional currency but individuals cannot—again how is this fair? As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh. I have no problem paying my fair share of taxes (I believe in taxes as long as they are fair!) and if I lived in the U.S. would pay them quite happily but I live in and derive all benefits from another country. I quite happily pay tax to my country of residence and just wish to live a normal life without having to consider U.S. tax law when I am not a resident of the U.S.!

Please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Instead of trying to apply myriad of increasing complex rules to eliminate double taxation why not just eliminate tax based on citizenship? Even my children who have no choice whatsoever in their inheritance of U.S. citizenship and who will likely never live or spend any significant amount of time in the U.S. will also be subject to U.S. tax and have to file taxes their entire lives despite being born a citizen of another country. They would have to spend thousands of dollars to renounce their citizenship to avoid this. This sounds completely insane doesn't it?

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. We may be small in number comparatively but that doesn't mean we should be ignored or discounted or brushed aside, if something is wrong it is wrong and should be dealt with. In fact it can be easily dealt with—move to a residency based system of taxation.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY MICHAEL GEPPELT

I am a United States Citizen, born and raised in north-east Oklahoma, but have lived for the past 10 years in Hamburg Germany, where I am subject to full taxation like any other German resident or citizen. But I along with the estimated 9 million U.S. Citizens living outside the United States are subject to a different set of rules—a different set of tax codes—that all other U.S. Citizens are not subject to simply because we do not reside inside the United States. And these rules are making it hard to live a normal life.

Citizen Based Taxation

The United States of America and Eritrea, a small African country on the Red Sea, are the only two countries in the world that tax based on citizenship and not residency. What this means is that I, along with the estimated 9 million U.S. Citizens abroad, are subject to both U.S. taxes and the taxes of the countries where we reside. We are, in short, taxed twice.

The IRS does offer the possibility of a "tax credit" based on the local taxes paid. For myself, and the large majority of Americans abroad, this means we owe no taxes as we reside in countries with a marginal tax rate higher than the United States. In the end, normal citizens are having to jump through hoops and pay high fees to tax professionals to prove to the United Sates Government that we owe no taxes; we are creating more paperwork and consuming resources of an already strapped IRS, while at the same time generating no revenue for the U.S. government.

I personally have not lived in the United States in 10 years. However, I received both COVID stimulus payments, and, according to the IRS' website, am eligible for the third payment. Till this day I am as confused as the day I first saw the money in my account; why have I received U.S. stimulus payments, as someone who, while obligated, pays no taxes, and is eligible for social benefits in my country of residency. With 9 million Americans abroad, that creates a potentially large amount of money leaving the United States, which is not benefiting Mr. and Mrs. U.S. Tax Payer, the U.S. Government or U.S. Economy.

While on the note of benefit, it must also be pointed out that social payouts like unemployment and disability are subject to U.S. Taxes, as they are seen as income by the U.S. Treasury, but do not fall under the IRS' "tax credit" as they are not taxed in the country of residency. This is just one example of how the U.S. Tax code is not benefiting the least fortunate U.S. Citizens, but there are of course many more examples and issues plaguing U.S. Expats, most of which have already been presented to a Congressional Committee.

Foreign Account Tax Compliance Act (FATCA)

The Foreign Account Tax Compliance Act (FATCA) was introduced to prevent individuals from dodging their tax obligations by placing money abroad. It did this by requiring foreign banks to report on accounts owned by U.S. Citizens at threat of high withholding on U.S. based revenue. As a result, these non-U.S. Banks instead of complying with the reporting requirements decided not to take on the additional administrative burden and instead started closing the accounts of U.S. Citizens and preventing new accounts from being opened. Speaking for myself, I am not able to open a savings account, my retirement account (equivalent of a 401k) has been dissolved, and looking for a mortgage I am not able to obtain a competitive rate but instead a rate worthy of someone with a very poor credit history, which is not me as I have worked hard to have a good credit score. And I am not the only one facing this issue—millions of Americans abroad have similar hardships. This is evident in the rate of individuals giving up their U.S. Citizenship, which has skyrocketed since the introduction of FATCA in 2010. These people do not want to give up their U.S. Citizenship, but being put in the position that they are in with no other option, they are doing what they have to do to live normal lives.

An exemption should be created allowing banks to forgo reporting on the account of U.S. Citizens that have legal residency in the country of their accounts. The exemptions would still allow FATCA to work as intended without destroying the lives of normal U.S. citizens living abroad.

Conclusion

Americans abroad are being treated unfairly by a tax code that singles them out simply because they have made the decision to not live in the United States. In addition, Americans abroad are suffering the consequences of U.S. tax policy abroad. Action must be taken to alleviate or eliminate these unnecessary burdens so that normal citizens can live normal lives, and have access to the financial products and services that the citizens of their local countries, and U.S. Citizens residing in the United States, have no problem accessing.

LETTER SUBMITTED BY MALEK GHANTOUS

I am a proud citizen of the United States of America. I was born there and left as a child for Australia where I have gone to school, studied at university and worked. Over 6 years ago I moved to France where I now live and work; I am a tax resident here and am subject to full taxation. I have never worked in the United states.

I live in a country where I already pay very high income taxes, as well as a high Value Added Tax, and other taxes. But because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income in the country where I reside.

I have learned that I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. I am also required to file complex information returns describing the details of my finances to the U.S.. With no Americans in my family to guide me, I have tried to learn enough to comply with U.S. tax law, but the completely unfamiliar tax system and terminology, the astonishing complexity of the extraterritorial tax laws, the huge expense of hiring a tax professional capable of dealing with them, and the brutally punitive penalties for even innocent mistakes have left me at my wit's end. In addition to these problems, the laws themselves are extremely discriminatory, effectively imposing requirements and penalties on overseas Americans that are not imposed on Americans living within the United States.

No other country does this to its citizens, regardless of where they live.

There appear to be only two solutions: move back to the U.S. permanently, or renounce my U.S. citizenship. The former is clearly in contradiction to the Liberty that the United States is supposed to be a staunch defender of, and the second would not only feel like a repudiation of the country where I forged my earliest memories, and which I have always loved and proudly felt a part of, but would prejudice me for life from ever being able to live in the U.S. again, should the occasion present itself—a prejudice which does not even apply to those who have never held U.S. citizenship. Even if I were to opt for this latter solution, which I am loathe to do, the U.S.$2350 renunciation fee—roughly what I earn in a month—is at least

an order of magnitude higher than what other countries would ask, and itself feels like a punishment for something which I had no say in.

Meanwhile, as I struggle to make sense of what is going on, I am unable to make the sensible financial decisions that will impact my future, my eventual retirement, and those of my non-American spouse. Any savings, future investments, retirement fund, property purchase or small business I might start will be disadvantaged or, as has happened to some unfortunate U.S. citizens living outside the U.S., lost entirely. Some of those, such as retirement funds, are requirements of local law and are incompatible with U.S. law, which often treats them as voluntary overseas investments, divorcing them from their purpose. Others, such as property transaction rules, apply equivalent taxes to the U.S. in such a way that double taxation by the U.S. cannot be avoided.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY DARCEY GILLIE

I am the child of a manual worker and a store cashier, leaving America over 20 years ago to study in the UK. I fell in love, married and have made my home here ever since with my spouse. My career here in the UK been devoted to helping people as a university teacher, secondary school teacher, and as a guidance counsellor; I volunteer in conservation and social care. I am living the American dream made

available to me through Pell Grants and Sallie Mae loans. Before I even knew about my IRS compliance obligations, I paid off (in fact, I believe I over paid by 17 dollars) the student loans I incurred to pay for my UK studies. As soon as I discovered my tax compliance obligations (no one tells you), I immediately (at eyewatering expense for a guidance counselor) engaged a tax professional to help me through the streamlined filing process to "get compliant."

The Americans I know of abroad are university workers, hospice administrators, stay at home moms, English teachers, law enforcement officers, and health care professionals. We are not the super wealthy. We may be comfortable, we may be struggling—we all need to think about the next pay check and what the future holds. We are also the people most likely to follow the rules. The super rich have the money, connections, time and resources to continue to avoid tax compliance. I don't even have the time or energy to iron my clothes or make dinner beyond a sandwich some days.

I am a dual national living in my country of second citizenship, with my spouse. It doesn't make me less American or somehow a "bad" American, which is how laws like FATCA and the ways in which American emigrants are talked about make me feel. I have never met an American or anyone else who, upon my explanation of the tax situation of Americans abroad who say it's a good thing. All of the m are appalled and immediately see the unfairness of it. Many non-Americans ask my why I don't renounce. Frankly, I'd rather cut my right arm off. I was born and American, and I shall leave this earthly world an American. Being American is the source of the characteristics and attributes people value in me the most. In my over 20 years living in the UK, I have been ambassador for American ideals and values.

In the United States we are nurtured to believe ourselves part of a tradition of justice, equality, opportunity, fairness—and as such a beacon to the world in all these things and more. Our foundations as a nation rest on the humane and compassionate ideals of the American Enlightenment:

> "We hold these truths to be self-evident, that all men are created equal, that they are endowed, by their Creator, with certain *unalienable rights,* that among these are life, liberty, and the pursuit of happiness."

Laws are conceived and established by governments to promote the security, prosperity, and well-being of a nation and its people. In the United States of America, since 1776 we—the people and our Government—have agreed that citizenry are endowed with the unalienable rights of life, liberty, and the pursuit of happiness.

It is with great regret, then, that I find myself writing this letter because the United States of America, through FATCA and its citizenship-based taxation regime, has abandoned me, betrayed my trust and loyalty, and denied my me unalienable rights to life, liberty, and the pursuit of happiness.

The United States of America was founded by men and women who could no longer tolerate the oppression and overreach of a British government hungry for revenue. Punitive taxes prohibited healthy business, innovation, growth—and for many people, simple survival. Despite the lessons taught to us by the founding of our own nation, it is strange to find ourselves here in 2021, where American citizens abroad—making new lives for themselves, on distant shores, are being subject to the same intolerable intrusions, demands, and punishments as our ancestors.

Many submissions to this hearing will make highly technical legal arguments. And I am grateful to the knowledge and expertise of the men and women who can do this. I am a university guidance counsellor. I make no pretence to understanding the most complex tax code in the world. My representation for myself and the estimated 9 million Americans abroad is historical, moral, and ethical—and deeply personal. Laws should never be conceived that—intentionally or otherwise—harm individuals' fundamental rights. FATCA and the tax code that applies to Americans residing abroad harms us in diverse ways, depending on circumstances and where we live. There is even no equity within an already unequitable situation.

Sadly, because we are diaspora, because there are no votes to be garnered from supporting us; because of a persistent erroneous belief we are all "GILTI" "FATCATs" with Swiss bank accounts—no one in the United States Government cares about us and no one is moved to help alleviate the deliberate harm being caused to us. We are the collateral damage of well-intended but poorly conceived legislation. Laws must work for all citizens or they work for none. FATCA sets a terrible precedent for the rights of every United States citizen—paving the way for intolerable intrusions into privacy and oppressive monitoring not subject to normal legal safeguards

such as probably cause and warrants. Our founding fathers would be appalled at the road the United States Government taken with FATCA, and citizenship-based taxation.

Representative Neal once said that he did "not accept" that FATCA is a "burden." I am sure if Representative Neal found himself considered a criminal by virtue of having a "foreign" bank account he would only find it a burden, he would find it an intolerable injustice:

1. Reporting to FinCEN is an enormous psychological burden. In no other situation are American citizens presumed to be guilty by virtue of certain characteristics (*i.e.,* a "foreign" bank account). This is an utter betrayal of U.S. citizens by the U.S. Government. It causes me weeks of psychological stress and anxiety every year.

Query: How would you feel if you were considered a criminal by virtue of where you lived, and on no other basis?

2. I have been refused accounts by banks, prohibited from investing in local green energy schemes, and discouraged from board membership of charities.
3. It is a time burden to check my accounts—up to 8 hours to check and recheck the data, plus enter it into the FinCEN site.
4. I choose to do my own FBARS because my affairs are fairly simple—for others it can add hundreds or thousands in compliances costs to engage a tax professional to do this. I accept the near constant stress and worry about excessive fines for mistakes because I can't afford to add to what I already pay my accountant to ensure my IRS compliance.
5. My bank account is *not* foreign or abroad. I do not live "off-shore." I reside permanently in the UK. It is my local bank. I generally spend a maximum of 21 days a year in the U.S.
6. Being happily married, I share a bank account with my UK spouse. FATCA means that his data—that of a citizen completely foreign to the U.S., who has never lived or worked there—is being shared with a foreign government and he is subject to the laws of a foreign country.

Query: Would any of you be happy putting your most sensitive information in the hands of a foreign government, as my spouse is forced to?

7. Others I am sure will provide more detailed on nuanced discussion of data protection. Suffice to say, given the recent Treasury data breach, I do not feel satisfied that my most sensitive financial data is currently in good hands via FATCA.

Queries: Can you absolutely 100% guarantee the safety of my personal data? What compensation or support will I receive if I become a victim of a data breach caused by FATCA?

8. FATCA has prevented me from setting up a small charitable foundation with my spouse to support first generation university students (like I was) with small grants (£100–200) towards their university education. I don't have the time, money, energy or know-how to tackle compliance with U.S. laws. It distresses me that I am prevented from paying forward the same support to young people in small scholarships that helped me at that age.

In every way, FATCA undermines and denies hard working Americans (who happen to live abroad) their rights to life, liberty, and the pursuit of happiness. I have been deeply affected by the stories of Tina, the Canadian woman (but also "U.S. Person") who late in life discovered her obligations as an accidental American. Can we all stop to imagine and empathise for a moment how the realisation of compliance and its costs must have felt? Can you feel the tight knot of fear she felt when realising that FATCA would cost Tina her modest savings and support for retirement? How can members of Congress be happy and content with this sort of suffering? Let's remember in this Easter season: "What you do to the least of my people, you do to me."

The story of Ronald Aries has also touched me. Can you imagine working hard, as a highly trained professional on whom the safety and lives of others depends, get to a well-deserved retirement and find yourself on the precipice of losing everything? Read this—and imagine yourself as Ronald Aries. You get a letter from your bank closing your account, refusing your mortgage on the house you were buying for your old age, plus 10s, if not 100s of thousands of dollars in compliance costs and fines.

What is happening to Ronald Aries is not moral, it is not just. In every way it abandons the humane ideals of the American nation.

I am delighted to pay taxes. In the UK, we have a fairly simple, straightforward system and I barely have to think about it. On the rare occasion in the past 20 years when there has been an error—mine or HMRC's—I ring them up, we settle the matter—there are no punishments or penalties for making a mistake. I either increase my monthly contributions or decrease depending where the error lies. My taxes ensure that children are educated, we have law enforcement, fire services, clean streets, disability support, a safety net for those who have lost their jobs, good roads, universal health care free at the point of delivery, and so much more. Every year, all UK citizens receive a statement informing them of how their tax money is spent.

No one disagrees with the intention of American lawmakers to hold large companies or resident Americans "off-shoring" vast wealth accountable for tax contributions. The U.S. Government might find it more effective to start at the other end of the process—changing hearts and minds about taxes—making them something people want to contribute to rather than avoid. As a constructive suggestion in all of this, what about periodic (3–4 times a year) televised updates of how federal tax dollars are being spent nationally and locally to support and improve people's lives? Inspire people instead of alienating and frightening them. Make tax avoidance as socially unacceptable as smoking in a restaurant or drink driving.

If the United States Government wants to create a fairer society, it needs to start by setting the example. FATCA is a law of anger, vengeance, fear, and punishment. It is a microcosm of the whole legislative philosophy of the United States Government at the moment. Bring back inspiration, aspiration, hope, compassion, and our unalienable rights to the process—and America will flourish.

As second constructive suggestion, I urge the United States Government to explore (and implement) progressive forms of taxation that enable some of the ambitious changes we need and have proposed for society: *e.g.,* sugar taxes, fossil fuel taxes, higher sales taxes, land taxes, etc. Here in the UK, besides paying some of the highest income tax in the world, I pay 20% valued added (sales) tax on almost all goods and services, car tax (higher for more polluting vehicles), and also pay council tax to cover local infrastructure, social, welfare investment and other services.

All countries in the world (excepting Eritrea, of course) demonstrate that it is possible to fund their governments (some such as Denmark, the Netherlands and Sweden, quite generously) without harassing their overseas private citizens. Other nations who have tried citizenship-based taxation (*e.g.,* Mexico, Romania) gave it up, or limit it to a few years after someone emigrates.

Queries: Why is the United States of America different? Why do you have to be so unjust to us? Why do you hate us? We are a tremendous source of free soft power all over the world. Instead of cultivating and supporting us, you punish us—over and over.

There isn't even equity in your punishment of us—it depends entirely on the nature of the tax treaty the United States has with the country we live in—if indeed there is one. I am aware that I enjoy the advantages of the tax treaty between the U.S. and the UK, whilst my fellow citizens living in Mozambique, Jordan, Singapore or Afghanistan do not. People are prevented from saving adequately for their retirement due to laws around PFIC (which I don't understand, and so avoid anything other than a standard savings account in a bank), and are subject to double and even triple taxation—no doubt putting higher social care burdens on the country where they live. Women are already at a disadvantage globally in terms of retirement income. FATCA and citizenship-based taxation reinforces and deepens this disadvantage.

Query: As a middle aged, middle income woman—how would you, under current laws, recommend that I save adequately, responsibly, and without penalty for my retirement in the UK?

Whilst I can understand that updating the tax code to reflect the 21st century needs and interests of American citizens abroad will be time consuming, "A Simple Regulatory Fix for Citizenship Taxation" (Richardson, Snyder, and Alpert (2020) 169 Tax Notes Federal 275. Available at SSRN: *https://ssrn.com/abstract=3725506*) easily and fairly solves problems for everyone. It will enable the IRS to refocus efforts on tax avoiders, rather than spending time and money on America citizens who are tax resident (and compliant) in their country of residence.

I am over halfway through my life, if I can trust the actuarial tables. Things I should be worrying about:

- My mother's (who lives 3000 miles away) advancing dementia.
- Her recent stroke.
- Her recovery from bowel cancer.
- The fact that she cares for my 101 year-old grandmother—who lives 6 hours from my parents.
- My sister who is caring for my mother, my 80 year-old father, and my 101 year-old grandmother.
- My preventive chemotherapy for breast cancer and maintaining good health.
- As a childless woman, making adequate preparations for my own old age.

Things I should not be worrying about:

- Complying with burdensome, amoral, intrusive laws that have no positive benefits for society or individuals.
- The excessive penalties should I make a mistake.

Thank you for taking the time to organise this hearing, to read and listen to all of the evidence, including mine. I hope that on hearing our stories, engaging with our suggestions, and on the balance of evidence you will be able to work with us to find a solution the restores our rights and freedoms as American citizens. At the very least, please find it in your heart to have a little mercy on us.

Yours sincerely,

Darcey Gillie

LETTER SUBMITTED BY BETSY GILLIES

I am a citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation. My story is as follows:

I was born and raised in the USA and fully identify as an American. In my mid 20's, I married a New Zealander. We spent time in both countries and decided to permanently settle and raise our family in New Zealand 10 years ago. We do not own property in the USA, nor have any economic ties to the USA. I am not a high earner or a wealthy individual by New Zealand or American standards.

I am a tax resident of New Zealand, but subject to both the New Zealand and U.S. tax systems. These tax systems do not speak the same language and are completely incompatible. As a result, tax advantages, strategies, credits and loopholes I have in each country cancel each other out, so I generally pay the highest tax rate from both countries combined or I am double taxed. The most damaging aspect extraterritorial tax for me is that I am unable to plan for retirement due to the double taxation of any retirement or investment account that I hold in New Zealand or in the USA. This leaves me very vulnerable and dependant on others in the future.

Additionally, tax laws in both countries are so complex and out of sync with each other, that I need to hire a specialized expat tax accountant to make sense of it all and do my taxes. I only make around $7,000 per year and can pay up to $2,000 for sound advice and service. Fees for specialized expat financial and retirement planning advice are even more steep.

I try to educated myself through reading expat tax forums on Facebook, trying to familiarize myself with the extremely complex tax lingo and issues (that I still don't understand), hoping that this will help me avoid making mistakes both now and in the future. However, this can be confusing and very risky.

To sum it up, U.S. taxes is something I think about everyday. My U.S. tax obligations bring stress and anxiety in to my life and to my marriage, along with financial vulnerability. I feel like the U.S. tax system punishes me, just because I choose to live somewhere else.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY GARY GILLIS

I am a proud citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Of course I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. In fact the last fifteen years have absolutely flown by.

The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

My last tax return for 2019 was more than one hundred pages—and my taxes are not even that complex. Because the taxes are much higher here I don't even end up owing anything! I can't help but think the time spent by me, my tax accountant, and any IRS agents reviewing my returns could be better spent in other areas.

Having said that I should probably clarify that while I usually don't pay taxes I did last year. Why is that? Because I simply tried saving for my retirement and put money in basic index funds through a local broker. My accountant notified me that these are classified as PFICS and intended to prevent money laundering. Surely there are better ways to catch that? Because of this I had to pretend I sold everything and calculate any profits—even though I hadn't sold anything and didn't have any profits. And for PFICS you don't pay capital gains taxes, but ordinary income taxes. And not at my marginal tax rate, but the highest statutory income tax rate.

I immediately transferred my funds to an American broker. But about a year later I decided to buy a house and needed the funds so transferred them back to the UK—losing thousands in the process.

You may also be surprised to learn of the bizarre treatment we are subject to when we refinance or sell our houses. As an example assume I buy a house for £1 million with an interest only mortgage (just to keep it easy). If the exchange rate at the time is 1.4 then the IRS views this as a $1.4 million USD mortgage. We do not normally have 30 year fixed rate mortgages over here so we usually have to refinance after five years. If at that the time the exchange rate is 1.2 then the IRS says we had a $1.4 million debt forgiven and replaced with a $1.2 million obligation, and taxes us on this phantom "gain" of $200,000?! Even though I have the same mortgage balance, with the same home, in the same neighborhood, with the same family, and the same job, as I had all along. Just for refinancing. This cannot be right.

I do not live "offshore". I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I am not a "mini-multinational". I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are NOT immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. **Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate.** As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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God bless the United States of America!

LETTER SUBMITTED BY LESLIE GILOTTI

I am a proud citizen of the United States of America. I live outside the United States in London, United Kingdom, where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me

to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. Many financial institutions in the UK won't even accept Americans and other U.S. persons for this reason.

How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes—40% in my case. I also pay additional kinds of taxes such as VAT, National Insurance contributions, Council Tax and more to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I simply live in the UK, where I have permanent residency (the British equivalent of a Green Card). This doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not "GILTI" of anything. I am simply a Pennsylvania girl who married a Brit and decided to settle in her husband's country. I live a normal, financially modest life. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

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God bless the United States of America!

LETTER SUBMITTED BY CHRISTINA M. GLENNIE

I am a proud citizen of the United States of America. I live outside the United States in the UNITED KINGDOM where I am a tax resident and where I am subject to full taxation. I have passed this "benefit" on to my children. One who remains living and working in the UK and my second who has decided to study at the University of Wisconsin, despite his Wolverine mother.

I am an emigrant from America. I met a boy and moved to the UK after I graduated from the University of Michigan. He had a job, I did not, and we were young in love and didn't think past that. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the US tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a US citizen, I am subject to the tax system where I live and the US tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I am a higher rate tax payer in the UK—I pay 40% tax on most of my income. I am happy to pay it, as I use the services here—and it "is what I signed up for."

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. My kids are 21 and 23 and I recently passed some money to them that they inherited from their USA grandparents upon death. ALL OF THE UK investments, bar cash, were not available to them, as they are dual nationals, and the U.S. FATCA is prohibitive. The average price of a flat in London is $450k. My daughter is a social worker. Without growth in her investments, she will never buy a house. Cash interest rates are .2% Why is she penalized? I pay $6k a year to keep us all tax compliant, as we do not want to renounce. I invest via my husband and have to keep more assets in his name because of U.S. tax laws. I am a mid level marketing manager, not a high net worth individual. I would never recommend to my kids to pursue this investment strategy with their partners. It is too risky. I lucked out.

Because we are U.S. citizens, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen? U.S. expats would be the 13th largest voting block in the USA.

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. I owed money when I paid of my mortgage last year due to these fictional rises. I live in a damp cottage in Buckinghamshire, how is that fair? As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Christina M. Glennie

Plus Lucinda Glennie and Max Glennie

LETTER SUBMITTED BY MELVYN AND JUDITH GOLDBERG

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

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LETTER SUBMITTED BY DAVID GOLDFARB

I am a proud citizen of the United States of America. I grew up in New York City and studied at MIT, where I received a BSc in Computer Science and Engineering. I chose to move to Israel shortly after graduation but remain a proud U.S. citizen. I am a tax resident of Israel and am subject to full taxation here, at rates that exceed the U.S. tax rates. Nonetheless, I am also subject to additional U.S. taxes, *e.g.,* the 3.8% Medicare tax which I must pay, even though it is for a program whose benefits are not available to me as a non-resident of the United States.

The U.S. policy of taxing non-resident citizens is nearly unique worldwide. It imposes an onerous burden on U.S. citizens who live overseas. My annual U.S. tax filing ranges from 100 to 150 pages each year and is far too complex for me to complete without the assistance of an expensive accountant. And this is even though my net U.S. tax burden is sometimes relatively minimal since the higher Israeli taxes take "first bite". The cumbersome reporting system forces huge compliance costs even when the revenue accrued by the U.S.—justified or not—is often tiny.

I do not have a tax-advantaged retirement plan. Although Israel offers retirement plans that are essentially like U.S. IRAs, and although these plans are mandatory and I do contribute to them, nonetheless I receive no tax benefit. The nominal benefits disappear because the U.S. tax regulations "see" that I am not paying foreign tax on these plans and that they are (obviously) not U.S.-domiciled plans. Therefore, I am taxed by the U.S. on all the tax benefits that I should have accrued locally. My retirement receives no tax benefit.

In addition, I run a small business in Israel. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes, *e.g.,* VAT, medical, and the equivalent of Social Security to Israel.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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God bless the United States of America!

LETTER SUBMITTED BY LELAND GORDON

April 3, 2021

Dear Sir/Madame:

I am an American/Canadian citizen permanently living in Canada. I am required to still file U.S. taxes along with Canadian taxes. I have lived in Winnipeg since 2008. I was a good U.S. resident when I lived in Miamisburg, OH and paid U.S. taxes.

The IRS filing process when living abroad is complicated. It is also expensive; typically, $400 a year, as it requires a specialized accountant. The forms are not the same as a typical U.S. tax return. It also wastes IRS resources, as most filers end up not owing U.S. tax.

The U.S. is the only major country in the world that makes its citizens file taxes when living abroad. Every year I get stressed due to the burden of the U.S. filing. I am required to file U.S. taxes for the rest of my life. It is just not fair.

This policy is having a significant effect on thousands of citizens permanently living abroad who still absentee vote.

I am requesting the foreign tax filing requirement for U.S. citizens be removed and instead be made residence based. This is an issue that could likely easily garner bipartisan support.

Sincerely and respectfully,

Leland Gordon

LETTER SUBMITTED BY DAVID M. GOTTESMAN

I am a proud citizen of the United States of America. I live outside the United States in Israel where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. U.S. tax advantaged vehicles for retirement planning, like IRAs are taxed in Israel, and Israeli tax advantaged vehicles for retirement planning are taxed by the U.S. (incredibly harshly if I may add) How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes: VAT, social security, health care tax to Israel.

I am not some extremely wealthy fat cat trying to avoid taxes. I am a regular employee of a large multi national corporation (Intel). I am an electrical engineer.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean

that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! I can't offset U.S. tax on foreign retirement vehicles with my foreign income tax, it specifically does not allow me to.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY JAMES RICHARD GRAHAM

I am a proud citizen of the United States of America but I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America and I always will. That said, I moved from America many years ago. I am a tax resident of Australia and I plan on retiring here. Unfortunately for me as an American citizen, I am required to organize my financial and retirement planning in that country. It's only unfortunate because U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. They are subject to only one tax system—that of Australia. As are the majority of my other dual citizen friends—those from every other country in the world. **British nationals, Irish nationals, Japanese and Korean nationals—they can ALL plan for retirement, make intelligent investment decisions and live their lives here in Australia without having to pay or file taxes in their "native" country.**

As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible despite the taxation treaties. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. taxlaws. This is not only not fair, but I am treated differently than people living in the U.S.. How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes—far higher than those I would pay in the U.S. I also pay additional kinds of taxes including GST and property taxes to Australia.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, **not a single participant recognized how individuals are affected by these rules.** Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! **How can you investigate something with no first hand witnesses?**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life and plan for my retirement without interference from the Internal Revenue Code of the United States.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. Many investment options are closed to me and some of my locally tax protected retirement investments are treated as PFICs by the IRS and punatively taxed.

My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. When we sold our primary residence several years back I was hit with a "Phantom gains tax" because the currency had changed in the interim—despite the fact that I bought and sold the residence in Australian dollars—my local currency. Because of the differing rules between the countries I was also hit with an additional capital gains tax because the house was treated as an investment property rather than my primary residence. On top of that we were hit with the Net Investment Tax, which as far as I can tell, was deliberately written to abrogate the double taxation treaty with Australia. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

On top of all this, over the years that we have been outside the U.S. it has cost us well into 6 figures (U.S.$) just for filing fees. We have owed tax twice. But the horrific complexity and cost of filing our U.S. taxes seems to get worse every year. We pay accountants to do this for us, but the preparation of the documentation typically takes more than 200 hours. Australia and the U.S. have different financial years and different reporting requirements. We have property in an investment trust here (standard practice in Australia) that costs us $2,500 a year to have filed in the U.S.. If I remove the assets from the trust it becomes a locally taxable event. I'm stuck.

My wife put additional monies into her superannuation. Unknowingly this created a situation where the IRS now considers her superannuation (an Australian cross between a 401k and social security) to be a grantor trust. Again, it costs us hundreds to file the forms for this **and the IRS now considers it a PFIC and taxes her at 40% on her locally tax protected primary retirement savings vehicle.** This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

In addition to the heavy personal costs of doing our taxes, I have been unable to take jobs because my local employers were unwilling to have a senior executive who could not sign checks and equally unwilling to have their business accounts subject to IRS inspection. It's become increasingly difficult to hire American expatriates. It's

bad for Americans and it's bad for American business. For the majority of my career I have worked for American companies selling American goods and services abroad. Sadly, today I would probably not have gotten the chances I did then, and it's unlikely that my children will have those opportunities either. It's becoming an increasingly difficult burden for U.S. businesses.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation. Please, please, please join the rest of the world in a rational approach to residence based taxation. That failing—provide exemptions for dual citizen long term expatriate residents in their country of residence.

Thanks and Regards,

James Richard Graham

LETTER SUBMITTED BY BRADFORD P. GUAY

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

I love the United States, but I am an emigrant from America as life has taken me in a different direction. I moved from America many years ago and expect to be permanently abroad as my family and my livelihood are now here in Germany. I am a tax resident of Germany, therefore I am required to organize my financial and retirement planning here. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to both the German and the U.S. tax systems. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore". I do live in a country where I pay very high income taxes, much higher than in the U.S.. I also pay additional kinds of taxes (for example, VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational". I am a "dual-national" living permanently in another country. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the

United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

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Sincerely,

Brad Guay

LETTER SUBMITTED BY JEFFREY GUNSCH

I am no longer a proud citizen of the United States of America. I am an angry American citizen living outside the United States. The reasons for why I am angry will be outlined in this letter. I live in Taiwan where I am a tax resident and where I am subject to full taxation already.

I am an emigrant from America. Sure, I miss America, but I surely do not miss the government that has become bigoted, hypocritical and out to get people that choose to do something different with their life! I moved from America many years ago thinking it would only be for a short one or two year stint. Although those days went by slow at the time, it has now been over 20 years. I realized long ago that although I will always miss where I grow up in America, I probably will be living permanently overseas. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in Taiwan, however, that is often thwarted by the U.S. governments overstepping their bounds and not only not caring about Americans overseas, but not caring that they don't care that they are damaging businesses, families and people who are citizens of the U.S. who just happen to live abroad! The problem I have is that the U.S. tax laws and FATCA make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. (This is known as double taxation and may I add without representation!) Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? How can the U.S. basically sanction every country in the world because you government officials just seem not to trust people who have a bank account outside of the U.S. Many of us living overseas are fed up with DC for years and years and years of ignoring us and creating new laws that continual target us!

I do not live "offshore" as you define it!!!! I do live in a country where I pay taxes already! I also pay additional kinds of taxes (example VAT) to my country of residence. And I still have to pay embassy fees! So in essence, we are triple taxed!

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation. Why does the U.S. have to be hypocritical about everything!?

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen? What makes you think that an individual maybe earning 30–50k a year is somehow a multinational cooperation and should be treated as such?!
2. I was shocked that there **was no witness who had personal experience with a company or individual running a business with interests outside the USA.** Not a single one! This is crazy, unrealistic and hypocritical! I respectfully stress and suggest that subsequent hearings **include witnesses who have experienced running businesses outside the United States and/or WHO are actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship without a passport for that country! But it doesn't make me any less American not living in the U.S.! But, it does mean that I am subject to the laws of the country where I live! I am not GILTI of anything. I ask only to be able to carry on my small business, my work, and my life without interference from the Internal Revenue Code and U.S. Treasury and the likes of Elizabeth Warren who want to make laws like FATCA stronger of the United States. These tax laws only aim to hurt the U.S. and its people not make herself stronger and eliminate burdens on citizens caused by Washington!

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax. We are tired of being thrown under the bus each and every time a new law is passed! Congress never considers the consequences of such laws and how they impact the lives of millions of Americans peacefully, hardworking outside of the U.S.!

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh. Why should I be taxed on phantom gains because of currency changes over years and years and years?! The house is not in the U.S.! I am not living in the U.S.! I am not living in the U.S. with investments overseas! I am physically present and living and working in a foreign country!

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Not one bit!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. FBAR needs to go! Stop scrutinizing my foreign—which are actually local bank accounts! It is frankly none of your business how much money I have in my bank accounts in the country in which I reside! You do not subject Americans living in the U.S. to such nonsense, why do you insist to harass us?! We are tired of being the brunt of Washington's stupidity and global arrogance. The laws you make have no consideration nor respect for those of us who live in another country under another tax system. We have really only one request, summarized—leave us alone and stop making new laws that hurt us!

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation. And get rid of FATCA!

LETTER SUBMITTED BY AARON GUTMAN

I am a citizen of the United States of America. I have lived outside the United States in Japan for 12 years, where I am a tax resident and where I am subject to full taxation. I have no intention to return to the United States for anything other than visiting friends and family.

Politically, I am very left leaning. I would consider myself a socialist libertarian. I do believe strongly that there is a collective good, and in some manner, funds must be raised to support it. When I lived in the U.S., I paid taxes without complaint and supported that common good. Here in Japan I have been happy to do the same.

I definitely appreciate the need to prevent people and companies who reside or do business in the United States from using tax havens to avoid paying their dues to society. If you benefit from a system, you should help to pay for it.

However, as someone who considers my emigration to be permanent, it is an unfair burden to be accountable for the overhead of reporting, and potentially paying tax to the U.S.. As Japan's tax rate is sufficiently high, I actually never end up owing anything. Yet, every year I have the burden of compiling records to prove that I don't owe.

There are other invasive areas to which permanent emigrants are compelled, such as FBAR. Most average U.S. citizens would never be affected. But if you live abroad and work in a normal job, use your normal (foreign) bank account to collect your salary, you are now saddled with more than a normal level of reporting.

This becomes even more complicated if you seek to form or have part ownership of a company. Even if your business has zero relationship to the U.S., FATCA puts a huge burden on even a small startup that is punitive and might prevent you from taking this entrepreneurial step. Or your partners might opt not to want you on the team for fear of the extra overhead.

Similarly, foreign banks often will not accept American clients due to the increased cost of risk management.

Then there is the matter of renunciation. Many times I've heard Americans say things like, "if you don't like it, leave." Well, it turns out that isn't so simple. Besides the aggressive fee (over $2,000) charged to apply, I've heard horror stories of 6 figure tax assessments being levied on people who simply no longer want to be a U.S. citizen.

As an American citizen living abroad, I do not get the full benefit of citizenship. I have no local representation. I have more administrative hurdles in reporting and compliance, and I am sometimes treated as a pariah externally due to the extension of these hurdles to any business or financial partners abroad.

I am all for the U.S. protecting itself from abuse from those who seek to benefit from the U.S. while simultaneously exploiting loopholes. But that is not the average American emigrant's story. Most of us simply decided to pursue our lives elsewhere. It's nothing personal, we just don't live in the U.S. anymore.

If you value the things which I was always taught America stands for, such as no taxation without representation, basic fairness, and not exploiting minority groups—then you should take care in any legislative actions to target them at the true perpetrators of tax avoidance, and not to cast your net over regular people who just live somewhere else.

My suggestion is to create a semi-permanent status one can apply for, short of renunciation, whereby one can register as having no financial interest in the U.S. This way if circumstances change and one decides to return to the U.S., it could be reversible. Or, should that person become a citizen elsewhere and decide to take the final step of renunciation, it would be a simple matter as they're already established as non-residents.

LETTER SUBMITTED BY KEVIN ROBERT HAGGARD

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America four years ago. Although the days sometimes

go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example GST) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is not just. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. I am held back from opening a small business because of this tax regime. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY THOMAS HALE

I am a proud citizen of the United States of America. I live outside the United States in Germany, where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America and still love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay **very high income taxes.** I also pay additional kinds of taxes (example 19% VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Sincerely, Thomas Hale
U.S. Citizen, taxpayer and voter

LETTER SUBMITTED BY STEVEN HAMERNICK

I am citizen of the United States. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I live in a country where I pay very high-income taxes. I also pay additional kinds of taxes (GST, PST, etc) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I live in Canada and have done so my whole life. I do not work in the U.S. nor have I generated income from a U.S. entity. I have no U.S. investment or retirement fund in the U.S. Yet I have to pay two governments taxes. One for my country of residence and the other because I have a passport. In addition; I am a Canadian Military veteran; 25 years spent defending Canada (not the U.S.). Why in world should I have to pay U.S. tax for this pension (non-medical) that I receive from defending Canadian interests rather than the U.S.?

I have two observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. I am not a multi national corporation. I am an individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. Not one witness had any personal experience with a company or individual running a business with interests outside the USA. Not one! This is negligent. I demand that subsequent hearings include witnesses with experience running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings require factual experience based reality rather than abstract theory.**

The hearings were nothing more than a hearing for the sake of a hearing to appease the subject and proclaim, "see we are addressing this". Hollow, disingenuous and oblivious are kind words to describe the proceedings. If I ran a meeting in this manner; I would not have a single client.

I am not a "mini-multinational." I am a "dual-national" living in my country of primary citizenship my entire life. The U.S. is secondary; my only tie to the U.S. is a passport, and that does not make me less American. It does mean that I am subject to the laws of the country where I live. I want to live and prosper in the country of my primary residence without Internal Revenue Code taking taxes for nothing more than a passport.

As a general principle: Any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for my family to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the

United States, but local to me. I am not wealthy and the IRS has made it impossible to prosper for me in Canada. I cannot have a TFSA as the IRS considers it passive income? RESP for my kids, RDSP for my kids, cannot have my name attached. My wife and I are a team trying make a better life for our family; Internal Revenue handcuffs me and my wife and we cannot function as this team. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. I am at the mercy of an exchange rate with institutions on both side of the border which takes advantage of exchange.

To believe that foreign tax rules, Foreign Tax Credit and/or the Foreign Earned Income Exclusion solve these problems. They do not; One has to be oblivious or willfully oblivious to believe this. But they knew this and do not care. Expats make up a small number of citizens, and our vote is not really required for government reps to hold unto a job. We do not matter because all they have to do is appease those voters who they deem matter.

Unfortunately, I do not make enough to use all the loopholes that are granted to the wealthy and corporations; they can afford to make campaign contributions and lobby to garner a level of influence, I cannot, I am an expat trying to make a better life for my family no thanks the Internal Revenue.

The U.S. extraterritorial tax regime is nothing more than a cash cow. One way to scrape back is through taxation by citizenship vice residence. The over arching reach to catch the big fish illegally hiding their money has netted little more than expats trying to get by. The net was cast wide and the big fish continue to slip by while the little fish drown. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. A sham hearing is all expats get?

It is time the United States stop its extraterritorial tax regime; to join the rest of the advanced world and tax based upon residency, not a passport!

STATEMENT OF MICHELLE HANLON

Chairman Wyden, Ranking Member Crapo, and distinguished members of the Committee, I am submitting this document as a Statement for the Record for the Senate Finance Committee Hearing held on March 25, 2021 entitled "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment." I am a chaired professor at the Sloan School of Management at the Massachusetts Institute of Technology. My research focuses on the effects of taxation and accounting on corporate decision-making and on the intersection of tax and accounting such as the accounting for income tax and book-tax conformity. I am an editor at the Journal of Accounting and Economics and I am the Area Head of Economics, Finance, and Accounting at the Sloan School. I testified at the Senate Finance Committee hearing held on March 16, 2021 entitled "Made in America: Effect of the U.S. Tax Code on Domestic Manufacturing". In the March 25th hearing, Senator Warren brought up her plan to tax financial accounting income and I am submitting this document for the record to address the issue of taxing financial accounting income (also known as book income). I included a brief discussion in my testimony for the March 16th hearing as well.

My main point in this Statement for the Record is that using financial accounting income as part of an alternative minimum tax system (or to assess a surcharge) raises many concerns and it not a good policy option. Financial accounting serves a critical role in the economy and using financial accounting income as part of an alternative minimum tax system will alter how firms report financial accounting income. This lowers the quality of financial accounting earnings and results in less information provided to debt and equity capital markets as well as to other users of financial statements. In addition, if firms report lower financial accounting income in response to the alternative minimum tax (AMT), then the tax revenues raised from such an AMT will not be as high as estimated. Moreover, using financial accounting income as part of an alternative minimum tax possibly gives accounting standard setters influence over tax revenues and also will likely lead to Congress having influence over financial accounting standards, which is not a desirable outcome.[1]

[1] Much of this statement is based on my American Accounting Association Presidential Scholar Address from the American Accounting Association meeting in 2020 and the forthcoming

Continued

Financial Accounting Income and Taxable Income

In the U.S. and in many countries around the world, companies compute financial accounting (book) income and taxable income by applying different rules. Fundamentally, financial accounting income and taxable income are computed for different purposes. Financial accounting is the manner by which managers inside the firm convey information about firm performance to various stakeholders—shareholders, creditors, customers, suppliers, employees, etc. For companies reporting in accordance with formal accounting standards (*e.g.,* Generally Accepted Accounting Principles (GAAP) in the U.S.) financial accounting income is computed using the accrual method of accounting. In contrast, taxable income is designed to raise revenue for governments to use for public finance. The tax rules are often also used by governments to incentivize certain behavior (*e.g.,* investment) and to constrain certain behavior (*e.g.,* "excess" executive compensation). Taxable income is computed generally using a hybrid of the cash method (*e.g.,* bad debts are not estimated for tax purposes) and the accrual method (*e.g.,* for sales and inventory). Taxable income allows far less managerial discretion in reporting accruals. In contrast, financial accounting requires many estimated, accrued expenses. For example, in addition to the bad debt example just mentioned, warranty expenses are estimated and recorded for financial accounting when the product is sold. However, for tax purposes warranty costs are deducted as the warranty costs are incurred (paid). For financial accounting purposes there are many expenses that are estimated in advance of payment because the expense is known to exist and the financial accounting rules require the expense to be estimated and recorded so income is not overstated.

As another example of a difference between book and taxable incomes, currently the U.S. allows "full expensing" of qualified equipment for tax purposes (100% bonus depreciation, IRC Section 168(k)). This is done in the tax code to provide incentives for investment. However, financial accounting does not allow full expensing; rather, firms depreciate assets over the estimated useful lives of the assets so that the expense associated with the equipment is reported in the same periods as the revenue generated from using the asset (described at a high level). There are many other differences between book and tax incomes because the purposes of the two measures are different. Thus, reported income for financial accounting can be quite different than taxable income for the same firm in the same year (*e.g.,* see McGill and Outslay 2002; and for large sample evidence see Hanlon, LaPlante, and Shevlin 2005).

In the U.S., the rule-making responsibility for the financial accounting standards is granted to the Financial Accounting Standards Board (FASB) by the Securities and Exchange Commission (SEC). The accounting standard setting is set apart from the government for valid reasons. Financial accounting is meant to reflect economic performance of the firm. The standard setting process is intended to be largely void of lobbying efforts by special interest groups and largely void of FASB trying to incent or discourage particular activities.

Proposals for Taxing Book Income and Research Evidence

Senator Elizabeth Warren in her campaign for President proposed a 7% surcharge on corporations making more than $100 million of book income. The tax would have been applied to financial accounting income. Senator Warren estimated that the tax would raise at least $1 trillion over a decade and increase projected corporate tax receipts by roughly 30%. Senator Warren's reasoning was that "our corporate tax code is so littered with loopholes that simply raising the regular corporate tax rate alone is not enough" (Faler 2019).

Similarly, President Joe Biden's proposed tax plans include a resurrection of the AMT for corporations (even though it was just thankfully abolished in the Tax Cuts and Jobs Act in 2017). His campaign plan advocated for a minimum tax on corporations with book profits of $100 million or higher. Corporations would pay the greater of their regular corporate income tax or the 15% minimum tax while still allowing for net operating loss (NOL) carryovers and foreign tax credits. In advocating for this plan while on the campaign trail, now President Biden stated "I don't think any company, I don't give a damn how big they are, the Lord Almighty, should absolutely be in a position where they pay no tax and make billions and billions and billions of dollars" (Buncombe 2020).

Senator Warren brought up these proposals at the March 25th hearing. She said that companies use ". . . loopholes and tax shelters to drive down taxable income"

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paper based on that talk. In addition, some of the below is based on my testimony from the March 16th hearing.

and that she is all for ". . . closing loopholes." However, many items that actually reduce a company's tax liability are not "loopholes" they are incentives provided by the government for a reason. The U.S. has allowed accelerated depreciation for tax purposes for many years. Congress has gone further by allowing "bonus depreciation" when the economy is soft. As mentioned above, the rules currently allow 100% full expensing. Congress does this to incentivize and promote investment. Taxing book income will offset these incentives because such incentives are not present in financial accounting income. Taxing book income as part of an AMT or via a surcharge, will also offset green energy credits, research credits, and many other incentives Congress has put in place to promote the economy and incentivize other behaviors. Enacting an AMT or book surcharge works against all these incentives. The incentives will not be effective if they are offset via an AMT.[2] If the U.S. wants to eliminate these incentives, we should just do so directly rather than taxing book income.

The current proposals seem to be targeting companies like Amazon who currently report large profits to shareholders but very little-to-no tax expense on their financial statements. Senator Warren used Amazon as an example in the March 25th hearing. Let me be clear, the tax expense on a company's financial statements does not necessarily reflect what companies actually pay in tax (Outslay and McGill 2004; Hanlon 2003). For Amazon, one item that likely reduces their taxable income relative to financial accounting income is equity-based compensation deductions for tax purposes. It is important to be cognizant that for equity-based compensation, mirroring that corporate compensation deduction for Amazon is taxable income for Amazon employees who receive the compensation. Thus, equity-based pay is not a loophole either; it is compensation. The employee reports taxable income and the company obtains a deduction for the same amount of compensation. Just because the compensation amount is different between financial accounting and tax purposes for the company is not an issue. If Congress thinks Amazon's tax deduction should be equal to what is recorded for financial accounting, then should the employees' taxable income be that same amount as well?

In sum, whatever the reason that a company's tax is "too low" in the eyes of Senator Warren and the Biden Administration (international tax planning and rules, equity-based compensation, depreciation rules, etc.) those rules should be evaluated directly and not addressed in a stealth fashion by a book minimum tax. In addition, it is important to not counteract investment incentives in the tax code with a book minimum tax.

The U.S. tried taxing book income once before and it did not work well. The Tax Reform Act of 1986 enacted the Business Untaxed Reported Profits (BURP Adjustment), also called the Book Income Adjustment (BIA) into the tax code as part of the calculation of the corporate Alternative Minimum Tax (AMT). The AMT was a parallel tax computation that had a broader tax base and lower tax rate; whichever system yields the higher tax liability is the one the company pays. The BURP Adjustment was computed as 50% of the difference between the pre-tax financial accounting income and the alternative minimum tax base (before the BURP Adjustment) for U.S. entities. If this was positive, meaning financial accounting income exceeded the pre-BURP adjusted AMT, then the 50% differential was added. If the pre-BURP AMT base was higher than financial accounting income, then no adjustment was made. When enacted, this adjustment was to apply for 1987–1989 and then a new method of computing the AMT would apply.

There are five published papers that examine the effects of the BURP Adjustment (Gramlich 1991, Dhaliwal and Wang 1992; Boynton, Dobbins, and Plesko 1992; Manzon 1992; and Wang 1994). The papers use different samples, different data, and different methods to examine whether financial accounting income was "managed" downward during the BURP adjustment period.[3] The authors in all five papers generally (1) acknowledge that there were many items that changed in the Tax Reform Act of 1986 and (2) try to control for the other changes and resulting incentives. The evidence in all five papers is consistent with firms likely subject to the BURP adjustment reporting lower financial accounting earnings (lower accounting

[2] Depending on how the rules are written, the effect of the minimum tax could be very harsh. For example, during periods of accelerated depreciation the minimum tax would apply denying the deduction, while in later periods with no remaining taxable depreciation, the higher taxable income would be the tax base.

[3] For example, Boynton et al. (1992) employ IRS Statistics of Income data as well as Compustat data and also take into account detailed aspects such as the effects of net operating loss carryovers (NOLs) and Foreign Tax Credits (FTCs).

accruals) during the BURP adjustment period (relative to firms not likely affected). Thus, the inference is that firms altered their financial reporting after the change in the tax code that required financial accounting income to be used in the computation of the tax base for these firms.[4]

Dharmapala (2020) uses this setting and the prior papers on the BURP adjustment to estimate the responsiveness of financial accounting income to taxation and provide some economic magnitudes of the effects. Dharmapala (2020) specifically analyzes the results in Dhaliwal and Wang (1992) and estimates a 17% decline in financial reporting income from 1986 to 1987 in response to the BURP adjustment (which equates to a roughly 10% tax on book earnings). His estimate thus implies an elasticity of 1.7. He also examines Manzon (1992) and estimates an elasticity of financial accounting income to tax range of between 1.4 and 2.1. Dharmapala (2020) concludes that there is a high degree of responsiveness of financial accounting income to taxation of financial accounting income. Indeed, he finds that financial accounting income is more responsive to tax than taxable income. He conjectures that this is due to there being more discretion in financial reporting.[5]

Concerns and Conclusions

Taxing book income leads to many concerns. First, in response to taxing book income companies will likely alter their reporting behavior in order to achieve lower taxation. Thus, their reported income would not be a measure of income that faithfully represents the economics of the transactions for the reporting period, but rather a lower income than they should report in order to avoid taxation. This would likely not just be a reduction in upwards earnings management but rather a loss of managers' private information to external stakeholders, including the capital markets, about performance.[6]

Second, if financial accounting is used as part of an AMT system, some people worry that FASB would have too much say over tax revenues. There is also another concern—that Congress will have too much influence over financial accounting standards. It seems unlikely that the U.S. Congress would relinquish control of taxing rights and thus, will possibly exert more influence over the standard setting process. Thus, the accounting standards could be subject to the preferences of elected officials with no background in accounting and subject to more lobbying efforts by constituents.[7]

Third, a book AMT (or surcharge) would be much more complex than President Biden or Senator Warren surmise. For example, it is not the case that book income is always higher than taxable income. Many firms report accounting losses. Would there be net operating loss carryforwards in the AMT system? In addition, the consolidation rules for financial accounting and tax purposes are different (for domestic and foreign entities, equity method investees for financial accounting, mark-to-market method investments, etc.) and the notion of aligning even just the U.S. consolidated group is not as simple as it seems. There would be many more complexities and it would certainly be imperative to make sure these issues are fully thought through before a book AMT is seriously considered.

In conclusion, a surcharge based on financial accounting income or an AMT that uses financial accounting income as part of the base is a bad idea. I understand that such a policy is tempting because financial accounting income is another measure of income that is readily available. But, if Congress thinks that there are problems with the tax system, it would be far better to clean up the tax code than to create new problems for financial accounting and the capital markets by taxing book income.

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[4] Choi, Gramlich, and Thomas (2001) examine all five papers and suggest that the results are biased due to choice of scaling variables, researcher identification and selection of the firms likely to be subject to the AMT and those not likely to be subject to the AMT, measurement errors in discretionary accruals, and other reasons. The results in the prior five papers are perhaps more sensitive than originally reported, but the main result still exists after Choi et al.'s adjustments.

[5] See also U.S. Congress, House, June 8, 1989. The then-acting Assistant Treasury Secretary for Tax Policy, John Wilkens, stated, "The book income adjustment may be having a detrimental effect on the quality of financial reporting. The linkage between financial statement income and tax liability creates an incentive for corporations potentially subject to the AMT to apply generally accepted accounting principles (GAAP) in a way that reduces the amount of net book income subject to the book income adjustment."

[6] See Hanlon, Maydew, and Shevlin (2008) for research on a case where book-tax conformity increased and firms reported lower income and that income was less informative.

[7] The American Accounting Association issued a Resolution in Support of Independent Private Sector Accounting Standard-Setting in September 2020. AAA Resolution here.

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LETTER SUBMITTED BY IAN K. HARRIS

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in a foreign country with two daughters who have dual citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both

the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY FRANCIS HASEK

Dear Chairman Wyden, Ranking Member Crapo, Members of the Committee,

I wish to make the following statement for the record on the above subject. This statement is being made in a totally personal capacity.

Before starting on my statement, I observe that all the witness testimony is from persons who are located within the United States and barring Ms Huang, appear to have limited experience of living and working outside the United States. I hope that this statement may help redress the imbalance.

I am what would be considered an "Accidental American" whereby I was born in the United States to foreign citizen parents and left at a young age, similar to the circumstances of Boris Johnson, the UK's current Prime Minister. Since my departure in the early 1980's my return visits to the United States gave been short and infrequent such that my children do not qualify for U.S. citizenship. In similar circumstances, Boris Johnson is quoted in response to his U.S. tax demand as saying "I think it's absolutely outrageous. Why should I [pay U.S. tax]? I haven't lived in the United States since I was five years old."

The Tax Cuts and Jobs Act was a major disappointment for all Americans overseas in the way that whilst it introduced the concept of territorial taxation for corporate taxpayers, it failed to address major international distortions faced by individual taxpayers. In short, the legislation avoided a golden opportunity change the United States' policy in imposing citizen-based taxation (a policy only shared with Eritrea) to one of residency-based taxation. Residency-based taxation is strongly advocated by both Republicans Overseas and Democrats Abroad.

The ongoing policy of citizen-based taxation on Americans overseas has multiple drawbacks, not only for the individual taxpayers concerned but also on American workers within the USA.

For Americans overseas, the tax policy has an immediate impact on their quality of life, through lower income, limited access financial services, and the ability to save for their retirement. If self-employed matters are much worse where their U.S. citizen owned small business are faced with being at a competitive disadvantage through their U.S. tax burden. The Tax Cuts and Jobs Act also was shown to have specific short comings, for instance through the forced repatriation of retained earnings and risk of punitive tax penalties of long-standing small businesses owned and operated by Americans overseas.

In the eyes of foreign decision makers, the known complexities of the U.S. tax code and the imposition of citizen-based taxation has the following negative impact for American workers overseas. Foreign business owners are fearful in offering Americans employment in certain roles or equity or stock participation in their business where they perceive a risk of extra tax compliance burdens. The reluctance to employ even extends to instances where Americans overseas are turned down for voluntary and charitable roles which involve signatory powers over bank accounts.

For American workers within the USA the impact of citizen-based taxation has two major drawbacks. Firstly it adds to foreign perception of the U.S. tax code being highly complex and for private business owners one which bears a risk of being trapped into a complex and unattractive tax regime. This actively scares away foreign investment and ultimately job creation. Secondly, the citizen-based tax approach deters Americans from working overseas and advocating on behalf of their own country and American employers. In comparison, no other significant economy puts this restriction on their citizens. Instead many foreign governments actively support their business communities overseas through trade offices, their diplomatic

corps, and tax policy. If wanting to find a successful example of overseas citizens advocating for their country, look at Ireland, a country with a population comparable to Alabama.

In order to protect the U.S. tax base, there are a number of options available to law makers. The first is to continue taxing U.S. sourced income for citizens overseas, consistent with the concept of territorial taxation. The second is through having strong tax residency/domicile rules, for the latter there are strong examples that could be drawn from the United Kingdom or Australia.

Yours Sincerely,

Francis Hasek

LETTER SUBMITTED BY JIM HEALY

To Whom It May Concern:

The U.S. is the only advanced country in the world that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Ireland, where I live, but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring an accountant who understand the U.S. tax system as well as the Irish tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an American and I live in Ireland with my wife and daughter. My family are not wealthy. The money I spend on tax return preparers feels unnecessary and could be better spent on my day-to-day family expenses.

I will admit that I let my tax filing obligations slide for the first 17 years that I was living in Ireland. A few years ago, I hired an accountant to help me get my tax filing up to date. I had to take out a loan to do so and I only paid it back recently. Ordinary American citizens shouldn't have to go through this when they're not living and working in the U.S.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in elections, especially presidential election. I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing and unfair. It is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you very much for your consideration.

Kind regards,

Jim Healy

LETTER SUBMITTED BY ELEANOR HEINE

While not initially intending to, I have become a long-term expat. This had nothing to do with any business, or indeed my career, which (such as it is) has been forged in Europe. And I never even knew until relatively recently that, just because I am a U.S. citizen, I am required to file a tax return. After all, I have always followed the laws of the country I live in and paid my taxes there. I have no U.S. assets or income; yet I am subject to double taxation on my income in the UK. This is a practice that the USA has the "honor" of sharing with one other country in the world: Eritrea. Not a good look for the U.S.A.

As a U.S. citizen, I am subject to the tax system where I live as well as to the U.S. tax system, and the two are often not compatible. The upper tax rate here in the

UK is 40% and other taxes also apply, such as VAT. Responsible financial and/or retirement planning can be penalised under U.S. tax laws. I do not understand how this can be fair: how can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country? This seems even more egregious when that person has no economic connection to the United States.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But that does not reflect the fact that U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although the focus of the hearing was supposed to be about individuals, not a single participant recognized how individuals are affected by these rules. Why was this the case?

2. Although it is not my particular situation, I found it shocking that no witness appeared who had personal experience of running a business outside the USA. Any subsequent hearings should include witnesses who are actually living outside the USA and/or who have actually experienced running businesses outside the United States. Otherwise the proceedings are dealing with "theory" rather than reality.

This situation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY STEPHEN HELMS

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in the Netherlands where I have lived for nearly a decade but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated and there is a risk of huge fines in case of mistakes. Hiring tax return preparers that understand the U.S. tax system as well as the Dutch tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed: I currently must pay more than $500 to handle the paperwork each year with otherwise simple finances.

I'm an ordinary American. I moved to the Netherlands to do scientific research, fell in love, and now am staying abroad longer term. I am thankful there is a tax treaty between the Netherlands and U.S. that prevents double taxation, but I am still burdened with complex tax paperwork each year. Furthermore, the U.S. tax reporting system hinders my access to banking and investment services in the Netherlands: I am unable to open an investment account or local equivalent to a Roth IRA as a result of FACTA concerns. U.S. brokerages often also do not want to handle Americans living abroad. This leaves people like me who live abroad and have legitimate reasons to have a large portion of our financial life outside the U.S. in a complicated situation that can result in an inability to invest our savings and reach financial security.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad like me to consider renouncing U.S. citizenship just to be able to manage our financial lives. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Stephen Helms

LETTER SUBMITTED BY MARTHA HENDERSON

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Australia where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the Australian tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to Australia in 1973 after marrying an Australian citizen. My husband and I are not wealthy. Paying for U.S. tax return preparers leaves a hole in our budget, and we certainly cannot afford for me to be double-taxed.

For 40 of the 47 years I have lived in Australia I was part of the Australian workforce, 38 of them full time. Throughout those years I contributed to the Australian superannuation/retirement fund system for which I have been and continue to be taxed by both the Australian and the U.S. governments. For several years I had to pay 3.8% Net Investment Income Tax on my retirement fund income even though I am not entitled to medical insurance coverage in the U.S. This is discriminatory.

My investment options are limited, as tax on them as well as the time, effort and expense of reporting for some types of investments mean they are not worthwhile for me or other Americans living overseas.

Currency fluctuations make it very difficult to estimate and budget for annual U.S. tax payments, particularly since they result in skewed capital gains and losses on my investment sales. This leads to great uncertainty as to whether or not I will have enough income to support my modest lifestyle from year to year. This ever-present uncertainty is exceedingly stressful.

My husband and I purchased our home in the mid 1970s. It is not subject to Australian capital gains tax if we sell it. Since I have recently retired it would make sense to relocate, however we cannot afford to because of U.S. capital gains tax.

My U.S. tax returns are very complex; their preparation is exceedingly time consuming and expensive. Every year I am faced with the stress of obtaining all of the evidence required for my tax return in time to submit it by the absolute deadline due to differing financial years. This situation was even worse for my 2019 tax return due to COVID–19.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope you find that as shocking as I do.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Martha Henderson

LETTER SUBMITTED BY SUZANNE HERMAN

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am also a citizen and tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation

under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

This is my story as told to the CBC National News when the Tax Cuts and Jobs Act was made into law:

Trump's tax reform affects Canadian residents | CBC.ca

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to Canada.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that receives revenue from income and people who have no economic connection to the United States.

I would like to make two general observations about the hearing on March 25th:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. It is truly a bipartisan issue.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your consideration,

Suzanne Herman

LETTER SUBMITTED BY JOZETTE HERRERA-LEE

I am a proud citizen of the United States of America. I live outside the United States in London England UK where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY M.E. HOWARD

I am a proud 73 year old citizen of the United States of America. In 1981 I moved to the United Kingdom of. Great Britain on a temporary secondment and have now retired. I am a tax resident and subject to full taxation here.

I am an emigrant from America. Sure, I love America but we never know where life will take us. I moved from America many years ago and fully expected to return but I earned the right to stay in Britain and now have family and friends here. The years go quickly but I long ago realized that although I will always love America, I shall live permanently abroad as I have paid a great deal in UK taxes to the UK's National Health Service.

As a resident of the UK, I am naturally required to organize my financial and retirement planning in this country. The problem I have is that the U.S. tax laws make it impossible for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only **one tax system.** As a U.S. citizen, I am subject to the tax requirements where I live AND the U.S. tax system. These systems are not compatible. Attempts at responsible retirement planning here in the UK are frustrated by the need to comply with U.S. tax laws. Most pension platforms will not accept Americans or actually ask Americans to withdraw from these financial investments, due to egregious paperwork requirements demanded by the U.S. government. This is not fair. How can the United States impose taxation on the *non-U.S. income and assets* of a person who is a tax resident of another country with no economic connection to the United States?

I do not live "offshore." I live in a country where I pay very high income taxes. I also pay additional kinds of taxes (Value Added Tax for example) to my country of residence. Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully tax-paid on that income in the country where I reside. I now live on a small pension; paying for specialised accountants to do both a UK as well as U.S. tax returns takes a disproportionate amount of money and time compared to those who live in the United States. There is **no other advanced country** in the world that imposes such extraterritorial taxation!

I would like to make general observations about the hearing on March 25th.

1. The focus of the hearing was supposed to be about **individuals.** The hearing focused on U.S. **multinational corporations.** But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. I am a flesh and blood person. Not a single participant **recognized how individuals are affected by these rules.** How did that happen?

2. I was shocked that there were witnesses who neither had personal experience with a company nor even an individual running a business with interests outside the USA! Not a single one! This makes the process a travesty. I respectfully request that subsequent hearings include witnesses who have experienced running businesses outside the United States and at least actually having lived outside the United States. Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" person who happened to leave the U.S. for a job and who now, after 40 years, must adopt living in my country of second citizenship.It doesn't make me less American. I worked and paid into my social security "pension" for 25 years before I moved for a job; I have however been subjected to the WEP provision and so have already had my retirement income reduced. But, it does mean that I am clearly subject to the laws of the country where I live. I am not 'GILTI' of anything. I ask only to be able to carry on my small, retired, law-abiding life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States. Individuals are NOT immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, whether or not one is a small business owner, the U.S. extraterritorial tax regime makes it difficult for me to invest and participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States,

but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to file my U.S. return using the U.S. Dollar as my functional currency, I am also subject to "fake income" on nothing but changes in the exchange rate. Deemed a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please do not believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They do not! Especially for retirees.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime, based on a 1860 ruling, and *join the rest of the just world* in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY LOUISA ICKE

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT or GST) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ANCHAL JAIN

To the Senate Committee on Finance:

My name is Anchal Jain and I used to live in Fremont, CA before moving to Singapore in 2007. Our family of four moved to Singapore because of my severely disabled son. For various reasons (financial, inability to find caretakers), we were finding it very challenging to adequately care for him in the U.S. Additionally, my husband found an excellent opportunity in Singapore and we also wanted our daughter to experience what it was to live in a different country.

The first year that we paid taxes from Singapore, we were dismayed to learn that U.S. practices citizenship based taxation and that we would have to pay taxes in two countries.

This system introduces all sort of problems for Americans living abroad. Some of which we experienced were:

- Copious amounts of time spent trying to comprehend how the tax code works with the Singapore tax code.
- Paying costly fees to tax advisors to help fill out our taxes. Initially, we tried to do this on our own with Turbo Tax, but quickly realized that it would be foolish to attempt it on our own. We would either lose money or make mistakes and get fined!
- Time spent filling out the FBAR. I feel like my government is treating me like a criminal asking for this level of detailed information.
- Due to the onerous American tax regulations, local banks in Singapore do not want to take us on as clients and American brokerage firms in the U.S. block us from buying and selling stocks on the market. We're essentially hamstrung when trying to effectively invest and save money for our future.

The U.S. is one of only four countries that taxes based on citizenship and not based on residence. The other three countries Eritrea, Hungary, and Myanmar! There is no other developed or wealthy country that follows this practice. I implore the committee to hold hearings on Americans abroad and U.S. taxation and invite testimony from experts who can provide an accurate profile of the Americans abroad community. The U.S. should join the ranks of other developed nations on this matter and move from a citizenship based taxation to a residency based taxation system.

Thank you for your time.

Sincerely,
Anchal Jain
Voting in California (15th Congressional District)

LETTER SUBMITTED BY CRAIG JEFFERSON

I am a proud citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

You see I am an "accidental American". I was born in America, but we moved back to England shortly after my birth. I don't remember ever living in America. My only experience of America is from television, movies and the occasional American tourist I meet. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. But it gets worse. I am also required to file complex information returns describing the details of my finances to America. I can't even understand the forms. How can this be? What is the reason for this? No other country does this! Of course, I am proud to be an American. Who wouldn't be? But, I have no idea how to comply with the rules imposed on me. What am I supposed to do? Renounce my U.S. citizenship? It feels like something I should keep but I simply don't know what to do and I can't deal with the stress. Therefore, when the U.S. embassy stops doing emergency visits I will be visiting to renounce my citizenship so that the nightmare ordeal will be over for me.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. I have had many banks reject my application for an account due to the fact I am American. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ESTHER JENKE

My U.S. citizenship will always be part of my DNA. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation. As a result of U.S. tax policies and FATCA I was forced to renounce my U.S. citizenship. Although I could no longer be officially a U.S. citizen, I will always regard myself as a U.S. citizen in my heart. I am writing in the hopes that in a small way, my experience will help with change—changes that will give American citizens the freedom to leave the United States and live a prosperous life. To put it simply: The United States must stop exporting its system of extraterritorial taxation and regulation, to people who live in other countries.

When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treated my non-U.S. income and assets very unfairly. The fact that I was a U.S. citizen living outside the United States, didn't mean that I didn't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I was a U.S. citizen, I was subject to the U.S. extraterritorial tax regime, which means the United States imposed taxation on my non-U.S. income even though I was and am fully taxable on that income, in the country where I reside. This was true even though I did not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

Because, I am no longer a U.S. citizen, for me, the nightmare of the U.S. extraterritorial tax regime has ended. I now have the freedoms that are afforded to other people in my country of residence. But, if I were still a U.S. citizen living outside the United States, I would say:

I am not a "mini-multinational." I am a real person living outside the U.S. It doesn't make me less American, but, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States. I want to be able to save for my retirement without the IRS taking everything I have saved. I want to be treated as an equal to my colleagues and be able to live a normal financial life outside the U.S..

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax credit rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

American extraterritorial taxation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

In closing, please understand that middle class individuals, people who would be your friends and neighbors in the USA, are being forced to renounce their U.S. citizenship.

This insanity and injustice must stop!

God bless the United States of America!

LETTER SUBMITTED BY KENNETH GLEN JOHNSON

I am a proud citizen of the United States of America. I live outside the United States in Argentina where I am a tax resident and where I am subject to full taxation.

I have lived outside of the USA most of my life, my parents were missionaries in Argentina and we moved here when I was about 13 years old. When I graduated from high school here in Argentina I went to the USA and got my degree in business administration and then I returned to Argentina where I worked for several years and married my Argentine wife and we have been married over 40 years. We moved to the USA and I joined Maersk Inc. which is part of the A.P. Moller Group of companies based in Denmark. In 1993 I was transferred to lead the start up of operation in Chile to expand and operations of the company in South America and then I was transferred to Argentina to also start up operations there and then I was transferred to Mexico where I headed the Maersk Mexico operations until I took an early retirement package in 1998. Along with my wife and two grown children we moved back to Argentina. Since 1993, 28 years I have not lived in the USA and only travel there on vacations to visit friends and family. But as a USA citizen and Argetine permanent resident I have to file taxes each year with the IRS and I am subject to both USA and Argetine personal and business income tax and other taxes.

After my retirement and return to Argentina, along with past work colleagues we started up a trucking business that my partners managed and I assisted as needed. I wanted to continue to enjoy retirement but still remain active in business operation to keep active and not get bored. This business has been active for over 10 years and though only mildly profitable, it has provided a reasonable retrun on investment and income and a lot of satisfaction to be able to provide jobs for 10 employees and it lets me remain active and share many years of experience.

In 2018 I decided to start a construction business in Argentina to try to provide my family with some income and perhaps grow this business into something that eventually can provide my children and grandchildren with a source of income and investment tool so that they can make a decent living in a country that offers limited opportunities and decent jobs. So now I am trying to start up a small family business in Argentina which is to say the least very challenging. It is a small company that is building a small 10 unit apartment building in Argentina. But unlike the trucking and logistics company I am involved in but own a minority share, this family construction business is owned by my family members who are all USA citizens and as such the company is considered USA controlled and subject to all corporation filings and requirements established under the USA tax laws.

My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I and my family are U.S. citizens, the U.S. tax code treats me the same as Apple or Google. Since I use a local business structure that's treated as a corporation under U.S. tax law, I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes VAT, Gross Income (ingresos brutos) and another 160+ various state and municipal taxes to my country of residence.

I have to also pay Asset taxes on all financial and real property assets I have in Argentina at 1,5% of asset value and 2.5% of assets held in the USA which are considered foreign holdings in Argentina and none of these taxes are allowed as deductions or provided any consideration on my tax filings in the USA. I keep most of my assets in the USA since they are a result of my retirement savings and mostly held in an IRA account but also due to the high inflation, devaluation and insecurity of the local banking and securities systems in Argentina. Unfortunately the USA government failed to renew a tax agreement with Argentina that expired in 2014 that provided equal treatment of USA citizens with Argentine citizens in terms of taxation on their citizens. Up until 2014 under the tax treaty signed between Argentina and the USA citizens assets were allowed to be treated equally and under Argentine law retirement savings similar to 401K and IRA funds are not subject to tax, but because my retirement plan was USA or "foreign" with the expiry of the tax treaty not only are these funds taxable, they are taxable at double the rate as locally held assets under the Argentine tax rules.

I am also subject to the payment of an additional wealth tax of 2.5% of total assets in Argentina and 5% on assets held in the USA, if my total assets exceed $200,000,000 Argentine pesos (USD $2,051,000). So far I have not reached this minimum but with the high inflation and devaluation it is only a matter of time that my retirement and pension assets will most likely become subject to this tax, which again is not provided any consideration or deductibility under USA law, since this type of tax does not exist in the USA.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in Argentina where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't all my pension, retirement income and investment income is taxed the same as is anyone living in the USA! I only receive the benefit of the Foreign Earned Income Exclusion on earned income i.e. Salaries and work performed which I have very little of. Why is the income exclusion only limited to "Earned" income on non-residents of the USA, the exclusion should at be extended to all income, pension, retirement and social security when an individual is not living in the USA and is not able to enjoy the benefits of those living in the USA, such as Medicare that I do pay for but can not use in Argentina but keep just in case I visit the USA and have to be hospiltalized.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. Who represents me in the USA? Supposedly the congressperson in the state where I last lived.... seriously??? You think they even know I exist and that they are duly representing me and my interests? Expats are in a position of absolute taxation without proper representation and respectfully the U.S. Consulate and Embassy could not care less about "individual situations and circumstances of USA citizens" living in foreign countries, even though the local tax rules and judgments affect many if not most USA citizens living and working in the country they are assigned. USA Expats are left on their own with no proper U.S. government representation in the USA or locally in the country where they live.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY SCOTT JOHNSON

The Reality:

Your hearing on March 25, 2021 did not focus on individuals but focused on the taxation of U.S. multinational corporations. Much of the hearing discussed the GILTI rules found in Section 951A (which is part of Subpart F) of the Internal Revenue Code. Much discussion focused on (1) doubling the GILTI tax and (2) objecting to the fact that the first 10% of income earned by the CFC is not subject to U.S. taxation and that it should be. In short your proposals include making the GILTI rules more punitive with respect to multinationals.

Although your discussion focused on (perhaps one hundred) multinational corporations, your proposals would have a devastating effect on the **millions** of Americans abroad, who run small businesses through small corporations outside the United States and are NOT multinationals. **Put another way: Your proposal to punish the few corporations, would result in the absolute destruction of the many individuals.**

The Solution:

Congressional committees (Senate Finance and Ways/Means) are considering changes to legislation governing international taxation. The Committees seem to understand international taxation as applying ONLY to corporations. But, the same rules that apply to U.S. corporations apply to U.S. individuals—particularly those individuals living abroad. Before making changes that would destroy the lives of those millions of Americans abroad, you should consider making a simple and obvious legislative change which is:

Rewrite the Subpart F regime (951 to 965) so that it does *not* apply to *individual* Americans abroad who live outside the United States within the meaning of IRC 911, are tax residents of other countries and carry on busi-

ness (through small business corporations) in their country of tax residency. It's that simple.

The carnage that you are proposing to cause, is the direct result of the U.S. extraterritorial tax regime. The ultimate solution would be for the United States to enter the 21st century by transitioning to a system of residency-based taxation.

Scott Johnson

LETTER SUBMITTED BY DAVID JOHNSTONE

I am a proud citizen of the United States of America, but I am submitting this statement due to the callous disregard that the hearing you held on March 25, 2021, showed for me and the *9 million* other U.S. citizens that the State Department estimates live outside the United States.[1] Since 2002, I have lived in France, where I am a tax resident, where I have earned 100% of my income since at least 2005, and where I am subject to full taxation at an effective rate double that of the effective rate that I would have been taxed at if I had lived in the United States and had the same amount of income sourced there. Yet, due to the international tax laws in place that you or your predecessors have voted for over the years, presumably with the laudable intention of targeting corporate and individual offshore tax evasion, I have had to pay even more on occasion to the United States than the already very high effective tax rate (more than 38%) that I already pay on my French income. To make matters worse, you, the Congress of the United States, presume to hold hearings on international taxation such as the one I am writing about without ever mentioning or even considering the impact that the policies you debate and sometimes enact have on individual Americans who, voluntarily or involuntarily, reside or have resided outside the borders of the United States.

Let me repeat more clearly that, you, the Congress of the United States, and in particular, this committee, have made abundantly clear that you do not care one whit about how the laws you enact negatively impact individual Americans who live or have lived abroad and have perfectly legitimate reasons for having non-U.S. income, especially non-U.S. retirement and disability pensions paid for through local, mandatory contributions, welfare income, bank accounts, retirement savings, homes, or local but non-U.S.-based businesses.[2]

My personal situation is as follows: I am currently disabled, and every year, I must choose between fulfilling my very burdensome and time-consuming U.S. tax filing obligations[3] and a possible recovery from my long-term illness so that I can work again, at least part-time. Generally, I owe no additional tax to the United States, but this is by no means a sure thing: any financial decision, no matter how trivial were it to be made in the United States, requires hours or days of careful searching and verification so that I can minimize the impact on me as a dual tax resident. For example, if my health improves, one of the possibilities that is open to me as a French resident is to form a local business. However, the Tax Cuts and Jobs Act ("TCJA") that was passed under the previous, Republican majority, has effectively closed that possibility to me, as the GILTI provision was made applicable to individual taxpayers such as myself, as well as to the multinational corporations that it supposedly sought to tax more effectively, and with even more unfavorable provi-

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[1] Sources: *https://www.democratsabroad.org/carmelan/democrats_abroad_taxation_of_americans_abroad_with_the_sfc* and *https://democratsabroad.atlassian.net/wiki/download/attachments/673149764 2/Democrats%20Abroad%20Submission%20to%20SCF%20Hearing%20on%20Intl%20Tax%20Policy%20Impacts.pdf?api=v2.*

[2] Source: *http://seatnow.org/wp-content/uploads/2021/03/SenateFinance2021-SEAT-submission.pdf* (p. 7) and *https://www.finance.senate.gov/imo/media/doc/The%20International%20Tax%20Bipartisan%20Tax%20Working%20Group%20Report.pdf* (July 7, 2015, pp. 80–81: "Of the 347 submissions made to the international working 81 group, nearly three-quarters dealt with the international taxation of individuals, mainly focusingon citizenship-based taxation, the Foreign Account Tax Compliance Act (FATCA), and the Report of Foreign Bank and Financial Accounts (FBAR).").

[3] I spend 50–200 hours per year on my U.S. tax return for a very simple situation (single, no dependents, renter, no trusts or complicated pensions or businesses). This does not include the time spent record-keeping throughout the year or researching the tax implications of any minor financial decision. This compares to the 3 hours that my French tax return takes to research and prepare and probably 3 to 10 hours of preparation if I resided in the U.S. and all my income was U.S.-source. I estimate that hiring a professional tax preparer would make me lose even more time on my U.S. tax return, in addition to the higher cost than for U.S. residents, but with no additional assurance that I will have filed correctly, according to the judgment of the IRS.

sions attached for Americans residing abroad than for multinationals. Lest the Democratic members of this committee object that a law passed under a Republican-controlled Congress is not their responsibility, I understand that President Biden proposes to double the GILTI rate and to remove many or all the protections that remained for individual Americans residing abroad, no matter how low their income.[4]

The end result is that the policies you are reportedly currently contemplating will effectively shut off one of the ways in which I may eventually be able to return to work. Furthermore, these policies will take away rights from me that U.S.-resident individuals, including non-citizens enjoy, and I will end up with fewer rights, and higher costs than my non-American neighbors here in France.

In addition, I do not have the option of returning to the United States to live (or of renouncing my U.S. citizenship). According to my understanding, returning to live in the United States will result in the loss of all my income (my French disability pension), as well as my health insurance. Therefore, if I stay in France, the policies reportedly under consideration by Congress, including this committee, will lead to loss of opportunity and a reduced prospect for returning to work. Conversely, if I return to the United States, for example, to make my life manageable so that I do not have to navigate two incompatible tax systems, I will become a burden for the United States taxpayer, which I currently am not.

Thus, the mere fact that GILTI applies to Americans abroad and that the current administration desires to strengthen its provisions without any consideration whatsoever for United States citizens residing abroad should outrage you, the members of this committee, regardless of your party affiliation.

Beyond the filing burden and GILTI provisions that apply to Americans residing abroad who are tax residents of other countries, I can list many other items of current legislation that negatively impact us, myself included:

- Double or punitive tax treatment:
  - Social welfare payments (aged, indigent, disability, unemployment, childcare, parental leave) from foreign governments—I have personally been subject to this "punishment" in the form of double taxation for daring to live outside the borders of the United States.
  - Contributions to and distributions from pensions and 401k-style retirement plans—After many hours of research, it appears that I cannot participate in any of the French or U.S. plans available due to residency restrictions for U.S. accounts and current U.S. tax law treatment of French plans.
  - Foreign retirement, education and other savings plans—I cannot participate in any of the French or United States plans available due to residency restrictions and current U.S. tax law.
  - Retail investment products, such as ETFs or mutual funds—As an EU resident, I cannot invest in U.S. ETFs or mutual funds, and as a U.S. citizen, I cannot invest in local equivalents without facing punitive taxation and burdensome filing requirements due to U.S. tax law (as a former finance professional, this is particularly offensive, since these sorts of investments are otherwise the best way to diversify my investments, lower my risks and fees, and maximize my returns).
  - Non-qualified non-U.S. pension plans.
  - Bequests to foreign surviving spouses.
  - No tax deductibility for interest payments on primary residence.
  - Transition Tax/GILTI.
  - Tax on phantom currency gains without any realization event occurring.
  - Mismatch of the dating of foreign and U.S. taxation events, often by many years.
  - And many others.
- Other built-in punishments for having or having had a foreign residence:
  - Financial and criminal penalties for mistakes, no matter how small, for anything foreign, with no regard to whether the foreign asset or income is held by a U.S. resident or a foreign resident with an obvious reason or a legal requirement to have such "foreign" assets or income (*e.g.,* forms 8938, 3520 and FBAR).

[4] Source: *https://us-tax.org/2021/04/03/gilti-act-now-stop-toxic-gilti-changes-on-the-horizon/?fbclid=IwAR0ZX2qDYsx5DRUD9UV-T9FfkjquLxXL3iUB-vqrLkCs752d2-sKEO1QZ9k.*

- Penalties for individuals who are small business owners for making simple mistakes on forms that are the same regardless of the gravity of the error or the amount of the taxable income in question (*e.g.,* a Paris taco stand owner earning $30,000 faces the same penalty for making a mistake as Google) (*e.g.,* form 5471).
- Different definitions of what constitutes a trust if it is U.S.-based or non-U.S.-based, with foreign mandatory retirement accounts often being considered as trusts.
- The requirement that individual Americans abroad must use the United States Dollar as their reference currency, even when they have no U.S.-source income, and may never have even set foot in the United States.
- Moving to a third country automatically disallows most or all protective income tax treaty provisions available to U.S. citizens.
- And many others.

I believe that it is most useful to name these policies and laws collectively the "U.S. extraterritorial tax regime". This means that the United States imposes taxation on my non-U.S. income, even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. As I have indicated above, I have had no U.S.-source income since at least 2005, so by all measures, I have no economic connection with the United States. In addition, I receive no United States government services that are in any way tied to the federal income tax and have not done so since I left the United States in 2002. In fact, under current legislation, I even cost the United States government money due to the recent stimulus bills and to the cost incurred by the IRS and the Department of the Treasury in administering the current tax code and related legislation. As far as I can tell, the only link that binds the United States government and I is the absurdly burdensome and penalty-laden extraterritorial taxation that I am subject to and that the IRS and the Department of the Treasury are required to administer, and which even they do not appear to fully understand. Simply stated, there is no other advanced country in the world that imposes such extraterritorial taxation, and in my case, it is easy to see that the current situation is a lose-lose situation for me and the United States government and other taxpayers.

Returning to the hearing held on March 25th, I would like to make two general observations.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not theories disconnected from reality.**

It should be superfluous to point out that I am not a "mini-multinational," as current tax laws and regulations clearly categorize me as. Rather, I am a dual-national living in my country of second citizenship. This does not make me less American. But it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from a foreign tax code, the Internal Revenue Code of the United States, which leads inexorably to my having fewer rights and opportunities than my neighbors or even non-U.S. citizens who live in the United States. More importantly, I want to have the opportunity to recover from long-term illness and be able to work again.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its punitive and poorly designed extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Lest one object that the United States has always had its current system of taxation of the non-U.S. income of non-resident citizens, that is not the case. Congress has, in essence, already adopted this system in the past. Indeed, under the original Civil

War income tax and from 1926 to 1962, the United States did not impose any income tax on any of the non-U.S. income of bona-fide residents of other countries who were United States citizens![5] Thus, even when the highest marginal income tax rate was 90%, the United States Congress decided that it was unfair to tax the non-U.S.-source income of United States citizens who were bona-fide residents of other countries. In light of that fact, it beggars belief how both Republican and Democratic majority Congresses now believe that it is right and proper to tax non-resident citizens at higher rates than if they had stayed in the United States (especially on business, savings or welfare income that has no connection whatsoever with the United States).

Furthermore, lest one object that moving to a residence-based taxation system would open the door for abuse, there are plenty of ways to counter those abuses which you or your predecessors apparently prefer to ignore, presumably to avoid having to spend time helping your fellow Americans and your constituents, who generally are not as politically active due to their foreign residence. However, I have no doubt that the United States has individuals who are competent enough to figure out how to apply a system used by the rest of the world and each of the 50 States while preventing abuse. Assuming that prior reporting is accurate, two anti-abuse measures that you appear to have never considered are as follows:

- U.S. persons who are bona-fide residents of other countries but who continue to receive all or substantially of their income from U.S. sources, either directly or indirectly, will continue to be considered United States residents for tax purposes and subject to the entire Internal Revenue Code;
- U.S. persons who are bona-fide residents of other countries but whose assets (either all or substantially all), whether held directly or indirectly, are located in the United States, will continue to be considered United States residents for tax purposes and subject to the entire Internal Revenue Code.

These tests can collectively be referred to as a center-of-economic-interest test. Furthermore, in order to make the residence-based taxation system effective, the savings clause should be abandoned for all income tax treaties, and Americans allowed to avail themselves of residence tie-breaker rules, subject to anti-abuse measures such as the ones outlined above.

One of the outcomes of a change to a residence-based taxation system is that it will be easier to understand and to enforce. Indeed, broadly speaking, enforcement efforts will shift to determining whether an individual is a resident or not, rather than vainly attempting to track down in 200+ jurisdictions around the world any person suspected of being a United States citizen or green card holder.

Finally, the United States should move to a residence-based taxation system without regard to revenue neutrality. The little I have mentioned of my own situation should be sufficient for you to understand that this issue is a moral and human rights issue, not a revenue issue.

In any event, the gross revenue brought in under current rules amounts to less than 0.2% of federal income tax revenues, and this amount includes income received from U.S.-sources by non-residents and income received by U.S. government employees and military personnel stationed abroad, almost all of whom would continue to be taxed exclusively by the United States under a residence-based taxation system.[6]

Thus, the amounts at stake are so low that a request for "revenue neutrality" by your part is nothing more than an excuse offered to avoid doing the right thing by 9 million of your fellow citizens.

Respectfully submitted by:

David Johnstone

LETTER SUBMITTED BY JILL JOHNSTONE

I am a citizen in good standing of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America, having married a Canadian and moved to Canada over 15 years ago. Although I still have family living in the U.S. and visit there

[5] Source: *https://www.americansabroad.org/history-of-us-taxes-abroad-from-1787-to-2001/*.
[6] Source: *https://www.irs.gov/pub/irs-soi/17in52oa.xlsx*.

often, I expect to be living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. My attempts at responsible retirement planning where I live have been frustrated by the need to comply with U.S. tax laws, particularly the failure of the U.S.-Canada tax treaty to recognize Canada's federally regulated Tax Free Savings Account (TFSA). After several years of trying to deal with cumbersome extra forms for reporting my TFSA on my U.S. tax forms, I am extremely frustrated with the United States for making in almost impossible for me to maintain what is a fully legitimate retirement account in Canada simply because I am a U.S. citizen.

I do not live "offshore." I live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example, GST) in Canada, my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

Based on my understanding of the recent hearing on March 25th, I would like to make two additional observations:

1. This hearing emphasized U.S. multinational corporations. Unfortunately, U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. This appears to have been largely ignored in the hearing. As a U.S. citizen living abroad, I would like to see some representation of how individual, flesh and blood people are affected by these rules.
2. I also understand that there were no witnesses who had personal experience with a company or individual running a business with interests outside the USA. This seems preposterous. I hope that subsequent hearings will include witnesses who have experienced running businesses outside the United States and actually living outside the United States.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I would like to be able to carry on my small business affairs and my life without interference from the Internal Revenue Code of the United States.

Finally, please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More importantly, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example, sale of principal residence or investment income from a registered tax free savings account) when my country of residence does not. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

This situation is extremely unjust and is not well mitigated by either foreign tax rules and/or the Foreign Earned Income Exclusion. I firmly believe the time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your consideration of these issues.

LETTER SUBMITTED BY DOMINIC JONES

I am a dual citizen of the United States of America and of Germany. I grew up and live in Germany where I am a tax resident and where I am subject to full taxation.

I am an "accidental American." I was born in USA because my parents happened to live there because of my father's job at the time of my birth. Neither my father nor my mother were U.S.-citizens at that time (father: Jamaican, mother: German) and their intention was definitely not to give birth to a child in USA just to obtain American citizenship for him. As a matter of fact, my mother went to the German Consulate immediately after my birth to obtain a German passport for me. My mother moved back to Germany with me when I was 8 months old and I never returned to USA again, except for visits. She found out the first time from the U.S. Embassy in Munich when I was 3 years old that because of my birth place, I am American citizen besides being German citizen; when she intended to apply for a visa to travel to USA with me for a visit.

I know America from my visits as well as from movies and I like the beautiful country and its people a lot. Still, my life always has been and will be in Germany. Germany is where I spent all my life, where I work, where I live with my German wife, where most of my family and all of my friends are. I have never in my entire life benefited from any U.S.-infrastructure such as education, health care, welfare and the like. Due to a chronic disease, I could not ever live in USA even if I wanted to, because I would not be able to afford health insurance there.

Yet, in 2015, I had to find out from my bank that I am required to file U.S. tax returns and to pay tax on my non-U.S. income to America. At first I couldn't believe this could be possible. But, it gets worse. I am also required to file complex information returns describing the details of my finances to America. The forms are especially complicated to me because I am self-employed, and moreover, I can't even understand the forms. I have no idea how to comply with the rules imposed on me and I am always worried about making unintentional mistakes. While I am struggling to survive here with building up my little self-employed existence, I can't even afford the expensive consultants necessary to complete the forms. I simply don't know what to do and I can't deal with this additional stress and financial burden of paying consultants.

I am having a hard time to even get a bank account. When the banks see my place of birth, they are not very eager to have me as a customer because they are not keen on FATCA-reports. So I always get the account with the most expensive bank fees. And they simply denied me an account recently when I wanted to start a stock savings plan for my retirement.

Under these circumstances, the only solution I could think of is to relinquish my American citizenship, even though I am proud to be American as well. And even though I cannot even really afford the expensive renunciation fee of 2,350 USD, either. Why is it so expensive? It cost 400 USD a couple of years ago. I have filed for renunciation last year in August and so far all I received was an auto reply that my application has been received. This means—another tax return due for 2020, 2021 and possibly 2022! And this, although I am struggling to make ends meet here where I live.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live nor do I own any assets in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings in-

clude witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in the country of my other citizenship by ancestry. According to U.S. law, this doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult if not nearly impossible for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. My mother says she can't even die because she owns a little house in which she lives and which I would inherit. It was her who worked for it in Germany, who payed taxes for it in Germany and all of a sudden it would become subject to U.S. tax laws because of my American citizenship. This is absolutely not fair! Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" based on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime for individuals, and join the rest of the advanced world in adopting a system of residence-based taxation.

America is the great, exemplary country standing for liberty, equality, and justice. I urge you to please grant freedom and justice as well to people like me!

God bless America!

LETTER SUBMITTED BY MARIAN KANE

I am a proud citizen of the United States of America. I live outside the United States in Belgium where I am a tax resident and where I am subject to full taxation.

I am an American who moved from the United States when I got married in 1989. Our intention was to return to the U.S. in 1993, and when that didn't happen, to retire to my wonderful home town in Florida. But life never goes as planned. Although I will always love America, I live abroad permanently and I am a tax resident of my country of residence, Belgium. I am required to organize my financial and retirement planning in that country.

Unfortunately, the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system, and they are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional taxes (*e.g.,* VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime. This means that the United States imposes taxation on my non-U.S. income even though I am a fully taxed on my income in Belgium where I reside. I do not live in the United States and have no earnings in the U.S.. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am a "dual-national" living in my country of second citizenship. It doesn't make me less American, but it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: The U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

And thank you for your consideration,

Marian Kane

LETTER SUBMITTED BY GEORGE C. KARADIMAS

I am a proud citizen of the United States of America. I live outside the United States in GREECE where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of BIRTH. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frus-

trated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of BIRTH citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

George C. Karadimas

LETTER SUBMITTED BY JILL KENT

My name is Jill Kent and I am an American citizen.

I moved from the USA when I met my husband and we needed to settle in Scotland due to his job. This was 26 years ago, but I still return "home" every year to be

with my parents and extended family. I still love American and very much consider myself American. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. I find it very unfair to have to be a part of two tax systems. As a U.S. citizen, I am subject to the UK tax system and the U.S. tax system. The systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I am an elementary school teacher. I pay very high income taxes here. I also pay VAT, National Insurance, Road tax and Council tax.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, here in the UK and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was disappointed that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.

I am not a "mini-multinational." I am an American citizen living in as a resident of another country. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live.

It is expensive for me to hire an accountant to sort out my tax that is owed in the U.S., even though my salary is small enough to be exempt from paying tax. I understand the importance of contributing my fair share but no other developed country has these laws and this is very stressful for me.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your consideration.

Sincerely,

Jill Kent

LETTER SUBMITTED BY THEODORE KIENDL

I am a U.S. citizen who lives in the UK and who is liable for U.S. taxes in addition to of those of UK where I live. I am also a disabled veteran of the Vietnam War who receives Disability Compensation from the Department of Veterans Affairs to provide me with a reasonable standard of living in exchange for my multiple war disabilities. It is my principal source of income; I am not a rich man.

The reality of my situation is that I have to pay an IRS approved accountant here in the UK to prepare my U.S. taxes plus a specialist firm to handle my savings to ensure that I don't fall foul of IRS regulations and end up being fined for what would be perfectly normal and acceptable investments in the UK. In practical terms, the result of double taxation is that the U.S. Government pays me to pay British firms to ensure that I don't pay excessive tax to the IRS in addition the already high level British taxes that I am required to pay. Crazy? Yes. But this is particularly galling as Disability Compensation is counted as non-taxable for U.S. resident veterans. Unfortunately, the end result of this unfair double taxation is that the VA Disability Compensation that was intended to provide a reasonable standard of living ends up being severely depleted with obvious consequences.

I don't think that this situation is difficult to fix: Either exempt U.S. citizens living abroad from the obligation to file with IRS or tax us but require the IRS to reimburse all our UK taxes and associated costs instead. Double taxation and its associated costs is simply grossly unfair and predatory. And it would not be tolerated were not the 9 million double-taxed U.S. citizens scattered across the globe and without dedicated representatives in the U.S. Congress. So, if morality, decency and a sense of fair play still play a part in the U.S. Senate, your duty should be clear. The current situation is grotesque.

Yours sincerely,

Theodore Kiendl

LETTER SUBMITTED BY ANGELA KITCHEN

I am a proud citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I still consider myself to be American. But, we never know where life will take us. I moved from America in 1992, to return with my husband to the UK. We had lived in the U.S. for three years. But even following the proper procedures for his paperwork, the process at the time left him unable to work for over three year. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. They are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am an individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second residency. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on with my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. And the paperwork is so confusing, I have to pay an tax accountant to ensure that I file the correct paperwork every year, costing almost $3,000.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Yours Sincerely,

Angela Kitchen

LETTER SUBMITTED BY ROBERT DOUGLAS KLEIN

I am a proud citizen of the United States of America. I live outside the United States in Calgary, Alberta Canada where I am a tax resident and where I am subject to full taxation.

I emigrated from the United States of America with my family when I was ten years old. Sure I love the U.S. and my hometown of Hartford, Wisconsin. But, we never know where life will take us. I moved from the U.S. almost 51 years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love the U.S. of A, I am living permanently abroad. I am a tax resident of Canada. I have worked with my accountant to organize my financial and retirement planning in Canada. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example Corporate Taxes for my Controlled Foreign Corporation) to Canada.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in Canada where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY BRIAN KLING

For just over 15 years, I have lived outside the United States in Switzerland where I am a tax resident, subject to full taxation and obligations just like any other person living here. I do not live "offshore". I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

I am married with two daughters. I am an average person making a respectable middle-class income. I am employed by a local company, I own a small apartment where I live. My oldest daughter is in university and the younger one will go in another year. I don't have a fancy car, a second home, a boat or other typical things

associated with extra wealth; I'm an "average guy" trying to make a living and supporting my family.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. **Not even one! This is crazy.** I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud. Further, this is taxation without representation—yes harkens back to the Boston Tea Party and the founding of the United States of America.**

I can say that the U.S. government makes living life abroad as an American quite a burden for a number of reasons:

Double taxation—I am subject to full taxation in my country of residence AND as a U.S. citizen, I must file a U.S. tax return every year and be subject to further taxes.

- The only countries in the entire world that require this citizen-based "double taxation are the United States and. . . . Eritrea. That's right, **the only two countries in the world.** ALL other first, second and third world nations do not subject their citizens to this undo burden. Does this really make sense to you? How can the U.S. government justify this?
- I do not own any property or businesses in the United States, I have no financial interests there—so when I file my U.S. tax return and sometimes I owe money, I ask myself "for what?" What benefit am I getting for paying this money to the U.S. government? If there is an emergency here in Switzerland (highly unlikely) and the government steps in to rescue me, I am billed for it. I don't use the infrastructure over there, so what reason is there that I should owe further money beyond the already extensive taxes I pay right here in the country where I live?
- As you know, filing U.S. taxes is a complex puzzle both for you living there and for us living abroad. There are many rules, sub-rules, requirements and regulations that are difficult for the average person to decipher and to follow. Further there are strong threats of penalties if we do it wrong. So many people living abroad pay an accounting firm hoping that they will know better how to follow the myriad of complex questions and policies. This can cost from $1500 or more—money on top of any potential tax payment obligations.

Financial Reporting—we are subject to FATCA, FBAR and FINCEN because we live abroad.

FATCA—according to the IRS, FATCA (the Foreign Account Tax Compliance Act), **was enacted in 2010 as part of the Hiring Incentives to Restore Employment (HIRE) Act, is an important development in U.S. efforts to combat tax evasion by U.S. persons holding investments in offshore accounts.** Wait, let's read that again. Legislation for "hiring incentives to restore employment" somehow also becomes twisted into "combat[ting] tax evasion by U.S. persons . . ." How did this evolve, does this make sense to you?

- Note on their **website,** the IRS classifies FATCA under "Corporations"—so already we have this discrepancy of a policy aimed at Corporations that has somehow been warped to include individuals.
- Further, note that in the **provisions,** any individual holding $50,000 or more in financial assets is subject to this scrutiny for potential tax evasion. Imagine I live and work abroad for 15 years (which I have). Of course I have a pension account here, and of course over that time it is over $50K USD, and yes I have some savings to protect my family against any future unforeseen mishaps. **How does $50,000 become the benchmark to identify potential tax evaders?** That is ridiculously low and will cover practically every U.S. citizen living

abroad, which then **implies we are all potential tax evaders. That feels great, that our own government implies we are all criminals, guilty until proven innocent.**

FBAR—then we have FBAR (Report of Foreign Bank and Financial Accounts), where we should report any accounts that have $10,000 or more at any one time during the course of the year. Imagine this, you must try to go back over account statement to determine, if even for a second you had a balance at or over $10,000. And again, this covers all U.S. citizens living abroad—just a normal bank account where your paychecks go then becomes an additional reporting burden every year, and then there's a savings account, college fund, pension... And again, this amount is very low—if the intent is to catch tax evaders, how likely is it they have such low assets? How much at this level would they even make? Would a person with millions really distribute it across a huge number of accounts to get under this $10,000 threshold?

FINCEN—and there is the Financial Crimes Enforcement Network.

- This requirement is placed upon foreign financial institutions for compliance. The result? Many banks abroad now refuse any potential client who is a U.S. citizen, because the burdens of ensuring compliance and the potential penalties for making a mistake are very high. When I tried to get a mortgage to buy my apartment, I really had to shop around, because more than half of the typical banks refused to do business with U.S. citizens, period. So **I feel like a second-class citizen; I am treated like an outcast** in the banking system due to these regulations imposed by the U.S. government.

I am required to organize my financial and retirement planning in my country of residence. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation. Does this sound just or fair to you?

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to live my life without interference from the Internal Revenue Code of the United States.

Again, **no other country except Eritrea has this "citizen-based" taxation requirement**—why does the U.S. do this to its citizens abroad? Why does every other nation not do it? We are the outlier here and there is no plausible justification for it. If you want to catch ultra-wealthy tax evaders, then fund a team to do just that; go after people and corporations with high net worth, find them and prosecute them. But the current system subjects the majority of average people to this ridiculous burden of time and money with no justification for doing so. You make us all jump through all these hoops, treat us like criminals (and make policies where we are also treated like criminals locally by the banks) and the wealthy tax evading corporations and individuals still for the most part get away with what they have always done. The government's focus and efforts are in the wrong place.

As a general principle: Please understand that all changes to the taxation of U.S. corporations will **have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States.** Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am re-

quired to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I respectfully ask you to initiate a stop of this unjust burden upon due citizens of the United States living abroad. The time has come to abolish such unfair practices that only the United States and Eritrea impose upon their citizens. Join the rest of the world in providing fair policies for citizens living abroad!

Sincerely,

Brian Kling

LETTER SUBMITTED BY CAROLINE KOO

Work brought me to live in Switzerland where I am a tax resident, subject to full taxation and pay my fair share of taxes.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the U.S. imposes taxation on my non-U.S. income even though that income is fully taxable in the country where I reside. Please note there is no other developed country in the world that imposes such extraterritorial taxation.

I'd like to suggest that **subsequent hearings should focus on the obstacles that ordinary U.S. persons face while living overseas as result of FATCA, for example.**

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States.Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally the U.S. extraterritorial tax regime in combination with FATCA created exceptionally high barriers for me to save, invest, obtain mortgages, participate in pension plans and generally behave in a financially responsible way for future retirement planning. This is because all of these essential to vital financial health activities are taking place in my country of residence and not in the United States. My retirement investments in my country of residence are considered foreign to the United States, and there is no clarity on how they would be treated.

FATCA made it extremely difficult for U.S. expats to have regular banking and financial services. Foreign financial institutions simply do not want U.S. persons because of high costs and potential penalty involved with FATCA compliance. Consequently, we U.S. expats become second class citizens when it comes to financial services—limited offerings to U.S. persons when there are services. Most foreign financial institutions prefer to close accounts of U.S. persons.

In addition, the United States impose taxes on things (for example, FX gains on sale of residence although losses are not deductible) when my country of residence does not. Because we are required by the extraterritorial tax regime to treat our lives as if we were living in the U.S. despite the fact our day-to-day life is in another currency from earnings to expenses. We are subject to "fictitious income" purely on fluctuations of the exchange rate.

As a tax resident of both the U.S. and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh = double taxation at its worst.

The amount of time it takes just to be compliant with FBAR or form 8938—it's a waste of human productivity. We live outside of U.S. of course we would have foreign accounts. Eyebrow should be raised for U.S. persons whose primary residence is in the U.S. and yet have foreign accounts.

And please note foreign tax rules and/or the Foreign Earned Income Exclusion do not help offset or address any of these above problems.

The existing framework unfairly treats U.S. expats as if we were some kind of tax collateral damage and no one seems to care. There are approximately nine million of us but no one represents our voice in the government. Most of us U.S. expats are tax paying resident in our country of residence but the requirements of FATCA treats us as if we were tax cheats just because we are not living in the U.S. While FATCA attempts to derail the real U.S. tax cheaters and evaders who apparently are still evading taxes according to the latest study. most of us ordinary U.S. expats are caught in the net of FATCA and are the ones bearing and suffering the burden of it.

For many years Americans abroad have been attempting to get both Treasury and Congress to address these unfair practices. If the U.S. government truly cares about all of its citizens regardless where they reside, the time has come for the U.S. to abolish its extraterritorial tax regime and join the rest of the world in adopting a system of residence- based taxation,

Thank you for your attention and consideration.

LETTER SUBMITTED BY NANCY KOOPMAN

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation. I have filed and paid U.S. taxes for many, many years. Never hesitating and always telling my accountant "no grey areas". If we owe taxes . . . we pay taxes. In both countries. But, my husband and I want the taxation of our Canadian income and business to be fair. The 2017 Transition Tax imposed upon us has almost crippled us. It has impacted our retirement plans. But . . . the dutiful American Citizen residing in a foreign country, is and will continue paying.

The American Dream . . . we have held onto that dream, **with** all the costs associated.

I run a small business in the country where I live. My business is *not* a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY CYNTHIA A. KRAVER

I am a proud citizen of the United States of America. I live outside the United States in *France* where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I am no longer able to prepare for my retirement with retirement products in France because they are considered PFIC—Passive Foreign Investment Corporations. Every year I must pay on profits that I have not realised and could not withdraw, like a 401k that makes a profit.

I would like to make two general observations about the hearing on March 25th.

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As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ROBERT ALEXANDER KRAYBILL

To: Chairman Wyden and Ranking Member Crapo:

Thank you for your willingness to convene a committee hearing on this issue and to consider the situations of everyday Americans who live and work or run small businesses abroad. I would like to add my voice to those of others regarding this important discussion on international tax reform.

I am an ordinary American who relocated from the U.S. to Singapore in order for my wife—a naturalized American citizen—to be closer to her elderly parents who live in Bangladesh, the country of her birth. We have lived here now for 17 years but expect to return to the United States eventually. For the past 12 years, my wife and I have run a small business here at which we both work full-time.

The United States is the *only* developed country to tax its citizens on their worldwide income when those citizens live, work, and pay taxes in another country. This puts undue administrative burden on ordinary American citizens like me as well as what I consider an unfair financial burden.

My wife and I pay personal income taxes in Singapore. In addition, we file and pay our U.S. personal income tax every year. The difference in complexity of the tax sys-

tems is shocking. The Singapore tax authority typically sends me a text message shortly before the filing due date providing me a provisional draft of my return which they have filled out and asking me to let them know if there are any changes. (Usually, none are needed.) They then bill me on a convenient monthly payment plan payable over the course of the 12 months following the due date of my return.

By contrast, filing my U.S. tax return with the IRS is complicated and expensive. I am typically required to file for extensions to December 15th each year despite working with a specialist expat tax advisor. Of course, I also need to estimate and pay estimated taxes throughout the year prior to the due date of my return.

This was bad enough before the GILTI tax was enacted. I sympathize with the goal of the GILTI tax to crack down on U.S. corporations that shift profits into overseas tax havens by transferring intellectual property abroad or through other suspect tax planning methods. But you might be surprised to learn that the GILTI rules also apply to American citizens like me and my wife who run small businesses in our country of residence. I certainly was surprised! In fact, individual small business owners are treated much worse than multinational corporations in this regard as we do not benefit from the 50% credit against international GILTI profits to which multinational corporations are entitled.

Since the GILTI rules have come into effect, I have been forced to hire corporate tax accountants whose charges have typically run into 5 figures annually even though our business is small enough that we have not actually been subject to any GILTI income tax.

In addition, I am required each year to file a Report of Foreign Bank and Financial Accounts reporting my overseas bank accounts to FinCEN. The penalties for failing to do so are incredibly punitive. It is telling that FinCEN stands for "Financial Crimes Enforcement Network" which suggests that Americans living abroad who open a checking account in their country of residence are criminally suspect. I understand that the U.S. government has a legitimate reason to request information on the Swiss bank accounts of wealthy U.S. residents who have no business having an overseas account. But why should ordinary bona-fide expats like me be subject to the same requirements in relation to our day-to-day checking accounts?

The way that the current laws are structured puts Americans abroad in a situation where they have to navigate a costly, punishing, and unfair tax system. My colleagues from other developed countries like Australia, Canada, New Zealand, Sweden, Denmark, France, the United Kingdom, etc., are baffled at the way that Americans abroad are treated by the U.S. tax system. To them the U.S. tax system is laughable for being so myopic. To me it is embarrassing, hurtful, and maddening because it is so bad for the American "brand."

As a result of U.S. tax policy towards individual citizens living abroad, I have, over the years, been denied the ability to open bank accounts, seek out other financial services, enter into financing agreements such as loans, and even apply for credit. It is my direct experience that U.S. tax policies are hurting ordinary individual taxpayers like me who live abroad. People like me, and other Americans that I am in contact with in Singapore and other parts of the world, in no way resemble the mythical wealthy Americans "living large" overseas. My wife and I have not moved abroad to avoid taxes. We have moved here for personal family reasons. We did not set up a Singapore company in order to shift profits out of the U.S. or to take advantage of low-cost labor or lax regulatory policy. We simply set up a small business in the country in which we live.

I value my American citizenship. I pay close attention to American politics. I am active in organizations that aim to raise the political awareness of American voters living overseas. I vote in all of the elections for which I am eligible. Having said all of that, I believe that the United States has a regressive, backwards approach to international taxes—hurting individual middle-class citizens and unfairly benefitting corporations who shield their earnings overseas. I do not think it is fair that an ordinary American like me, making my living abroad, should be subject to these complex and (sometimes) punitive U.S. tax filing requirements.

I request that the Senate Finance Committee hold hearings concerning the way that Americans abroad are impacted by the U.S. tax system (and the financial reporting requirements that go with it.) I encourage you to invite testimony from experts who can provide an accurate profile of the community of Americans who live abroad and describe the burden that U.S. tax filing places on us. Find out the real situation and hear the stories of real Americans abroad rather than having policy continue to be influenced by apocryphal stereotypes of wealthy Americans living in tax ha-

vens. I urge you to explore and examine the data on the impact of U.S. tax policy on overseas citizens and to support a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you for your kind consideration.

Sincerely,

Robert A. Kraybill

LETTER SUBMITTED BY ASHER KRIM

My children and I are proud citizens of the United States of America. We live outside the United States in Israel where we are tax residents (and citizens) and where I am subject to full taxation.

I am a dual-citizen through-and-through. I love America and visit my family there whenever possible, and regularly vote in U.S. presidential elections. My spouse is not American, and it was her work prospects that brought us to eventually settle in Israel. I made sure to get my children registered as U.S. citizens to give them the opportunity to move back there in the future, if they so choose.

As a relatively high-earning U.S. citizen living in Israel, my finances are complicated. I am required to organize my financial and retirement planning in Israel, and I am unable to take advantage of many local investestment vehicles due to risks of double taxation and PFIC concerns. While there is a tax treaty between Israel and America, it contains many pitfalls. As an example—stock grants are taxed at vestment time by the American tax code, but not taxed until they are exercised by the Israeli tax code. My local bank refuses to allow me to invest through them because they fear retribution from the IRS if they get anything wrong—Bank Leumi was fined nearly $200M for assisting tax avoidance, and that has scared off banks from legal dealings with U.S. citizens. I am treated as a financial leper, through no fault of my own, and have missed out on profitable investments for nothing more than the sin of being a U.S. citizen.

The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to two tax systems. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I am made to feel like a pariah for my U.S. citizenship. Some of my friends in similar situations have even seriously discussed giving up their U.S. citizenship because of the economic upside that they see to needing to comply with only the Israeli tax system. This is not an option I am willing to entertain for my family, but I mention it to underscore how dire the situation is.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (such as 17% VAT and high import taxes) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

- The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen? How can we bring the focus back to individuals, who do not have the resources that corporations due to comply with the hardship of adhering to multiple tax systems?
- I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. I respectfully suggest that subsequent hearings include witnesses who have experienced actually living and working outside the United States.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. Please, let's stop punishing dual-nationals like me for living their lives overseas.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me.

And please don't believe that foreign tax rules, the Foreign Earned Income Exclusion, or Tax Treaties solve these problems. They don't! At best, they can remove some of the more-glaring occurrences of double-taxation. But the risks of falling into a tax trap are still significant due to constantly changing tax rules in each country and differences in definitions of tax events.

This is extremely unjust. For many years, Americans abroad have been attempting to get both the Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY SHALOM KRIM

I am a proud citizen of the United States of America. I live outside the United States in Bet Shemesh, Israel where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean

that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY DANIEL KUETTEL

Why must 330 million U.S. residents in their richest $20 trillion wealthy economy, hoarding 30% of all global wealth as a TaxHaven, greed, hunger and lust with unfair bias for unfair double-taxation from unrepresented non-residents? Shameless!

Dear Representation for the Represented

You are represented; I am unrepresented.

You provide representation to your local constituents only; I'm not allowed to represent anyone.

You received U.S. citizenship; I am an ethnic American.

You likely didn't serve in the U.S. Armed Forces; I am a U.S. Army Veteran.

You are likely a fresh immigrant to the U.S.; I am a native emigrant from the U.S..

You privilege from the residency America offers you; I live where I can work.

America benefits you with a lavish lifestyle; America is my heritage.

You are likely a wealthy fat cat with millions in savings; I work hard to pay my bills and taxes.

Your millions stashed in America are hidden from the automatic exchange of information.

You enjoy residency-based taxation; Unrepresented migrant workers are unfairly double-taxed.

Your birthplace is irrelevant; U.S. national origin discrimination targets my U.S. birthplace.

You are protected by the U.S. Constitution; I am in the hands of your good faith.

You write policy in your favor; I am harmed by the policy you write.

The policy you write benefits you; Renouncing U.S. citizenship protects me from your harmful benefits.

I understand and respect that you neither have the time nor interest to represent America's unrepresented non-resident population. America has so many problems

and issues that the concerns of unrepresented non-residents will never appear on your radar. Your needs are more important for you than the sufferings of the unrepresented. This letter will be ignored.

Yet, the renunciation of U.S. citizenship is permanent, irreversible. Renunciation fees and exit taxes are a hardship for diaspora, but a benefit for you. You will never understand.

Detaching unrepresented non-residents from the impact of policy which benefits you, would protect unrepresented non-residents from the unintended consequences of your inability to concern yourself with their issues. A very small change would accomplish a much greater good! You won't budge, but I pray for a miracle.

Best regards

Daniel Kuettel

LETTER SUBMITTED BY DANIEL KUTNICKI

I am a proud citizen of the United States of America. I live outside the United States in Israel where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses out-

side the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ALEXANDER LANGE

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country.

I not only pay taxes in Sweden where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the Swedish tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden, even if no tax is owed.

I'm an ordinary American. I moved to Sweden to be with my family. I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. I don't think it's fair that ordinary Americans like me, making a regular living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filingrequirements.

The current law is costly, punishing, and unfair.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate account of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you,

Alexander Lange

LETTER SUBMITTED BY MICHAEL BANARES LAO

I am a proud citizen of the United States of America. I live and work outside the United States in The People's Republic of China where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay income taxes. Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

Please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They do not. The Foreign Earned Income Exclusion, in particular, **does not benefit American citizens because it prevents us from contributing to an IRA which in turn makes it much more difficult to retire at a decent age.**

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of **residence-based taxation.**

God bless the United States of America!

LETTER SUBMITTED BY WINNIE LAU

I am a proud citizen of the United States of America. I live outside the United States in Hong Kong where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay high-income taxes.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even

though I am fully taxable on that income, in the country where I reside and do not live in the United States. There are no other advanced countries in the world that impose such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although I am a flesh-and-blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is insane. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United

States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American! It does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

The existing foreign tax rules and/or the Foreign Earned Income Exclusion could *not* solve these problems!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ELLEN LEBELLE

I am a citizen of the United States of America. I live outside the United States in France, where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. But, we never know where life will take us. I moved from America many years ago, in January 1972, after marrying my French husband. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. They are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation

on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only that my children, born in France, be able to carry on a small business and/or live their lives without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Ellen Lebelle, Franco-American, retired, mother of 4 children, 3 of whom are still Franco-Americans

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LETTER SUBMITTED BY NICHOLAS MATTHEW LEE

Dear Senators,

I am writing to you in my capacity as a U.S. citizen, resident outside of the United States. While there are numerous ways in which the United States tax code uniquely disadvantages its citizens in an international context, I will dedicate the first and most likely to be read part of this letter to simply urging the Senate Finance Com-

mittee to become aware of the collateral damage that previous attempts at international regulation have inflicted on U.S. citizen workers resident abroad.

For an understanding of the problem, know that there are approximately 7 to 9 million U.S. citizens outside of its borders, living abroad for reasons ranging from love, to work, to family circumstances. The default position taken by the treasury since the 1970s is that Americans have no legitimate business outside of America, evidenced by policies requiring the reporting of all foreign assets to the Treasury's Financial Crimes Enforcement Network (FinCEN), punitive reporting and tax rules around Passive Foreign Investment Companies (PFICs), onerous and oftentimes illegal requirements for foreign businesses to report on suspected American customers (FATCA), and most recently the GILTI tax on U.S. owned but foreign domiciled businesses.

This complicated web of reporting requirements and tax rules that apply to Americans and American owned small businesses outside of the U.S. poses a substantive burden on individual workers, and it strongly dissuades people from attempting to start their own side business.

Understand: Under the laws of the country I live in (the Netherlands), if I was to open a side business selling arts and crafts on an online platform like Etsy, I would need to register and create a business entity. While the book-keeping on the foreign side would be relatively straightforward and affordable, the *filing costs alone* to stay compliant on U.S. taxes are typically thousands of dollars—enough to make any small side business a certain losing proposition.

The disadvantages continue: If we consider that the United States tax code fails to recognize the existence and legitimacy of foreign pension plans in most countries, it becomes a risk for a multinational business to employ a U.S. Person, knowing that this employee may be saddled with impossible and punitive PFIC reporting requirements until reaching the age of retirement. This lack of tolerance for American workers holding pensions in their country of residence also means that they are unable to make use of tax incentives in their host country that encourage the healthy financial practice of saving for retirement.

By this point, I think I've painted a clear and general picture of the harms inflicted on U.S. workers and U.S. small business owners by failed attempts to reign in international corporate and individual tax evasion.

If by now, and I hope, you are in agreement that this is a problem worth investigating further, please continue reading for a listing of common issues uniquely faced by the 7 to 9 million U.S. citizens living outside the U.S. that are *directly* within the means of the Senate Finance Committee and the Treasury to address.

Citizenship Based Taxation

In short, the United States is one of the only countries in the world that follows the unique practice of taxing its citizens wherever they live, whether or not they are within or outside of its borders. The only other noteworthy country with a similar policy of taxing nonresident citizens is Eritrea, a country condemned regularly for its human rights abuses. The Netherlands recently expelled one of their top diplomats over this tax policy.

The United States has historically enjoyed a blind eye to this in diplomatic circles by virtue of its size, much to the distress of its citizens.

This practice is the root of many of the problems that I describe below, both from collateral damage on misguided compliance campaigns to specific and harmful costs that are incurred by Americans attempting to comply with this abusive and overreaching tax regime.

Expensive Tax Preparation and Filing Fees

While the U.S. Government has attempted in the past to make tax preparation affordable and accessible by methods such as the Free Filing program, the reality is that most free tax preparation software is unable to handle even the *most basic* overseas tax returns, excluding those needing to make use of the Foreign Earned Income Exclusion (FEIE) or the Foreign Tax Credit (FTC).

Much of the commercially available software is similarly inadequate for those purposes—TurboTax cannot advise on how to properly make use of the Foreign Tax Credit, cannot account on the application of tax treaties, and it most certainly cannot adequately handle more complicated areas of personal taxation such as PFIC reporting under IRS form 8621.

This requires the use of highly specialized tax accountants, with costs ranging from $750 for a basic tax return to thousands of dollars if a foreign pension is involved. I personally was quoted $6,000 by one accountant as a starting price for a personal tax return as a nonresident U.S. citizen.

These astronomical filing costs, before even accounting for taxes that may be owed to the United States, are an economic drain not placed on any other workers in our home countries. We all still have to file and pay taxes in our country of residence as well, but only Americans have to file and pay in two countries at once.

This either leaves us with less money to live on at the end of the day, or it makes us more expensive for our employers.

Passive Foreign Investment Companies

The United States, aiming to avoid the use of offshore investments by its tax residents, applies punitive and intentionally excessive tax reporting requirements in cases of PFIC ownership.

Unfortunately, because the U.S. considers its *offshore* citizens to still be its residents, their *domestic* assets are regarded as offshore investments subject to PFIC rules. A U.S. citizen resident abroad cannot reasonably keep their assets in the country they reside in.

This is especially problematic in the context of retirement accounts, which are typically highly regulated and required to remain onshore in the same jurisdiction as the place of employment. Thus, accounts that would reasonably qualify in a U.S. context as a Traditional IRA or a 401k may fall under punitive PFIC rules, incurring both substantial tax costs and astronomical preparation fees.

Existing relief by way of the tax treaties and the recent IRS Revenue Procedure 2020–17 is insufficient, as it fails to recognize many common foreign retirement accounts and it still subjects Americans to punitive taxation and reporting if the U.S. does not consider the account to be tax exempt on the same terms as a Traditional IRA or 401k.

PFICs and Interplay With Foreign Regulations

Many countries have financial regulations of their own, whether intended as consumer protection or the prevention of offshore tax evasion. The obligation for Americans to offshore their money to the U.S. causes problems in multiple contexts:

- The European Union has the MiFiD II/PRIIPs regulations, which require investment funds to meet certain transparency standards in the name of consumer protection. Because U.S. investment funds do not meet this standard, it is unlawful for U.S. brokers to offer these products to EU residents. Because FATCA and PFIC rules prohibit U.S. Persons from holding EU compliant and EU domiciled assets, this either leaves Americans unable to safely invest their assets or it requires them to lie to their broker about residency, creating a substantial compliance risk for U.S. businesses.
- Many countries such as Italy or Germany apply punitive taxation on assets that are domiciled outside of a domestic bank or broker. This in turn means that not only are U.S. citizens unique in incurring tax filing and tax costs in relation to their citizenship, they also face a higher domestic tax burden in their home countries than citizens of other countries.

FBAR and FATCA Reporting

FBAR and FATCA asset reporting, like U.S. tax preparation costs, are uniquely faced by U.S. citizens in comparison to other countries. In addition, the draconian penalties for even non-willful violations are a constant source of stress and financial insecurity for Americans.

Because the United States regards domestically held assets by overseas citizens as "offshore", it unfairly associates ordinary American workers and small business owners with wealthy criminals seeking to hide their wealth.

FATCA Induced Account Closures

FATCA imposes onerous audit and reporting requirements for banks that some consider to be beyond their risk tolerances or means. There have been numerous reports in recent years of Americans having their bank, investment, and retirement accounts unilaterally closed by their financial institutions on account of being a "U.S. Person" for tax purposes. *This is legally mandated discrimination against Americans.*

More distressingly, there are many cases of "Accidental Americans", those born to a U.S. parent or born in the U.S. and moved shortly afterwards to a foreign jurisdiction. Many of these Americans lack social security numbers or the means to obtain social security numbers, making it virtually impossible for them to hold financial accounts in either the country they live or in the United States. Additionally, because many of them lack sufficient ties to the United States, it is made *even more* difficult for them to live normal financial lives.

FATCA Reporting in European Jurisdictions

FATCA reporting is especially problematic in the context of the European Union, where the General Data Protection Regulation took effect. There is increasing unrest in the EU about the decision to share vast amounts of sensitive financial information with U.S. agencies that are regarded as insufficiently protected against data breaches and insufficiently compliant with European privacy rights.

This legislative overreach of the United States into foreign jurisdictions is resulting in substantial litigation that threatens the already minimal effectiveness of FATCA.

Foreign Spouses

In this day and age, it is quite common for Americans to fall in love with and marry non-Americans. Many people however are concerned about ensnaring their spouses and children in the U.S. tax code, and it is not an uncommon point to hear discussion along the lines of "If I intentionally am not listed on my child's birth certificate, are they still stuck being a U.S. citizen?"

It should be deeply distressing for members of the Senate to hear that U.S. citizenship is regarded as a curse, rather than an asset, and that basic family institutions such as marriage and acknowledgment of paternity are viewed with fear and suspicion.

Conclusion

With this letter, I hope to have raised awareness of the immense harm that the United States' International Tax Policy inflicts on American Workers.

If there is any doubt as to the tolerability of these measures, simply apply the following test: If a hostile foreign power declared that they would impose similar restrictions and taxes on American citizens living in America, would the U.S. let this slide?

LETTER SUBMITTED BY ALYSSA MARIE LEFEBVRE

I am a citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I used to reside in America, but, we never know where life will take us. I moved from America many years ago. I long ago realized that although I will always have grown up in America, I am living permanently abroad.

I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system.

As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I understand this for "high-flying" residents like Jeff Bezos, Bill Gates, movie stars, celebrities, Meghan and Harry, etc. but why do normal people who do not maintain multiple homes and do not earn income in the hundreds of millions in other countries get subjected to these insane taxation laws?

I live in the south of England where incomes are high because the cost of living is high, yet the IRS has deemed a "one size fits all" income threshold for anyone living outside the U.S. My salary is no higher than the average person living in Silicon Valley or Manhattan, in fact, it's probably lower.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (e.g. VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States. I also think requiring citizens to pay extortionate fees to renounce their citizenship is unconstitutional.

If I do not want the benefits of being American anymore, why does that have to cost me over $2,000 to relinquish? This is 2021, "admin fees" no longer cut it as a reason when it is generally known that there are automated ways of managing information like this.

It is nonsense, and frankly, obscene to treat citizens this way. Why are we punished for wanting to lead a life elsewhere? Why are we treated as criminals just because we choose to live outside the U.S.? Why does the IRS have privileges to see our finances purely because we live abroad? If we lived in the United States, the only the IRS would be able to review private bank accounts would be through a court order. It is unacceptable.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! The most just thing would be to leave Americans who maintain ZERO economic ties to the United States alone. I can understand if expats wish to maintain economic ties to the U.S., fine, keep taxing them and forcing them to file expensive tax returns (there is no possible way a normal person living abroad could do their own taxes, the IRS has made sure of that with their endless and complex forms), that is their choice. I choose to live abroad, I have no financial ties to the U.S., but my father is American and I currently main-

tain my citizenship so that in the event something awful (god forbid) happens to him, I can get back to the U.S. easily.

Each year I file my taxes, I get closer to renouncing and god forbid something did happen to my father after I renounced and I couldn't get back because of something to do with having a foreign passport, I would blame the U.S. government. This is how you make real people feel who have decided to live elsewhere. Of course, whoever reads this may respond as most other Americans I have spoken to about this respond "If you don't want to be a citizen, just renounce". I hate that my only option is to renounce the country where I grew up, just to live a normal life in the country where I am also a citizen.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. America likes to think of itself as "the greatest country on Earth" but I can tell you, this is not how Americans living abroad feel. We feel it's the worst because we are persecuted for existing outside of the U.S.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time. Although this may seem dramatic or over the top, this is truly what it's like to live as American abroad.

LETTER SUBMITTED BY APRIL MICHELLE LENNOX-HILL

Please forgive the lateness of this submission as I was only recently made aware that the Senate was addressing this important taxation issue. I am a citizen of the United States of America just like you, however I am also a citizen of the United Kingdom (UK) where I am also a fully taxed resident.

If speaking "officially," I am a dual national, having emigrated from America many years ago. I finished my B.A. in Arizona in December 2000 after a study year abroad in the UK, and was then invited back to the same university in the UK for my M.A. studies in 2002. However, whilst here for my M.A., I realised I had created for myself a really wonderful life with good friends, and colleagues which I did not wish to leave. This feeling of belonging was only further reinforced when I met and married a wonderful British man and went on to have 3 lovely little boys with him. Once I began building my life here with friends, colleagues and family means I was already home. The trade-off of course is, returning to the U.S. is at best slim as it would require uprooting our 3 children and my husbands' lives. So, I am here and I am happy, but there's a very high price attached to this decision.

The "price" to which I refer above, is that I am HEAVILY taxed as a UK resident, and yet, I am required to organise my financial and retirement planning here in the UK (which affects my husband too) for the betterment of our family's financial security and future, but there's a serious problem we keep encountering. U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live as they are subject to only one tax system, whereas I am sadly subject to two systems of taxation which becomes invariably complicated and highly frustrating. In short, because I have decided to retain my U.S. citizenship, despite choosing to live abroad permanently, I (and my family) are effectively "punished" by the U.S. tax system which runs parallel to my U.K. taxation obligations. And sadly, these two tax systems are generally speaking simply not compatible, as most attempts on my part at responsible financial/retirement planning where I live are hugely frustrated by the need to comply with U.S. tax laws.

This is a very unfair position to put not only myself, but my entire family here in the U.K. How the United States can in good conscience impose taxation on the non-U.S. income and assets of a person who is a taxed resident of another country is beyond my understanding. I have no economic connection to the United States, so why I should be subject to taxation is the real question of which I would appreciate your kind consideration.

Just for clarity, I do not live "offshore." I do however live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example, the U.K. has "VAT") to my country of residence, the United Kingdom.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income here in the U.K. where I reside and

do not live in the United States. *There is no other advanced country in the world that imposes such extraterritorial taxation.*

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But this does not simply affect multinational corporations: *U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals.* And despite the fact that I am an individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. This in my opinion was a mistake which I hope will be reconsidered.
2. I was shocked to hear that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one. That seems an impossible situation to assess without some sort of tangible witness testimony. I respectfully request that subsequent hearings include witnesses who have actually lived outside the United States and paid taxes to another government.

To clarify, I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American, in actual fact unlike most Americans who take their citizenship as a "given," I have had to "weigh up" how important keeping my citizenship is to me, considering the strain it puts on myself, and the burden it places on my husband and financial limitations it imposes on my children by extension. I am subject to the laws of the country where I live, yet I feel penalised by the U.S. government by choosing to live in another country. Put simply, I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way whilst living outside the U.S. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, **I get the worst of both tax systems.** What one giveth, the other taketh away from not only me, but our 3 little boys as well.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems, because they do not.

This situation has been extremely unjust for so long, and I am imploring you now to take the next appropriate step to rectify the flawed extraterritorial tax regime. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues to no avail, but you are finally listening and I am so very pleased. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for taking the time to hear my experience of being an American dual-citizen who has settled in the UK.

LETTER SUBMITTED BY CAMERON LEWIS

Dear Senators:

I am writing to you to urge you to reevaluate the U.S. policy to tax U.S. nationals living abroad. This imposes a significant burden for all concerned nationals—requiring them to prepare and file taxes in two countries—and for some, results in paying an excessive double taxation for countries where treaties are either not present or contain gaps. These people do not benefit from the taxes they pay, and therefore taxing them is unjustified.

This policy clearly comes from good intentions, but in attempting to prevent tax evasion of the mega-wealthy, it steamrollers the ordinary citizen.

The U.S. is one of only two countries in the world, the other being Eritrea, that maintains this policy, and it is time that the U.S. joins the rest of the world in not punishing its citizens for living abroad.

Thank you for your consideration,

Cameron Lewis

LETTER SUBMITTED BY LAURA ASHLEY LEWIS

To the Senate Committee on Finance:

Thank you for the opportunity to submit this statement for the record of your recent hearing on in the impact of U.S. international tax policy on American workers, jobs and investment. I understand that the March 25, 2021, hearing did not include a discussion on the impact of U.S. tax policy on citizens actually living abroad, whose lives are directly, and often negatively, impacted by resulting U.S. tax laws.

I am a 34-year old American who was born and raised in eastern North Carolina. I have lived in Singapore for the past six years, having come here for work. Living in North Carolina, I could barely make ends meet teaching in my public school. In Singapore, I am fortunate enough to live in a country that pays teachers a living wage, enabling me to pay off my student debt, and save money for the future.

That being said, I urge the Committee to listen to the voices of U.S. citizens living abroad when considering any further changes to U.S. international tax law. I'm just an average American living overseas. I'm not living overseas to hide my money, nor am I a tax dodger. It just makes all the sense in the world that you be taxed in the country that you are living in, the country of whose public services you are using and paying in to. Whenever I relocate to the United States, I will be proud to pay taxes that go toward providing Americans with quality healthcare, safe roads, first-class schools and peace of mind for retirement. I just ask that Congress consider the impact of U.S. tax policy on average citizens like me who happen to live abroad and suffer the unintended consequences of U.S.. International tax policy.

Sincerely,

Laura Ashley Lewis
North Carolina (3rd Congressional District)

LETTER SUBMITTED BY REBECCA LIEB

The U.S. is the only advanced country that taxes its citizens on their worldwide income when those citizens live, work, and pay tax in another country. I not only pay taxes in Greece where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the Greek tax is very expensive, which makes meeting U.S. tax obligations a serious financial burden even when no tax is owed.

I'm an ordinary American. My husband and I moved to Greece in 2018 because the cost of my U.S. health insurance. My (not our—my) annual health insurance premium, plus the $6,000 deductible, meant I was paying $44,000 per year for my healthcare. My premiums rose steeply every year.

I was being treated for cancer when the Affordable Care Act (ACA) went into effect. None of my doctors nor hospital were covered by the ACA while I was in the middle of treatment. The following year, I had an accident resulting in still more medical bills.

That's why I made the gut-wrenching decision to close my business, which provided me with a very comfortable six-figure income, to sell my New York City apartment, and to leave the U.S..

I was terrified that I would become a casualty of the U.S. healthcare system if I stayed in America where, as I am sure you are aware, the majority of bankruptcy filings are from average Americans who have health insurance, but then fall ill. Greece is a beautiful country, but I'm in exile here.

I am not wealthy. Counterintuitively, it made more sense to stop working and leave the U.S. rather than be burdened with the cost of healthcare there. I miss working, my home, country, friends, colleagues, and family. I had hoped to earn more money

for retirement, but it was untenable to remain at home, although you'd think American would want to keep tax-paying citizens like me in the county.

Now that I live abroad my income has been all but eliminated. My husband and I were forced into early retirement because the U.S. has no affordable healthcare. We're not allowed to work here in Greece, and we're both too young to collect social security benefits. We certainly don't have room in our household budget to spend on tax return preparers on both sides of the Atlantic, and we certainly can't afford to be double-taxed on what income we do have from our investments, which we must live from.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and often punitive U.S. tax filing.

The current law is costly, onerous, and unfair. It is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Rebecca Lieb

LETTER SUBMITTED BY ALEK LISEFSKI

Being U.S.-born, I am a lifelong citizen of the United States of America. However, I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

While I emigrated away from America, I will always love the USA and want to see it be the best, most just country it can be. But when it comes to tax law, and how that affects those living outside the U.S., there is certainly huge room for improvement.

I am living permanently abroad, now a permanent resident of New Zealand. Of course this means I am a tax resident of New Zealand as well, and have been for many years, since first living and working here. I am required to organize my financial and retirement planning in New Zealand. However, this is greatly hampered by U.S. tax law, so much so that I cannot take part in the retirement savings or investment options available in New Zealand.

The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. For example, the IRS does not recognize a New Zealand Kiwisaver retirement account as a valid retirement account, therefore it is subject to double-taxation. And the investments made within a Kiwisaver account are considered overseas investments, again subject to U.S. taxation and onerous reporting requirements. This all amounts to me **losing** money when I try to save for retirement in New Zealand (due to high taxation as well as very expensive accounting fees to meet U.S. tax law and FATCA reporting requirements)! All my attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes (33%). I also pay additional kinds of taxes (such as GST) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do

not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second residency. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not guilty of anything, but sometimes being a U.S. citizen, choosing to live abroad, it feels as though the USA treats me as a criminal, with so many extra requirements and tax burdens that those living in the USA are not subject to. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time and consideration.

LETTER SUBMITTED BY ELLIOTT LOCKE

I am a proud citizen of the United States of America. I live outside the United States in Spain where I am a tax resident and where I am subject to full taxation.

I am an entrepreneur, building a startup here in Barcelona. As you no doubt know, starting any business is complicated.

From a tax reporting perspective, building my dream company puts me in a no-win situation as an American abroad.

On the one hand, I must be fully compliant with Spanish tax law as I and my company reside here.

On the other, citizen-based taxation and the GILTI rules in the TCJA force me to create the exact structure your committee wants to eliminate.

By forcing Americans abroad to create local entities held ultimately by U.S. LLCs via a c-corp just to open a small business, we run the risk of:

- Looking like tax evaders in the country we live in;
- Being subject to triple and even quadruple taxation; and
- Becoming uncompetitive compared to our non-U.S. citizen peers.

The last point is particularly poignant as America's entrepreneurial and business spirits are unrivalled in the world.

For Americans living abroad like myself, we represent a wonderful, soft diplomatic asset for our country. We promote American business values, championing a system of can-do innovation that has made America the greatest country on earth.

Furthermore, we provide valuable insights to our countrymen and women back home on important domestic debates regarding healthcare, social safety nets and cross-cultural insights that makes our country a richer, more equitable place.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was disappointed that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living abroad. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my business activity and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way.

My startup focuses on helping people living abroad, including Americans, get financial and investment advice, providing capital into U.S. markets, creating jobs, and ultimately generating tax revenue for the American people. All of our clients wish to do so in a compliant-manner, avoiding offshoring, tax evasion, and other less-than-ethical practices.

This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency,

I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Additionally, the United States can help pursue President Biden's and Secretary Yellen's goals to create a more just global taxation system by leaving FATCA and joining the OECD's Common Reporting Standard (CRS).

Combined with America's shift to a residence-based taxation system, the country can become more competitive internationally, fight tax evasion with our international partners, and prevent hardworking, middle-class Americans living abroad from becoming collateral.

Thank you for taking the time to consider my comments.

God bless the United States of America!

LETTER SUBMITTED BY GERALD LOFTUS

For a quarter century, I served—mostly overseas—as a State Department Foreign Service Officer. Since retirement, my post-retirement jobs have either been as a U.S. Government (DOD) contractor, or as the employee of a U.S.-based nonprofit. My U.S. Government pension is in U.S. dollars, as is my Social Security, and my post-retirement salary was always paid in U.S. dollars from a U.S. source. It goes without saying that I always pay my U.S. income tax, and it is subject to withholding. Therefore a U.S. bank account is a necessity.

I have always had a U.S. bank account, and with it a debit card. However, when I recently failed to receive a new debit card after the expiration of my last one, I was told that the bank—Bank of America, where I have had an account for years, and where my USG pension is direct-deposited monthly—no longer issues debit cards to depositors with foreign addresses. And the reason they cited was the "U.S. Patriot Act."

This came as a shock to me. In all the years where I served my country overseas, there was never any question but that I could continue to safely deposit my savings in my home country, the United States. Now that is threatened. The upshot of this practice will be to discourage American citizens who live, work, or retire abroad to move their savings outside the U.S.. Surely that cannot be the goal of U.S. tax and banking policy.

We need common sense to return to our international tax and banking policy.

Gerald Loftus
U.S. Foreign Service Officer, retired

LETTER SUBMITTED BY CRAIG LOWERY

I am a proud citizen of the United States of America. I live outside the United States in Australia where **I am a tax resident and where I am subject to full taxation. I am a U.S. Army Veteran and am patriotic and loyal to America.**

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. **Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws.** How can this be fair?

How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MARIA FATIMA LUIS

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago thinking it was a temporary move maybe a two year experience. Although the days sometimes go slowly, the years go quickly. I married and then raised children who are also dual citizens. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. I have spent thousands a year just to fill out complicated forms, many banks don't want to have U.S. citizens as clients, I cannot invest in certain products etc. I am very limited in what I can do financially. I also feel I spend an inordinate amount of time every year dealing with taxes in the country I reside in which are already 45% for high income earners plus dealing with my tax paperwork and FBAR documentation. As a regular person, I am made to feel as if I am constantly watched or made to feel as I am not being compliant with so many rules. So as a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MARIAN MAGEE AND DAVID CASTILLO

We are citizens of the United States of America. We live outside the United States in Australia where we are tax residents and subject to full taxation by the Australia government.

My husband and I moved to Australia from America almost 25 years ago. Although we will always love America, we are living permanently abroad. We own our home and run a small business in Australia. We are citizens and tax residents of our country of residence, Australia. We are required to organize our financial and retirement planning in Australia. The problem we have is that the U.S. tax laws make it very difficult for us to navigate two tax systems. As U.S. citizens, we are subject to the Australia tax system where we live and the U.S. tax system due to our U.S. citizenship. These two systems are generally not compatible. Most attempts at responsible financial/retirement planning where we live are frustrated by the need to comply with U.S. tax laws. There is a lack of fairness when the United States imposes taxation on the non-U.S. income and assets of a person who is a tax resident of another country with no economic connection to the United States.

My husband and I run a small consulting business in the country where we live. Our business is *not* a multinational corporation and all of its income is domestic to the country where we live. However, because we are U.S. citizens, the U.S. tax code treats us the same as Apple or Google. We use a local business structure that's treated as a corporation under U.S. tax law, we are forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of our business records into U.S. dollars even though we do no business in that currency. Our business is subject to GILTI even though we have no intangible income. We are subject to two tax systems and must file bot U.S. and Australian tax returns simply due to our dual citizenship, even though we are tax residents of Australia alone where we pay a 35% tax rate on all of our global income. We also pay additional kinds of taxes (GST, Medicare, local Council taxes) in Australia, our country of residence.

Because we are U.S. citizens we are subject to the U.S. extraterritorial tax regime, where United States imposes taxation on our non-U.S. income even though we are a fully taxed on that income in Australia where we reside. We do not live in the United States and have not lived there for years. There is no other advanced country in the world that imposes such extraterritorial taxation.

Two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. The reality is that the U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. There should be a discussion where the focus of the hearing is about individuals, where participants are given the opportunity to hear how individuals are affected by these rules.
2. I respectfully suggest that subsequent hearings include witnesses who are living and running businesses as dual citizens outside the United States.

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally the U.S. extraterritorial tax regime makes it difficult for us to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in our country of residence and not in the United States. Our savings and retirement investments

are foreign to the United States, but local to us. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because we are required to live our lives with the USD as our functional currency, we are subject to "imaginary" income on paper only due to exchange rate differences. As citizens of both the United States and Australia, but tax residents of only Australia, we are taxed by both countries. Foreign tax credits and the Foreign Earned Income Exclusion mitigate some of these issues but don't solve the real problems. The Tax Treaty between Australia and the USA only protects the right of the U.S. to tax its citizens, it does not provide protection from double taxation.

For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues and adopt a system of residence-based taxation.

LETTER SUBMITTED BY KRISTEN MAIER-LENZ

Dear Madam:
Dear Sir:

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am living in Europe as an American citizen and this doesn't make me less American. But, it does mean that I am subject to the laws of the country where I worked and where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. indi-

vidual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that a Double Taxation Avoidance Act like it exists between the U.S. and my country of residence (Germany) solves these problems. It does not!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Kristen Maier-Lenz

LETTER SUBMITTED BY DWIGHT JEFFREY MANNERS

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Belgium where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the Belgian tax system is very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I initially moved to Europe in 1982 on assignment with a U.S. multi-national company. In 2006 I lost my job in Europe while on assignment with another U.S. multinational firm. I decided to remain in Europe as my career opportunities were greater there and worked as an independent consultant. In 2015 I retired, and my wife and I decided to remain in Europe for family reasons. With my modest pension income, it is a considerable financial burden for me to spend money on U.S. tax return preparers. Further, due to the different approaches to taxing personal income, even with the foreign tax credit and the higher income tax rates in Belgium, I am still paying some U.S. taxes! As a retiree I cannot afford to be subject to double taxation.

Additionally, U.S. laws and regulation have severely restricted banking and investment opportunities for U.S. citizens.

I value my American citizenship. I closely follow U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, middle class Americans like me, retired and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

I have recently read in the *New York Times* that the IRS is under resourced and consequently has not been able to follow up on some 369,000 high income U.S. households which have not filed tax returns. At the same time the IRS is expending effort to review the millions of tax returns of U.S. citizens who reside abroad in countries which have higher personal income tax rates than the U.S.. I would expect that these tax returns of U.S. citizens residing abroad bring very little tax revenue to the U.S. treasury due to the foreign tax credit. Thus, it would be a win-win solution if U.S. citizens residing in and filing tax returns in those countries which have taxation rates similar to or higher than the U.S. were exempted from filing a normal U.S. tax return. It should be sufficient to file a simple form demonstrating that one has filed with the foreign country in which one resides. Such a measure would

allow the IRS to reallocate its efforts to pursuing and reviewing those returns which would actually generate tax revenues for the U.S. treasury, while at the same time saving those U.S. citizens who reside abroad the high expense of preparing and filing their U.S. tax returns.

In closing, I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Dwight Jeffrey Manners

LETTER SUBMITTED BY TANJA MANNERS

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Austria where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Even with my small income, the U.S. tax system is incredibly complicated and I generally have to hire an account who understands the U.S. tax system as well as the Austrian tax system and it's a lot of money to pay for this service to, in general, find out I don't even owe any taxes to the U.S. because my income is too small. It's an incredibly frustrating process every year and it's a serious financial burden especially when no tax is even owed.

I'm an ordinary American. I choose to live in Austria for my job as an administrator at a university and as mentioned before, I don't exactly have high salary. I don't have the budget to spend on tax return preparers and certainly could not afford to be double-taxed.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Tanja Manners

LETTER SUBMITTED BY MICHAEL MARINO

Dear Members of the Senate Committee on Finance,

I hereby submit a statement regarding how US International Tax Policy has affected my family and me.

I have lived in Germany since October 2010. My residence for purposes of voting is in Washington State (7th Congressional District).

US international tax policy has posed a significant challenge to me throughout my time living abroad. It has mainly caused me difficulties while obtaining and maintaining German bank accounts—which one requires while living abroad—and while trying to invest in my families and my future. To give some concrete examples:

- Due to PFIC limitations, I am unable to invest in ETF funds that are based outside of the U.S. without incurring significant U.S. tax penalties. Since ETF

funds are one of the cheapest ways to diversely invest in one's future and prepare for retirement, this has posed a significant impediment to such planning. With the recent introduction of EU policies and laws in reciprocal response to the U.S. FATCA laws, I have lost the ability to invest in ETFs through my U.S. banking institution, meaning this important avenue for future planning has now been cut off to me completely.

- Several German banks have refused my daughters (who are U.S. citizens) and me financial services, due to the complex reporting requirements demanded by FATCA. This significantly limits us in our choices for affordable banking.
- Whereas I have had until now limited income tax liability in the U.S. due to the fact that Germany's tax rates are higher, the personal reporting I must undertake every year to submit my U.S. taxes consumes an inordinate amount of time and financial resources. Until now, I have luckily been able to avoid professional tax assistance, but as I am confronted with the obtuse language of the tax laws and the increasing risk of unintentional non-compliance with the U.S. tax code, it becomes more likely that I will have to engage expensive aid to help me in future tax preparation. Finding such aid is further complicated by the requirement that such professionals must be intimately familiar with both U.S. and German tax laws.

I understand that the purposes of some of these U.S. tax laws have been to limit tax avoidance and evasion by corporations and persons. However, my family and I belong to the group of ordinary, working Americans who must live with the unintended consequences of these laws every day.

I am happy to respond to requests for clarification or for further information.

Regards,

Michael Marino

LETTER SUBMITTED BY JUSTINE MARK

I am a strong supporter of transparency, and unlike many other expats I don't mind filing out tax forms every year if it helps stop corporations from evading taxes and laundering money abroad. However, there are some major problems with the current expectations of Americans living abroad in how we're expected to file taxes that are particularly harmful to middle class and low income Americans abroad.

Last year I helped a friend who recently got a green card file his U.S. taxes abroad for the first time. We tried to go through IRS free file, but only some of the free file services cover international income, and it's hard to tell which services support that and which do not. Unable to find a system that would let him file taxes for free, my friend was forced to use most of the last €40 in his bank account, that he needed for food, to pay the filing fee for his American taxes. This was problem even though he owed the government nothing. It think that's wrong, and it shouldn't happen to anyone.

If my friend had been in the states there are programs, like the VITA program, to help people file their taxes for free. While these programs are hard enough to find in the U.S., they don't exist or are impossible to find abroad. Expat taxes are even more complicated than standard tax filings in the U.S., while many accidental Americans and people who have been living abroad for a long time know even less about filing taxes than the average American does, and may not speak English fluently. These people face a harder process to file their U.S. taxes than most Americans do with less support than the average American receives.

There are services that specialize in helping expats file taxes, but most of them are prohibitively expensive (starting around €200), and there are no subsidies or help paying that fee for lower income tax filers abroad. While there's a program to get caught up on filing past years taxes, most of these services charge €500 or more to help people with that. Many of the people who need those services the most can't afford that. €500 is enough to cover rent or feed their family for a month.

How hard is it for the IRS to tell the difference between earned salary income and corporate income? Or between an individual's savings and/or checking account and an illicit offshore account? Can we exempt some classes of income, like salary income and income support from a foreign government, from taxes abroad entirely, or at least set a much higher limit on filing and/or paying taxes on foreign income than where it is now?

Here are a few things I'd like to see to keep the transparency benefits of requiring international reporting while protecting the interests of individuals living abroad:

- Significantly increase the filing threshold to 60K or something. People making minimum wage abroad shouldn't have to worry about filing U.S. taxes at all.
- Have a free and easy system for most expats to report their income without paying outrageous fees to third parties. This system should let people report things in the local currency and language.
- Automatically forgive people who failed to file taxes in past years as long as their income that year was below a threshold for those years, and/or provide people free support to get caught up on their back taxes.
- Increase the Foreign Earned Income Exclusion significantly, say to 500K, while coming up with other systems to prevent abuse, such as checking people actually work full time at their jobs and pay local income taxes. The current amount, of 100k, is easily a middle class income in many parts of the world, especially if you have a family. If you're an engineer or a doctor and are doing very well for yourself internationally there's no reason you should pay taxes on your salary twice. Filing foreign taxes should be about money laundering billionaires, not even the upper middle class living abroad. No more than 1% of expats should make more than the excluded amount.

Clearly I don't have all the answers here, but I know that our system to ensure transparency and prevent money laundering and tax evasion needs to be easier on people who work for a living abroad than it is now. People who don't understand the unnecessarily complex system of filing U.S. taxes abroad, and can't afford to hire someone who does, are unnecessarily hurt by the current system. We need to create a system to hold corporations and billionaires accountable without penalizing people for being poor abroad, or making life difficult for middle class families living abroad.

LETTER SUBMITTED BY MARIO J. MARTIN-BURGOS

I am a proud citizen of the United States of America. I live outside the United States in Spain where I am a tax resident and where I am subject to full European and Spanish taxation and laws.

I was born in the USA, and I've travel to the USA for short times to see family and for visiting a country I was proud to be born. But make this clear, I've never work and I have no assets or incomes in the USA. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. The complexity of the forms I can't even understand, just to prove I own nothing, is a complete nightmare that require a professional advisor that cost me thousand of dollars. The recommendation is don't even try, because most probably you'll ended with a fine of thousand of dollars for a misinterpretation of two incompatible tax systems to fit in an already too complex USA tax system. So, it is better that the IRS never hear I even exist, despite I have nothing to hide.

But It got worst. Currently, I have serious problems with banks. I am a full Spanish citizen, but my ID says "born in the USA". Without further questioning, banks and brokers deny me to open an account, mentioning some FATCA law. Only after denouncing a discrimination and the intervention of the Spanish bank authorities I was allowed to have a bank account. Here is not like in America; without a bank account you can't do anything, from receiving a salary, to buy a car. Recently, my current broker forbids me to buy stocks in any American related company. All of this because someone wrote in FATCA "born in the USA" as incrimination indicia, which is a violation of the non-discrimination clause of the international tax agreements and a violation of constitutional rights.

Of course, I am proud to be an American. I know USA citizens living in Spain, but only those who have born in the USA have problems. Banks don't care if you are a USA citizen, they only care if you born there. When I try to explain the current problem to my Spanish fellows, they roll their eyes in disbelieve. Having an American citizenship should be an advantage, not a curse, right? Well, it is so serious that I am considering renunciation. How I can believe in a country that enforces discrimination to its own citizens.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY STEPHEN MATTHEW

To whom this may concern:

I am a proud citizen of the United States of America. I live outside the United States in the Netherlands where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America from 45 years ago and still a proud American. We never know where life will take us. I moved from Connecticut in 1976, originally to play baseball for a summer, found a girl and the rest is history. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement

planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. It does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference and burden from the Internal Revenue Code of the United States.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for listening.

God bless the United States of America!

Yours truly,

Steve Matthew

LETTER SUBMITTED BY MARIE MATTSON

I was born outside the United States. I inherited my U.S. citizenship from my father. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation. Even when I owe no U.S. tax, I pay hundreds of dollars a year to comply. To put it simply: The United States must stop exporting its system of extraterritorial taxation and regulation, to people who live in other countries.

I don't understand why the United States is trying to impose taxation on none U.S. income. I live in a country with a well-developed tax system that requires payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. It is somewhere between difficult and impossible to be a tax resident of more than one country. How can I plan for retirement? It is impossible to make financial plans as two separate tax structures have to be taken into account. Very often the two tax

structures force me to forego tax advantages in one country because of the tax impact in the other. For example, the Canadian Tax Free Savings Account (TFSA) is an amazing tool to save for retirement however the tax requirements imposed by the U.S. strip all benefit away.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxed on that income, in the country where I reside. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax credit rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

American extraterritorial taxation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

This insanity and injustice must stop!

God bless the United States of America!

LETTER SUBMITTED BY MARK WILLIAM MATTSON

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days some-

times go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxed on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life, without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both the Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MARTHA MCGLOIN

I am a proud citizen of the United States of America. Since May 1978, I have lived outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I moved from the United States 43 years ago to take advantage of a nine month fellowship. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love the USA, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? I do not live "offshore". I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. **There is no other advanced country in the world that imposes such extraterritorial taxation.** The financial limitations and risks incurred due to this extraterritorial taxation have led me to initiate the process to renounce my American citizenship—a step that is difficult for both me and my family, but one that is necessary in order that I not create a significant costs for my family in Canada.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! **Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

The U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things such as the sale of principal residence when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation,

Sincerely,

Martha McGloin
Toronto, Canada

LETTER SUBMITTED BY RACHEL MCKEAN

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. This makes it exceptionally difficult to manage our business as it is very difficult trying to plan and manage tax obligations for 2 countries with conflicting policies. Not to mention the impact on our ability to compete in our local market.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable (and pay those taxes) on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States,

but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Especially as business owner and shareholder, not just a an employee earning a wage. Wealth and investment planning is very difficult and I feel like my wings are clipped and can't realise the full potential with our business.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY VICTORIA MEACHAM

I was born outside the United States. I inherited my U.S. citizenship from my father. I have never lived in the United States. I live outside the United States in Scotland where I am a tax resident and where I am subject to full taxation. To me the United States is only about taxation. I find it very difficult to afford to comply with U.S. tax filing. Even when I owe no U.S. tax, I pay hundreds of pounds a year to comply. I would love to simply renounce my U.S. citizenship. But it is not easy to afford the renunciation fee of $2,350. Incredibly I can't afford to comply, and I can't afford to renounce. I feel as though I am a slave to a country that I never lived in. To put it simply: The United States must stop exporting its system of extraterritorial taxation and regulation, to people who live in other countries.

I don't understand why the United States is trying to impose taxation on none U.S. income. I live in a country with a well-developed tax system that requires payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. It is somewhere between difficult and impossible to be a tax resident of more than one country. How can I plan for retirement?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I was a U.S. citizen, I was subject to the U.S. extraterritorial tax regime, which means the United States imposed taxation on my non-U.S. income even though I was and am fully taxable on that income, in the country where I reside. This was true even though I did not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of first citizenship. I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax credit rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

American extraterritorial taxation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

This insanity and injustice must stop!

God bless the United States of America!

LETTER SUBMITTED BY WILLIAM MELHORN

I am a citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure, I care deeply about America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always care about America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. For example, I cannot take advantage of the tax savings one gets via a "tax free saving account" because it not recognized by the U.S. Internal Revenue Code. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example, the GST-Federal Goods And Services tax)in my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. Really Senators. This laughable.

2. Indeed, I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "Permanent Resident of Canada" and a U.S. citizen living in Canada. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are NOT immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems (In others words, double taxation among other things).

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues with little or no effect. This has left many non-resident Americans both frustrated and very angry. To the point, that many have chosen to renounce citizenship, and many more are considering so.

So, what is real solution to all of this: It is time for the United States to abandon its extraterritorial tax regime and join the rest of he world in adopting a system of residence-based taxation system.

LETTER SUBMITTED BY PHILIP MICHAEL

I am a proud citizen of the United States of America. I live outside the United States in Toronto, Canada, where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. My parents moved from America many years ago, shortly after I was born, with me. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system, which also restricts certain financial tools for retirement and savings. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (GST, HST) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example: sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God Bless the United States of America!

LETTER SUBMITTED BY ROBERT MICHAEL

I am no longer a proud citizen of the United States of America. Since my childhood, I live outside the United States in The Netherlands where I am a tax resident and where I am subject to full Dutch taxation.

You see I am an "accidental American". I was born in America. But, I was removed from America when I was 2 years old. I grew up in my parents' home country and thus mine, The Netherlands. I have no family in the U.S., no assets in the U.S. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. Everything in my life is non-U.S.! But, it gets worse. I am also required to file complex information returns describing the details of my Dutch finances to America. I can't even understand the American forms. How can this be? What is the reason for this? No other country

does this! During more than 60 years no one ever informed my family, not the IRS, not the Dutch IRS. Nobody! How can the U.S. impose its extraterritorial law of citizenship based taxation on people not even being made aware of it by the U.S. government? Do you have any idea how guilty my elderly father and mother are feeling? Subjecting their child to this Kafkaesk U.S. tax system? I would have renounced in a heartbeat when I turned 18. I'm 63 now. I have no idea how to comply with the rules imposed on me. Also, I can't afford the expensive consultants. What am I supposed to do? Renounce my U.S. citizenship? I can't even afford the U.S.$2350 renunciation fee to do so. I simply don't know what to do and I can't deal with the stress.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. Not one of my Dutch bank accounts are foreign to me, but suddenly because I'm being identified as a so-called U.S. person (FATCA) and I'm being severely discriminated against and treated as a second class citizen. The U.S. is making my life miserable.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income and assest even though I am a fully taxable on that in the country where I reside, and do not live in the United States. And because I am married, also my wife's income and assets are taxed by the U.S.. She is not a U.S. person and caused by the financial problems of FATCA she is forced to divorce me!

There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make three general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.
3. **To put it another way:**
   a. **Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**
   b. **I am not a "mini-multinational" I am a "dual-national" living in my country of premier citizenship.**
   c. **I am subject to the laws of the country where I live.**
   d. **I am not GILTI of anything.**
   e. **I ask only to be able to carry on my small business and/or life my life without interference from the Internal Revenue Code of the United States.**

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way for me and my family. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one gives, the other takes.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY LAUREN MILLER

I am a citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

I am an "accidental American." My mother is an American citizen and grew up in California and Oregon, but I was born and raised in England. American citizenship was applied for me at my birth so that I would have the legal right to move back to America to live with the rest of my family if I chose to when I grew up. I have never lived in America. But I always imagined in the future I would live there for a time with my family.

Despite having never been resident, I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. But, it gets worse. I am also required to file complex information returns describing the details of my finances to America. What is the reason for this? No other country does this! I used to be proud and grateful that I wasan American citizen, but now it is a significant source of stress in my life. There seem to be reems of complex rules I am supposed to comply with, but the system is alien to me as I was not brought up with any of these requirements. I can't afford the expensive consultants, I am a PhD student, researching treatments for Dementia. And science does not pay as well in England as it does in America; when I graduate, I do not expect to earn much more than I do now. I investigated renouncing my citizenship—in fact in a free clinic I was advised to do so because it would make my life so much easier. But I don't want to; it's not fair that I should have to give up the freedom to be with my family for a tax code. And then there's the small matter of how much it costs to renounce citizenship, which seems to be going up all the time as more and more people get rid of their passports. I can't actually afford the U.S.$2350 renunciation fee. The American government has me in a complete bind; one way or another I am going to have to spend a lot of money. I simply don't know what to do and it is hugely stressful.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States.

There is no other advanced country in the world that imposes such extraterritorial taxation.

Schemes in my country of residence to try and help people like me get buy, such as tax free savings accounts and investments where the government contributes are not recognised in the U.S. and are actually penalised. I was told by a tax advisor never to invest in shares in my name because the U.S. government will treat it like a foreign business, but to get someone in my English family to do it for me, Can you an imagine a more un-American thing? Being told never to invest because you are American?

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are NOT immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not.

Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I am a young woman of 24, and I just want to get on with my life. I want to get a job when I graduate with my PhD, without having to figure out what forms I need to fill out so I don't pay tax twice. I want to be able to buy a house without having to worry about if, when I sell it in 20 years' time, I will have to pay tax to the U.S. government. I want to be able to have children without having to worry about whether the U.S. government will tax the child benefit I am paid by my country of residence. I want to be able to invest in the UK governments tax free schemes and pensions without fear of what the U.S. government will claim in the end.

When I was growing up, I was always taught that to be American was to believe in fairness and justice. America was the good guy, and they stood up for the little people. Well, I am a little person, and America is financially crippling me.

LETTER SUBMITTED BY PAMELA MILLER

To the Senate Committee on Finance:

Thank you for the opportunity to submit this statement for the record of your recent hearing on in the impact of U.S. international tax policy on American workers, jobs and investment. I understand that the March 25, 2021, hearing did not include a discussion on the impact of U.S. tax policy on citizens actually living abroad, whose lives are directly, and often negatively, impacted by resulting U.S. tax laws.

Almost 25 years ago, I married a Belgian citizen and moved from Tennessee to Belgium to start our life together in his home country. During the early years of our marriage, we worked, bought a house together, and had two children (BE-U.S. dual citizens). Career opportunities, education opportunities, and home ownership are a few of the reasons we decided to stay in Belgium and raise our family here.

I implore the Committee to listen to the voices of U.S. citizens living abroad when considering any further changes to U.S. international tax law. Below are a few of the major impacts FATCA and Citizen based taxation have on my life abroad.

ISSUES

- Before FATCA, my banking options were those I could expect in the U.S.—checking/savings/retirement/investment/college savings for the children. After FATCA, **my bank, out of fear of the penalties imposed for mistakes in compliance on the reporting requirements, has closed all my accounts**

save my checking account. I am no longer able to save for my retirement nor attempt to improve my financial standing via investments. I was a financially independent woman but have now become financially dependent upon my husband for our future retirement.

- In a few years, our children will be old enough to join the work force, marry if they desire, and consider home ownership. **Should our sons decide to continue living abroad, home ownership and retirement savings, savings of any kind, will not be available to them unless they renounce their U.S. citizenship.** Our sons identify as Americans and hope to one day live in the U.S., but they also expect part of their adulthood will be spent living overseas. The potential decision to renounce their U.S. citizenship will not be taken lightly, but already serves as a source of stress and concern for us.
- Annual filing of taxes and FBAR is a financial and psychological burden. Due to the complexities of filing from abroad, I use the services of a specialized tax accountant in spite of the fact that **my income has never, in 25 years, exceeded the Foreign Earned Income Exclusion. However, I invest time and money every year to prove that and must comb through bank records to be able to accurately file the FBAR report.**

While I understand the original intent of FATCA, I believe the full impact of the legislation on average American citizens living overseas was not fully investigated and the stories of the subsequent reality of financial life of Americans abroad have not been heard. **Repeal of FATCA, or instituting Residence Based taxation like all other countries in the world (save Eritrea), would afford citizens such as myself some relief from our current financial situation. This combined with changes to or the elimination of FBAR reporting would allow us to once again have the financial freedoms our fellow citizens in the U.S. enjoy.**

CONCLUSION

I am a proud U.S. citizen and have raised my sons to be the same. Our family lives what would be considered in the U.S. a middle-class life. It pains me to be treated like a tax cheat by my own country for the simple reason that I married and live abroad.

Now is your opportunity to rectify the U.S. International tax situation for non-resident Americans and give some relief to your fellow citizens who have been struggling under the burden of FATCA and CBT for more than 10 years.

Sincerely,

Pamela Miller
Voting in Tennessee (9th Congressional District)

LETTER SUBMITTED BY MARGARET LYNN MORRISON

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in the United Kingdom where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the UK tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to the UK to be with my husband (who is not American). We are a normal family, living in a single country, working regular jobs. We are not millionaires using shell companies to hide our income. We don't have room in our household budget to spend on tax return preparers, and we certainly cannot afford to be double-taxed.

I moved abroad in 2013 and have continuously lived outside of the United States since that time. I spend less than two weeks per year in the United States. I am married to an Italian man and we have two children. I recently started my own small business (I am a writer). I pay income and company taxes in the UK. I also file U.S. taxes annually, at a cost of around $400 per year for an accountant to prepare them on my behalf. Now that I have started a new business, my U.S. tax obligations have become even more onerous, and I will need to pay $800 each year for tax prep, at a minimum, despite not owing any U.S. taxes.

My husband, as an Italian citizen, does not share this burden. He is taxed once in the UK on his UK income. He is not required to report his earnings back to the Italian government. He struggles to understand why this burden is placed on me.

Additionally, we have two children who have never lived in the U.S., despite holding U.S. citizenship (through me). They may very well choose to live abroad for their entire lives. Yet, due to their birthright citizenship, they will also inherit this burden of filing taxes in the U.S.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing. I certainly don't think it is fair that my tax burden should increase significantly in both cost and complexity simply because I am a small business owner in another country—selling nothing more than my own services and with zero employees, working out of my own home.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I have honestly considered it and done a cursory investigation, despite not yet holding citizenship in any other country. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Margaret Lynn Morrison

LETTER SUBMITTED BY DAVID MOSKOWITZ

Dear Senate,

I am an American, living overseas since 1997.

Every year, I dutifully submit hundreds of pages of tax forms to the IRS and banking info to FINCEN, costing me thousands in accounting fees, owing in most cases, $0 on my income I earn abroad. It takes me nearly a week to collate all the information needed to submit this documentation. In fact, I pay more to my US accountant to help with this, than I pay in taxes to the country in which I reside. If I earned any capital gains, eg from selling my local home abroad, I'd owe potentially thousand to the US and nothing to the country I actually live in. This is very strange.

Because of FATCA, it has become very difficult to open up personal and business bank accounts in the country in which I live, they won't take on U.S. persons as the compliance cost is too high for them.

This was before the TCJA, which magnified the problem and discriminatory way in which American expats are treated by the U.S. tax system. No consideration was given to the expat operating a small business abroad. It destroyed the ability to compete, invest, or grow a business in the country in which we lived.

Instead of competing with local companies on equal ground, if an American own more than 50% of a local (what you view as foreign) company, we are personally responsible for any profits that aren't taxed at a rate which they'd be taxed at in the U.S. As if the market and business was in the U.S. Imagine trying to compete when you pay more in taxes than a non-us person owned business would. This doesn't even touch on the compliance nightmare that the TCJA added.

In attempting to save towards retirement, we are forced to navigate a minefield of confusing rules regarding types of retirement accounts and their designation by the IRS. eg is it a pfic?, did I accidently put money into a foreign fund? Is my local governments retirement system a pfic, to figure it out you may now have to pay someone thousands to figure out what paperwork is needed to be filed.

Can I invest in a local (foreign) company? What if my investment puts them over a 50% U.S. person ownership? Is it now a CFC or possibly a pfic? Uh oh, I am now

personally liable for it's profits and need to submit their financials to the IRS. Oh, guess you don't want my investment.

Can I sit on the board of a non-profit? In what capacity? Can I be a signer to their bank account? Would that make me liable to send in more paperwork to IRS and FINCEN? How much will this cost me to figure out? OK, better not bother to help them.

Please move to a residency based taxation system, like 99% of all other nations. Allow me to compete on equal ground, live a normal life, and not live under the fear and anxiety that I may make a mistake on some paperwork and be unfairly penalized ($10k to $100k!) for not filing the correct paperwork.

Thank you for your consideration in correcting this injustice.

David Moskowitz

LETTER SUBMITTED BY OWEN MUISE

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

I am an emigrant from the United States. Although I still love the U.S.A., life sometimes brings unexpected change: I moved from the U.S. many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always feel like an American, I am living permanently abroad. I am a tax resident of Germany, my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live plus the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws.

For example, banks and other financial organizations will not allow me to invest in stocks or funds of any kind because of the U.S. government requirement that they also comply with FACTA, which they, because of the complications, are not willing to do. **While other nationalities can obtain these services, I as an American cannot. I am discriminated against because of the unreasonable U.S. regulations. How can this be fair?** How can the United States impose taxation and regulations on the non-U.S. income and assets of a person who is a tax resident of another country and with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside and although I do not, and have not, lived in the United States for many years. There is no other advanced country in the world that imposes such extraterritorial taxation. According to my information, **the only other countries that do so are Eritrea and Myanmar. Does the United States want to compare itself concerning treatment of its citizens to Eritrea and Myanmar?**

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. I am a flesh and blood individual person. **Not a single participant at the hearing recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?**
2. I was shocked that there was no witness who had personal experience earning their income as an employee or as an individual running a business with interests outside the U.S.A. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced employment or running a business outside the United States and actually live outside the

United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not with only vague or poorly informed theoretical considerations.**

I am currently a permanent resident of a country outside of the United States. This doesn't make me any less American. But it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without unreasonable interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a simple employee or a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your time and consideration.

Owen Muise

LETTER SUBMITTED BY CHRISTINA NAWAB

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean

that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

I live on a very modest income. I'm not wealthy, but still must spend at least $300 per year for assistance filing my taxes, of which I'm not liable, but must prove anyways. I would like to invest for my future, retirement and buy a house one day, but that doesn't seem possible with the current expat tax laws.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ROBERT NEWSON

I am a proud citizen of the United States of America. I live outside the United States in Switzerland where I am a tax resident and where I am subject to full taxation.

I came to Switzerland over 30 years ago, because they offered me a job when America didn't. As things often happen, I fell in love with a Swiss girl and we married. That's the kind of story Americans love. Why should I be penalized for falling in love or trying to make something of my life? I feel like I have no voice, nor do I have the advantages that other Americans have. This immunization process we're going through right now is a perfect example. While Americans (and others) residing in the U.S. are being taken care of rather quickly—taxpayer or not!—when I go onto the U.S. embassy website for guidance, it tells me basically to deal with the situation myself. Taxation without receiving services accorded to other Americans is blatantly indecent and abusive, in my opinion.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant rec-

ognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY TRACY NISSAN

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America and moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors in the UK live as they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system in the UK where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to the UK, my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do

not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: **U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States.** Although, I am an individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I respectfully suggest that subsequent hearings include witnesses who are actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live, I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. **In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not.** Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY BRIAN NITZ

I pay taxes in Ireland and must file tax returns to the United States IRS. If my income is high enough or if I spend too much time in one country or the other, I must pay taxes in both the U.S. and Ireland. This part seems fair enough but it doesn't match current U.S. international tax policy.

Americans with very high incomes can hire accountants, lawyers and tax preparation experts and shelter enormous amounts of income from the U.S. and where they are living.

But Americans with low or middle-class incomes, even U.S. citizen children as soon as they turn 18 are faced with complex laws which claim to aim at "fat cats" but threaten us with potential of severe tax penalties that can far exceed our income in any country. U.S. international tax laws prevent us from being treasurers at our local church or volunteer organization. U.S. international tax laws prevent us from attempting to start or maintain small businesses or rental properties in either country. U.S. international tax laws discourage us from saving enough for our children to have the option to go to college in the U.S.

In 1983, the U.S. Supreme Court ruled on the legal principal of proportionality and required that the following standards be met:

1. Compare the nature and gravity of the offense and the harshness of the penalty;

2. Compare the sentences imposed on other criminals in the same jurisdiction, *i.e.,* whether more serious crimes are subject to the same penalty or to less serious penalties; and
3. Compare the sentences imposed for commission of the same crime in other jurisdictions.

With its threats of disproportionate and severe penalties against U.S. citizens simply based on where they live, FATCA violate all three of these legal standards.

At the same time FATCA and other U.S. international tax laws have increased the burden of federal taxes on Americans working abroad, U.S. states have made it much more difficult for us to vote. My home state of Wisconsin has pulled us from the voting rolls several times and made it impossible for us to vote in several elections without organizing a flight to the U.S. every election day. Several of our requests for absentee ballots never resulted in a ballot and of those which did, the ballot often arrived AFTER election day even when we submitted near the earliest possible date. Covid-19 has now kept us from returning to the U.S. for more than a year and so we are unable to establish the documents necessary for the adults in our family to vote in the next Wisconsin election.

Many Americans living abroad now have taxation without representation which brings to mind a terrible precedent set by King George III in the 1700s. Please, let's not go there.

What I suggest instead is a dose of common sense regarding U.S. international tax law responsibility and voting rights which recognize:

- Americans living and working abroad help our nation maintain a vibrant and prosperous relationship with the international community.
- Americans and corporations should not be able to shelter huge amounts of money simply by establishing alternate residencies in other countries.
- Existing tax treaties should be enforced so that immigrants paying taxes in the U.S. are fairly balanced by Americans paying taxes abroad.
- Ordinary middle-class U.S. citizens working abroad should not have to hire tax lawyers and accountants to prove that they are not hiding billions.
- Ordinary U.S. citizens should be encourage to save and/or invest money at home and abroad, save for college, start small businesses, lease properties . . . without the fear of triggering penalties which can be many times the size of their annual income.
- If it's possible to securely file taxes and pay taxes from abroad by e-filing or postal service, it's certainly possible to vote securely from abroad.

Thank you.

Brian Nitz
U.S. Voting address: Appleton Wisconsin

LETTER SUBMITTED BY SYLVIA NORTON

I am a proud citizen of the United States of America. I live outside the United States in Vancouver, BC, Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America in 1968 after 2 years in Brazil with the American Peace Corp. Although the days sometimes go slowly, the years go quickly. Although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY IAN NORVILLE

I am a proud citizen of the United States of America. I live outside the United States in UAE where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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God bless the United States of America!

OXFAM AMERICA [1]
1101 17th St., NW, Suite 1300
Washington, DC 20036–4710

There is consensus that one objective of international tax policy should be to maximize U.S. competitiveness. However, seemingly conflicting factual claims made during the hearing have shed confusion as to the best way to achieve that objective. This statement seeks to clarify the confusion and concludes that the United States

[1] Oxfam America is a nonprofit organization dedicated to end the injustice of poverty.

should go back to a worldwide tax system, albeit without the loophole that existed prior to the Tax Cuts and Jobs Act (TCJA).

Much of the confusion stems from the fact that there are two distinct concepts of U.S. competitiveness:

1. The competitiveness of U.S. multinational corporations (relative to multinational corporations based in foreign countries) on global markets.
2. The competitiveness of the United States (relative to other countries) as a destination of investment.

The first type of competitiveness is in the interest of investors in U.S. multinational corporations. That is not the same as American investors: about a third of the stock of U.S. corporations are owned by foreign investors,[2] and likewise 401(k) holders and other American investors own diversified portfolios that include stocks and bonds of foreign corporations.

The second type of competitiveness is in the interest of American workers. Because U.S. investors can diversify their portfolio while U.S. workers cannot easily relocate abroad, and more importantly because U.S. investors have done very well in the past decades compared to American workers (notably but not only because capital has not been taxed as much as labor), Oxfam America believes that Congress should prioritize the second type of competitiveness, which will be called here the "competitiveness of American workers."

There is a tradeoff between the two types of competitiveness. A territorial system (*i.e.,* imposing no U.S. tax on the foreign profits of U.S. multinational corporations) maximizes the first type of competitiveness. A worldwide system (*i.e.,* taxing the foreign profits of U.S. multinational at the same rate as their domestic profits) maximizes the second type. It is by definition impossible to maximize both types of competitiveness at the same time.

Prior-TCJA, the United States had a worldwide system on paper with a 35% rate, although the huge deferral loophole (which the TCJA rightly rescinded) made it a hybrid system in practice. Post-TCJA, the United States has a hybrid system both on paper and in practice, with a tax rate on foreign profits (*i.e.,* the GILTI rate of 10.5%)[3] equal to half the rate on domestic profits (*i.e.,* the statutory rate of 21%).

To maximize the competitiveness of American workers, the domestic rate matters most. Everything else being equal, the lower it is relative to the rates prevailing in foreign countries, the better. That could be called "tax competitiveness." However, everything else is not equal. Tax is only one factor influencing the location of investment. The United States is a very attractive destination of investment for many other reasons: the largest market in the world, the educated and dynamic work force, strong rule of law, etc. The United States can therefore afford a higher rate than the average of its competitors while remaining a competitive destination of investment. Moreover, competitiveness is not the only objective of tax policy. Raising revenues to fund public goods and services and equity considerations are also important. Raising revenues for things like education and infrastructure actually boosts competitiveness.

Conflicting factual statements were made during the hearing about the trend in U.S. tax competitiveness. It was claimed that the corporate tax to GDP ratio declined over time and compared to other countries. It was also claimed that these trends could be driven at least in part by a shift of American businesses away from corporations to other types of legal entities like partnerships that are not subject to the corporate tax. Both statements are true. The right measure of tax competitiveness is the effective corporate tax rate, *i.e.,* the ratio of corporate tax revenue to pre-tax corporate profits. The denominator declines with the shift away from incorporation, but rises as the profitability of corporations increases. Figure 1 shows that both the U.S. statutory and effective rates have indeed declined over time. Internationally comparable data on effective rates is scarce. Figure 2 only shows the average statutory rate in OECD countries (the effective rate must be somewhat

[2] *https://bit.ly/3uhBxZp.*

[3] The GILTI rate is scheduled to increase to 13.125% in 2025. Moreover, because the GILTI regime gives a credit of only 80% of foreign taxes paid, the effective minimum rate on foreign profits (combining U.S. and foreign taxes) will be 16.4% from 2025 onwards.

lower). It has declined over the past decades—a phenomenon known as the "race to the bottom."[4] It was 23.59% in 2019, compared to 25.77% in the United States.[5]

The effective rate in Figure 1 does not provide a completely accurate picture of tax competitiveness, however. To measure the first type of competitiveness, state and local corporate taxes as well as taxes paid to foreign governments should be added to the numerator. To measure the second type of competitiveness, state and local corporate income taxes should be added to the numerator, and federal taxes owed on foreign profits (*i.e.,* worldwide profits not deferred pre-TCJA and GILTI tax post-TCJA) should be deducted from the numerator. Data is not readily available to make these adjustments. Still, these adjustments would probably not change the overall picture provided by Figures 1 and 2: **U.S. tax competitiveness is currently not a problem and there is room to increase the domestic corporate tax rate.**

The international agreement currently under negotiation to set a global minimum tax is very important to put a floor under the race to the bottom. It would create even more room to increase the U.S. rate without harming competitiveness.

While the domestic rate (relative to that of other countries) directly matters for the competitiveness of American workers, the foreign rate matters indirectly because it affects revenues. **For any given revenue goal that Congress decides, a worldwide system would maximize the competitiveness of American workers.** This can be illustrated with President Biden's proposal to raise the domestic rate to 28% and the foreign rate to 21%. Assuming a two-to-one split between domestic and foreign profits, the same revenue goal could be achieved with a worldwide rate slightly above 25%. The United States would be a more attractive destination for investment with a 25% domestic rate than with a 28% rate: it would not only incentivize U.S. multinational corporations to invest in the United States rather than abroad, but it would also increase investment in the United States by U.S. domestic corporations and by foreign multinationals.

The price to pay for that—given the revenue goal—would be to increase the rate on foreign profits from 21% to 25%. That would decrease the competitiveness of U.S. multinational corporations on global markets. Specifically, a higher foreign rate would carry two types of costs.

First, a higher foreign rate would make U.S. multinationals' operations in low-tax countries like Ireland more costly than what foreign multinationals pay for similar operations in those same countries. But we don't really want U.S. multinationals to set up operations and create jobs in Ireland: we want them to create jobs in America!

That extra cost only matters for operations that cannot be repatriated to America, like marketing and sales activities aiming at the foreign market. Such activities typically represent a low share of the total value of U.S. multinational corporations' profits.

Moreover, that extra cost only applies to operations in low-tax countries because all corporations regardless of their country of residence must pay tax to the countries of operation at those countries' prevailing rates. As Table 1 shows, most U.S. competitors have domestic tax rates above or only slightly below 25%. With a worldwide rate of 25%, the highest tax disadvantage that U.S. multinationals' operations would face compared to their competitors in major markets is in Britain, with a six-point difference, which is not a big disadvantage. The 25% worldwide rate will hurt profits shifted to tax havens—and that is the goal, for equity reasons. Such profits are the product of tax planning and do not reflect real operations. There are only a handful of jurisdictions like Ireland or Singapore that have both low tax rates and the capacity to attract real operations (but not that much, as they are small countries).

Second, a higher foreign rate would increase the price U.S. multinationals pay to acquire foreign corporations relative to the price paid by foreign multinationals. But

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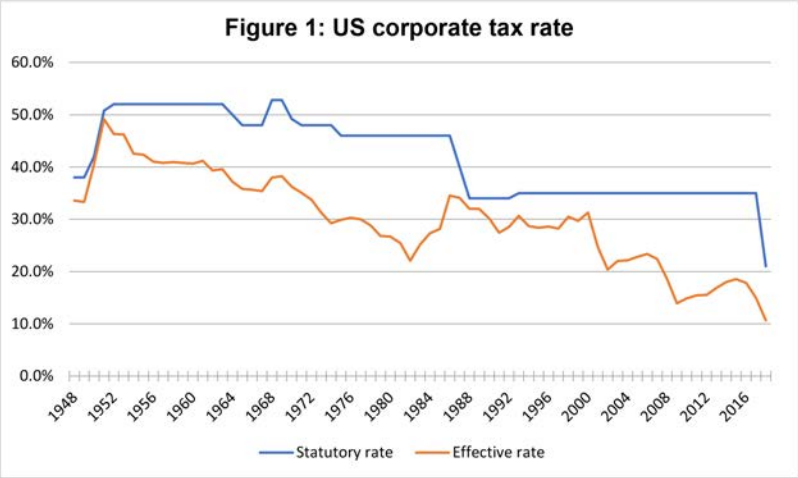
[4] One witness at the hearing referred to this phenomenon as "race to the middle." This is disingenuous. Countries with rates above the middle have tended to adjust them downwards to the middle. But countries with rates below the middle have not tended to adjust them upwards to the middle. As a result, the average rate has trended downwards. It really is a race to the bottom.

[5] Sum of federal and average state tax rates taking into account federal deduction for state taxes. *https://stats.oecd.org/Index.aspx?DataSetCode=TABLE_II1.*

we don't really want U.S. multinationals to spend their cash on foreign acquisitions: we want them to invest in America!

The reverse is more concerning: under a worldwide system, U.S. multinational corporations are more likely to be bought by foreign multinationals in order to lower their tax bill on non-U.S. operations. That was a trend before the TCJA when a high 35% worldwide tax rate prevailed. However, changes in law and regulations can prevent such "inversions" by treating foreign corporations owned by at least 50% of American shareholders or effectively managed from the United States like U.S. corporations for tax purposes.

In conclusion, the downsides of a worldwide system are modest compared to its advantages of maximizing the competitiveness of American workers and ending tax havens abuse. And there is room to increase the statutory corporate tax rate without harming the competitiveness of American workers, especially if foreign countries raise their own rates in line with a potential international agreement on a global minimum tax.



Sources: Effective rate: Bureau of Economic Analysis ("Corporate profits before tax" divided by "Taxes on corporate income"). Statutory rate: IRS.

Source: Tax Foundation: https://bit.ly/3dpnPgz. See also: https://bit.ly/3dqYFOv.

Table 1: Statutory rates in major U.S. competitor countries (2019)

Canada	26.7%*
China	25%
France	28%
Germany	29.8%*
Italy	27.9%
Japan	34%
Mexico	30%
United Kingdom	19%

*Including average state tax.
Source: *www.inequalityindex.org.*

LETTER SUBMITTED BY ROBERT P. PALOMO JR.

My name is Robert Palomo Jr. I am a U.S. citizen living in the Russian Federation, my wife's native country, where we moved some 25 years ago for family reasons. I am an ordinary American who works for a living. I pay taxes in the country where I live, and I also file a U.S. tax return every year. Compared to the flat-tax system of the Russian Federation, the U.S. tax system is extremely convoluted, even for U.S. residents. The only way I can ensure that I can comply with U.S. law has been to hire tax preparers who specialize in expatriate tax matters. Even though I do not earn enough to owe U.S. income tax, my cost for tax preparation runs in excess of $1,200 every year. I shop around, and the service I use is priced competitively.

During the years when I worked as an independent contractor, I was required to pay U.S. Social Security tax, and Medicare tax in addition to income tax in my country of residence. I don't mind contributing to the system so much, as it provides a safety net to my neighbors who may need a leg up sometime. But I know that I am unlikely to ever receive benefits from either of them. I am not a wealthy person. I am past retirement age but still working. I really don't have money to spend on specialist tax return preparation. That and double taxation has been a detriment to my ability to save for retirement.

Even though I can demonstrate a long history of residence abroad, U.S. tax law severely restricts the amount of time I can spend in the U.S. in any given year before I am subject to income tax for the full year. This proved an extreme hardship in 2010, when both my parents passed away within three months of each other. I could not afford to remain in the country to be with my siblings and help them with estate matters, not to mention mutual comfort in a difficult time. I have elderly close relatives in the U.S., and this situation is likely to occur again in the not so distant future.

I have always valued my American citizenship. I pay attention to U.S. politics. I vote in every election for which I'm eligible. I think it unfair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing requirements. The tax law treats people like me as tax cheats and money launderers, and the burden of proof that we are not is placed on us. The onerous, burdensome, and unfair U.S. tax laws will likely mean I will never be able to afford to return to my native country. At times, I have even considered renouncing my citizenship. I haven't done so because my benevolent government will charge me $1,500 for the "service." I know other Americans who have, and who still are, contemplating severing ties because of the current state of U.S. tax law. I hope you will find that as shocking a thing to be forced to contemplate as we do.

I ask the Committee to hold hearings on Americans living abroad and U.S. taxation as it relates to them. I encourage you to seek testimony from experts who can provide an accurate profile of Americans living abroad, who can illustrate better than I am able to here, the burden that U.S. tax filing places on people like me. I urge

the Committee to also explore the implications of a switch from our current system of citizenship-based taxation to residency-based taxation.

Thank you.

Robert P. Palomo Jr.

LETTER SUBMITTED BY JODI PAYNE

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I love America and I also love my husband, a native New Zealander. I moved from America after we married, in 1997. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the US tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a US citizen, I am subject to the tax system where I live and the US tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States? Both of my children were born in New Zealand. They are automatically American citizens and, as such, are also subject to this system. This affects them purchasing their first home, thinking about starting a business, etc. It also affects their future spouses. Even as a child, it affects them opening their first savings account banks here require my children to sign a statement saying they are tax residents of the USA.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes to my country of residence such as their 15% sales tax on everything.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, purchase a home, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

I really feel for my children, who essentially have the option of being self-employed taken from them unless they want to pay an exorbitant amount of taxes when you take into account they are being taxed twice. They are also experiencing taxation without representation. Having never lived in America, they have no senator to contact no representative. I thought Americans understood the un-fairness of that as far back as the 1700s.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God Bless The United States Of America!

Sincerely,

Jodi Payne, and my two children

LETTER SUBMITTED BY VANESSA PEACOCK

I am a proud citizen of the United States of America. I live outside the United States in the UK where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY THOMAS C. PEDERSEN

Dear Senate Finance Committee,

I am a citizen of the United States of America.

I love my country and served as a member of the U.S. Army for 20 years and retired from active duty in 1993. For the last 28 years I have lived and worked outside of the United States, primarily in Japan.

I am a permanent resident of Japan, and I am subject to full taxation in Japan, a high corporate tax-rate jurisdiction.

- I run a small business in Japan.
- My business is not a multinational corporation, and I have no interest in any corporation or business in the United States.
- All of the income of my small company in Japan is subject to local corporate taxation

I expect my case is quite similar to many American expatriates who are living abroad and operating small businesses.

The problem is that because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google.

If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. It also requires that I employ U.S. tax accountants at significant personal cost to file my tax returns.

My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live in a low-tax "offshore" country. I live in Japan, a country where I pay very high individual and corporate income taxes.

I also pay additional kinds of taxes (example Residence Taxes, and VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on undistributed earnings in the small local corporation I own in Japan. I pay Japan Corporate tax on those earnings, and I also pay tax on any income distributed from the local corporation. I am taxed on non-U.S. income of this local corporation even though I am a fully taxable on that income in the country where I reside, and do not live in the United States.

I would like to make general observations about the Senate Finance Committee hearing on March 25th, 2021:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States.
2. Although I am an individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
3. It is hard to believe that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not even one!
4. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.

Subsequent hearings should consider the real plight of U.S. Citizens, individual Americans, who are living abroad and running small businesses.

I am not a "mini-multinational." I am an American Citizen living for the last decades as a permanent resident of Japan. It doesn't make me less American, but it does mean that I am subject to the laws of the country where I live.

I ask only to be able to carry on my small business and without undue interference from the Internal Revenue Code of the United States based on legislation which (I believe) was actually intended to prevent Multinational Corporations from avoiding taxes through off-shore entities (not punish Americans living abroad and running small business).

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

This is extremely unjust. Americans abroad have been attempting to get both Treasury and Congress to address these issues, and I have paid over $15,000 to hire accountants to navigate the complexities of being in compliance with GILTI tax laws, and had retained earnings in my small company taxed retroactive to 2017. This is an egregious overreach of tax policy that inhibits my ability to compete on a level playing field with any competitor from another country.

Again, I honorably served my country for over 20 years as a member of the armed forces to protect our way of life. I have faithfully paid all taxes while residing overseas to support our government and all Americans, but this GILTI tax levied on small business owners if unfair and I do not believe it was designed to be punitive to small entrepreneurs. But that is the result.

On behalf of all such Americans living abroad, I ask for your earnest support, and your Representation. Please help us.

Sincerely,

Thomas C. Pedersen

LETTER SUBMITTED BY EMILY PERRETTI

I am a proud citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad **doesn't mean that I don't have to plan for retirement.**

I make a very average amount of money here, but I need to pay for special accountants who take care of my U.S. taxes. They tell me about all the limitations I have and things to avoid or else I will pay loads of taxes to the USA. It doesn't seem fair that because I am here, I can't plan for my life in the way I should. I am proud to be an American, my only option should not be to renounce my citizenship so that things are slightly easier for me (even though renouncing is quite an expensive and painstaking process as well!). I want my children to have the option to live to America, but I am nervous to have them enter a tax system in a country they have never lived in. It makes it difficult for me and my British husband to plan for our future, and especially theirs!

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

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More generally (whether or not one is a small business owner), **the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way.** This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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God bless the United States of America!

LETTER SUBMITTED BY GEORGE PINKHAM

This committee hearing has focused on the taxation of U.S. companies operating abroad. I believe that this committee should take this opportunity to also examine the situation of the workers themselves, *i.e.,* the U.S. citizens who work abroad and act as ambassadors for American values.

Unfortunately, Americans who choose to live and work abroad have long been ignored. Please use these hearings to right this situation

In the public mindset, expats are wealthy Americans who have fled the United States to escape paying U.S. taxes in a far away land where they live a life of luxury. This misperception has nothing to do with reality. Most Americans have moved abroad for professional reasons. Typically U.S. expats live and work in a country where they pay the same tax as local residents. In some countries, what an American expat pays far exceeds the federal income tax that they would pay had they remained in the U.S. and yet they end up paying additional U.S. tax. For the sake of illustration, I will use the example of an American living and working in France.

1. Financial Reporting.

   Since 1970, the Bank Secrecy Act requires U.S. persons who own a foreign bank account, brokerage account, mutual fund, unit trust or other financial account to file a *Report of Foreign Bank and Financial Accounts* (FBAR). In addition, certain taxpayers may also have to complete and attach to their return Form 8938 *Statement of Special Foreign Financial Assets* (FATCA) if certain thresholds are met. Generally, U.S. citizens who live and work abroad must file both forms. Form 8938 essentially duplicates the information found on the FBAR return. Both forms are complex and take a fair amount of investigation since you must report the highest amount found in that account during the year and then convert that amount into U.S. Dollars. It is easy to get this wrong and the penalties are daunting.

   Americans living abroad necessarily have a foreign bank account or several bank accounts in the country in which they live but most do not have foreign accounts outside of that country. For example, an expat working and living in France will typically have one or more French bank accounts but no foreign accounts outside of France. FBAR and FATCA require these expats to spend time researching and reporting information that the IRS can easily obtain using the exchange of information clause of the Income Tax Treaty between France and the United States. I would recommend that FBAR and FATCA reporting exclude "local" financial accounts for Americans residing abroad if the country in which they are residing has concluded an Income Tax Treaty with the United States that includes an exchange of information clause.

   FATCA has had numerous serious harmful effects for Americans. Many foreign banks do not want to open new bank accounts for American citizens who are working abroad. Almost all banks and brokerage houses refuse to open brokerage accounts of any kind for American expats. In fact, both of my banks in France required me to shut down existing brokerage accounts when FATCA was enacted, citing "bank policy". This means that many interesting French investment opportunities are simply not open to Americans because the foreign financial institutions do not want to deal with the complex rules imposed on them by FATCA. This is aggravated by the fact that most of the major U.S. investment platforms refuse to deal with American expats unless the expat also has a permanent U.S. address.

2. Income Taxes.

The United States is the only country which applies the same tax regime to all its citizens, regardless of where they live.[1] This situation has been allowed to endure only because U.S. expats do not have any representation in Congress. They are ignored because their votes are scattered across the 50 states. Thus, in effect, U.S. expats have taxation without representation.

Most countries, of course, have taxation that is based on the residence of the taxpayer. If you are a resident, you are taxed on your worldwide income. If you are not a resident you are not subject to tax. This means that Americans who are competing for work in low tax jurisdictions (*e.g.,* most of the Middle East) are at a serious competitive disadvantage when compared with their European or Asian colleagues. In the past, most Americans companies would offer tax equalization packages to Americans they sent abroad but these packages have proved prohibitively expensive and many companies have abandoned them. They have chosen instead to hire persons who are not U.S. citizens. This has the effect of considerably reducing the presence of Americans abroad who project American influence where they live and work. This is a serious concern that should be investigated by Congress.

The worldwide system of U.S. taxation inevitably causes tax conflicts when U.S. citizens live abroad. For example, when a U.S. citizen lives in France, France wants to tax that person because he or she is a resident of France and the United States wants to tax that person simply because he or she is a U.S. citizen. That conflict is resolved by a complex system of foreign tax credits. When combined with the alternative minimum tax, the taxation of an expat is so complex that no taxpayer can navigate it without the assistance of a tax professional. That assistance comes at a cost. If you are an American living in France, getting your Federal income tax return prepared by a professional will typically cost between $2,500 and $4,000, more if you also need help with your French income tax return.

The main problem of using the foreign tax credit system is that the taxpayer always ends up paying the higher of the two taxes. Let me explain by giving a few examples:

(a) Real Property

If an expat buys a primary residence in France and subsequently realizes a gain on the sale, that gain is exempt from French tax but will nevertheless be taxed in the U.S. If the Euro has appreciated against the Dollar, the capital gain in U.S. Dollars will be subject to tax in the U.S. even if the taxpayer has not realized a gain when the amount is computed in Euros. To add insult to injury, under the Tax Cuts and Jobs Act (TCJA), it is no longer possible to deduct property taxes on a foreign home. The inequities are obvious. American expats should not be subject to federal taxes on their primary or secondary residence when they establish a residence outside the United States.

(b) Investments

Some investment opportunities are closed to Americans who live in France because many financial institutions find the FATCA reporting rules too burdensome and simply exclude all Americans. In addition, many of the investment funds that are open to Americans are considered to be companies rather than partnerships under the U.S. tax rules and are therefore subject to PFIC rules and regulations even when they are taxed in France, which usually makes the investment prohibitively expensive. Finally, it is impossible for an American expat to invest in any tax-exempt or tax deferred products because they will end up being taxed in the U.S. even when they are not taxed in France. The result is total paralysis. It becomes impossible to carry out proper retirement financial planning. This is particularly true for U.S. expats who work at foreign companies and, as a result, do not have access to any 401(k) plans.

3. The Foreign Tax Credit System.

As we have seen earlier, the U.S. resolves the competing claims of the French tax system and the U.S. tax system by a complex system of foreign tax credits

[1] As I understand it, the Philippines abandoned their system of worldwide taxation in 1996. The U.S. should follow suit.

to which Congress has added the Alternative Minimum Tax which is even more complex.

(a) Foreign Tax Credit

The foreign tax credit only works for French taxes that are deemed to be income taxes. France has a number of hybrid taxes that are in fact income taxes and the IRS has consistently refused to allow taxpayers to claim a foreign tax credit for these taxes. For example, when France created two new taxes called the CSG *(contribution sociale géńraliśe)* (in 1991) and the CRDS *(contribution pour le remboursement de la dette sociale)* (in 1996) the IRS argued that CSG and the CRDS covered by the totalization agreement between the United States and France and therefore did not allow a foreign tax credit for these taxes. After 20 years of litigation, the State Department finally conceded the issue in 2019 and agreed with the French government that it would allow U.S. taxpayers to claim a foreign tax credit for the CSG and the CRDS. Expats lost millions. They could not amend any years prior to 2010 and those deductions were lost forever. For the 10 years that could be changed, professional firms were charging up to $2,000 per year needing to resubmitted to amend the returns. Surely there must be a system that is both simpler and more just.

(b) Alternative Minimum Tax (AMT)

The original intent of the AMT was to close loopholes for the wealthy. Because the effect of inflation, it increasingly has become a concern for all taxpayers, particularly U.S. citizens who live outside the United States. In addition, there have been clear legislative abuses in the past that have been costly for Americans living abroad. For example, the Tax Reform Bill of 1986 limited foreign tax credits for alternative minimum tax purposes to 90% of the alternative minimum tax before credits. This resulted in clear double taxation by legislative intent. In effect, Americans living abroad would pay a foreign income tax but be allowed a credit for only 90% of the tax paid, causing 10% of the income to be taxed twice. For taxpayers who were living in countries high taxes, this law was a very expensive new rule, adding thousands of Dollars to their taxes. The law was also outrageously unfair, violating the basic principles on which international taxation is founded. Many taxpayers decided to litigate, arguing that this law violated the income tax treaties that the U.S. had signed. Congress may have been aware of this litigation. In any event, it was not until 2004 that this law was finally abolished ending the double taxation. Nevertheless, the AMT continues to erode the fair application of the foreign tax credit system. The layering of the foreign tax credit and the AMT continues to create inequities in surprising ways. The system is too complex and hides many traps for the unwary.

The arguments for taxing Americans who live abroad on income that is already taxed locally have always struck me as being flimsy. What services does the U.S. render to expats? There used to be an array of services available at U.S. embassies and consulates but today these services are no longer free. In fact, they are very expensive. For example, if you simply need to notarize a document, the fee is $50 per seal. Therefore, you will be charged $150 for a single document that requires the Consular Officer to sign and acknowledge your signature in three places.

I would advocate the elimination of citizenship-based taxation and respectfully request that Congress hold hearings to consider the current tax situation of Americans who are living abroad.

In order to avoid abuses, the U.S. could institute a type of deemed-disposition exit tax, similar to Canada's tax, for persons who are moving abroad. Alternatively, the United States could continue to tax U.S. citizens who move abroad for a number of years but only if they move to a jurisdiction where they pay very little tax.

LETTER SUBMITTED BY BRAD PIONTKOWSKI

I am a citizen of the United States of America. I live outside the United States in Panama where I am a tax resident and where I am subject to full taxation.

I do not live "offshore". I do live in a country where I pay income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States.

There is no other advanced country in the world that imposes such extraterritorial taxation. (Though the tiny African dictatorship of Eritrea does, so the U.S. is just like them! We should be so proud!)

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational". I am a "dual-national" living in my country of residence. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

And one more related issue, *get rid of FATCA!* Those insane regulations have cost me and other Americans too much money because of the draconian rules that Uncle Sam has imposed on financial institutions around the world which means most of them will not accept Americans. In addition to these overbearing and unjust regulations giving them "one more reason to hate the U.S.," I personally have lost so much investment income simply because of the country I happened to be born in. And, it's been proven that FATCA costs much more money in compliance than it's ever brought in in revenue. In short, it's a lose lose lose situation with no benefit to the U.S. treasury or U.S. citizens!

LETTER SUBMITTED BY CHRIS POINTON

I am a proud citizen of the United States of America. I live outside the United States in the UK where I am a tax resident and where I am subject to full taxation.

My family and I moved from the U.S. to the UK seven years ago to be close to our ageing parents. Our kids are now in college in the UK and making their own lives here, so it's probable we'll remain here for the long term.

I am a tax resident of the UK, so I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. I'm a software engineer—making a decent living doing an ordinary job. Just doing my tax returns to the UK and U.S. authorities and making sure I don't fall foul of massive IRS fines costs me over $3,000 in advisor fees every year. These aren't costs I had when I lived in the U.S., or costs my fellow UK residents have to bear.

Even worse, my children, who are just setting out on their adult lives, are having their futures blighted by being unable to save and invest the same way as their peers. UK investment funds are subject to Passive Foreign Investment Company taxation so they simply don't accept U.S. citizens. This removes the main diversified higher-growth savings option for my children, leaving them only cash-based funds that are actually losing ground against inflation. The UK government provides much-needed savings tax incentives for young people to help them save for major life events like buying their first house. These are wiped out by U.S. taxation, and my kids are unable to participate in equivalent U.S. schemes due to residency requirements.

It's a total Catch-22 happening to ordinary Americans overseas—not billionaires hiding cash in tax havens, or giant U.S. corporations shifting profits to low tax economies. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income in the country where I reside, and I do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But it does mean that I am subject to the laws of the country where I live. It seems that tax policy is being viewed through the lens of its effect on corporations and individuals with vast financial resources, without any thought given to the U.S. citizens with much more ordinary lives being disproportionately affected by the proposed measures.

I am not GILTI of anything. I ask only to be able to live my life without interference from the Internal Revenue Code of the United States. If your target is tax-avoiding billionaires and multinationals, why not set a floor on assets held/income earned be-

fore individuals and companies become subject to scrutiny? Setting this at, say, $10M would remove the burden for the vast majority of overseas Americans who're simply living their lives outside the U.S.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me and my family to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY SCOTT PRINA

Dear Senate Finance Committee,

I am a citizen of the United States of America.

I love my country, but for the last 30 years I have lived and worked outside of the United States, in Japan.

I am a permanent resident of Japan, and I am subject to full taxation in Japan.

I run a small business in the Japan.

My business is *not* a multinational corporation, and I have no interest in any corporation or business in the United States.

All of the income of my small company in Japan is domestic to the country where I live.

I expect my case is quite similar to many American expatriates who are living abroad and operating small businesses.

The problem is that because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google.

If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency.

My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live in a low-tax "offshore" country. I live in Japan, a country where I pay very high income taxes.I also pay additional kinds of taxes (example Residence Taxes, and VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on undistributed earnings in the small local corporation I own in Japan. I pay Japan Corporate tax on those earnings, and I also pay tax on any income distributed from the local corporation. I am

taxed on non-U.S. income of this local corporation even though I am a fully taxable on that income in the country where I reside, and do not live in the United States.

The March 25, 2021 Senate Finance Committee hearing on March 25th, 2021.

I would like to make two general observations about the hearing:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States.
2. Although I am an individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
3. It is hard to believe that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not even one!
4. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.

Subsequent hearings should consider the real plight of U.S. Citizens, individual Americans, who are living abroad and running small businesses.

I am not a "mini-multinational". I am an American Citizen living for the last several decades as a permanent resident of Japan. It doesn't make me less American, but it does mean that I am subject to the laws of the country where I live.

I ask only to be able to carry on my small business and without undue interference from the Internal Revenue Code of the United States based on legislation which (I believe) was actually intended to prevent Multinational Corporations from avoiding taxes through off-shore entities (not punish Americans living abroad and running small business).

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

This is extremely unjust. Americans abroad have been attempting to get both Treasury and Congress to address these issues.

On behalf of all such Americans living abroad, I ask for your earnest support, and your Representation. Please help us.

Sincerely,

Scott Prina

PROMOTE AMERICA'S COMPETITIVE ECONOMY (PACE) COALITION
1000 Maine Avenue, SW, Suite 500
Washington, DC 20024

The PACE Coalition applauds the focus of today's hearing on how U.S. international tax policy impacts American workers, jobs, wages, and investment. The PACE Coalition, a broad coalition of American business organizations and companies, is dedicated to supporting U.S. policies that promote economic growth and long-term prosperity for all Americans.[1] There can be no more important guide to setting U.S. tax policy than its effects on the standard of living of American workers and their families.

Americans have *always* outcompeted the world. American innovation and the skills and dedication of America's workforce have kept the United States as the largest and most productive economy in the world for over a century. As this nation works to rebuild our economy from the unprecedented job loss resulting from the pandemic, we must be focused not only on a strong *short-run* recovery, but also on sustainable *long-term* economic growth that creates rising incomes for all Americans.

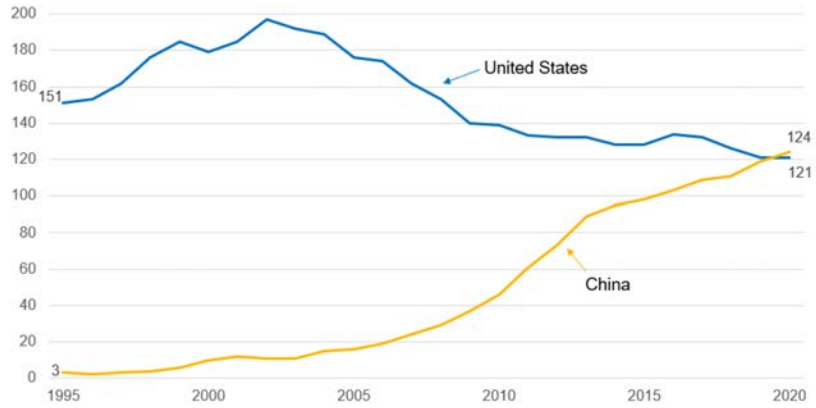
[1] More information on the Promote America's Competitive Economy (PACE) Coalition can be found at *https://keeppace.us/*.

America's economic position in the world economy is being challenged today. U.S. international tax policies should ensure we can keep pace with our competitors in the global economy.

- The United States produces a smaller share of world output than in any decade in at least 40 years.[2]
- U.S. companies account for a smaller share of global cross-border investment than they did in any decade in at least 40 years.[3]
- U.S. companies once dominated the list of the world's largest companies, but no longer do.
- China now has more companies on the list of Fortune Global 500 companies than does the United States, and the number of U.S. companies that have *fallen off* the list in the past 20 years is greater than the number any country other than China has *on* the list.[4]
- By some measures the U.S. economy is already smaller than China's, and China's economy is forecast to grow faster than the U.S. economy for years to come.[5]

As China's place in the global economy has increased in recent decades, so has the strength of its companies. In 1995, China had only 3 companies on Fortune's list of the 500 largest global companies, while the United States had 151 **(Figure 1)**. By the 2020 edition of Fortune's list, China had increased its number to 124, while the U.S. total fell to 121. Higher taxes on U.S. job creators will only put Chinese companies at a competitive advantage in the years ahead. Ensuring a competitive tax code will enable continued U.S. innovation leadership.

Figure 1.—U.S. and Chinese Companies on Fortune Global 500, 1995-2020



Source: Fortune.

China is one focus of the economic competition the United States faces today, along with our traditional competitors in counterpart advanced economies. America can succeed in this economic challenge it faces based on the talent, skills, perseverance, and ingenuity of its workforce, as well as policies that ensure the global competitiveness of American companies. If the United States gives our competitors an advantage, however, we risk falling behind. And once the United States cedes this advantage, it will be even harder to regain it.

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[2] Ten-year share of world GDP (2010–2019) (constant dollars, current dollars, and purchasing price parity) compared to decades ending in 1989, 1999, and 2009, from the World Bank, World Development Indicators: *https://databank.worldbank.org/source/world-development-indicators#*.

[3] Ten-year share of world outward stock of foreign direct investment, using official exchange rates: UNCTAD, *https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740*.

[4] Fortune Global 500, *https://qlik.fortune.com/global500/*.

[5] 2019 GDP measured using purchasing price parity: World Bank, World Development Indicators: *https://databank.worldbank.org/source/world-development-indicators#*.

The United States must maintain competitive tax policies for its workers and, by extension, for the globally engaged American companies that help American workers sell goods and services in the foreign markets where 95% of the world's population lives and over 75% of consumption occurs.

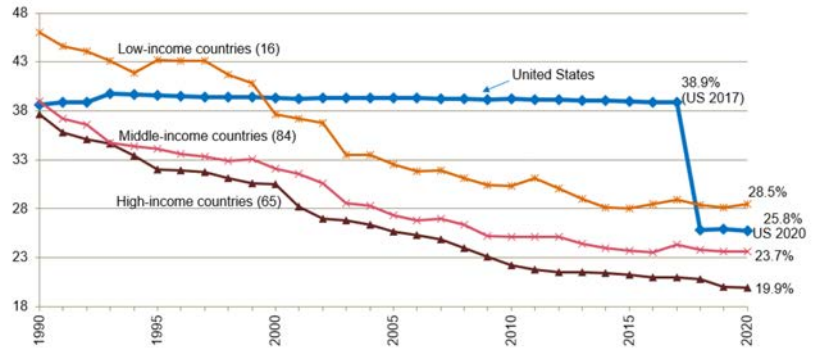
A Competitive Corporate Tax Rate to Attract Productivity Boosting Investment

A competitive U.S. corporate tax rate increases the amount of business investment in the United States, augmenting the productivity of America's workers, boosting their wages, and increasing the long-term growth of the economy.

The current U.S. corporate income tax rate is 25.8%, including state income taxes. By comparison, the International Monetary Fund estimates the average corporate income tax rate for 65 other high-income countries was 19.9% in 2020; for the 84 middle-income countries, the average tax rate was 23.7%. The only group with a higher average tax rate than the United States are the 18 low-income countries, with an average corporate income tax rate of 28.5%.[6]

All countries have lowered their corporate tax rate over the past three decades, with the greatest reductions occurring between 1990 and 2010 **(Figure 2)**. Concerns about a "race to the bottom" neglect to mention that (i) the race ended about 10 years ago, and the United States was the loser, (ii) the refusal of the United States to lower its corporate tax rate over this period (we actually *raised* our rate) made it more advantageous for the rest of the world to reduce corporate tax rates, and (iii) countries were motivated to reduce their corporate tax rates solely to increase the incomes of their citizens and future economic growth. Corporate rate reduction is not a beggar-thy-neighbor policy—a lower corporate tax rate can increase income and economic growth independent from any reallocation of investment from one country to another.

Figure 2.—Average Statutory Corporate Income Tax Rates, 1990-2020



Source: IMF.

As a group, it is the high-income countries—countries with a skilled and educated workforce, good infrastructure, and democratic governments—that have the lowest corporate tax rates. These are also the countries which often are the most likely alternative locations for investment that would otherwise be made in the United States—investments that rely on a skilled workforce.

If the United States increased its federal corporate tax rate to 28%, as proposed by President Biden, the combined corporate tax rate including state income taxes would increase to 32.3%. This rate would be the highest among the 37 advanced economies of the OECD, and 12.4 percentage points higher than the average of the 65 other high-income countries shown in Figure 3. The 32.3% rate would be 7.3 percentage points higher than China's headline 25% statutory tax rate, and more than double the 15% tax rate China provides for high technology industries. The U.S. rate would be higher than even the average rate of low-income countries, which currently as a group have the highest tax rate in the world. Such a high U.S. rate would be a recipe for slow U.S. economic growth and stagnant incomes.

[6] International Monetary Fund, Fiscal Affairs Division, Tax Policy Rates Database.

The ultimate harm from a high U.S. corporate tax rate falls on the American worker. As Professor Laura Tyson, former President Bill Clinton's top economic advisor, wrote:

> For many years, the conventional wisdom was that the corporate income tax was principally borne by the owners of capital in the form of lower returns. Now, with more mobile capital, workers are bearing more of the burden in the form of lower wages and productivity as investments move around the world in search of better tax treatment and higher returns.[7]

Globally Competitive U.S. International Tax Rules to Enhance U.S. Competitiveness

The U.S. economy is strengthened through innovative and competitive global American companies. Globally engaged American companies directly and indirectly support approximately half of all private sector jobs in the United States—76.6 million jobs in their companies, their supply chain, and their communities through the spending by their employees.[8] In 2018, 26.6 million American workers were employed directly by globally engaged American companies and they earned total compensation of $2.3 trillion.[9]

Globally engaged American companies boost U.S. productivity. More than 40% of all the gains in U.S. labor productivity since 1990 are attributable to multinational companies.[10] Globally engaged American companies performed $322 billion in research and development, comprising 85% of their global R&D and 73% of all business R&D in 2018.[11] They also invested $722 billion in U.S. plant and equipment, 79% of their global capital expenditures in 2018.

Globally engaged American companies open up the world for American workers to sell the goods and services they produce. Over half of all goods and services that are exported from the United States are by globally engaged American companies or to their foreign affiliates. The foreign affiliates of American companies are primarily there to serve foreign markets. Approximately 90% of the sales of goods and services by their foreign affiliates are to foreign customers.[12]

U.S. and Foreign International Taxes

American companies compete in foreign markets head-to-head with foreign-headquartered multinationals and locally owned foreign companies. Both U.S. and foreign companies pay tax in the local foreign country in which they operate. Foreign-headquartered multinational companies from all other G7 countries (Canada, France, Germany, Italy, Japan, and the United Kingdom) owe *no current tax* on their active foreign business income and, when the earnings are repatriated home, the foreign income is 95% to 100% exempt from home country tax under the territorial tax systems of these countries. As a result, repatriated foreign income in these other countries typically result in a home country tax ranging between zero and 1.5%.

In contrast, the United States treats all active foreign business income in excess of a 10% return on tangible property as taxable income under the global intangible low-taxed income ("GILTI") provision of current law. A 50% deduction is permitted against this income, which in principle results in a 10.5% rate of tax applied against this income (half the 21% U.S. rate). U.S. companies may apply a foreign tax credit against U.S. tax on this income, but only 80 percent of foreign taxes are creditable. In theory this would result in no additional U.S. tax on foreign earnings taxed at a foreign rate in excess of 13.125% (since 80 percent of foreign taxes at a foreign tax rate of 13.125% would provide sufficient foreign tax credits to offset the effective U.S. tax rate of 10.5%). However, due to complicated expense allocation rules to de-

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[7] Laura D'Andrea Tyson, "The Logic of Cutting Corporate Taxes," *The New York Times,* April 8, 2011, available at *https://economix.blogs.nytimes.com/2011/04/08/the-logic-of-cutting-corporate-taxes/*.

[8] Economic Impacts of Globally Engaged U.S. Companies: Employment, Labor Income, and GDP (May 2016), available at: *http://businessroundtable.org/sites/default/files/Economic_Impacts_of_Globally_Engaged_U.S. Companies_FINAL_for_Distribution_0.pdf*.

[9] Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018, and National Science Foundation, Business Research and Development: 2018.

[10] Jason Cummings, et al. Growth and competitiveness in the United States: The role of its multinational companies, *https://www.mckinsey.com/featured-insights/americas/growth-and-competitiveness-in-us#*.

[11] Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018, and National Science Foundation, Business Research and Development: 2018.

[12] Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018.

termine the foreign tax credit, U.S. companies generally incur additional U.S. tax on foreign earnings taxed in excess of 13.125%, and even on foreign earnings taxed at foreign rates in excess of the U.S. 21% tax rate.[13]

In contrast to the U.S. GILTI rules, *no other* advanced economy applies a minimum tax to the foreign earnings of their multinational companies. Due to GILTI, globally engaged American companies generally pay more in tax on their foreign earnings than do their foreign competitors.

U.S. companies are therefore generally tax disadvantaged relative to their foreign competitors because of GILTI. Proposals by President Biden to increase the rate of tax—at least doubling the rate of tax under GILTI—would extremely disadvantage U.S. companies, since their foreign competitors would continue to be exempt from additional tax on their foreign earnings.

The greater the tax disadvantage faced by U.S. companies, the greater the impact will be on their ability to successfully compete in foreign markets. As the tax disadvantage increases, U.S. companies will contract their sales in foreign markets, causing a contraction throughout the company—including in the United States where its employees help support the foreign operations through both production and managerial activities.

It has been estimated that a 10 percent increase in the number of foreign employees of a U.S. company will cause a 6.5 percent increase in the number of its U.S. employees.[14] Likewise, if the foreign employment of the company contracts, its U.S. employment will similarly contract.

As a result, an increase in U.S. taxes imposed on the foreign operations of U.S. companies has a feedback effect that causes a loss of U.S. jobs. Any loss in foreign market share of U.S. companies will accrue to the benefit of foreign-headquartered multinational companies who will increase employment. Growth of foreign-headquartered companies at the expense of U.S. companies may result in yet further decline of U.S. companies as they lose the efficiency benefits of economies of scale. These effects may also cause the U.S. company to become less competitive in the U.S. market.

A level playing field for globally engaged American companies and their foreign-headquartered rivals requires that the United States not impose additional taxes on the foreign earnings of U.S. companies beyond those paid by foreign-headquartered companies to their governments. Increases in the GILTI tax rate would further disadvantage American companies and their U.S. workers.

* * *

The world economy has become more challenging for American workers and the American companies for whom they work. Other countries have sought to create a tax advantage over the United States—even countries we consider our close economic partners.

The United States needs a competitive tax code to defend its economic interests and support American jobs. If U.S. companies must jump over hurdles and steer around stumbling blocks that companies headquartered elsewhere in the world do not face, we are only disadvantaging Americans and advantaging foreign competitors, including China.

Imposing higher taxes on the foreign earnings of American companies is not in the U.S. interest and risks American jobs and investment in the United States. By maintaining competitive tax rules for American companies and their workers, we can better ensure our economic security and the broader benefits that flow from a strong economy.

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[13] Richard Rubin, "Tax Changes Hit Overseas Profits of Some U.S. Companies," *The Wall Street Journal,* March 27, 2019.

[14] Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Domestic effects of the foreign activities of U.S. multinationals," *American Economic Journal: Economic Policy,* February 2009.

LETTER SUBMITTED BY JACQUELINE S. PRUSKIN

I'm a citizen of the USA where I was born. I also am an emigrant. I live outside the United States in the United Kingdom where I'm domiciled, am a tax resident and where I am subject to high taxation on my worldly income and capital gains.

I don't consider that I live "offshore." I left at the young age of 22 to marry a young Englishman and it was decided to live in the UK with him and our son for practical and family reasons. I never thought I would return to live in the U.S. because I had found my home where I wished to pursue my personal happiness and opportunities to develop my talents and skills.

I pay high income taxes where I live, including additional kinds of tax such as 20% VAT on nearly everything that I purchase to my country of residence. The UK government has always allowed capital gain in the primary home to be free of capital gains taxes. We pay huge taxes on the purchase of our home property—called the stamp duty, it can be as high as 15% on top of the agreed sale price. The U.S. does not impose that in the USA.

The UK also has a very high inheritance tax with the threshold for paying it starting at less than $500,000 only. Then it is 40% of the value of everything that the person who has died leaves as his or her estate. There is no way to get round this.

I had truly nothing when I first arrived in the UK, and all that I have now I have because of my years of work and savings in the UK. I am not a tax avoider in the UK nor in the USA .I file my U.S. tax return, and every year there is something or other for which I have to pay the IRS.

My filing costs for just myself as a retired single divorced woman on a modest income are approximately $3,800 per annum on top of the UK compliance costs of $1,380 per annum. Having to do this every year becomes very hard and stressful as I've grown older and income has become tighter. I'm worried particularly that I cannot invest my savings in financial products in the way a wholly English person can in the UK, or an American can who lives in the USA.

I don't know if any of you knows this, but because of the extreme compliance risks involved for non-U.S. (off shore) financial companies and banks, they do not accept clients with USA citizenship indices.

Likewise in the past two years American financial companies such as Merrill Lynch, Wells Fargo and most others have closed the accounts of Americans who do not actually live inside the USA. Even though I maintain my U.S. address via my son who lives there, that is no longer enough for me to be accepted to invest my savings in the USA.

I am trapped between not being able to invest my savings for a decent return in the UK and I am also now not allowed to invest my savings for decent return in the USA. This is a horror story.

Because I am a U.S. citizen, I'm subject to the U.S. extraterritorial tax regime, which means the United States imposes its taxation on my non-U.S. income generated where I live permanently even though I am fully taxable on that income in the country where I reside outside the borders of the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States in the same way they treat U.S. multinationals doing business outside the United States. Please, hear me—I am not a multinational, not a corporation, I am a flesh and blood, individual, ordinary human person, now old, fully retired. YET not a single participant at that hearing recognized how individuals are affected by these rules even though the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with an individual running a business with interests outside the USA as I used to do. Not a single one! I would laugh if I could but this attitude is a very harmful one, insidious too—and I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses (also like me just managing their life) outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." Stop calling me and others like me names that demean my life and humanity. I am instead a "dual-national" living in the country of second citizenship. It doesn't make me less American. I vote in the U.S. Elections, my American thoughts and ideas are communicated regularly with other Americans, family and friends new and old. What I sense and feel matters and rebounds. When I had my own self-employed business I was not a multinational, I was just one lone person with a talent for finding and buying beautiful things and I created a market for them that gave me an income from which I could build my life, send my child to school and college, get out of a difficult marriage and save for my old age.

Being a dual national means that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life in the country where I am resident without interference from the Internal Revenue Code of the United States.

As a general principle: Individuals living their lives outside the USA are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax. Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual humans living outside the U.S., running small businesses in the countries where they reside. It can destroy a small business, destroy a family.

I already suffer from the USA extraterritorial taxation regime in a way I never could have expected. Because of collateral damage since the start of FATCA over ten years ago it has made it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way for my imminent old age. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and the UK, I get the worst of both tax systems. What one giveth, the other taketh. I do not feel respected at all by the USA, instead I am called a criminal and a tax avoider just because live outside the USA. Madness!

Finally, please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! They do not solve the main problems. Anyhow retired for many years, I no longer earn, so earned income credits no longer apply to me. Is this just?

This situation is extremely unjust and unnecessary. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation. That is the most sensible of any solution put up for inspection. Indeed it is the only solution.

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March 25, 2021

U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden, Ranking Member Crapo and Honorable Committee Members:

On behalf of more than 500,000 members and supporters of Public Citizen nationwide, we thank you for holding this timely session and respectfully offer the following comments to the record for the hearing entitled "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment."

Because of a global "race to the bottom"—where multinational companies use accounting maneuvers to book their profits in low- or no-tax jurisdictions, or "tax havens,"—since the mid-1980s, the average tax rate paid by corporations across the world has dropped from 49% to less than 23%.[1] And since the 2017 tax giveaway bill, the Tax Cuts and Jobs Act (TCJA) was passed in 2017, the U.S. domestic corporate rate on the books is just 21%.—with the average rate actually paid being much less. A recently released government report found that the average corporate rate was only just 7.8% in 2018—half the average rate prior to passage of the TCJA.[2] The result of that law has been stark. According to a report from ITEP, "91 of the most profitable corporations in the United States paid effective tax rates of zero or less on their 2018 U.S. income."[3]

While egregious tax avoidance strategies by multinational corporations have been going on for years, they were intensified thanks to provisions from the 2017 tax giveaway bill, the Tax Cuts and Jobs Act (TCJA). The TCJA created a loophole that allows U.S. multinationals to pay half the domestic rate—or even nothing at all—on foreign-booked profits.[4] American workers bear the brunt of these current harmful tax incentives that drive investments to other countries. While worker productivity has increased in recent years, wages have stagnated and jobs have increasingly been outsourced, exacerbating the extreme income inequality we are seeing in our nation.

Public Citizen supports the No Tax Breaks for Outsourcing Act (S. 714) and urges the Senate to pass this crucial legislation that would end the preferential tax treatment that has incentivized sending jobs and profits overseas. This bill would level the playing field for American small businesses by ensuring U.S. multinational corporations pay the same tax rate on profits earned abroad as they do domestically. This legislation would also generate significant revenue to offset the cost of funding priorities like repairing our nation's crumbling infrastructure.[5] A study estimates eliminating offshore tax loopholes could garner $77 billion in revenue annually.[6]

This is an ideal time for the Senate to pass the No Tax Breaks for Outsourcing Act since countries are working in concert through the OECD (Organisation for Economic Co-operation and Development) to address tax avoidance of multinational entities.[7] Now is a prime opportunity for the U.S. to take further action on ending the TCJA international loopholes to provide further momentum to ensure these negotiations for a global minimum tax come out as strong as possible to combat profit shifting.

In addition to rolling back the tax giveaways that were bequeathed to corporations thanks to the TCJA, Public Citizen urges the Senate to go even further and tackle the problem of profit shifting directly by passing comprehensive legislation on this topic, the Stop Tax Havens Abuse Act (S .725) as a remedy to truly solve the excessive problem of profit shifting.

Furthermore, our nation must take additional actions to hold corporations to task and shine light on these unpatriotic multinational corporations who are engaging in the risky behavior of shifting profits to low tax countries all while draining our nation's coffers. We urge this committee to work in tandem with the Banking, Housing, and Urban Affairs Committee to pass the Disclosure of Tax Havens and Offshoring Act, which would require public country by country reporting and ensure that corporations disclose across the board all the countries in which they pay taxes. This would help investors and the public determine whether or not corporations are profit shifting to tax havens, shortchanging the U.S. government and creating

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[1] Kimberly A. Clausing, Emmanuel Saez, Gabriel Zucman, *Ending Corporate Tax Avoidance and Tax Competition: A Plan to Collect the Tax Deficit of Multinationals* (2021). UCLA School of Law, Law-Econ Research Paper No. 20–12, *https://ssrn.com/abstract=3655850.*

[2] Joint Committee on Taxation Staff, "U.S. International Tax Policy: Overview and Analysis," at 58 (2021).

[3] Matthew Gardner, Lorena Roque, and Steve Wamhoff, *Corporate Tax Avoidance in the First Year of the Trump Tax Law* (2019). Institute on Taxation and Economic Policy Report, *https://tinyurl.com/waptbt9m.*

[4] Kimberly A. Clausing, "Profit Shifting Before and After the Tax Cuts and Jobs Act," 73(4) *National Tax Journal* 1233–1266 (2020), *http://dx.doi.org/10.2139/ssrn.3274827.*

[5] Press Release, Senator Chris Van Hollen., Van Hollen, Whitehouse, Doggett, Durbin Introduce no Tax Breaks for Outsourcing Act (March 11, 2021), *https://tinyurl.com/mc74yau3.*

[6] Kimberly A. Clausing, "Five Lessons on Profit Shifting from the U.S. Country by Country Data" (2020). *Tax Notes Federal.* 169(9). 925–940., *https://ssrn.com/abstract=3736287.*

[7] OECD, *Tax Challenges Arising from Digitalisation—Report on Pillar Two Blueprint: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project,* OECD Publishing (October 2020), *https://tinyurl.com/4xnypcb7.*

reputational and financial risk. Public disclosure of this country-by-country information, which corporations already report privately to government authorities, will bring accountability and ensure investors have the full picture about companies' tax responsibility.

Public Citizen urges the committee to embrace these commonsense ways to raise revenue, curb tax avoidance, and protect U.S. jobs and domestic small businesses. We look forward to working with you to bring these policy solutions to fruition as well as to holistically take on the challenge to unrig our tax code and reinvest in American communities.

Thank you for the opportunity to submit this statement for the record. For questions, please email sharley@citizen.org or rstewart@citizen.org.

Sincerely,

Susan E. Harley, J.D.
Managing Director
Public Citizen's Congress Watch division

Robert L. Stewart
Tax and Disclosure Advocate
Public Citizen's Congress Watch division

LETTER SUBMITTED BY BARBARA QUINTON

Honorable Senators,

I am an American citizen who has lived continuously in Hong Kong for the past 20 years. As a U.S. citizen I vote in Portland, Oregon. U.S. taxation and FATCA are making my and my family's life hell. One bank has already informed us they will close our account. Others refuse us investment and mortgage services. We are ready to renounce our citizenship and become Chinese citizens because of the way the IRS treats us like criminals.

I do not live "offshore." I do live in a territory where I pay income tax. I also pay additional high property taxes, rates and stamp duties and other "fees and charges" which are in fact taxes to the Hong Kong government.

I was shocked that there was no witness at your hearing who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who are actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

Any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

Please don't pontificate that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

Regarding taxation of U.S. citizens living permanently abroad:

This must end. I propose that any U.S. citizen who remains continuously abroad for three (3) years should be exempt from U.S. income taxes and filing requirements (including bank account filing requirements under FBAR and FATCA).

For example, the citizen is responsible for filing IRS forms (while still getting the 2555 and foreign earned income exemptions) and paying taxes (if owed) for the first 3 years residence abroad. Thereafter, he registers with the IRS as a Tax Exempt U.S. Citizen Abroad, proves that he/she has been compliant in all taxes paid and forms filed, and is from then on free of U.S. filing requirements, until he or she returns to work in the United States. This can be construed as reasonable, since expatriates on 2-year contracts are generally only temporary in their intentions and their thinking, and those staying longer are generally more committed to remaining outside the U.S. longer-term. I believe *no* U.S. person should file or pay U.S. taxes when living abroad, but I think redefining a "bonafide foreign resident" as someone abroad more than 3 years might possibly be a solution palatable to all.

Regarding FBAR and FATCA:

Same as above. However, adding a 3-year rule imposes even more complexity on foreign financial institutions. For this reason, I strongly advocate the total repeal of FATCA.

Thank you for your attention.

Sincerely,

Barbara Quinton

LETTER SUBMITTED BY EILEEN RAMM

Dear Legislators,

I married a UK citizen 40 years ago and have been living in the UK ever since, but retain USA citizenship because I want to.

I do not earn money in the USA but submit a yearly USA tax return. I pay UK taxes and submit yearly UK returns. Thus I am doing two returns a year, one for USA and one for UK.

To complete a USA tax return it takes me *ages* as the tax year is a different period of time and things like UK insurance valuations are based on the UK tax year.

Is there a better way to do this?

Mrs Eileen Ramm

LETTER SUBMITTED BY JARED RASMUSSEN

I am a proud citizen of the United States of America. I live outside the United States in Finland where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I fell in love with a Finnish girl in 2006. We married and I moved to Finland in 2008. We have 2 young dual citizen daughters. I come home every summer to visit family in Washington state and North Carolina. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United

States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ANDREW RAZGULIN

Hi, I am writing in regard to the hearings that took place on March 25, 2021. I would like to make the following two observations.

1. The hearing focused on U.S. multinational corporations. But the same U.S. tax rules apply to individuals living outside the United States, as they do to U.S. multinationals doing business outside the United States. It is neither fair, nor practical to equate the two. Not a single participant recognized how individuals are affected by these rules.
2. There was no witness who had any personal experience with living abroad as an American. To understand the effect that these rules have on ordinary people one must have been in our shoes. At least once. It would immensely benefit law makers to understand how these rules end up working in practice.

In closing, I would like to call for United States to join the rest of the world in adopting a system of residence-based taxation. We are not GILTI, we merely live abroad.

Andrew Razgulin

LETTER SUBMITTED BY BRENDAN READ

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work, and pay tax in another country. My wife and I not only pay taxes in Canada where we live but we also file a joint tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as Canada's tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to Canada to accept a job offer after being laid off by my previous employer in the U.S. My family is not wealthy; my wife is retired and on Social Security. And I am approaching retirement age. We don't have room in our household budget to spend on tax return preparers, and we certainly cannot afford to be double-taxed.

Moreover, I and other Americans who work in Canada are subject to the unfair Windfall Elimination Provision (WEP) clawback from our Canada Pension Plan (CPP) earnings on our Social Security, resulting in less income at retirement. Unfair in that you can only be a resident in one country at a time. We pay/paid into the CPP and Canadian taxes, like we had paid into Social Security and American taxes. In fairness, shouldn't we receive the full CPP and Social Security benefits we had worked hard for?

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

And surely handling returns from Americans living abroad must be burdening the IRS with added costs, causing it devote staff and other resources, like IT, that should be used to handle the taxes of Americans resident in the U.S. Like preventing future debacles like the delays in the processing of tax returns with the stimulus payments.

Isn't it time to truly put the "Internal" in Internal Revenue Service?

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation. And, finally, to look at the lack of fairness of the application of the WEP on Americans who worked/have worked in other countries, like Canada.

Thank you.

Brendan Read

LETTER SUBMITTED BY CAROLE REED

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Sincerely,

Carole Reed

LETTER SUBMITTED BY MARY ANN REINISCH

I am a proud American Citizen. I I have lived outside the United Stated in England for 45 years. I married a British man. I have worked for the UK local government and the National Health Service as a Social Worker all my professional career in the United Kingdom. I am now a retired widow living on my pension. Unlike in the United States, the salaries here for public service are quite modest.

I love America. My heart will always be in the United States. I continue to exercise my voting rights and to submit my tax returns every year.

I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can

this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example, Value Added Tax on almost all goods and services) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two observations about the Hearing on March 25th:

1. **The Hearing concentrated on multi-national corporations and did not differentiate between those entities and individuals. I am an individual and not a multi-national corporation and never have been. I am a dual-national and not an "off-shore." I want to be able to live my life here without the long arm of the United States Internal Revenue Code treating me as if I were an entity. Please do not overlook me and many others like me who are individuals and should not be treated as if we are the same as multi-national corporations.**
2. **I understand that there were no witnesses called with personal experience of either running a business or company with interests outside of the Untied States or, like me, of being an American individual working and living separately in another country. This oversight, I hope, can be corrected in the future to enable you to obtain a full, fair and proper picture of the reality American citizens abroad face.**

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States who may or may not being running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

If I am required to pay capital gains on selling my principal residence, I will *very* painfully have to give up my American citizenship. Otherwise I will be paying the United States Internal Revenue the money invested in my only asset and retirement investment—my home. This I need to pay for my future nursing care. *This cannot be just.*

I must re-iterate that this situation is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MICHAEL REMPEN

I am a proud citizen of the United States of America. I live outside the United States in Berlin, Germany, where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes (42%!). I also pay additional kinds of taxes like VAT to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MATTHEW RIEDEL

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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God bless the United States of America!

LETTER SUBMITTED BY CHRISTINE B. ROBERTS

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and dual citizen and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago to marry and Australian who I love. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad, with my "foreign" husband and dual citizen children.

I am a tax resident of my country of residence, Australia. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example GST) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I also am fully taxable on my worldwide income by Australia while residing here, so my worldwide income is taxed twice, since neither country nor the tax treaty recognizes the other's retirement instruments thus treats them all as grants of one type or another.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy and negligent. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States. The bank accounts the IRS deems "foreign" happen to be the local to me, accounts I need in that country to function as a resident of that

country. They do not contain money earned in the USA and stashed "overseas"!

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States imposes taxes on certain things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" from nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules, treaties and/or the Foreign Earned Income Exclusion solve these problems. They don't! The "savings clause" negates most of it.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

At least put through an Executive order to exclude emigrants' local "foreign" bank accounts and businesses which they need to exist living with their families abroad.

God bless the United States of America!

Christine B. Roberts

LETTER SUBMITTED BY RACHEL ROCKWELL

Hello fellow Americans,

I am a proud citizen of the United States of America. Two years ago, I moved permanently from the United States to Canada, where I am a tax resident subject to full taxation that exceeds what I would have paid in the United States. I moved because I met my fiancé, a humble Canadian, who needed to stay in Ontario for his job. I moved because I wanted to support my partner, get married, and start a family. I did not move because I hate America, and I truly miss my hometown, my family, and the wonderful environment I grew up in. It has been over a year since I've been able to visit and I am anxiously awaiting the day we can travel safely and freely again.

I was surprised at how focused the hearing was on U.S. multi-national corporations, and how little it focused on the effect of U.S. tax policy on its own citizens living abroad, who are the very "American workers" that were supposed to be discussed. I am also surprised that no one was brought forth who had experience or any sort of relationship with someone living and/or running a business outside of the United States. I think this is a grave oversight and stands akin to asking a lawyer how a doctor does their job. It does not feel like the interests of the people have been represented, and I would urge that the committee make a greater effort to truly understand the impact on the individual taxpayer—your own American Workers abroad.

I am a young professional trying to create a comfortable and secure life for the family I one day hope to have. I am not a particularly high earner—currently I make the equivalent of maybe U.S. $40,000 a year on a good exchange rate day. I did not abscond the country with millions or stuff my money into offshore tax havens. I'm just a regular, everyday citizen trying to live my life like everyone else.

Unfortunately, U.S. tax laws make things like planning for retirement very difficult and put me at a financial disadvantage compared to my friends and coworkers here. For example, I am unable to make use of the most advantageous retirement savings vehicle that Canada offers, the Tax-Free Savings Account (TFSA). Outside of reg-

istered retirement accounts, I cannot freely invest in the funds I want to invest in without incurring onerous paperwork, taxation, and reporting duties due to the classification of PFICs. I cannot open or contribute to a retirement account in the U.S. because no financial institutions will take me on since I am not a resident of the U.S., and any contributions I make to my existing Roth IRA are not recognized in Canada. Because I am also a new immigrant to Canada, I have no allowance to contribute to a Registered Retirement Savings Plan (RRSP), which is the only retirement account that I may safely invest in as a U.S. citizen, and thus I have effectually been forced to take over a year off of saving for retirement. So here I am, 30 years old, stuck in between each country's tax code, unable to effectively save, invest, or plan for my future.

Come tax season, I must file my taxes not once, but twice—once in Canada, and once in the U.S. My financial reporting obligations do not end there, though. They also include living in fear of the financial penalties from accidentally misreporting or missing a "foreign" bank account—of which I have many, since I live and work here, in Canada, where these accounts are my local bank accounts that I need for everyday life—and digging through obscure tax code to discern the nature of taxation on certain assets in each country. Although the Foreign Earned Income Exclusion is useful, it does not alleviate the struggle of trying to navigate both countries' tax codes at the same time, and I elect to take the Foreign Tax Credit in any case as I pay more in taxes to Canada than I would owe to the U.S.

The cost to complete and file my taxes is not insignificant, either. I have received quotes ranging from a minimum of $325 to over $1000—and may I remind you, I make less than $40k USD a year. You wouldn't advise anyone to pay that much for a simple 1040. Unfortunately, it's not just the 1040—it's the 1116. The 8938. FinCEN Form 114. Form 8621 if you have PFICs. The list goes on, and the cost seems to increase exponentially the more forms you need to fill out, just because you tried to live the same life as everyone else lives.

I just want to be able to live my life freely. Please understand that there are millions of U.S. citizens just like me who have been caught up in the crossfire of U.S. extraterritorial taxation and conflicting tax codes. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY DAVID ROSALIA

To the Senate Committee on Finance:

Thank you for the opportunity to submit this statement for the record of your recent hearing on in the impact of U.S. international tax policy on American workers, jobs and investment. I understand that the March 25, 2021, hearing did not include a discussion on the impact of U.S. tax policy on citizens actually living abroad, whose lives are directly, and often negatively, impacted by resulting U.S. tax laws.

I am an American and I am proud of my American heritage. My family traces its roots back to American Indians on my mother's side and on my father's side our family goes back generations in New York and my father even has a small street named after him in New York.

Whenever I travel back home to America, I feel like I come alive, like I am re-born. I am proud that such a diverse and living culture is mine; that I am a part of it and it is a part of me. When I lived in the Hamptons as a child, I would often run into American legends like Billy Joel, and Christie Brinkley, Harrison Ford, Paul Simon, Arnold Schwarzenegger, Woody Allen, and many others. I have many fond memories and my whole family living in the states and all of that makes me who I am.

Even though I love the States, life has taken me to Europe. I was married to a Belgian, we tried living in the states but the economy was really bad in the late 80's, early 90's and as I had the possibility to get higher education in Europe for free, and I took the opportunity and have been living and working in Belgium ever since.

Why are these details important? I mention them to convey to you how important my ties to America are, how important my memories and my American identity are even though I have been living already many years in Belgium.

Why are they important? Because there isn't a month that goes by that I don't consider renouncing my American citizenship. As I write this statement for the com-

mittee, there are tears are welling in my eyes. I don't want to renounce my American citizenship; it would be like losing a part of myself. For those of you living and working in the States this may seem like an extreme measure, but living as a U.S. citizen outside of the U.S. is like having a "Sword of Damocles" over your head constantly. There is a Bible verse which says "A man cannot slave for two masters" and that is how I often feel being subject to two sets of tax laws.

Let me give you some examples of what we have to deal with:

- Because of the strict requirements that the U.S. places on financial institutions when they have American clients, many banks refuse American customers. This makes it very difficult for American's to even open a bank account.

  I work at a Belgian bank which, fortunately, still accepts American customers. My bank requires that my pay is deposited on my account at the bank where I work. What happens to me the day that the bank decides it no longer accepts American clients? I don't know what will happen but I fear that it could lead to me losing my job which I have had for over 20 years.

- When filing your taxes when living abroad. The amounts are based on a conversion of your local currency to the dollar. What happens if, for example, the Euro-Dollar exchange rate changes in an extreme way? I already pay 55% of my salary to the country in which I live and I can't afford to pay, on top of local taxes, taxes to the U.S. just because an exchange rate changed, yet this is a real possibility.

- The U.S. regulations make it much more difficult to invest. Not only are Americans refused by financial institutions, but it is complicated to navigate the U.S. regulations and tax laws for stock market and other investments.

- Foreign pension plans can also be affected by the U.S. tax laws

U.S. taxes are extremely complex, and even more so for persons living outside of the U.S. We don't have easy access to U.S. tax advice and those that can do U.S. taxes are often horribly expensive.

I always do my best to fill in my U.S. taxes and FBAR as accurately as possible and on time. Even so, I live in fear of making a mistake or that there will be a misunderstanding. The fines for making a mistake on your FBAR declaration are potentially very severe and the instructions are not sufficiently clear in some cases. These are just a few the stresses which haunt Americans living abroad.

- Note: If the goal of the FBAR is to prevent tax fraud, please set the lower limit for filing an FBAR to something realistic like 300,000 or 500,000 dollars instead of the 10,000-dollar limit. This is just creating unnecessary risk (fines for unintentional errors) and stress for Americans living outside the U.S. who are working as employees in companies.

As an employee in a Belgian company, with no financial ties to the U.S. it seems unfair to be under 2 sets of tax laws. Why is it that just about no other country in the world has a world-wide citizen tax? I believe that there is only one other country (N. Korea?) that has a citizen tax law.

I urge the Committee to listen to the voices of U.S. citizens living abroad when considering any further changes to U.S. international tax law. I don't want to have to renounce my U.S. citizenship as so many thousands of others have done due to the tax and FBAR filing requirements for U.S. citizens. I am going to wait on the result of this committee before making my decision. Please show us you care about our situation.

Sincerely,

David Rosalia

LETTER SUBMITTED BY JOSHUA ROWE

I am a proud citizen of the United States of America. I live outside the United States in Israel where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that

country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals *living* outside the United States, the same way they treat U.S. multinationals *doing business* outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY LAURA RUECKERT

To whom it may concern:

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in Germany where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the German tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to Germany to live with my German husband. Neither I nor my family are at all wealthy, in fact, I only work part-time so I can have more time for my children. We don't have room in our household budget to spend on tax return preparers, and we certainly cannot afford to be double-taxed.

I looked back at my tax records and have been submitting my tax forms from Germany since the 1990s. All those years of me doing the work, trying to get everything right. All those years of government workers, paid for by U.S. taxes, checking my tax returns. In all that time, I have never owed any U.S. taxes. It's all been a huge waste of time and money for everyone involved. It's not even possible for me to do my American taxes electronically, since the free electronic tax software never includes the forms required for expats. So I also waste money on postage.

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing, especially knowing other countries do not do this.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks and saddens me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Laura Rueckert

LETTER SUBMITTED BY DIETER RUNGE

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high-income taxes. I also pay additional kinds of taxes to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United

States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are NOT immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They most certainly don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MATTHEW RUSSO

I am a citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

Unintended consequences of current tax laws prevent me, and colleagues like me, from investing savings in the S&P 500 index, or any Mutual Fund, or any ETF.

A simple example:

- A U.S.-listed S&P 500 fund/ETF cannot be sold directly to me, an EU resident
- An equivalent S&P 500 fund/ETF listed in Ireland can be sold to me, but is then punitively taxed by the U.S. as a PFIC

We are voters, and we are taxpayers, and we are deserving of your consideration when drafting laws that impact our investment opportunities and our retirement planning.

I ask that you please consult knowledgeable people who can help prevent unwanted negative impact on American expats when reviewing tax law.

Many thanks for your time and attention.

LETTER SUBMITTED BY BEAU JON SACKETT

I am a proud citizen of the United States of America. I also am an emigrant from America, living outside the United States in British Columbia, Canada, where I am a tax resident and where I am subject to full taxation.

Like many fellow U.S. ex-pats, a job brought me to Canada decades ago, and family has kept me here independently of what happened on that original job front. I long ago realized that although I will always love America, I am living permanently abroad. I am a "middle class"—meaning I've always earned "middling" income here

in Canada—tax resident of Canada, required to organize my financial and retirement planning here. But I've always have been subject to extra-territorial U.S. taxation. For the record, I have filed my 1040 dutifully with the IRS each year since I've been here. But, U.S. lawmakers in 2010 apparently thought I was a FATCAT, along with the other 9M-or-so U.S. ex-pats somewhere on Earth (per a U.S. Treasury guesstimate at the time), and thus deserved to be punished financially for it, passing a law to that effect. Fortunately, previous to 2015, I had a Canadian job earning a Canadian $$ income, and thus could take advantage of Form 2555 "Foreign Earned Income Exclusion", to reduce my U.S. tax burden to $0 every April while I was employed. To add extra context, I always have had zero income from the U.S. for all those decades. That made my yearly IRS interactions fairly simple. Insulting, and violating, but simple. However now I'm retired, and no longer have Earned Income, so my U.S.-taxation life has gotten more complicated, even as my income has gone down. I'm not eligible for any U.S. pension income at all.

Prior to my retirement in 2015, I discovered that it is almost impossible for a middle-class ex-pat person to do any retirement planning, because of the inherent difficulties in trying to satisfy two different tax jurisdictions at once. If my net worth really did have the number of zeros on it that the typical "U.S. homelander" thinks we "overseas tax cheats" (FATCATs) enjoy, my retirement planning options would have increased dramatically. But the number of retirement planners, conversant in both Canadian and U.S. taxation laws, is very close to zero for middle class types like me.

Just to emphasize that last point, U.S. tax laws applied to long-term middle class ex-pats make it impossible to plan for a retirement in either country. Members of both my Canadian family(ies), and my U.S. family(ies), are subjected only to a single federal tax jurisdiction, whereas ex-pats like me are subjected to two, often contradictory in their details. That means Canadians can plan for a Canadian retirement if they want to, and Americans can plan for an American retirement. But ex-pats like me can't plan effectively for a retirement in either country. As a very pertinent example, Canadians use their principal residence as a major part of their retirement planning, because capital gains here are tax-free; they "pay" for that exemption by not being able to deduct mortgage interest from Canadian income taxes each year. U.S. citizens can't make their principal residence play such a prominent role, because probably U.S. tax laws regarding mortgage interest and capital gains are the opposite. U.S. ex-pats have the worst of both worlds, being subjected simultaneously to both types of taxes.

Let me add a little extra context to this. I've voted Absentee in Presidential elections for years, first as an absentee voter in Texas, and more recently as one in Washington State, where my USAF-vet son now lives, because I've listed his WA address as mine. In neither case would it be possible for my federal Representative or Senator to represent me in any non-trivial way. My son, even though he was born in Canada, doesn't face any of these problems in planning his U.S. retirement , because Canada doesn't penalize her ex-pat citizens the same way as does the U.S.

I do not live "offshore." I do live in Canada where I pay very high income taxes. I also pay additional kinds of taxes here. To illustrate, people who calculate "Tax Freedom Days" in both countries always find that the Canadian Tax Freedom Day comes around 6 weeks after one calculated for the U.S.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation in U.S.$ on my C$ income, even though I am a fully taxable on that income in Canada where I reside, and even though I don't live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th, based on what I've learned from friends who've observed the proceedings and who also oppose this type of taxation.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings in-

clude witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not a FATCA(T), by any means. I also am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

And, as noted above, please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Neither does the U.S. Foreign Tax Credit, at least when it comes to the sale of a principal residence.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. But we can't anyone to listen, because we effectively are being taxed without representation.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY REZA SALARI

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

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I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Sincerely,

Reza Salari

LETTER SUBMITTED BY GREG SCHROEDER

Hello, I am a proud citizen of the United States of America. I live outside the United States in the UK where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

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More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Many thanks,

Greg Schroeder

LETTER SUBMITTED BY LINDA SCURR

I am a proud citizen of the United States of America. I live outside the United States in England where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Yes, I love America. But we never know where life will take us. I moved from America to England many years ago. I long ago realized that although I will always love America, I am living permanently abroad—my life and family are here. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. They are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live as well as the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. This is very unfair. How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. This is ridiculous. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.
3. Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less of an American. But it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

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And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you.

LETTER SUBMITTED BY LISA SENIOR

I am a citizen of the United States of America and, after marrying a British national, have lived in England where I am a tax resident and where I am subject to full taxation.

Having lived in the UK for nearly 18 years, I obtained my British citizenship several years ago as I strongly believe in the importance of voting. However, as a dual citizen, I am subject to the tax system where I live and the U.S. tax system. As the UK and Eritrea are the only countries in the world obliging their citizens to

report their foreign-earned income, not only is this system unfair, it is also a burden on the U.S. tax authorities and we citizens living abroad. Equally unfair is children born to U.S. citizens abroad and who obtained U.S. passports are also obliged to complete tax returns when they are not even earning an income in their home country, nor earned any income in the U.S.!

Let me be clear about the negative impact of this archaic tax system:

1. It penalizes U.S. citizens from opening bank accounts, making investments and holding personal pension funds offered by banks. How can we be responsible savers and investors when we are rejected by viable savings institutions who do not want to deal with U.S. law requiring them to report? How can we ensure financial security for our families?
2. International tax accountancy firms specializing in reporting foreign-earned incomes and FBARs to the IRS for U.S. citizens charge hundreds of British pounds (minimum λ800 for those who didn't realize they had to file in the first place) to essentially report zero payments to the IRS.
3. The administrative headache to report annual earnings for the January–December calendar year when other countries have different financial years as well as the time wasted by IRS officials to process these forms (which many result in zero revenue for the Treasury) is an unnecessary burden.
4. Though U.S. citizens living abroad are encouraged to use one of the IRS' Free File programs to file online, we are unable to do so as they will not accept a foreign telephone number and address, thereby blocking you at the first step of registration. Worryingly, sensitive financial information needs to go by overseas post.
5. Not only do we have to report our foreign-earned income, we are also subjected to reporting our financial assets (even joint accounts shared with a foreign-born spouse) with the Treasury Department. This is intrusive as well as a security risk every time this information is submitted.
6. There have been many Americans who have given up their U.S. citizenship because of the stress and aggravation of having to declare U.S. taxes, when often there was nothing to declare. Does America truly want to punish its citizens?

Currently my only economic connection to the United States is with pension funds and some savings established prior to leaving the U.S. Because I have family in the U.S., these accounts are important for visits there. Also, accounts were established for my children in the U.S. so their grandparents can contribute money in the event they chose to study or travel there.

I understand the following occurred regarding the recent hearing on March 25th:

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Not a single participant recognized how individuals are affected by these rules.
2. No witnesses who have experienced running businesses outside the United States and/or actually living outside the United States were present to state their personal experience. How could you give a fair assessment?

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world and move towards a residence-based taxation system. I urge you to consider the negative impact of our current system and bring relief to thousands of Americans abroad who want to do the right thing, yet feel as if they are being penalized for it.

Thank you for your consideration in the matter.

LETTER SUBMITTED BY HUSSNAIN QAMAR SHAH

I am a citizen of the United States of America. I live outside the United States in Pakistan where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay income taxes. It is my country of residence. Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country

where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

For many years, Americans abroad have been attempting to get both Treasury and Congress to address this issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

The roughly 9 million Americans abroad will be able to sleep more easily each night.

LETTER SUBMITTED BY DONNA SHEARN

I am a proud citizen of the United States of America. I live outside the United States in London, UK where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I moved from America many years ago to take a job in the Netherlands with an American pharmaceutical company. It was there that I met my British husband and moved back to the UK with him a few years later. We bought a house, got married and started a family in London. I long ago realized that although I will always love America and still have family and friends there, I am living permanently abroad. My kids were born here and consider the UK their home.

I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I cannot stress enough how much of a burden it is to comply with U.S. tax laws. It's time consuming, expensive and stressful. I've been fined for bureaucratic errors that weren't my fault. I've been refused bank accounts from banks that don't want to deal with the reporting requirements for their American customers. My kids are worried about their own U.S. tax burdens. I do not live "offshore". I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MACIEJ SIKORA

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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God bless the United States of America!

LETTER SUBMITTED BY SOPHIA SILVERSTEIN

I am a proud citizen of the United States of America. I live outside the United States in Bet Shemesh, Israel where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

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side the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY GREGG SINGER

I am a proud citizen of the United States, and a veteran of the U.S. Navy. I now live outside the U.S. in the United Kingdom, with my wife and two (U.S. citizen) daughters. We are UK residents, and subject to the full tax regime of the UK.

At this point, I live outside America for the long term. My wife grew up in the UK, and the is our family's home now. My parents, sister, and extended family remain in the U.S., and I'll have strong links to the U.S. forever.

As a tax resident of the UK but also a U.S. citizen, I have to organize my financial and retirement planning, and save for my children's future, all while trying to meet the demands of two different tax systems—one which is designed to tax UK residents living in the UK and not paying tax anywhere else, and another which is really designed to tax U.S. residents living in the U.S., but also applies to U.S. citizens wherever they live.

These two systems mostly make sense on their own, but when you mash the two of them together, they don't always get along. Investments that are "common sense" for either UK residents or U.S. citizens can be subject to punitive taxes and penalties. As a simple example, my UK counterparts can open an Individual Savings Account and invest in boring, sensible index funds—if I do that, I'll be punished by the IRS's Passive Foreign Investment Company regime.

I do my best to navigate the two systems, and I pay all the tax that I owe, to both countries. My salary is in a 60% tax bracket in the UK—I'm not trying to dodge taxes, but just want them to be fair.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. I fully accept that there are challenges with ensuring that multinational corporations pay their fair share of taxes. But, I am not a multinational corporation, I'm just a husband and father trying to provide for my family and save for the future. It does not seem that there was any recognition of how the U.S. tax rules impact individuals—taxpayers, voters, citizens—like me.
2. There was also a distinct lack of witnesses with personal experience of living and paying taxes outside the U.S. This is madness—the experiences of actually living outside the U.S. need to be represented, not just in theory but in practice.

In general, the U.S. citizenship-based tax regime throws up challenges at every opportunity for me to save for the future, in a sensible, responsible, frankly boring way. I recently put together a high-level overview to give guidance to Americans living in the UK and wanting to save to retirement—even at an extremely summarized level, that was 30+ pages of dense information, trying to make sense of tax treaties,

PFIC rules, and so on, as well as the UK's similar interests in ensuring that its taxpayers do not evade tax using non-UK accounts.

The existing system is not impossible to navigate, but it is highly complex, with many, many grey areas where people risk committing a crime just because the rules are unclear and they want to save for their future. And even if Americans abroad follow all the rules to the best of their understanding, they often can't invest in the simplest, lowest cost ways of saving for retirement. Rules like the Foreign Tax Credit and Foreign Earned Income Exclusion help, but these are extremely complicated themselves and don't fix the underlying problems, just mitigate the worst injustices.

The end result is a system that is still unjust—Americans abroad are hampered in their ability to save for the future and take care of their families, and must spend much more time and money trying to follow the rules than their counterparts, either U.S. citizens living in the U.S., or their neighbors living abroad as non-U.S. citizens.

The time has come to stop putting band-aids on this system, and to take the simple, fair route—end citizenship-based taxation and adopt the residence-based system of the rest of the world.

Thank you for your time, and God bless America!

LETTER SUBMITTED BY JESSE SIT

I am a proud citizen of the United States of America. I live outside the United States in Canada where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am

required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY ERIC SNOW

I am a proud citizen of the United States of America. I live outside the United States in Israel where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad I learned a lot. I learned that other countries have well developed tax systems that require payment of a wide range of taxes. I can tell you that I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxed on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States,

but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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God bless the United States of America!

LETTER SUBMITTED BY JENNIFER SPROUL

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals *living* outside the United States the same way they treat U.S. multinationals *doing business* outside the United States. Although I am a flesh and blood individual, not a single participant recognized how individuals are affected by these rules. Yet the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality rather than theory.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things like the sale of principal residence when my country of residence does not. My country of residence instead taxes me when I BUY the property. Because I am required to live my life with the USD as my functional currency, I am subject to tax on both sale and buying—essentially taxed on "fake income" on nothing but changes in the ex-

change rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh. I had to take myself of the mortgage with my husband. I am now a second class citizen due to being American.

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God bless the United States of America!

LETTER SUBMITTED BY JUSTIN ST. PIERRE

Hi, I am a proud citizen of the United States of America, living in Australia. where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in

pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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Regards,

Justin St. Pierre

LETTER SUBMITTED BY LAUREN STARK

I am a proud American citizen. I live in the UK, where I am a tax resident subject to full taxation up to 45% of my income and a variety of other local taxes such as "stamp duty" up to 10% of the purchase price of a home. At the same time, I am also subject to U.S. tax law, which has often incompatible tax policies. I have decided to write this letter to inform the Senate of the burdens U.S. tax law poses to families like mine, as I feel middle-class American families residing abroad are being overlooked by our U.S. representatives.

Like many Americans abroad, I was transferred overseas to work for a multi-national company as an opportunity to grow my career. I expected to stay 2–3 years. But along the way, I fell in love and got married, in my case to a French and British national also living in London. Now 7 years later I am making the UK my permanent residence. We are a young couple with similar goals and ambitions to peers in the U.S. and other countries. We are trying to buy our first home, start a family, and save for retirement. One day, I hope to leave the corporate word to start my own business. However, I am finding that the U.S. extraterritorial tax regime, which treats me like a multi-national company rather than a middle-class citizen paying local taxes in my country of residence, poses a threat to realizing my dreams. There is no other advanced country in the world that imposes such extraterritorial taxation.

Each of the examples I shared above—buying a home, saving for retirement, and starting a small business are made extremely challenging by the extraterritorial tax regime. Take buying a home, for example. Like most couples we'll take out a mortgage from a bank to fund our purchase. When we do this, we'll be subject to taxes on exchange rate fluctuations on the mortgage value; as the U.S. dollar sees gains or losses against the GBP, we'll pay tax on phantom "gains" as income. Taxes related to buying/selling the home are also not directly comparable, with UK charging a large tax on the day one buys the home that can't be credited against U.S. taxes that may be applied to the home later (say on gain from the sale). Saving for our future is also proving challenging. I am unable to invest in local mutual funds and ETFs, as these are deemed PFICs by the U.S. and thus subject to high rates of taxation. Because of FACTA, many banks won't even consider serving American citizens. While UK and U.S. have a tax treaty, the rules for pensions also are very confusing, adding anxiety for me to take full advantage of tax-deferred retirement savings options offered by my company that will be crucial for my future. As mentioned, I also hope to start my own business someday. While I don't yet have first-hand experience, I understand speaking to other Americans entrepreneurs abroad that is very complex for an American citizen to start a small business when they do not reside in the U.S. I already spend thousands of dollars a year on tax support, and I'm even worried about making a change in industry or career (or even taking a step back to start a family) that would result in me not being to cover the extra costs associated with being an American citizen and place burden for funding these costs on my husband.

You might think that the foreign tax credits U.S. offer solve these issues, but sadly not. The foreign tax credits we receive are insufficient to address the headwinds posed by U.S. extraterritorial taxes because they don't consider the different tax structures. All of the taxes we might pay to the U.S. are above the taxes we already pay to UK, which is already a nation with fairly high taxes. And the complexity of the tax systems mean we have outgoing costs whether we own taxes to the U.S. or not, as in the form of expensive fees for professional tax support.

I am concerned that the hearing on March 25 did not include perspectives of American expatriate families subject to extraterritorial taxation. Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Instead, the hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. I respectfully suggest that subsequent hearings include witnesses who have experienced living outside of the U.S., having a family outside of the U.S., and running businesses outside the United States.

I am not a "mini-multinational." I am a person and "dual-national" living in my country of residence. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry out my life and provide for my family without the burdens of reconciling and paying to two complex and non-complementary tax systems. The extraterritorial tax regime for individuals and small businesses is extremely unjust. For many years, Americans abroad have been attempting to get Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your consideration,

Lauren Stark

LETTER SUBMITTED BY BOUQUI STAUTMEISTER

Dear Senate Committee,

I am a proud citizen of the United States of America. I live outside the United States in Switzerland, where I am a tax resident and where I am subject to full taxation.

I love America. But we never know where life will take us. I moved from America many years ago to follow the other love of my life: my husband. I long ago realized that although I will always love and miss America, I am probably going to be residing abroad permanently. I am a tax resident of Switzerland. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbors live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live as well as the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.

As a general principle: Please understand that all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! This is extremely unjust.

I am subject to the laws of the country where I live. I ask only to be able to carry on my life according to the taxation laws of the country where I live.

For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the U.S. to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your consideration and God bless the United States of America!

Best regards,

Bouqui Stautmeister

LETTER SUBMITTED BY RICK STEMM

I am a citizen of the United States of America. I live outside the United States in New Zealand, where I am a tax resident and where I am subject to full taxation.

I am an American expat. I came to New Zealand for work and am staying for at least the next few years. I pay my fair share of taxes here, but at least I see the value I am getting for them, and can follow an easy and fair system to pay them. Conversely, the U.S. tax system treats my non-U.S. income and assets very unfairly. I jump through a lot of hoops to pay a lot of money, and it is very difficult to determine proper filing, with extremely harsh penalties for not.

Did you know that if I fail to fill out a non-obvious form listing my money in a foreign bank account, the penalty is HALF the money in that account? We would not have known this without working with an expert, who is excellent but expensive. The U.S. tax system is extremely punishing to expats.

Because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income already in New Zealand. There is no other advanced country in the world that imposes such extraterritorial taxation. This may seem exaggerated, but in truth every tax expert we talked to in New Zealand was quick to point out that, and I quote "The U.S. has the most draconian tax system for expats in the world." Is that what we want to be the world leader in?

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans, and generally behave in a financially responsible way. As a tax resident of both the United States and New Zealand, I get the worst of both tax systems.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I love living in New Zealand, but am also proud to be an American, and try to represent the best of our country here. Please don't punish me for that. Thank you for listening.

LETTER SUBMITTED BY SHAWN D. STOCKER

I am a proud citizen of the United States of America. I live outside the United States in Spain where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I love America. But, we never know where life will take us. I moved from America 13 years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (for example a 31% social security tax and a 21% VAT) to the Spanish Government.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of adoptive residence. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my work and my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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God bless the United States of America!

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About SEAT—Education To Facilitate Change

Stop Extraterritorial American Taxation (SEAT) is an independent, nonpartisan organization with no affiliation with the tax compliance industry. The mission of SEAT is to provide an educational platform for individuals, policymakers, governments, academics, and professionals about the terrible effects of U.S. extraterritorial taxation. The imposition of U.S. taxation on the residents of other countries damages the lives of the affected individuals and siphons capital from the economies of other nations while eroding their sovereignty.

While SEAT is created under the laws of France (Law of 1901), it is an international organization.

http://www.seatnow.org

Submission From SEAT

Please accept this as our submission with respect to the subject of the March 25, 2021 Senate Finance Hearing: "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment."

The Witnesses—Some General Comments

First, it was disappointing that the Committee failed to include any witnesses who actually "live the experience" (corporations or individuals) of carrying on business outside the United States.

Second, the language of some of the witnesses could hardly be described as reasonable or objective. Of particular note was the constant use of the emotively laden term "offshore" to describe the activities of U.S. companies who carry on business activities outside the United States. (The word "offshore" has generally a negative connotation. *https://www.quora.com/Does-the-word-offshore-gives-outsourcing-a-bad-name*).

The fact is that companies based in the United States may have business operations that take place outside the United States, for the purpose of selling into markets outside the United States and for the purpose of earning profits outside the United States. The term "offshore" suggests that U.S. companies are carrying on activities outside the United States for the purpose of avoiding U.S. taxation.

The form of the business activity: Directly or through a foreign corporation

In some cases, U.S. companies carry on business outside the United States as a U.S. corporation. In other cases, U.S. corporations may create a subsidiary foreign corporation. **GILTI income exists only in the context of carrying on business through a foreign corporation that is controlled by one or more U.S. Persons. Therefore, the discussion of GILTI at its core, is a discussion of how**

the United States should impose taxation on non-U.S. companies, earning non-U.S. profits, earned outside the United States.

The Nature of GILTI Income

The title of the hearing suggests a focus on **how the effects of U.S. International Tax Policy Impacts American Workers, Jobs and Investment.** The focus was to be on the effects on individual Americans. Yet, the hearing itself was a referendum on the 2017 TCJA in general, and the GILTI provisions found in Internal Revenue Code 951A in particular. Although not articulated by any of the witnesses, it is important to understand that S. 951A is part of the Subpart F regime. Subpart F, created in 1962, is a set of rules designed to attribute income earned by foreign corporations to the individual shareholders of the corporation. Under applicable circumstances, income earned by the corporation, is attributed to the shareholder, when the shareholder has *not* received a distribution from the corporation. To put it another way: the shareholder pays tax on income at the time it is earned by the corporation and before that income is distributed to the shareholder. These rules apply whether the income is ever distributed to the shareholder.

It was disappointing that not a single witness described the GILTI rules in a way that drew attention to the fact that GILTI income is earned by a separate corporate entity and is *not* earned directly by the U.S. shareholder. The failure to acknowledge this left the impression that the issue was whether there should be a preferential tax rate on foreign income earned by U.S. multinational corporations. The discussion should have clarified that the discussion was really about how the United States could impose U.S. taxes on the non-U.S. profits of foreign corporations (by taxing the shareholder instead of the company). (The United States has no jurisdiction for—and treaties prevent—the United States imposing direct taxation on non-U.S. corporations.)

In short, the nature of GILTI income is that: the U.S. shareholders of certain non-U.S. corporations are required to pay U.S. tax on the profits earned by those corporations, when they have not received income from that corporation. Rather than enhancing the understanding of that basic principle, the witnesses obscured that principle.

The Two Kinds of Shareholders Subject to GILTI (Corporate and Individual)

The GILTI tax applies to the "U.S. shareholders" of controlled foreign corporations. It imposes tax obligations on those shareholders. Both individuals and corporations can be "U.S. Shareholders" of CFCs. The hearing did not contain a single acknowledgement that individuals (the presumed beneficiaries of the hearing), could (as a result of the GILTI rules) be forced to pay personal tax on income earned by a corporation. The hearing focused completely on corporate shareholders of foreign corporations and not individual shareholders. Shouldn't the reality of individual shareholders have rated at least a "mention" in the discussion?

Individuals matter. The issue is and should have been (as was implied by the title of the hearing) how international taxation impacts individuals. The fiscal status of corporations affects individuals indirectly. But, international tax provisions like GILTI have a direct affect on individuals.

The Two Kinds of Individuals Subject to GILTI (Resident Americans and Americans Abroad)

As evidenced by the content of the hearing, the U.S. tax system has special rules (generally punitive) for income streams and reporting of assets that are foreign to the United States. One clear example of the taxation of foreign income is the Subpart F regime (income received by U.S. shareholders of non-U.S. corporations which includes GILTI). An example of reporting would be the Form 5471 seeking information about both the corporation and the shareholders of affected non-U.S. corporations. When applied to "individuals" (who are shareholders of CFCs) both the treatment of profits earned by the CFC and the reporting of information about the CFC are generally punitive. (Would you like to pay tax on income earned by a corporation but was never distributed to you?) The effects on individuals who are resident in the U.S. are very different from the effects on Americans abroad who are also tax residents of other countries.

Both individuals and corporations are subject to the Subpart F regime and GILTI. It is shocking that certain provisions of the Internal Revenue Code treat individual shareholders of CFCs more punitively than corporate shareholders of CFCs. The worst treatment is reserved for **individual** Americans abroad, who are entrepreneurs, **carrying on business through a corporation in the country where**

they live. For Americans abroad, their small business corporations, which are foreign to the United States, are local to them. "Offshoring" applied to these U.S. Shareholders is particularly inaccurate. Such is the effect of the uniquely American penchant for defining tax residency in terms of "who you are" (citizenship) rather than "where you live and consume services" (residence).

About "citizenship-based taxation"—The U.S. extraterritorial tax regime

The United States has the following three distinct tax regimes:

1. **Source—like all countries:** All income sourced to the United States is subject to U.S. taxation on U.S. source income (regardless of the "tax residence" or citizenship of the taxpayer);
2. **Residence—like all countries:** All individuals who are resident in the United States are subject to U.S. tax on their worldwide income; and
3. **Extra-territorial tax regime—unique to the United States:** The United States imposes worldwide taxation on the non-U.S. source income of certain individuals, who are tax residents of other countries and do *not* reside in the United States. This includes U.S. citizens living outside the United States.

Americans abroad are generally in the third category and are subject to the extra-territorial tax regime. They are subject to worldwide taxation by **both** the United States and their country of residence. Americans abroad do *not* as a general principle benefit significantly from tax treaties. This is because, all U.S. tax treaties contain a "saving clause" designed to ensure that Americans abroad are in effect subject to double taxation.

Who Are Americans Abroad?

The short answer is that Americans abroad are U.S. citizens living outside the United States in other countries. They run the whole circumstantial and economic spectrum of humanity. They include the poorest of the poor. They include some wealthy people. They include a large number of middle-class people. They include the employed, the self-employed and they include the unemployed. They include individuals who run small businesses in their country of residence. Some of these small businesses are run through corporate structures in the country where they reside and are tax residents.

Although Americans abroad are Americans who live in other countries, **they are *not* and do *not* view themselves as "living offshore"!**

Americans Abroad—Small Business Corporations and the Extra-territorial Tax Regime

Different countries have different tax systems. Tax systems have different purposes. These purposes include: generating revenue for governments, distributing benefits to taxpayers and creating incentives for responsible retirement and financial planning.

In some countries (Canada for example) small business corporations play the role of being private pension plans for self-employed individuals (who are not otherwise eligible for pensions). Generally speaking, this is because tax laws (as they do in Canada) allow for the deferral of limited income inside those corporations. Notably these "Canadian Controlled Private Corporations" "cannot be controlled by one or more nonresident persons" (guaranteeing that their tax benefits are enjoyed overwhelmingly by residents of Canada). (See *https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/type-corporation.html#ccpc*).

The 2017 TCJA and Americans Abroad With Small Business Corporations

The 2017 TCJA added both the S. 965 Transition Tax and S. 951A GILTI provisions to the existing Subpart F Regime.

Punishment for their past: The S. 965 Transition Tax imposed a retroactive tax on earnings which (1) were not previously subject to U.S. taxation and (2) were never distributed to shareholders. In simple terms, S. 965 imposed real taxation on past income that had never been received by shareholders.

Hindering their future: The S. 951A GILTI rules were designed to prevent the future use of small business corporations to defer income.

The effect of these two provisions was and continues to be devastating for dual U.S. Canada citizens living in Canada (and other countries). The transition tax confiscated a significant part of their retirement savings. The GILTI provisions dramatically increased the difficulty of individuals making use of existing and well understood retirement planning opportunities available to other Canadians.

(In fact, the Transition Tax was so devastating that it spawned the "Transition Tax" lawsuit organized by Israel based U.S. tax lawyer Monte Silver. *https://www.courtlistener.com/recap/gov.uscourts.dcd.203770/gov.uscourts.dcd.203770.29.0.pdf*)

At a minimum, it's clear that U.S. International Tax provisions, always discussed in the context of multi-national corporations, have had and continue to have seismic impacts on individual U.S. citizens living outside the United States. The hearing included a **discussion of both raising the U.S. corporate tax rate (28%) and doubling the GILTI tax.**

Either of these proposals would—for different reasons—be very damaging to individual Americans abroad. The increase in the U.S. corporate rate to 28% would mean that the "high tax GILTI kickout" rate would increase from 18.9% to 25.2%. In other words, raising the corporate rate would mean that income currently excluded from the definition of GILTI income, would now be included as GILTI income. It is likely that doubling the tax rate on GILTI income would result from doubling the amount of income subject to the GILTI tax. Each of these proposals will independently have a very bad tax and compliance result for Americans abroad. Tragically this was *not* considered as part of the discussion in the hearing.

The bottom line is: any discussion of tax reform for corporations will affect Americans abroad. **Think of it this way: every individual American abroad is treated as though he/she were a mini-multinational.**

Congressional Indifference to How Corporate Tax Provisions Impact Individuals

The U.S. tax code, coupled with the indifference of Congress and Treasury to Americans abroad, has created a regime where every U.S. citizen living outside the United States is treated as though he/she were a "mini-multinational." Surely, these consequences could not have been intentional.

The Taxation of Americans Abroad in General

Americans abroad are subject to the third pillar of U.S. taxation—The Extraterritorial Tax Regime. Because their income and assets are foreign to the United States (although local to them) they are subject to more punitive taxation than are their friends and family who are U.S. residents. As counter-intuitive as it may be, when U.S. citizens live outside the United States, they are subject to the extraterritorial tax regime—a regime that is more punitive than the ("residence" system applied to U.S. Residents). This results from a combination of (1) their assets and income being foreign to the United States coupled with (2) the fact that they are also tax residents of other countries.

Furthermore, Americans abroad are increasingly subject to real taxation on deemed income that they have never received. Examples include: transition tax, GILTI, Subpart F generally, fake income created by exchange rate fluctuations and U.S. taxation of income that is not taxable in their country of residence (such as the sale of a principal residence). The complexity, cost and unfairness has led to a situation where more and more Americans abroad are being forced to renounce their U.S. citizenship in order to survive. To be clear, Americans abroad are *not* renouncing U.S. citizenship because they want to. They are renouncing U.S. citizenship because they have to.

The History of Tax Reform and Americans Abroad

FATCA became law on March 18, 2010. A primary effect of FATCA was to increase awareness of the U.S. extraterritorial tax regime. Specifically, the imposition of U.S. worldwide taxation on the non-U.S. income of individuals who are tax residents of other countries and do not live in the United States. As a result, Americans abroad have worked very hard to have a voice in tax reform. To date Americans abroad have been completely ignored. The time has come for Congress to end the extraterritorial tax regime (employed only by America) and transition to a system of taxation based on only "residency" and "source" (employed by the rest of the world). This is commonly called transitioning to a system of "residency-based taxation".

Over the decade since FATCA was enacted, Americans abroad have repeatedly pleaded with Congress to fix the extraterritorial aspects of the U.S. tax system. These pleas have included:

2013—House Ways and Means Committee on Tax Reform

Americans abroad made at least 224 submissions to the House Ways and Means Committee about tax reform.

https://www.box.com/v/citizenshiptaxation/folder/3414062298

2015—Senate Finance Committee

Americans abroad made at least 267 Submissions to the International Tax Committee to the Senate Finance Committee.

https://www.box.com/v/citizenshiptaxation/folder/3414083388

The 2015 Senate Finance Committee Report did *not* address the concerns of Americans abroad. The lobbying of Americans abroad was recognized on page 80 in (literally) the very last paragraph of the report.

> *"F. Overseas Americans*
>
> *According to working group submissions, there are currently 7.6 million American citizens living outside of the United States. Of the 347 submissions made to the international working group, nearly three-quarters dealt with the international taxation of individuals, mainly focusing on citizenship-based taxation, the Foreign Account Tax Compliance Act (FATCA), and the Report of Foreign Bank and Financial Accounts (FBAR).*
>
> *While the co-chairs were not able to produce a comprehensive plan to overhaul the taxation of individual Americans living overseas within the time-constraints placed on the working group, the co-chairs urge the Chairman and Ranking Member to carefully consider the concerns articulated in the submissions moving forward."*

https://www.finance.senate.gov/imo/media/doc/The%20International%20Tax%20 Bipartisan%20Tax%20Working%20Group%20Report.pdf

2017—Tax Cuts and Jobs Act

Residence-based taxation for Americans abroad was reported to have been considered by Chairman Brady in the days leading up to the TCJA. As reported by the *Financial Times* on October 25, 2017.

https://www.ft.com/content/4909d804-b9a1-11e7-8c12-5661783e5589

Unfortunately, residence-based taxation did not come to pass in 2017. In fact, Americans abroad were subjected to the Transition Tax and GILTI making a bad situation far worse. The necessity of transitioning to residence-based taxation was acknowledged by Representative George Holding after the 2017 TCJA was signed into law:

> REPRESENTATIVE GEORGE HOLDING: * * * As companies begin to see the benefits of this new territorial system, I look forward to continue to work with the Chairman to explore ways to move towards a residency-based taxation system to ensure that American citizens have a level playing field around the globe as well.
>
> * * * CHAIRMAN KEVIN BRADY: Mr. Holding, I want to thank you for your leadership on this issue. In particular, about international competitiveness for our workers. So, residence based taxation is an idea we should continue to explore. We'll continue to work on this issue with you as leadership, and with that I yield back.

https://www.c-span.org/video/?c4692161/user-clip-congressman-holdings-comment-rbt

2018—Representative Holding's Tax Fairness for Americans Abroad Act

As described by "American Citizens Abroad":

> **Congressman Holding Introduces "Tax Fairness For Americans Abroad Act of 2018 (H.R. 7358)"—A Residency-Based Taxation Bill**
>
> On December 20, 2018 Congressman Holding (Republican–North Carolina), a member of the influential House Ways and Means Committee, introduced a tax bill that is a critical first step toward transitioning from the current citizenship-based taxation system to a system that provides residence-based taxation for individuals—sometimes referred to as territorial tax for individuals. By taking this first step toward ending the onerous burdens of citizenship-based taxation, Americans will become more competitive in the international job market and

free to pursue opportunities around the world. Compliancy costs and the burden of exposure to double taxation will be significantly reduced, and tax fairness will be restored for U.S. citizens living and working overseas.

https://www.americansabroad.org/tax-fairness-act-rbt/

2021—Congress Is Again Considering Tax Reform

Clearly the March 25, 2021 hearings were part of a larger and continuing discussion of the reform and evolution of the U.S. system of International Tax. The International Tax System includes the taxation of individuals generally and of Americans abroad specifically.

It is imperative that attention be given to the plight of Americans abroad. Renunciations of U.S. citizenship are rising. Americans are *not* renouncing U.S. citizenship because they want to. They are renouncing U.S. citizenship because they are forced to choose between compliance with U.S. tax laws and being able to engage in responsible and necessary financial planning for themselves and their families. It is time for Congress to lead and correct this injustice.

SEAT joins other groups in requesting that Congress end the extraterritorial tax regime (citizenship-based taxation) and join the international standard of residence-based taxation.

A request to participate in the ongoing hearings

U.S. international tax rules continue to have a huge impact on the lives of INDIVIDUAL U.S. citizens who live in the United States and abroad. A consideration of how U.S. tax rules apply to individuals generally and to Americans abroad in particular is long overdue.

Americans abroad can be valuable as witnesses in further hearings. Although the views of academics and tax policy analysts have value, they do not live the day-to-day application of these rules. It's time for Americans abroad to be directly included in the discussion.

Respectfully submitted by . . .

Stop Extraterritorial American Taxation (SEAT) Board Members
(info@seatnow.org):

Dr. Laura Snyder (President)
Dr. Karen Alpert
Suzanne Herman
David Johnstone
Keith Redmond
John Richardson

LETTER SUBMITTED BY GREG SWANSON

I am a U.S. citizen living in Switzerland where I am a tax resident and where I am subject to full taxation. I have lived abroad for over three decades.

I am an emigrant from America. I came to Europe on the advice of former Governor George Nigh (OK) in 1986. At that time, he expressed the value to the U.S. of citizens gaining knowledge abroad. I followed his advice and since then, I can say that I participated in selling billions of dollars of U.S. goods and services in other countries. The U.S. has benefited from me living abroad. Unfortunately, the U.S. is one of the few countries in the world that does not value its citizens abroad.

I do not see my citizenship as a tangible item that gives me benefits. I see my citizenship as my identity and an expression of loyalty to my country. That is why I was proud when both of my kids received U.S. passports, even though they were born abroad.

However, the last few years, reality has taken hold. Even though my family lives normal lives, you refer to everything to do with us as "offshore." You ignore my family's situation completely, however, seem to want to extend the punitive tax laws that impact us. I do not live "offshore." My local bank is not a Foreign Financial Institution, it is my local bank. I live in a country where I pay very high-income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I, unlike any other nationality, am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation

on my non-U.S. income even though I am a fully taxable on that income in the country where I reside.

I would like to make the following general observations about the hearing on March 25th.

1. It was purposeful that this committee focused only on U.S. multinational corporations, while **ignoring individual citizens.**
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA.
3. There seems to be no one in your committee that can testify to the situation of American citizens that live abroad.
4. There is no interest how U.S. tax policy, privacy violations, and punitive threats on our local banks have devastating impacts on the competitiveness and financial health of normal income Americans that live abroad. As one bank employee told me, **"because you are American, we are forced to sew a Star of David on your jacket."**

Please note:

- My wife is considered by you to be a "non-resident-alien," even though she has never lived in the U.S. and lives in her homeland. This is dehumanizing a person that has nothing to do with the USA, just because they married an American.
- Because a growing number of people in other countries are becoming more informed about the U.S. tax policies on Americans abroad, and the potential of sucking up a spouse into the U.S. tax system, even our children face discrimination in dating and relationships. Never marry an American.
- You consider my local business as a Controlled Foreign Corporation which makes it impossible to compete against local competitors from any other nationality. I am not Google. Small businesses in the U.S. would not be able to survive under the weight of regulations that you place on us. You fail to recognize that we have another (local) system to manage. We do not operate in U.S. Dollars. You do not differentiate between very large multi-national companies and small local businesses.
- Your overreach discourages local people or entities in working together with us, simply because of the international tax policies and the threat of exposure to risk. Who knows what you will do next?
- Your obsession with "foreign" (actually, our local) bank accounts has directly kept me from receiving a promotion where I would have non-beneficial signature authority.

Not only does this hamper my ability to live, compete, and retire, it hurts the future of my children.

Your Committee ignoring these topics is just one more in a long-standing snub of this group of millions of Americans.

I do not believe that Congress will correct these problems that would put Americans abroad on the same playing field of every other nationality. I do not believe that the Congress will ever understand the impact of these policies and how they hurt citizens, nor do I believe that there is interest.

My request is that this committee discusses openly about **warning America's young people not to consider a career abroad** because the U.S. Government sees everything to do with Americans abroad as "foreign," evasion, or other criminal or non-patriotic activity. In other words, it is your **obligation to warn young Americans never to move abroad because people that live abroad are subject to your punishment.**

American multi-national companies already favor hiring any other nationality than American for overseas positions because of the complexity and cost that the Congress' policies have caused. This destroys opportunities for jobs and international experience, putting young Americans at a disadvantage on the world's stage.

Some, like myself may slip through and end up living abroad without knowing how your policies are aimed. I would like you to fix that and be fair to young people growing up in the U.S. Apparently, unlike Gov. Nigh, the bi-partisan U.S. Congress sees no value of having citizens abroad. Please be open about this fact.

Sincerely,

Greg Swanson

LETTER SUBMITTED BY NICHOLAS S. SYLVESTER

I am a citizen of the United States of America. I live outside the United States in Denmark where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY AMANDA TALLEN

I am a proud citizen of the United States of America. I live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY BRENDAN TAYLOR

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation.

I left America when I was 10 years old and have now permanently lived abroad for over 35 years. I love America but it is no longer my home.

I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

Completing my U.S. tax return each year takes a considerable amount of time and expense when I am already fully taxed in the UK by the UK government.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

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I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Best regards,

Brendan Taylor

LETTER SUBMITTED BY TONY TEMPERANTE

I am a proud citizen of the United States of America. I live outside the United States in the Czech Republic where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Why do you hate Americans who live abroad?

We are free, walking, talking, American Ambassadors! We are deploying softpower every single day and in turn we have to sacrifice the chance of: Buying houses, saving for retirement, decline job offers, and tell our children they can't own their own business—even if it's only an ice cream shop!

God bless the United States of America!

LETTER SUBMITTED BY ALBERT TERRY

I am a proud citizen of the United States of America. I live outside the United States in Malaysia where I am a tax resident and where I am subject to full taxation.

I am temporarily living outside the United States for reasons of work and career advancement. I can tell you that I have and will pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. **There is no other advanced country in the world that imposes such extraterritorial taxation.**

I would like to make two observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am living in my country of residence *to earn a living*. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States while living abroad.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY TRAVIS J. TODD

Dear Honorable Sirs and Madams,

My name is Travis Todd. I am an American citizen who has been living in Berlin Germany since 2007. Here are the quick facts for those of you with little time. Below is my longer story with flavor and context.

- Yearly, I pay on average one month's salary ($3,000–5,000) to just prepare my U.S. taxes.
- I have had two bank accounts closed in the last two years due to the banks not willing to serve U.S. customers because of FATCA regulations
- I cannot save for mine or my family's future:
  - I have no access to investment opportunities in Germany (stocks, mutual funds, etc.) due to FATCA regulations
  - I have no access to U.S. investment companies (E*Trade, Charles Schwab) because I am a foreign resident
  - I have trouble opening retirement or insurance accounts due to U.S. tax policies
- I cannot get a bank loan to buy anything in Germany, let alone a house due to my status as a U.S. citizen
- I have had to turn down jobs or ownership in companies due to my status as U.S. Citizen
- The impact of U.S. tax laws like FATCA cause me and my family large amount of ongoing stress due to ongoing costs of compliance and the uncertainty of whether or not we will lose our bank accounts
- I support the aim of FATCA to stop wealthy people and companies from hiding funds outside the U.S., but they are hurting average families drastically and need to be fixed.

I moved here to be with my German wife. I'm not a millionaire. I'm an entrepreneur who has tried to start a few small technology companies here with various degrees of success and large degrees of failure.

Part of the American ethos that I brought to Berlin was that failure is a stepping stone to growth. Only through learning from your mistakes can you pull yourself up by your bootstraps and make better choices next time. In Germany, that undeniable American optimism is a bit of a foreign concept culturally. And that culture is mirrored in the government and laws. Opening and closing companies in Germany is a bureaucratic nightmare, especially when they're a failure! The laws punish the founders of failed businesses, putting illogical hurdles in front of entrepreneurs who are already so burnt out from trying to save a business that they swear off never starting another.

Now imagine yourself in my shoes. You'd just been put through the ringer by the German authorities when you shut down your startup, not to mention going through the emotional toil of letting your team go, not paying yourself for months and just when you think you're out of the woods and can move on, you have to file your U.S. taxes, reporting all the financials of a company that barely saw the light of day. This costs hundreds of dollars, and you haven't been paid in six months. Talk about being kicked while you're down.

This is just one example of how being American in Germany is painful, stressful, and frustrating due to U.S. tax laws. I could also talk about being shut out of all financial investment instruments or loans by banks who don't want to comply with FATCA. I could explain the painful way we need to report the FBAR documentation by a metric that German banks don't provide. But even writing this is making me exhausted and depressed and making me question why I still have a U.S. passport, so I'll focus instead on the solutions.

There are three ways to fix these issues. Some are easier logically but more complicated politically. I get that. But here's my pitch:

1. **End citizen-based taxation.** This one is pretty simple and fixes most the problems. No other developed nation in the world does this to their citizens. It's a relic of the Civil War. Seriously. Look it up. Politically I'm not really sure who would be opposed to it.
2. **Fix FATCA.** I think forcing U.S. corporations to repatriate offshore money to the U.S. is a great idea. But you nuked the city instead of sending in a tactical team. I get its hard to repeal legislation, but it's not hard to fix it. Especially when it means saving the livelihoods of average Americans, even if they don't live in the U.S.
3. **Enfranchise us.** This is a long shot but we have no representation in congress. Not really. The congressman who represents me in my voting district in Maryland doesn't care about me. He's never returned a letter. Why not give us a congressperson? Maybe one of DC's. It's not as crazy as it sounds because it's bipartisan, being that it takes absentee votes away from all states.

I hope that helps add to your discussion. It's a hard topic, I know, but you're all smart people and I hope you'll hear the call for help from the nine million of us abroad. I'm happy to help in any way, by providing more context or out-of-the-box thinking. My undeniable American optimism isn't quite crushed yet!

Sincerely,

Travis Jefferson Todd

LETTER SUBMITTED BY KATHLEEN TORPIE

I would like to begin by making three general observations about the hearing on March 25, 2021.

1. The hearing focused on U.S. multinational corporations. But the reality is that **U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States.** The hearing failed to address the *negative impact on individual citizens, of a Citizen Based Taxation system that fails to distinguish between millions of American citizens who legitimately live permanently in a country other than the USA (who may or may not own a small business providing local goods or services) and the small number of very rich U.S. individuals—and U.S. multi national corporations—who have located outside of the U.S. for tax purposes.*
2. There was no witness who had personal experience with a company or individual running a business with interests outside the USA. **I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States.**
3. The assumption appeared to be that the only reason that anyone lives or has a business outside of the United States (including a small localised business such as a cafe) is to avoid U.S. tax.

An examination of "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment" must, in all fairness, take into consideration how U.S. Inter-

national Tax Policy Impacts Individual American citizens who have legitimately made their home in another country where they are full time tax residents.

Please listen, and respond to, Americans such as myself who are unfairly burdened by a taxation policy that should be focused on the dozens of U.S. Multi Nationals such as those who paid no federal tax in 2020. This (below) is where the problem lies. It is where the solution should be focused.

> ***"Twenty-six of the companies listed, including FedEx, Duke Energy and Nike, were able to avoid paying any federal income tax for the last 3 years even though they reported a combined income of $77 billion. Many also received millions of dollars in tax rebates."***

(https://www.nytimes.com/2021/04/02/business/economy/zero-corporate-tax.html)

I am a single, 74 year old, retired U.S. citizen with no offspring. I have lived in New Zealand as a tax resident for more than 40 years. My only family (my surviving siblings, their children and grandchildren) remain in the USA.

I understand and agree with a need to prevent wealthy Americans, who are resident in the USA from "laundering" their financial assets by hiding them in foreign accounts for tax purposes. As permanent residents, they are benefitting from tax funded services and should pay for that. Every other country in the world (except Eretria) sets taxes based on residency as the accepted norm.

- ***I did not settle in New Zealand for tax reasons. (In fact, at the time, the wages were far lower in New Zealand than in the U.S. and the lowest tax rates in New Zealand were quite a bit higher than in the U.S.)***
- ***I have bank accounts in New Zealand—like every other New Zealander—because this is where I live. Not because I am hiding anything.***
- ***My savings are spread across multiple banks in New Zealand solely because bank deposits in New Zealand are NOT guaranteed (by the banks or by the government) This makes reporting to the IRS even more time consuming and expensive***

I also understand the need to prevent large U.S. multi national corporations from "offshoring".

- ***I am not a multi national or controlled foreign corporation providing goods or services outside of the jurisdiction in which it exists. I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything.***

It also makes sense for U.S. citizens temporarily working in another country (*e.g.,* on a work visa) to pay U.S. tax on that income past a certain legislated earned income level.

- ***I am not working temporarily in New Zealand. I live here. Permanently.***

Yet every year I am required to report my financial assets to the U.S. Office of Financial Crimes Enforcement, as if I was a criminal, and to navigate the complexities of two very different tax systems in order to calculate and pay my tax each year. It is true that there are many "ExPat Tax Services" for American citizens living abroad. They are generally well versed in U.S. tax obligations but not in how those obligations fit together with tax regulations, procedures, terminology, timelines, etc. of the country in which the expat lives and pays taxes. Nor do they have specific knowledge of the various Tax Treaties the U.S. has signed with other countries. Particularly not for a small country like New Zealand. Accounting fees can cost more than the tax owed.

Having different tax years, different types of taxable income, different methods of reporting income, different rates of taxation, changing currency exchange rates for each piece of income, different Tax Treaty agreements for different countries, and different regulations about which rates to use for reporting... makes for an unreasonably complex accounting challenge that is expensive, extremely stressful, and an unfair burden on millions of Americans living overseas (some of whom are American citizens only by accident of birth).

The bottom line is this (whether or not one is a small business owner): The U.S. extraterritorial tax regime makes it difficult for me—and others like me— to save, invest, participate in pension plans and generally behave in a financially responsible way.

For example, Retirement investments may be "foreign" to the United States, but local to me. ***"The U.S. tax code categorizes non-U.S. registered mutual funds as Passive Foreign Investment Companies (PFICs). PFICs are taxed very punitively by the U.S. Furthermore, each PFIC must be reported annually on U.S. tax form 8621, which requires complex accounting and is very time consuming to complete.*** (Why Americans Should Never Own Shares in a Non-U.S. Incorporated Mutual fund, *https://thunfinancial.com.*) If, as an American citizen living permanently in New Zealand, I had invested in the New Zealand Kiwi Saver retirement investment plan, as a U.S. citizen I would (like so many other Americans living in New Zealand) have found myself faced with punitive PFIC taxation on my Kiwi Saver fund, and unable to exit the Kiwi Saver plan until I reached the age of 65.

If an American citizen living permanently in New Zealand chooses instead to save for the future by investing in the U.S. stock market, and if the *total lifetime cost* of investment exceeds $50,000 NZD, they face the even more draconian New Zealand FIF (Foreign Investment Fund) tax. They would be obliged to pay to New Zealand an annual tax on the lesser of "deemed dividends" set at 5% of the value in NZD on April 1st (as if anyone is earning 5% dividends!) or on any increase in value in NZD between April 1st and March 31st. *This arbitrary amount is taxed regardless of whether or not there was any actual realised gain made!* If there is a decrease in value, no FIF tax is owed for the year, but there is no carry over loss. When those same shares are eventually sold and a gain is actually realised, the American citizen would pay U.S. capital gains tax *in addition to* the FIF tax paid to New Zealand.

If the U.S. citizen had already invested more than the equivalent of $50,000 NZD when FIF legislation came into effect in 2007, unlike other New Zealand investors who held foreign shares, they could not exit the U.S. stock market without losing a significant amount of their savings to U.S. capital gains tax *on the lifetime of the investment.* Nonresident aliens invested in the U.S. stock market, however, are not subject to U.S. capital gains tax. It is presumed that the capital gains would be taxed in country of residence. New Zealand has no such capital gains tax.

So, how is an American citizen, who lives permanently in New Zealand, supposed to responsibly save for his or her future when laws are in place in BOTH the U.S. and New Zealand that unfairly penalise investments that are foreign to one country or to the other? Because I am required to live my life with the USD as my functional currency, I am subject to tax on "fake income"—on nothing but changes in the exchange rate. As a tax resident of both the United States and New Zealand, I get the worst of both tax systems. The same is true for American citizens living in other countries all over the world.

There is a treaty in place between the U.S. and each of her "Treaty Partners" that is supposed to protect against such inequitable, punitive double tax treatment from taking place. In my experience it does not.

MY RECOMMENDATION IS AS FOLLOWS:

As long as an individual U.S. citizen has verified legal Permanent Resident Status or Citizenship Status in another country and remains a tax resident domiciled in that country, they should be fully exempt from U.S. citizen based reporting and taxation.

Kathleen Torpie

LETTER SUBMITTED BY KATHLEEN TOUSSAINT

I am a proud citizen of the United States of America. I live outside the United States in France where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my 0inancial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very dif0icult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How

can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a 0lesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY THOMAS LOUIS TROG II

To: Chairman Wyden and Ranking Member Crapo:

Thank you for your willingness to convene a full committee hearing and to consider the situations of everyday, Americans who live and work abroad. I look forward to

a positive development on this subject of international tax requirements for Americans living abroad.

I am an ordinary American who moved away from the U.S. to meet the woman I am presently with, a woman that was born and raised in Singapore Moving back to the United States doesn't make a lot of sense since the immigration process is burdensome and expensive and my Singaporean wife has established a good career for herself here.

The fact that the United States is the *only* developed country to tax its citizens on their world-wide income when those citizens live, work, and pay taxes in another country, is hard for me to understand. I pay taxes in Singapore, where I am a permanent resident, and have lived since 2007. On top of that, I also file a tax return with the IRS every year. Filing my U.S. tax return with the IRS is complicated and can be expensive. Because the amount of money that I earn each year in Singapore has not generally reached the level where I owe U.S. taxes, this means the expense and burden for meeting my U.S. tax obligations are high even though I may not owe taxes.

The way that the current laws are structured puts American abroad in a situation where they have to navigate a costly, punishing, and unfair tax system. The people who have moved here from Europe and Australia have told me over the years how much less complicated their tax responsibility is and I can't help but wonder why the USA can't follow the example set by other 1st world developed countries when it comes to their citizens living abroad.

My wife and I are not wealthy. As I sit here writing this I am one week into unemployment as my past employer has decided to close the business I was employed by. I do not have room in my budget to hire accountants or a specialized tax preparer, much less to be double taxed in both the U.S. and Singapore.

As a result of U.S. tax policy towards individual citizens living abroad, I have been told by other Americans that opening bank accounts and entering into financing arrangements can be complicated and I may even be denied due to my U.S. citizenship.

Thankfully, I am not a person that has a desire to open multiple bank accounts and take up multiple loans. I live within my means, however, **If I wanted to start a business and obtain some start up financing, something I am considering doing, I recognize this will be more challenging due to my citizenship.** U.S. tax policies are hurting individual, middle class taxpayers like me who live abroad. People like me, and other Americans that I am in contact with in Singapore in no way resemble the mythical wealthy American "living large" overseas.

I value my American citizenship. I pay close attention to American politics. I am active in organizations that aim to raise the political awareness of American voters living overseas. I vote in all of the elections for which I am eligible. Having said all of that, I believe that the United States has a regressive, backwards approach to international taxes—hurting individual middle-class citizens and unfairly benefitting corporations who shield their earnings overseas. I do not think it is fair that an ordinary, everyday American like me, making my living abroad, should be subject to these complex and (sometimes) punitive U.S. tax filing requirements.

I request that the Senate Finance Committee hold hearings concerning the way that Americans abroad are impacted by the state of U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the community of Americans who live abroad and describe the burden that U.S. tax filing places upon us. I urge you to explore, examine the data on, and support a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you for your kind consideration.

Thomas Louis Trog II

LETTER SUBMITTED BY DAN TRUONG

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days some-

times go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY MARK TURNER

Dear Senators,

I am a citizen of the USA, born and raised in California. I moved to Europe when I was 40 years old, together with my Danish wife, to be near her elderly parents and to give our son a taste of his mother's culture.

Now 16 years later we have built a life here and have no expectation of returning permanently to the USA.

I am now a citizen and full-time resident of Denmark, where I am subject to taxation of my worldwide income at rates far exceeding those of the USA (up to 55%), plus VAT of 25% on all goods and services, including food. These are taxes that most Americans would find egregious. Yet things function well and polls consistently show that the Danish people are among the happiest in the world.

However, one thing separates me from the average Dane: I am still liable to the USA for taxes on my worldwide income. And because the U.S. tax system does not recognize the rules or exemptions of other countries, I was frequently double taxed until I took steps to avoid this.

Regardless of whether any taxes were owed, the filing obligations for expatriate citizens are so extensive, and the penalties for mistakes so high, that I was forced to pay roughly $1200 every year to a U.S. tax advisor, even when I owed no tax.

In addition to the tax issues, FATCA has made it impossible for people like myself and our son to have a mortgage in our own name, or to have a brokerage account here. This is because the banks and brokers do not want to deal with Americans due to the harsh penalties if they make mistake in their FATCA reporting.

Because of these realities, I was advised to close my small business and put all my financial assets in my wife's name only. Now I work for a salary instead of being self employed, because salary is the only type of income that non-residents are allowed to deduct from their U.S. taxes. How does this help create entrepreneurs? It only hurts them.

I love my wife and I'm not afraid that she will divorce me and try to take it all, but if she should die before me, I am up a creek. Obviously this is not a choice that all expat Americans can make, and certainly not one they should be forced into by bad tax policy.

I hope the Committee is well aware by now that there is no other democracy in the world that imposes such extraterritorial taxation. And on top that, the extraterritorial imposition of FATCA on the citizens of other countries, is truly egregious.

I would like to make two general observations about the hearing on March 25.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one. I respectfully suggest that subsequent hearings include witnesses such as myself who have experienced running businesses outside the United States and/or actually living outside the United States. To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "multinational" or a corporation. I am a dual-national living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and to live my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses out-

side the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but fluctuations in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! I will be happy to elaborate on this and other issues if the Committee is inclined to hear more.

For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues, with no result. The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you and God bless the United States of America.

Sincerely,

Mark Turner

LETTER SUBMITTED BY MELISSA TUSTIN-GORE

I am a citizen of the United States of America who believes that it is unbelievably wrong that the U.S. is one of two countries in the world that taxes its non-resident citizens.

I live abroad and have done so since I graduated university. I do not have intentions on returning to the U.S. in the near future apart from occasional short visits to see my family. I do not understand why I will be required for the rest of my life to report my foreign income and balances in foreign bank accounts when I do not reside in the U.S..

Currently this situation does not impact me too greatly. I am still in the beginnings of my career have never made over the income required for double taxation. My main inconvenience is navigating the complicated U.S. tax system to ensure that I do not end up with an unexpected $10,000 fine. However, it will have a greater impact my life going forward. This policy makes it difficult for me to invest and to consider buying property. It also means that if I am some day in a more financially lucrative position, I'll have to make career choices around the fact I am a U.S. citizen. This also has baring over my personal life, as if I decided to marry someone, I would then also have to report their income as well.

Although I am not yet at a stage in which I qualify for a second citizenship, it is something I am considering in the future. At this point I could consider renouncing my U.S. citizenship, except that there are firm obstacles to that. It is roughly five-times as expensive to renounce U.S. citizenship than it is to in other highly developed countries. Renouncing my citizenship could affect my ability to visit my family, and I do not wish to do so.

I am in total agreement with the need to crack down on extremely wealth individuals who are hiding money overseas. In fact, a great deal of my work is centered around reporting on corruption and the fight against it. But the vast majority of the 9 million U.S. citizens who live abroad are normal, non-billionares. Whether they decided to move abroad themselves, where born in the U.S. but barely lived there or inherited citizenship from a parent, it is unfair to tax them while also not giving them any representation to speak out against this.

The hearing on 25 March focused on U.S. multinational corporations, not the 9 million individuals who live outside the U.S. but are still subjected to filing tax returns every year. No one in that meeting recognised how ordinary people and families are impacted by this policy, even though the hearing was supposed to focus on individuals. We have no representation yet are still being taxed, which I do believe was

a policy that the United States was not particularly fond of as a British colony. Now the 21st century irony is that I chose to move to the United Kingdom of my own free will and the United States gets to tax me with no oversight.

Please consider how real, average U.S. citizens have been impacted by this policy. Working people cannot save for retirement using their own local schemes. Our incomes in the eyes of the IRS could dramatically vary depending on fluctuations in the exchange rate that does not change the reality of our living conditions in the countries we live in. Families who sell their homes get taxed on their property. Small business owners are subject to regulations in two countries, even if they're only operating in one. And everyone is still required to file confusing paperwork or locate an international tax specialist in our country. We should not be punished because we do not live in the United States despite holding the passport.

Sincerely,

Melissa Tustin-Gore

LETTER SUBMITTED BY DR. BRYAN TUTEN

I am a proud citizen of the United States of America. I live outside the United States permanently in Australia where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of residence permanently. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. Many banking institutions in Australia will not allow me to invest with them as its considered too risky for them to take on an American client due to the long reach of the IRS via FACTA. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional

currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

I am one of over 9 million Americans that this system affects, the time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

Very sincerely and patriotically yours,

Dr. Bryan Tuten

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA
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Washington, DC 20062–2000
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CAROLINE L. HARRIS
VICE PRESIDENT, TAX POLICY
& ECONOMIC DEVELOPMENT
CHIEF TAX POLICY COUNSEL
ECONOMIC POLICY DIVISION

April 6, 2021

The Honorable Ron Wyden
Chair
U.S. Senate
Committee on Finance
Washington, DC 20515

The Honorable Mike Crapo
Ranking Member
U.S. Senate
Committee on Finance
Washington, DC 20515

Dear Chairman Wyden and Ranking Member Crapo:

The U.S. Chamber of Commerce writes regarding the hearing on March 25, 2021 titled "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment." We submit this letter for the record to explain why changes to the corporate rate and the international tax code will hurt competitiveness and are not practical policy proposals.

I. Corporate Tax Rate

The Chamber believes that preserving our competitive corporate tax rate enables American businesses to compete successfully in the global economy, attracts foreign investment to the United States, increases capital for investment, and drives job creation in the United States.[1]

A. Base Broadening

As a cursory matter, the Chamber notes that to achieve the corporate tax rate reduction to 21%, American businesses are subject to certain tax increases to help offset the cost of rate reduction. As such, the damage of raising the corporate tax rate would be compounded as American companies would face both a higher rate as well as the tax increases that paid for that rate reduction.

In the 2017 Tax Cuts and Jobs Act (TCJA), businesses understood that certain base broadeners, such as less favorable interest deductibility rules, more limited use of net operating loss rules, immediate taxation of foreign earnings, and various industry specific tax hikes, were used to offset the cost of reducing the corporate tax

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[1] *See* report of the Committee on Ways and Means, House of Representatives, on H.R. 1, (11/13/17) (noting that lowering the corporate tax rate "ensure(s) domestic corporations remain globally competitive with their counterparts domiciled in the United States' largest international competitors . . . contributes to making the United States an attractive location for foreign corporations to invest . . . [and] means corporations will have more resources to invest in growing their businesses and creating jobs.").

rate.[2] Prior to tax reform, these were tax expenditures that helped mitigate the high statutory corporate tax rate, thereby reducing companies' effective tax rates, *i.e.,* helping level the playing field with the corporate tax rates in other countries. As a result, the 2017 tax *reform* was truly reform, not simply tax cuts. As Ranking Member Crapo said at the Committee's March 16th hearing, "the statutory corporate income tax rate is critical to the United States' competitiveness in the global market."

Absent a rate reduction, these broadeners would have raised businesses' taxes. A broader base can be justified, if it is coupled with a lower rate. Otherwise it is a tax increase. Further, comparing the rate on the current base to the old rate on the old base is not an apples-to-apples comparison. A higher rate than 21% on the current base is much more damaging than it would have been under the old base.

B. Harm of an Increased Corporate Rate

While the economy is beginning to recover, that recovery is still nascent. While some industries and sectors have done well, the majority of the business community is still reeling from this economic downturn. The Biden Administration clearly recognizes this continued economic stress given the recent enactment of a $1.9 trillion rescue bill. The Chamber believes that raising the corporate rate would derail the continuing road to economic recovery since higher corporate income taxes harm economic growth and, ultimately, hurt workers.

Democrats and Republicans agree that an economic downturn is not the time to raise taxes. As President Obama has noted, "The last thing you want to do is raise taxes in the middle of a recession."[3] Former Finance Committee Chairman Grassley (R–Iowa) recently noted that, "I think it would be a big mistake to raise taxes on individuals and businesses as they struggle through an economic recovery and pandemic."[4]

Further, the OECD has concluded that corporate income taxes are the most harmful for economic growth, and thus pose a serious threat to our ongoing work toward recovery.[5] Taxes are one of many costs of doing business. Thus, tax increases increase the cost of capital, meaning less capital can be created. In other words, higher corporate taxes reduce the long run capital stock and the long run size of the economy.[6] Smaller capital stock curtails worker productivity, and this lower productivity leads to lesser output, which over time, can lower wages.[7]

It is important to understand who is harmed by increased corporate income taxes. The incidence, or burden, of corporate taxes falls heavily on workers. High corporate tax rates divert investment away from the corporate sector, both to other sectors as well as to foreign countries with lower taxes. As a result, this curtails investment that would raise the productivity of American workers and increase those workers' real wages.[8] The nonpartisan Joint Committee on Taxation has estimated that 25% of the corporate income tax is borne by workers.[9] More recent estimates have concluded that "that labor bears between 50% and 100% of the burden of the corporate income tax, with 70% or higher the most likely outcome."[10] While that data spans a wide range, what is unquestionable is that some consequential portion of corporate income taxes is ultimately borne by the workforce.

In addition to studies on the impact of a possible rate increase on workers, the Tax Foundation has worked to quantify the impact of permanently raising the corporate rate by 1 percentage point to 22%, estimating that such increase would reduce long-run GDP by over $56 billion. The smaller economy would result in a 0.5 percent decrease in capital stock, 0.18 percent decrease in wages, and 44,500 fewer

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[2] *See* Joint Committee on Taxation, JCX–67–17: "Estimated Budget Effects of the Conference Agreement for H.R. 1, The Tax Cuts and Jobs Act," (12/18/17).

[3] *See* Interview with MSNBC's Chuck Todd, (8/5/09).

[4] *See The Hill,* (1/19/21).

[5] *See* OECD, "Tax and Economic Growth Economics Department Working Paper No. 620," (7/11/08). *See also* Tax Foundation, "The Benefits of Cutting the Corporate Income Tax Rate," (8/14/18).

[6] *See also* Tax Foundation, "The Benefits of Cutting the Corporate Income Tax Rate," (8/14/18).

[7] *Id.*

[8] *See* Desai, "A Better Way to Tax U.S. Businesses," *Harvard Business Review* (July–Aug. 2012).

[9] *See* Joint Committee on Taxation (JCT), "Modeling the Distribution of Taxes on Business Income," JCX–14–13 (10/16/13).

[10] *See* Tax Foundation, "Labor Bears Much of the Cost of the Corporate Tax," (10/24/17).

full-time equivalent jobs. Raising the rate to 25% would reduce GDP by more than $220 billion and result in 175,700 fewer jobs.[11]

Compounding the harm to growth, raising the corporate tax rate would make our tax system less competitive. The current U.S. combined statutory corporate tax rate is 25.9% (21% federal corporate income tax rate plus a 4.9% average state corporate income tax rate).[12] This current 25.9% rate is still above the worldwide average combined corporate income tax rate, measured across 177 jurisdictions, of 23.85%, and OECD countries average combined corporate tax rate of 23.5%.[13] Raising the 21% rate to 28% would give the United States the highest combined corporate tax rate in the OECD.[14] Further, on the Tax Foundation's International Tax Competitiveness Index (ITCI), the United States ranks 21st out of 36 countries on overall competitiveness, a jump from the 28th ranking prior to tax reform, and 19th on corporate taxes, up from 35th before tax reform.[15] Raising the 21% rate to 28% would cause the United States to drop from 21st to 30th on overall competitiveness, a position even lower than before tax reform.[16] Raising the rate would also cause the U.S. corporate tax rank to fall from 19th to 33rd.

The harm of a higher corporate rate does not stop there. Raising the corporate rate makes the United States a less attractive place to locate corporate headquarters and invest profits. A higher corporate tax rate would discourage investment of profits within our borders, sending much needed capital—and the jobs that come with it—elsewhere.

When the corporate rate increases, it results in higher tax bills for American companies as compared to their foreign counterparts. In the years prior to tax reform, to mitigate the damage of the high corporate tax rate some companies merged with a foreign company to benefit from the lower tax rate of the foreign country; in other words, these companies "inverted" to remain competitive. Lowering the corporate rate in tax reform made the United States a significantly more attractive place to be headquartered, virtually eliminating corporate inversion transactions.[17] Since raising the rate to 28% would once again subject American companies to the highest combined corporate tax rate in the OECD, these companies would see higher rates than foreign companies located overseas in many of our major trading partners.[18] American companies once again could have to invert to remain competitive, potentially taking valuable jobs and capital investment with them.

II. International Tax Provisions

A. A Brief History

The 2017 TCJA significantly overhauled the U.S. international tax code. Prior to the 2017 TCJA, the U.S. system of international tax system was antiquated and uncompetitive. The United States employed a worldwide system of taxation, under which American multinational companies:

- Were taxed here on their U.S. profits (just like domestic companies),
- Were taxed abroad on their foreign profits, and
- Then taxed again when those foreign profits were brought back home.

Thus, foreign earnings of American companies risked double taxation.

By contrast, virtually all foreign countries employed a territorial system of taxation, under which foreign multinational companies:

- Paid taxes on their home country profits in their home country, and
- Paid taxes on their foreign profits in the foreign country, but
- Those foreign profits were not taxed a second time when they were brought home.

Thus, the double taxation of foreign profits was avoided.

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[11] *See* Tax Foundation, "Proposed Corporate Rate Hike Would Damage Economic Output," (8/23/18).

[12] *See* Tax Foundation, "The United States' Corporate Income Tax Rate is Now More in Line with Those Levied by Other Major Nations" (2/12/18).

[13] *See* Tax Foundation, "Corporate Tax Rates around the World, 2020" (12/9/20).

[14] *Id.*

[15] *See* Tax Foundation, "How Would Biden's Tax Plan Change the Competitiveness of the U.S. Tax Code?" (10/19/20).

[16] *Id.*

[17] *See* Institute for Policy Innovation, "Whatever Happened to Corporate Inversions?," (8/12/20).

[18] *See* Prepared Floor Remarks by U.S. Senator Chuck Grassley of Iowa, Chairman, Senate Finance Committee, (9/22/20).

To offset the advantage of a territorial tax system and help level the playing field between American companies and their foreign competitors, the United States employed a system of tax credits and tax deferral. Deferral allowed American companies to delay paying that second layer of tax on foreign earnings until that income was repatriated. While deferral was a necessary mechanism to mitigate the double taxation faced by American companies operating globally, concerns arose that in some instances, deferral allowed companies to delay tax on overseas earnings indefinitely, thus eroding the U.S. tax base. Recognizing the many shortcomings of the U.S. international tax system, the 2017 TCJA overhauled many aspects of this system, seeking to improve American competitiveness while protecting the U.S. tax base.

B. The 2017 TCJA Overhaul

TCJA moved the U.S. tax system more towards the territorial systems employed by other foreign countries, but, as explained below, resulted in a system that remains moored in between a worldwide and territorial system. TCJA resulted in three new international provisions that worked in tandem to balance the need for global competitiveness with the need for anti-base erosion protections.

The first category of income is known as Foreign-Derived Intangible Income (FDII). Under FDII, income that is deemed (under a formula) to be generated from using intangibles to serve foreign markets enjoys a reduced effective tax rate of 13.125% (16.4% after 2025). In conjunction with GILTI (see below) FDII removes the disincentive for American C Corporations to migrate intangible assets offshore, and encourages them to develop and retain intellectual property (and the associated revenue streams) in the United States.

The second and third categories of income (Global Intangible Low Taxed Income (GILTI) and Base Erosion and Anti-abuse Tax (BEAT)) operate as minimum taxes and serve to protect against base erosion.

- Absent GILTI, active foreign income earned through a foreign subsidiary would not be currently taxable in the United States. GILTI provides a deemed income inclusion such that this income is currently taxable in the United States. GILTI seeks to reduce the incentive to shift profits outside the United States. However, GILTI is also one of the provisions in our code that pulls the system further from a pure territorial system and back towards a worldwide one. American companies can deduct 50% of GILTI (37.5% after 2025), and the remaining amount is taxed at the 21% corporate rate; thus, GILTI is taxed at an effective rate of 10.5% (13.125% after 2025). Taking the 20% haircut on GILTI foreign tax credits into account, the global effective tax rate on GILTI is 13.125% (16.4% after 2025).
- The BEAT is an additional tax imposed on certain multinationals (both U.S. multinationals, and domestic subsidiaries of foreign multinationals) that make certain payments to foreign affiliates. It seeks to address concerns about earnings stripping transactions which "strip" income taxable in the United States into lower tax jurisdictions. In 2018, BEAT was calculated at 5%; from 2019 to 2024, 10%; and beginning after 2025, 12.5%; it applies to companies with more than $500 million in total revenues and total related-party cross-border payments that exceed 3% (or 2% for some financial companies) of deductions.

C. Goals

In the Macroeconomic Analysis of the TCJA, the JCT stated that, "The proposals affecting taxation of foreign activity are expected to reduce the incentives for this 'profit-shifting' activity, thus resulting in an increase in the U.S. tax base."[19] Kimberly Clausing, Deputy Assistant Secretary for Tax Analysis in Treasury's Office for Tax Policy, has noted that "TCJA should be commended for providing some limits on tax avoidance through the GILTI and the BEAT,"[20] and estimated that the new rules will result in a 20% decrease in profit shifting.[21]

D. Is the Updated International Tax System Working?

In a recent article examining trends in U.S. cross-border M&A transactions post-TCJA, the author examined the 2018–2019 increase in cross-border mergers and ac-

[19] *See* Joint Committee on Taxation, "Macroeconomic Analysis of the Conference Agreement for H.R. 1, the Tax Cuts and Jobs Act," (JCX–69–17) (12/22/2017) at 6.

[20] *See* Clausing, "Taxing Multinational Companies in the 21st Century," at 275.

[21] *See id.* at 274. *See also* Prepared Floor Remarks by U.S. Senator Chuck Grassley of Iowa, Chairman, Senate Finance Committee, "Grassley on Joe Biden's Business Tax Proposals," (9/22/2020).

quisitions, saying that "while a range of factors likely affects the volume of outbound and inbound M&A in any year, the data support the notion that the 2017 tax reform legislation improved the attractiveness of the United States as the tax domicile for multinational enterprises."[22] The most recent data on U.S. multinational activities for the first year after the TCJA, indicates the TCJA contributed to positive economic impacts:[23]

- U.S. parent corporations grew faster than their majority owned foreign affiliates (MOFAs in 2018 for several measures of their activities, including employment, value added, expenditures for property, plant, and equipment (PP&E), and research and development expenditures (R&D).
- This contrasts with the long-term trend of MOFA activities growth outpacing that of U.S. parents.
- In 2018, U.S. parent corporations experienced above-average growth rates for these measures, while MOFAs grew at below-average rates.

III. Proposed Changes to the Tax Code

In March 2021, President Biden unveiled the American Jobs Plan, which laudably sought to modernize America's crumbling infrastructure, but which unfortunately failed to include long term, sustainable funding mechanisms; instead, the proposal contained anti-growth and anti-competitive changes to business tax provisions.

A. The Fair Share Fig Leaf

Pervasive in both the American Jobs Plan and the Biden campaign proposal is the notion that certain taxpayers are not paying their "fair share." Since the early days of the 2020 election cycle, the President has stated that he "will require corporations. . . . to finally pay their fair share."[24] A Biden spokesperson recently indicated that "[f]or permanent policies that incur ongoing costs, the president is committed to paying for them by asking . . . corporations to pay their fair share."[25]

Fairness is deeply ingrained in the human psyche, so it has resonance when politicians raise it. The problem for setting policy is fairness is in the eye of the beholder; it has no objective meaning that we can debate. What it really means when invoked as President Biden has raised it is "more"—he wants corporations to pay more. Before diving into what corporations pay now and whether they should pay more, it is important to note that as one considers the concept of fairness, there exists a strong and widely accepted argument that corporations should not pay tax at all because doing so makes it harder for us to reach a fair distribution of the tax burden. That is because corporations do not bear the burden of the corporate tax; money for the payment of corporate taxes comes out of the pockets of the corporations' stakeholders. Those stakeholders are impacted in various ways[26]—shareholders see lower returns on investment, workers see lower wages and fewer jobs, and customers see higher prices. When we tax at the corporate level, we obscure how the money is really coming from these groups. That's not "fair" because obscuring where tax dollars are coming from makes it harder for us to determine who is paying how much of our tax burden.

It is particularly unfair because some studies find that the corporate tax falls heavily on workers, which results in suppressed wages.[27] Other studies find it falls heavily on shareholders,[28] who now make up a majority of Americans.[29] These are retirees and those saving for retirement or other purposes. So, when President Biden or others want to raise taxes, they are in fact raising taxes on workers and Americans' savings.

As it is, corporations pay huge amounts of tax—and remember that is already coming out of workers and retirement savers pockets. Last month, the Congressional Budget Office put out its annual report on "The Budget and Economic Out-

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[22] *See* Andrew Lyon, "Insights on Trends in U.S. Cross-Border M&A Transactions After the Tax Cuts and Jobs Act," *Tax Notes* (10/26/2020).

[23] *See* Bureau of Economic Analysis, "BEA: Activities of U.S. Multinational Enterprises, 2018," (7/21/20).

[24] *See* Joe Biden for President: Official Campaign Website: "A Tale of Two Tax Policies: Trump Rewards Wealth, Biden Rewards Work" (10/19/2020).

[25] *See Financial Times,* "Corporate U.S. urges Biden to avoid raising taxes to fund infrastructure," (2/21/2021).

[26] *See* Tax Foundation, "How Lower Corporate Tax Rates Lead to Higher Worker Wages" (5/16/2019).

[27] *See* discussion at I., B., above.

[28] *See National Tax Journal,* "Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology," (March 2013).

[29] *See* Gallup, "What Percentage of Americans Owns Stock?" (9/13/2019).

look 2021 to 2031." In 2020, corporate income taxes generated $212 billion in revenue; they are estimated to generate $393 billion by the year 2031. As a percentage of gross domestic product (GDP), in 2020, corporate income taxes were 1% of GDP, projected to rise to 1.3% of GDP by 2031.[30] Historically,[31] this is not far out of line with what corporations have paid. In the last decade they have averaged 1.5% of GDP.

Even if recent trends are lower than the recent past, there is good reason. We recently lowered taxes for everyone—families, small businesses, and corporations. The reduction in the corporate tax rate was a vital part of tax reform because, prior to its enactment, U.S. corporations were getting trounced in the global market. The United States had the highest corporate tax rate among developed countries and essentially remained the only major developed country that still taxed our corporations on their foreign profit—exporting our high tax rate around the world. This was hurting American workers by suppressing job creation and wage growth. To get back to competitiveness and alleviate the pressure on workers, we had to reduce the corporate tax rate. There is strong evidence that the corporate cuts had the desired effect in the last few years.[32] U.S. businesses were performing strongly in the years after tax reform, before the COVID–19 pandemic, and creating jobs a strong clip. Workers' wages were also rising sharply before the pandemic, especially for the least-skilled workers.[33]

Corporate taxes also were bound to fall in 2020 (and even in the next few years) because we are the midst of a global pandemic. COVID–19 wreaked havoc on the economy. While some businesses made more and will pay more in taxes this year, the overwhelming majority of businesses had well below normal income, so they are not only going to owe less tax, but also may receive refunds related to what they can carryback. That is how the system works. The year the global economy went into a freefall because of a pandemic is not the year to point to business receipts to make any point about tax policy. It's an anomaly—an all-time record anomaly. This outlier event will suppress corporate tax receipts for several years to come. Those favoring "a fair share" for corporations should not get away with citing the data in these years to support their argument for higher taxes. Further, as the economy works to recover, we should not threaten that recovery with a tax hike.

The reality is that while talking about "fair share" may seem like a good soundbite to some politicians, in these recent conversations, it's simply a euphemism for raising taxes. And when the corporate tax rate is the tax you want to raise, the result is lower returns on investment for shareholders, lower wages and fewer jobs for workers, and higher prices for consumers. If that is what those in favor of "fair share" had in mind, they should be more direct and say that American workers, retirees, and investors need a tax hike during a global pandemic rather than use the fig leaf of "fair share" for their policies.

B. Specific Proposals

1. Corporate Tax Rate

The recent American Jobs Plan proposal, like the Biden campaign platform, seeks to raise the corporate rate to 28%. The harm of this proposal is detailed in I., B., above. This proposal, along with the GILTI proposals below, also seeks to stop the purported "race to the bottom" among corporate tax rates by urging all countries to adopt a global minimum tax. As the Tax Foundation recently noted, the "race to the bottom in global corporate tax rates is a myth. The race might be to the middle 20s, but it is not to zero."[34] As further noted, "while many critics believe that the TCJA cut the corporate rate too far, the reduction was barely enough to make our overall rate competitive with the global average."[35]

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[30] *See* Congressional Budget Office, "The Budget and Economic Outlook: 2021 to 2031," (February 2021).

[31] *See* Office of Management and Budget "Historical Tables."

[32] *See* Bureau of Economic Analysis, "BEA: Activities of U.S. Multinational Enterprises, 2018," (7/21/2020).

[33] *See* Curtis Dubay, "Supply and Demand Drives Higher Wages for Lower Paid Workers," (1/21/2020).

[34] *See* Hodge, "5 Observations on Janet Yellen's Recent Confirmation Testimony," Tax Foundation (1/22/21).

[35] *See id.*

2. International Provisions

a. GILTI

The proposal suggested changes to GILTI provisions, including increasing the GILTI rate and shifting from an aggregate to a country by country calculation. Since most foreign countries do not levy a minimum tax on foreign earnings, even at half the corporate tax rate as in the United States, GILTI is actually part of our current tax code that remains an anomaly compared to other foreign countries.[36] As Secretary Janet Yellen noted in QFRs after testifying before the Senate Finance Committee, "[M]ost other headquarters' jurisdictions impose no tax on the foreign earnings of their domestically headquartered multinationals."[37] As such, the mere existence of GILTI creates an uneven playing field for American companies vis-à-vis those headquartered in other foreign countries.

To preserve the competitiveness of American companies, it is imperative that we prevent these uncompetitive changes to GILTI. The intent of GILTI was evident from the start of the tax reform process, when the Unified Framework clearly stated:

> To prevent companies from shifting profits to tax havens, the framework includes rules to protect the U.S. tax base by taxing at a *reduced rate* and on a *global basis* the foreign profits of U.S. multinational corporations. The committees will incorporate rules to level the playing field between U.S.-headquartered parent companies and foreign-headquartered parent companies.[38]

Further, GILTI works effectively as a global minimum tax to deter profit shifting overseas. An increased GILTI tax rate would reduce American companies' competitiveness versus foreign companies. Through 2025, the effective GILTI tax rate is 10.5%, half of the 21% corporate tax rate (the effective rate is 13.125% taking the foreign tax credit haircut into account), ensuring overseas profits are subject to a minimum level of taxation, but not at a rate so high as to bring back that competitive disadvantage American companies faced before tax reform. The decision to tax GILTI at half the corporate tax rate was well considered. In contemplating the appropriate rate for GILTI, the Senate Budget Committee stated that it "recognizes that taxing that income at the full U.S. corporate tax rate may hurt the competitive position of U.S. corporations relative to their foreign counterparts, and has decided to tax that income at a reduced rate (with a portion of foreign tax credits available to offset U.S. tax)."[39]

Further, calculating GILTI on an aggregate (or global) basis helps balance base erosion concerns with the need to level the playing field. Policymakers intentionally choose to employ an aggregate calculation for GILTI, recognizing that because of the "integrated nature of modern supply chains," "it is more appropriate to look at a multinational enterprise's foreign operations on an aggregate basis, rather than by entity or by country."[40] GILTI prevents base erosion and by using a global approach, does so in a manner that minimizes the risk of double taxation while lessening compliance and administrative burdens.[41]

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[36] While the OECD continues discussion about a global minimum tax, the OECD Secretariat has clearly stated that such rules "would be more permissive than GILTI, depending also on their final design," noting that such rules could consider "the carry-forward of losses and excess taxes, a broader definition of covered taxes and a carveout based on a broader range of tangible assets and payroll . . ." and could forego the GILTI regime's "threshold limitations and incorporate[ion of] expense allocation rules in the calculation of foreign tax credits." The Secretariat also noted that a lower effective tax rate than GILTI could be considered. *See* "OECD/G20 Inclusive Framework on BEPS Addressing the Tax Challenges Arising from the Digitalisation of the Economy," (10/9/2020) at 22.

[37] *See* United States Senate Committee on Finance Hearing to Consider the Anticipated Nomination of the Honorable Janet L. Yellen to Secretary of the Treasury, Follow-up Questions for the Record for Hon. Janet L. Yellen (1/19/2021), at 19.

[38] *See* U.S. Treasury Department Press Release, "Unified Framework for Fixing Our Broken Tax Code," (9/27/2017) at 9 (emphasis added).

[39] *See* Committee on the Budget, United States Senate, "Reconciliation Recommendations Pursuant to H. Con. Res. 71," (S. Prt. 115–20) at 370.

[40] *See* "Report of the Committee on Ways and Means, House of Representatives, on H.R. 1," (H.R. Rept. 115–409) at 389.

[41] *See* OECD, "Public consultation document Global Anti-Base Erosion Proposal ("GloBE")—Pillar Two," (11/8/2019) (noting that any multilateral set of rules to address the digitalization of the economy should "achieve these objectives consistent with principles of design simplicity that will minimise compliance and administration costs and the risk of double taxation.").

b. Other International Provisions

Other proposals included in the American Jobs Plan purport to seek to end inversions, a problem that has not existed since TCJA reformed our tax code and made it globally competitive.[42] Proposals in both the Biden campaign and American Jobs Plan also seek to encourage onshoring, perhaps similar to the domestic manufacturing deduction that was eliminated in TCJA. And while encouraging domestic manufacturing is commendable, these proposals are unfortunately paired with flawed proposals that punish companies who operate overseas, where 95% of consumers are located and where 90% of goods and services produced in those foreign markets are sold into those foreign markets.[43] Likewise, the American Jobs Plan would eliminate FDII and modify BEAT with little explanation for how that would operate but which would unquestionably knock the balance between competitiveness and anti-base erosion protection carefully sought in TCJA.

3. Other Provisions

The final piece of both the Biden campaign and American Jobs Plan proposal seeks a minimum tax on large corporations' book income. This would undercut the benefit of many provisions in the code, from those which seek to help workers, such as the work opportunity tax credit (WOTC), to those that seek to benefit distressed communities, such as opportunity zone (OZ) provisions. This provision seems to operate in the same manner as the corporate alternative minimum tax (AMT) which was repealed in the TCJA precisely because it undercut the value of provisions such as R&D incentives in the tax code.

Conclusion

The Chamber expects a continuing discussion of these and other tax proposals in the coming weeks and months and for the many reasons articulated above, we strongly discourage Congress from enacting these proposals which have harmful impact to growth and competitiveness. We thank you for considering our feedback and welcome answering any questions on these issues.

Sincerely,

Caroline L. Harris

LETTER SUBMITTED BY PHILIP VAN DER PLOEG

I am a citizen of the United States of America. I live outside the United States in the Netherlands where I am a tax resident and where I am subject to full taxation. I left the U.S. at age one and never returned as a resident. Now I'm 50 Years old.

You see I am an "accidental American". I was born in 1970 in Ames, Iowa (please Mr Chuck Grassley, we met in 2017, can you do something for persons born in your state and living abroad?) in America. But, me and my Dutch parents and two Dutch sisters moved to Germany one Year after my birth. I don't remember ever living in America. My only experience of America is from a few visits as a tourist. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and perhaps one day pay tax on my non-U.S. income to America. But, it gets worse. I am also required to file complex information returns describing the details of my finances to America. I can't even understand the forms. How can this be? What is the reason for this? No other country does this! Of course, I am proud to be an American. Who wouldn't be? But, I have no idea how to comply with the rules imposed on me. Also, I can't afford the expensive consultants. What am I supposed to do? Renounce my U.S. citizenship? I can't even afford the U.S.$2350 renunciation fee to do so. I simply don't know what to do and I can't deal with the stress. Furthermore I have to file FBAR. I'm treated as potential criminal. I'm not avoiding paying taxes. I pay tax in the country I live and in the country I work (since 1974 I'm living in the Netherlands). And not only my bank accounts I have to file to the U.S. Also the bank accounts of my two children (14 and 16 Years old).

I do not live "offshore." I do live in the Netherlands where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

I've chosen to comply with U.S. tax rules although in my opinion they are unfair. But the alternative is a risk of not having a bank account in the Netherlands any-

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[42] *See* I., A., above.

[43] *See* U.S. Bureau of Economic Analysis, Worldwide Activities of U.S. Multinational Enterprises: Preliminary 2018 Statistics, Majority Owned Foreign Affiliates, Table II.E 9.

more. Dutch citizens with a second American citizenship are treated differently from other Dutch citizens only because they were born in the U.S.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY THOMAS VAN HAAREN

The U.S. is the only advanced country that taxes its citizens on their world-wide income when those citizens live, work and pay tax in another country. I not only pay taxes in France where I live but I also file a tax return to the IRS every year. Declaring non-U.S. income on IRS forms is very complicated. Hiring tax return preparers that understand the U.S. tax system as well as the French tax system can be very expensive, which makes meeting U.S. tax obligations a serious financial burden even if no tax is owed.

I'm an ordinary American. I moved to France to be with my partner. My family are not wealthy. We don't have room in our household budget to spend on tax return preparers, and we certainly cannot afford to be double-taxed.

It's also a struggle to invest for my family's future in investment products overseas or consider creating a business with my partner. We even struggled to get a loan for our dream house because of the bank's reluctance to deal with "U.S. Persons."

I value my American citizenship. I pay attention to U.S. politics as much if not more than the average citizen and I vote in every election for which I'm eligible. But I don't think it's fair that ordinary, working class Americans like me, making a living and paying tax abroad, are subject to inordinately complex and sometimes punitive U.S. tax filing.

The current law is costly, punishing, and unfair, and it is causing some Americans abroad to consider renouncing U.S. citizenship. I hope that shocks you because it shocks me.

I am asking the Senate Finance Committee to hold hearings on Americans abroad and U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the Americans abroad community and describe the burden that U.S. tax filing places upon us. I urge you to also explore the implications of a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you.

Thomas van Haaren

LETTER SUBMITTED BY DOMINIK VAN OPDENBOSCH

Overwhelmingly, the hearing on "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment" focused on corporations and other business entities. Individuals, in particular American citizens residing outside the United States, are almost always ignored.

These American workers try to make their living in a foreign country due to various reasons: Serving in the military, being sent abroad by American companies, or settling down for family. These Americans, serving as ambassadors of the United States, are obeying the local law and are subject to taxation in their country of residence. Often these are high-tax countries like Germany, where I currently reside.

Yet, these Americans are also subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on their non-U.S. income. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make three main observations linked to the hearing on March 25th.

1. The hearing solely focused on the taxation of U.S. multinational corporations. The title implied that the hearing would be focused on the impact of international tax policy on American Workers, Jobs, and their Investment. So how does any change in taxation affect individual Americans? It is obvious that any change in the U.S. tax code concerning international taxation first and foremost affects American workers trying to make their living abroad.
2. I thought a hearing would be about covering every aspect of a topic. I did not see any witness or person on the panel that shared any personal experience with either living outside the U.S. or running a business at least partially situated outside the U.S.
3. There was a discussion on how U.S. companies have to compete on a global scale with other multi-national companies from other countries. When talking about these companies, they have quite some options how to compete. An individual American trying to open a small local store or restaurant abroad also has to compete with local businesses. He is currently subject to two tax systems but actually can not afford to do so. Alone the filing requirements and costs puts him into a considerable disadvantage compared to local businesses.

Please understand that all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are not immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States but local to me. The tax systems are usually mutually incompatible. There is no assistance from the IRS on how to translate specifics of foreign taxes into the U.S. tax code. That usually requires hiring costly expat tax advisors even for very simple tax filings.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Take PFIC as an example: I followed my local (from U.S. perspective foreign) investment advisor and bought some ETFs from the money I earned solely here in Germany. I later found that they are subject to double taxation. There are many more examples: I could not volunteer as a treasurer of a local non-profit charity organization due to FBAR/FACTA implications. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems.

This is extremely unjust. For many years, Americans abroad feel like second-class citizens and have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I hope you find this statement valuable. I belief it helps to understand and address the issues of million American workers around the world.

LETTER SUBMITTED BY JANYCE VEENSTRA

I am no longer a proud citizen of the United States of America. Since my childhood, I live outside the United States in The Netherlands where I am a tax resident and where I am subject to full Dutch taxation.

You see I am an "accidental American". I was born in America. But, I was removed from America when I was 8 years old. I grew up in my parents' home country and thus mine, The Netherlands. I have no family in the U.S., no assets in the U.S. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. Everything in my life is non-U.S.! But, it gets worse. I am also required to file complex information returns describing the details of my Dutch finances to America. I can't even understand the American forms. How can this be? What is the reason for this? No other country does this! No one ever informed my family, not the IRS, not the Dutch IRS. Nobody! How can the U.S. impose its extraterritorial law of citizenship based taxation on people not even being made aware of it by the U.S. government? Why don't you get a letter at birth in the U.S. f.e. together with your birth certificate, stating your future rest of your life tax compliance to the U.S. no matter where you live and also pay tax on the globe? Do you have any idea how guilty my elderly mother feels? Subjecting her child to this Kafkaesk U.S. tax system? I would have renounced in a heartbeat when I turned 18. I'm 57 now. I have no idea how to comply with the rules imposed on me. Also, I can't afford the expensive consultants. What am I supposed to do? Renounce my U.S. citizenship? I can't even afford the U.S.$2350 renunciation fee to do so. I simply don't know what to do and I can't deal with the stress.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. Not one of my Dutch bank accounts are foreign to me, but suddenly because I'm being identified as a so-called U.S. person (FATCA) and I'm being severely discriminated against and treated as a second class citizen. The U.S. is making my life miserable.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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though, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY DR. JAMES WAGSTAFF

To: Chairman Wyden and Ranking Member Crapo:

Thank you for your willingness to convene a full committee hearing and to consider the situations of everyday, Americans who live and work abroad. I would like to add my voice to those of others regarding the important discussion on international tax reform.

I am an ordinary American who moved away from the U.S. to work internationally for Dell Technologies and Hewlett Packard many years ago. During that time, I met and married my wife. Around that time, my wife and I decided to continue living and working in Singapore because our work and careers had, by then, become established here.

The fact that the United States is the only developed country to tax its citizens on their world-wide income when those citizens live, work, and pay taxes in another country, has always been a source of bewilderment to me. I pay taxes in Singapore, where I am a permanent resident, and have lived for nearly 15 years. On top of that, I also file a tax return with the IRS every year. Filing my U.S. tax return with the IRS is complicated and expensive. Because the amount of money that I earn each year in Singapore has not generally reached the level where I owe U.S. taxes, this means the expense and burden for meeting my U.S. tax obligations are high even though I may not owe taxes.

The way that the current laws are structured puts American abroad in a situation where they have to navigate a costly, punishing, and unfair tax system. My col-

leagues from other developed countries like Australia, Canada, New Zealand, Sweden, Denmark, France, the United Kingdom, et al., are baffled at the way that Americans abroad are treated in the U.S. tax system. To them the U.S. tax system is laughable for being so myopic. To me it is embarrassing, hurtful, and maddening because it is so bad for the American "brand."

My wife and I are not wealthy. We now operate a small business in Singapore, and I am also an educator here. We do not have room in our budget to hire accountants or a specialized tax preparer, much less to be double taxed in both the U.S. and Singapore.

You are likely aware that the way that U.S. tax laws are structured today have meant that some Americans abroad are considering renouncing their citizenship. I am acquainted with a number of people who have this mindset. Does that surprise you? It does not surprise me because I have had to deal with this unfair system for too many years and I can see why some working-class Americans who work abroad may feel as if they have no choice but to give up their American citizenship. In my experience, this situation is brought on by the shocking and shameful state of the approach that the United States has chosen to take, either through poorly formed policy or ignorance, towards individual Americans living abroad.

As a result of U.S. tax policy towards individual citizens living abroad, I have, over the years, been denied the ability to open bank accounts, seek out other financial services, enter into financing agreements such as loans, and even apply for credit. It is my direct experience that U.S. tax policies are hurting individual, middle class taxpayers like me who live abroad. People like me, and other Americans that I am in contact with in Singapore and other parts of the world, in no way resemble the mythical wealthy American "living large" overseas. This mythical individual seems, in my estimation, to be the type of person that certain policy makers have used as a "strawman" when attempting to justify these, and other, unnecessarily punitive means of applying the U.S. tax code to individuals living and working abroad.

I value my American citizenship. I pay close attention to American politics. I am active in organizations that aim to raise the political awareness of American voters living overseas. I vote in all of the elections for which I am eligible. Having said all of that, I believe that the United States has a regressive, backwards approach to international taxes—hurting individual middle-class citizens and unfairly benefitting corporations who shield their earnings overseas. I do not think it is fair that an ordinary, everyday American like me, making my living abroad, should be subject to these complex and (sometimes) punitive U.S. tax filing requirements.

I request that the Senate Finance Committee hold hearings concerning the way that Americans abroad are impacted by the state of U.S. taxation. I encourage you to invite testimony from experts who can provide an accurate profile of the community of Americans who live abroad and describe the burden that U.S. tax filing places upon us. Find out the real situation and hear the stories of real Americans abroad rather than having policy continue to be influenced by apocryphal stereotypes of wealthy Americans living in tax havens. I urge you to explore, examine the data on, and support a switch from our current system of Citizenship Based Taxation to Residency Based Taxation.

Thank you for your kind consideration.

Dr. James Wagstaff

LETTER SUBMITTED BY MEGAN WALLEK

I am a proud citizen of the United States of America. I live outside the United States in Australia where I am a tax resident and where I am subject to full taxation.

I am an emigrant from America. I moved from America nearly four years ago and recently obtained permanent residency in Australia. While I miss America and my family and friends there, my husband and I have made the decision to remain living permanently abroad. I am a tax resident of Australia. I am required to organize my financial and retirement planning in that country.

The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most at-

tempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living abroad. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

LETTER SUBMITTED BY LARS WALLEN

I am a proud citizen of the United States of America. I live outside the United States in Sweden where I am a tax resident and where I am subject to full taxation. Sweden is known for its high income taxes, so the reason for my immigration has nothing to do with avoiding taxation. In fact, no one immigrates to Sweden to avoid taxation.

I am an emigrant from America. Sure I love America. But, we never know where life will take us. I moved from America many years ago. Although the days sometimes go slowly, the years go quickly. I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. Sweden is known for its high income taxes, so the reason for my immigration has nothing to do with avoiding taxation. In fact, no one immigrates to Sweden to avoid taxation. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY RONALD WALTHER

I am a proud citizen of the United States of America. I live outside the United States in Germany where I am a tax resident and where I am subject to full taxation.

You see I am an "accidental American". I was born in the USA. But, apparently I was removed from America as kid with only basic English education at the time the Vietnam war was just over together with my German parents. My only experience of America is from television, movies and the occasional American tourist I meet. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America.

But, it gets worse. I am also required to file complex information returns describing the details of my finances to the U.S. It is impossible to understand the forms, as English is a foreign language for me. How can this be? What is the reason for this? No other civilized country does this! Of course, I am still proud to be an American. I had to hire expensive consultants in order to fulfill these obligations, that cost me way over 2000 U.S.$ for 0 (Zero) tax due. In addition to these very high costs I'm discriminated against by German Banks and other financial providers that refuse to offer services to me. Just this fact alone is quite dangerous for me. It can make me homeless if I'm not able to pay a rent or my loans.

What am I supposed to do? Renounce my U.S. citizenship? I've learned that this will cost me 2350 U.S.$ "fee" (I consider this as a fine) plus thousands more for the preparation of really complex special tax forms. It gives me the impression, that I am punished for something.

- Was it a wrong thing to do, as kid to follow one's parents to their homeland?
- Was it a wrong thing to do to take care of my elderly mom the last 25 years in Germany?
- Is the USA considering me as a kind of property, that is punished for leaving with nothing in his hands?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of primary citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my

life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the U.S.$ as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY DENISE MARY WELSH

I was born outside the United States, in London, England. My parents emigrated to Canada when I was 3 months old, and then emigrated to the United States when I was about 4 years old. I returned to the United Kingdom in 1976, and continued to live in the United Kingdom, where I am a tax resident and where I am subject to full taxation.

With family members still living in the United States, I travel there for holidays and family events. I enjoy the freedom to travel to America that U.S. citizenship gives me and accept that I have a tax filing duty as a result of my U.S. nationality. This said, having lived in the United Kingdom for many years, I am finding it increasingly difficult to understand how to comply with U.S. tax filing.

I would prefer not to renounce my U.S. citizenship, however, I am in a position where continuing to maintain my U.S. nationality is becoming uncomfortably expensive. I shall soon be paying four-figure sums in GB Pounds per annum to comply, as I have realised that my position requires that I work with specialist international tax consultants.

Tax compliance requirements seem to have become much more onerous over the last few years. In the 1980s, I was the only one of my UK-resident American friends who was filing U.S. tax returns. None of us had known that we had to file and I only found out from a British acquaintance who got a job as an intern at Ernst & Young. Now accounting and filing requirements have become expensive and difficult on both sides of the Atlantic.

For example, in 2008, after inheriting U.S. stock portfolios from my father (a naturalised U.S. citizen, born in India), I was researching ways to best manage the funds and considered bringing the accounts to a UK investing house. I was told by an executive at a UK branch of HSBC bank that I was not entitled to open a UK bank account, nor legally entitled to a UK pension, after having worked for the UK Civil Service for several years. Current U.S. tax legislation is creating impossible situations for expats with any U.S. connection.

Although I am not a "high-earner," I will be paying high consultancy fees to simply meet U.S. filing requirements. This is the case even though I rarely owe any U.S. tax. It seems as though the United States' system of extraterritorial taxation and regulation is being wielded punitively against private individuals of modest means

who choose to live in other countries. My opinion is that the United States would do well to review its system of extraterritorial taxation and regulation.

Apart from it being an income stream, is hard to understand why the United States aims to impose taxation on individuals with little to no U.S. income. I live in a country with a comprehensive taxation system, requiring payment of a wide range of taxes. While I pay a fair amount of tax in the United Kingdom, the U.S. tax system treats my non-U.S. income and assets unfairly. It is difficult, if not impossible, to be a tax resident of more than one country.

I do not live "offshore," nor do I live an "offshore" lifestyle. I live in a country where tax rates are higher than in the United States. I am also subject to additional kinds of taxes such as VAT. Yet, because I am also a U.S. citizen, I am subject to the U.S. extraterritorial tax regime. As a result, the United States scrutinises my non-U.S. income for potential gain, even though I am fully taxable on that income in the United Kingdom. This applies even though I do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general points regarding the hearing on March 25th.

1. Reports indicate that the hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States in the same way they treat U.S. multinationals doing business outside the United States. While I am a private individual on a limited income, I gather that no participant in the hearing recognized how private individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals.
2. I also understand that no witness participating in the hearing actually had personal experience with a company or as an individual running a business with interests outside the USA. I would like to suggest that subsequent hearings should include witnesses who have experienced running businesses outside the United States or have actually been resident outside the United States. Subsequent hearings should deal with the reality on the ground and not what looks good on paper.

I am not a "mini-multinational." I am a "dual U.S./UK national" living in my country of birth and primary citizenship. I am subject to the tax laws of the United Kingdom. I am not GILTI of anything. Having entered the retirement phase, I wish to carry on my life without undue intrusion from the Internal Revenue Code of the United States.

It is important to understand that changes to the taxation of U.S. corporations will impact on the U.S. taxation of U.S. individual citizens living and/or running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate or increasing the GILTI tax.

Beyond the costs of tax preparation and filing, the U.S. extraterritorial tax regime presents me with challenges in terms of saving, investing, and participating in pension plans. It is difficult to act in financially astute and responsible ways because the majority of these essential activities are taking place in the United Kingdom and not in the United States. Several of my savings investments are held in the United Kingdom. Of greater concern, the United States imposes taxes on things (for example the sale of one's principal residence) when the United Kingdom does not. In this regard, Capital Gains tax on my principal UK residence—of which, I and my UK-resident American friends have only recently become aware—is reason enough to consider renunciation.

As a tax resident of both the United States and the UK, I am caught between both tax systems. It is appropriate to pay fair taxes, "giving unto Caesar what is Caesar's" and this consideration is not about tax avoidance. However, it is difficult to meet the requirements of both taxation systems and even with a tax treaty between the United Kingdom and the United States in place, it feels like I am being squeezed in the middle.

And please don't assume that foreign tax credit rules and/or the Foreign Earned Income Exclusion solve these problems. They are not enough!

American extraterritorial taxation is unfounded and unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. My strong opinion is that it is time for the United States to abandon

its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your attention.

Kind regards,

Denise Welsh

LETTER SUBMITTED BY CLAUDIA WICKI

Dear Committee,

I am a proud citizen of the United States of America. I live outside the United States in Zurich Switzerland for over 25 years as I married a Swiss. I am a tax resident and I am subject to full taxation here. I do not live "offshore." I live in Switzerland where I pay income taxes, VAT taxes and other types of taxes.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income (unemployment compensation and retirement savings) even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25, 2021.

1. The hearing focused on U.S. multinational corporations. The U.S. tax rules treat individuals living outside the United States the same way they treat U.S. multinationals doing business outside the United States. Although, I am an individual person (not a corporation), not a single participant in the hearing recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was surprised to learn that there was no witness who had personal experience with a company or an individual running a business with interests outside the USA. Not a single one. This is astonishing! I respectfully suggest that subsequent hearings include witnesses who have experience running businesses outside the United States or actually living outside the United States. In other words, subsequent hearings should deal with real circumstances and issues on the ground for Americans living abroad and not based only on theory and simply local, U.S. experience.

I am not a "mini-multinational corporation", I am a "dual-national" living in my country of second citizenship. I am an American and I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my life without being penalized by the Internal Revenue Code of the United States.

Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to bank, save, invest, participate in pension plans and generally behave in a financially responsible way. This is because these essential activities are taking place in my country of residence and not in the United States. My retirement investments here are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence). As a tax resident of both the United States and my country of residence, I am subject to effects of both tax systems.

And please do not believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! As a retiree, I don't qualify for these.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues. Residency based taxation (RBT) has been lingering in the House and Ways Committee for decades. As the folks at American Citizens Abroad in Washington. *www.americansabroad.org/americans-abroad-caucus/*

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you for your attention to this very serious matter and God bless the United States of America.

LETTER SUBMITTED BY SUSAN PIERCE WILLIAMS

I am a proud citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation. I do not live here for any offshore/ money laundering purpose; rather I married a British citizen and settled in the UK in 1981. We are both retired and have never had a lot of money. I am a retired social worker and my husband was a Vicar (clergyman) in the Anglican Church. When working, our income never exceeded $80,000 before any taxes.

I am an emigrant from America and have always been proud to have a U.S. Passport. Until recently, I understood that the U.S. community abroad served a sort of soft diplomacy role which was helpful to the United States. Recently, however, trying to live as an ordinary person outside of the United States has become a lot more difficult, and I no longer get the impression that we are valued in any way by America. Banking services are becoming harder to come by, both in the non-U.S. country, due to all the FATCA regulations, and also within the USA. It is pretty impossible to open a bank account in the USA when you do not live there.

Also not possible to open an IRS account, social security account, or even to file U.S. taxes online without a cellphone registered to a U.S. address! And of course, toll free telephone numbers are not "free" when you are calling from outside of the United States.

I long ago realized that although I will always love America, I am living permanently abroad. I am a tax resident of my country of residence. I am required to organize my financial and retirement planning in that country. The problem I have is that the U.S. tax laws make it very difficult for me to live the same kind of life that my friends and neighbours live. You see, they are subject to only one tax system. As a U.S. citizen, I am subject to the tax system where I live and the U.S. tax system. Those systems are generally not compatible. Most attempts at responsible financial/retirement planning where I live are frustrated by the need to comply with U.S. tax laws. How can this be fair? How can the United States impose taxation on the non-U.S. income and assets of a person who is a tax resident of another country—with no economic connection to the United States?

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. Virtually all of these taxes are not recognised as such by the IRS. For example, there is a tax levied on the value of your property which is paid to the local government to help fund services (police, roads, etc etc). For some reason this is not deemed to be a "property tax." There is also a Sales Tax levied on all goods; across most of Europe this rate is 20%—similarly, this is not deemed to be a Sales Tax by the IRS. I could go on, and on.

Because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income, in the country where I reside and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another**

way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

For the first time in my life overseas, I have been thinking about renunciation, which is such a very emotionally laden thought. So far I have been able to hold onto my UK bank account, although many others living in Europe are having their accounts closed, and mortgages stopped etc etc. Already here in the UK it is no longer possible for me to make many common investments (*e.g.,* Mutual Funds). Once financial institutions find out you are American, they do not want to deal with you because of the draconian penalties imposed by the USA if they set a foot wrong in reporting the accounts located outside the U.S. to the U.S. Treasury. It's become a nightmare. And of course I am not allowed to make any investments in the U.S. either.

If banking services become closed to me in any country, then my hand will be forced and I will very sadly be forced to renounce my U.S. nationality simply to survive.

I just want to live a normal life, like my family inside the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't! Once you are retired, for example, NONE of your income is eligible for the FEIE.

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

I really hope the U.S. takes the sensible step of moving to Residence Based Taxation before it is too late for us.

Thanks for listening.

Regards,

Susan Pierce Williams

LETTER SUBMITTED BY LISA WILLNER

I am a proud citizen of the United States of America. I live outside the United States in England, the UK, where I am a tax resident and where I am subject to full taxation.

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even

though I am a fully taxable on that income, in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?
2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God bless the United States of America!

LETTER SUBMITTED BY GENELLE WINDSOR

I am a citizen of the United States of America. I live outside the United States in France where I am a tax resident and where I am subject to worldwide taxation. I worked in the United Kingdom before I retired.

CBT (Citizen-Based Taxation)

- In many cases, a dual U.S./UK tax accountant has to be engaged to complete the U.S. tax return because of the complicated rules for U.S. citizens living outside of the United States. The cost can be very high because of the expertise required. The accountant with the lowest price that I found was $1,100 for one year's simple tax return. Some accountants can charge as much as $3,000 for one return. I was able to do the FBAR myself, or the cost would have been more. In many cases, the final result is that $0.00 tax is owed. This is because there can be tax treaties with the U.S. and the country of residence. Also, the

U.S. citizens living outside the U.S. often pay higher taxes (this is especially true for Europe) in the country where they reside than they would in the U.S., so those taxes are deductible so tax won't be paid twice on the same income. The IRS has to process the paperwork and I have to pay a very large amount to prove that I didn't owe any tax. This costs the IRS money to process and does not put any money into the treasury. I am retired and cannot afford to pay for an expensive tax accountant every year. If I do not pay for the expensive tax accountant, I take the risk of making a mistake that may incur a $10,000 penalty. This could be as simple as checking the wrong box on a form or putting my account information in the wrong section on a form. This also causes much anxiety that all of the money I have saved for retirement could be taken in penalties because of a simple unintentional mistake.

- Many countries in the world have tax free retirement savings plans to encourage workers to put away money for retirement. Then when the money is withdrawn after the employee stops working, it is taxed. With CBT (Citizen-Based Taxation) U.S. citizens living outside of the U.S. do not always get this benefit in their country of residence unless there is a specific tax treaty with the U.S.. The retirement savings can be taxed when put into a retirement account that is outside the U.S., even though the retirement account is in the country of residence of the U.S. citizen. U.S. citizens living outside of the U.S. can put money into U.S. retirement accounts in dollars. This is not practical because money has to be transferred from a Foreign currency to put into dollars, then when the U.S. citizen retires, the money has to be transferred back to the currency where the U.S. citizen resides and these transfers incur losses.
- Taxes are paid in exchange for services to the tax payer. One of these services is Medicare. However, since Medicare is residency based, a U.S. citizen living outside of the U.S. can pay taxes to the IRS, but not receive the service. In addition to this, the U.S. citizen who is a resident of another country must pay for health care in the country of residence.

FATCA

The FATCA legislation requires banks outside of the U.S. to report the accounts and holdings of U.S. citizens. U.S. citizens also have to fill out yearly FBAR reports and report their bank accounts on the yearly tax returns.

This legislation is causing the most serious issues for U.S. citizens living outside the U.S. In Europe, many banks will not take Americans as customers because they do not want to pay the high fines if they report incorrectly to the U.S. treasury. In many cases, the European banks are even closing the bank accounts of American customers who have been customers for many years and in some cases without warning. To protect myself against this, I keep accounts in two banks where I live. If one closes my account, at least I have a backup to transfer the money from the closed account.

Some banks in the U.S. are also closing accounts for U.S. citizens who do not have a U.S. address. Many are retired and have their social security deposited in the account in the U.S. The dollars can be used while visiting the U.S. Otherwise, the dollars from social security would have to be deposited into an account in the country of residence. The exchange rate would be on the date the money was transferred. Then if the U.S. citizen traveled to the U.S., he would have to exchange the currency back to U.S. dollars, losing again on the exchange.

The U.S. tax law includes CBT (citizen-based taxation), so U.S. citizens living outside of the U.S. have to report and file tax returns no matter where they live. Then they have to complete tax returns in their country of residence and pay taxes in their country of residence on worldwide income. Most of the countries in the world today have RBT (residency-based taxation). I have always diligently filled out FBAR forms and U.S. tax returns and have kept copies through the years. Previously, I was able to complete the forms myself without engaging the help of an international (U.S./United Kingdom/Europe) tax accountant. However, in the past few years the rules and forms have become so complicated that it is difficult for an American living outside the United States to complete them properly.

I would like the hearing to consider the impact the legislation concerning corporations is having on individual U.S. citizens living outside of the United States. Consider the anxiety of not being able to open a bank account where you reside and having to pay an expensive tax accountant on a fixed retirement income.

The world is becoming more interrelated than in past generations. The CBT (Citizen-Based Taxation) was created in a world where people did not move to other

countries as much as they do today. The law has not caught up with the way ordinary people live their lives in the 21st century. It is time that the U.S. considers changing to RBT (Residenc-Based Taxation) which has been adopted by most countries in the world.

LETTER SUBMITTED BY ANTHONY WINISKI

Dear Honorable Members of the Senate Committee on Finance,

I am a proud citizen (age 64) of the United States of America. I live outside the United States in Austria, where I am a tax resident and where I am subject to full taxation. I am writing with regard to the hearing of your committee, which took place on March 25, so that my comments can become part of the official record.

For the record and to show that Americans abroad are real persons with real life stories and struggles, here are some of my personal details. I was born in New York City (in Queens County on Long Island to be more specific). I grew up and went to school in this area and later attended the State University of NY at Stony Brook on Long Island, where I earned a Bachelor's and a Ph.D. degree in biology. After that I moved to Baltimore, Maryland, where I worked as a postdoctoral research fellow at a research institute of the Carnegie Institution for Science. While in Maryland I met a woman, a foreign citizen from Europe, who was then working for the National Institutes of Health in Bethesda, Maryland as a postdoctoral research fellow. Well, as it turned out, we fell in love, and I followed her back to Europe, where we got married and settled in Vienna, Austria. That was 31 years and 3 kids ago. So I left the U.S. because of love and not to evade paying taxes. And, by the way, taxes are higher in Austria than in the U.S. Even though I love America and travel to the U.S. to visit family and friends, I am a permanent resident of Austria and I expect to reside here for the rest of my life.

I understand that the hearing of your committee, which took place on March 25, did not address how individual Americans living abroad are affected by the current U.S. tax and reporting regulations. This is unfortunate considering that the U.S. achieved greatness by emphasizing and supporting individual rights and concerns. Needless to say, it is not easy to be subject to two generally incompatible tax systems, and this has made financial and retirement planning very, very difficult. There are banks in Austria that refuse to do business with Americans (even with Americans living in the country) because of the complications surrounding FATCA reporting. It's hard to hear from an Austrian bank that, because I'm an American, they don't do business with my kind (*i.e.,* refuse to offer financial products other than basic checking and savings accounts). The term "my kind" was not used, but that was the feeling I got. And, even with banks that do accept U.S. clients, owning securities, like mutual funds and non-U.S.-domiciled Exchange-Traded Funds (ETFs), would result in punitive taxation and reporting because the U.S. tax code regards non-U.S. registered mutual funds and ETFs as "Passive Foreign Investment Companies" (PFICs). As if all this wasn't difficult enough, it's even harder to find out that U.S. financial institutions won't allow me (even as a U.S. citizen!) to buy securities, like ETFs, because of a European Union regulation, known as Markets in Financial Instruments Directive II (MiFiD II).

I could go on about further difficulties involved in being a U.S. citizen living abroad subject to extraterritorial taxation, such as the complicated tax and reporting requirements and that the tax preparer's fee often ends up being higher than the net tax owed to the U.S. Instead I would like to look forward to a future, where a different and, in my opinion, better relationship exists between the U.S. government and its citizens living abroad. We are often referred to as expatriates or "expats." I personally do not like this term because of the connotation that we are somehow ex-Americans or Americans that have turned their backs on the U.S. We are very much American. We are something like the outermost, extraterritorial appendages of the U.S., something like the fingers and toes of the U.S. that extend beyond its borders. And extraterritorial, citizenship-based taxation is an unfair and unwise burden to place on these appendages.

If a U.S. citizen is a bona fide, legal, tax-paying resident of another country, then that person should be fully exempt from U.S. citizenship-based tax reporting, and tax-paying obligations. Such non-resident U.S. citizens should pay tax only on U.S. source income (both earned and passive), just like Non-Resident Aliens (NRAs). This would not only be fairer to Americans living abroad, but proposals show that such residence-based taxation could be made revenue neutral to the federal government.

I suspect that it could generate even more tax revenue for the U.S. For example, I have U.S. source passive income, and I pay a 27.5 % flat tax to Austria on this income minus any U.S. tax. Were there to be residence-based taxation with myself being taxed as an NRA, the U.S. would actually receive more, not less, tax revenue. And my case may not be uncommon considering that many Americans live in countries with high tax rates. Compared to other countries, the U.S. has a more efficient financial system and with better insurance coverage for investments, like bank deposits. So, residence-based taxation together with the U.S. persuading the European Union to exempt U.S. citizens from MiFiD II (or the U.S. persuading U.S. financial institutions to comply with MiFiD II) would make it easier and more attractive for Americans abroad to invest their money in the U.S. resulting in increased tax revenue from U.S.-sourced income. So, an effective strategy moving forward would replace the current punitive and restrictive measures with those supporting Americans abroad and making them feel welcome.

And a sense of being supported, welcome and recognized is very important for Americans abroad. Individual Americans living abroad and their concerns may appear small or be imperceptible to the eyes of Congress because we live at the very periphery, the extraterritorial periphery, of the Great American Nation. But please remember that all great things, be they mountains or nations, are threatened by erosion at the periphery. Please do not let erosion at the periphery undermine the Great American Nation. The current situation of unfair and burdensome extraterritorial taxation and reporting is contributing to this erosion at the American periphery. The ever increasing numbers of Americans abroad relinquishing their U.S. citizenship is the most obvious manifestation of this erosion. The invisible but real loss of a sense of inner connection to the U.S. is also serious because of the inherent role Americans abroad play as unofficial ambassadors, who, while remaining Americans, are integrated into the societies and cultures in which they live and work. No official ambassador or diplomat can achieve and embody such a high level of cross-national and cross-cultural interaction as the citizens of one country living in another country. And these interactions and the value they create for the U.S. are diminished if U.S. citizens abroad are restricted in doing simple things, like financial and retirement planning or running a small business.

So, to conclude. I would like to strongly recommend that the U.S. move from extraterritorial, citizenship-based taxation to residence-based taxation like all other developed countries. I firmly believe this would bring enormous benefits to both the U.S. and its citizens abroad.

Sincerely,

Anthony Winiski

LETTER SUBMITTED BY TIA WORKMAN

I am a natural-born citizen of the United States of America. I currently live outside the United States in New Zealand where I am a tax resident and where I am subject to full taxation.

I am an American expat. I am temporarily living outside the United States for reasons of work and career advancement. When I first moved abroad, one of the things I learned was that other countries have better developed tax systems that require payment of a wide range of taxes. I pay a lot of taxes. I can also tell you that the U.S. tax system treats my non-U.S. income and assets very unfairly. The fact that I am temporarily living abroad doesn't mean that I don't have to plan for retirement.

I do not live "offshore." I do live in a country where I pay high income taxes. I also pay additional taxes to my country of residence.

Because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am fully taxable on that income, in the country where I reside, and do not live in the United States. No other advanced country does this.

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. I am a real, singular person, not a single participant recognized how individuals are

affected by these rules. The focus of the hearing was supposed to be about individuals.

2. I was incredibly disappointed that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

Residing outside of the states doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I ask only to be able to carry on my life without being unfairly taxed by the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States.

Personally, the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. Many of these essential activities are taking place in my country of residence and not in the United States. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and New Zealand, I get the worst of both tax systems.

Thank you for your time.

Tia Workman

LETTER SUBMITTED BY TRACY WULFERS

I am a proud citizen of the United States of America. I live outside the United States in Finland where I am a tax resident and where I am subject to full taxation.

I run a small business in the country where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. It is incredibly confusing, stressful and expensive to be in compliance!

I do not live "offshore." I do live in a country where I pay very high income taxes. I also pay additional kinds of taxes (example VAT) to my country of residence. And my country of residence, Finland, is not a tax haven! We pay high taxes here to ensure a social welfare system for all residents. **I believe in paying my fair share of taxes. And I support the Senate in creating a better and fairer tax system that will collect more taxes from corporations. But a fairer tax system must also include being fair to the 7–9 million normal Americans like me that happen to live and work overseas,** and are already responsible for paying taxes to our countries of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. **There is no other advanced country in the world that imposes such extraterritorial taxation.**

I would like to make two general observations about the hearing on March 25th.

1. The hearing focused on U.S. multinational corporations. But here is the reality: U.S. tax rules treat individuals living outside the United States, the same way they treat U.S. multinationals doing business outside the United States. Although, I am a flesh and blood individual person, not a single participant recognized how individuals are affected by these rules. Yet, the focus of the hearing was supposed to be about individuals. How did this happen?

2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**
3. There is a clear difference between "residence-based" and "citizenship-based" tax systems. But during the hearing, these two terms were treated as interchangeable. This could not be further from the truth! The USA is the only modern country to tax on citizenship! If the USA where to adopt international norms, and only tax individuals based on their country of residence, then all of the unintended consequences from these corporate tax laws would be automatically solved.

I am not a "mini-multinational." I am a "single-national" who happens to be a resident of a foreign country. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the **U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way.** This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

Thank you very much for your consideration, and I hope that you will craft a tax law that is fair and just for American citizens no matter where they live.

Respectfully,

Tracy Wulfers

LETTER SUBMITTED BY EDWARD F. WUNDHEILER

I am a proud citizen of the United States of America. I live outside the United States in Brazil where I am a tax resident and where I am subject to full taxation.

You see I am an "accidental American". Since I inherit my citizenship my only experience of America is from television, movies and the occasional American tourist I meet. Yet, (at first I couldn't believe this could be possible) I am required to file U.S. tax returns and pay tax on my non-U.S. income to America. But, it gets worse. **I am also required to file complex information returns describing the details of my finances to America and do not get any benefit from that. I can't even understand the forms. How can this be? What is the reason for this? No other country does this!** Of course, I am proud to be an American. Who wouldn't be? But, I have no idea how to comply with the rules imposed on me.

Also, I can't open a regular bank account or investment in a U.S. Bank to avoid the burdens to keep my things in the country where I live. In addition, I cannot contribute to SSN in U.S. by living overseas from my own pocket to get a potential benefit in the future. I cannot have a U.S. credit card among many other things . . . Isn't that ridiculous? Have rules to control everything you have in a different country but don't have any incentives or rules to facilitate bringing part of my economic life to the U.S. without the need to be a U.S. resident—it is a Kafkian situation.

I do not live "offshore." I do live in a country where I pay very high-income taxes. I also pay additional kinds of taxes (example VAT, SSN taxes, etc) to my country of residence.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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2. I was shocked that there was no witness who had personal experience with a company or individual running a business with interests outside the USA. Not a single one! This is crazy. I respectfully suggest that subsequent hearings include witnesses who have experienced running businesses outside the United States and/or actually living outside the United States. **To put it another way: Subsequent hearings should deal with the reality on the ground and not the theory in the cloud.**

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my my life without interference from the Internal Revenue Code of the United States, or at least facilitate for every American expatriate to open a regular bank account in U.S., carry U.S. credit cards, U.S. credit ratings, open brokerage and investment accounts in U.S., contribute to SSN even though living overseas.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

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The time has come for the United States to abandon its extraterritorial tax regime and join the rest of the world in adopting a system of residence-based taxation.

God Bless the United States of America!

LETTER SUBMITTED BY ELIZABETH ZITZOW

Dear Sirs and Madams,

I am a citizen of the United States of America. I live outside the United States in the United Kingdom where I am a tax resident and where I am subject to full taxation. I prepare tax returns for about 350 Americans who like me live abroad.

To do so, I run a small business in the UK where I live. My business is not a multinational corporation and all of its income is domestic to the country where I live. However, because I am a U.S. citizen, the U.S. tax code treats me the same as Apple or Google. If I use a local business structure that's treated as a corporation under U.S. tax law, then I'm forced to fill in the same form 5471 as Apple must complete for each foreign subsidiary—translating all of my business records into U.S. dollars even though I do no business in that currency. My business is subject to GILTI even though I have no intangible income. How can I compete with my neighbours who are not U.S. citizens and who have only one tax system to deal with?

My clients are likewise in the same boat.

I had to convert my business to being treated as a Disregarded Entity, but not all my clients have been able to do so.

Much of this letter will be from a template, but this paragraph is written in my own hand. There is no exception for low profit small businesses owned by one person such as myself. Now, what do I care? I'm a tax professional. I can do this. But I charge $3,000 a year to do this for others. It costs a lot for me keep my staff to run my business. I'd be broke if I was only charging $2,500. That's a lot of money for people to pay because they own a business that makes what a typical small one man LLC stateside makes. They can't use TurboTax; it's way too arcane. They can't use stateside tax preparers; they won't be comfortable with the 5471s let alone be able to read British tax returns (hint: don't even bother. They've got other books that are far more detailed and comprehensive from which I get my figures).

There should be an exemption for filing GILTI, FBAR, and Transition Tax when the gross income (before deductions) is less than $200,000 and they live in a country that has a tax treaty with the U.S.

My clients and I live in a country where we pay very high income taxes. We also pay VAT, Business Rates, and Council Tax in the UK on top of income taxes.

Yet, because I am a U.S. citizen, I am subject to the U.S. extraterritorial tax regime, which means the United States imposes taxation on my non-U.S. income even though I am a fully taxable on that income in the country where I reside, and do not live in the United States. There is no other advanced country in the world that imposes such extraterritorial taxation.

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I volunteer to be that spokesperson. I represent not just my 350 clients. I am also a member of The Association of Independent Expatriate Tax Practitioners (AIETP) in the UK. With 85 members, we handle an estimated 12,000 U.S. tax returns each year.

I am not a "mini-multinational." I am a "dual-national" living in my country of second citizenship. It doesn't make me less American. But, it does mean that I am subject to the laws of the country where I live. I am not GILTI of anything. I ask only to be able to carry on my small business and/or life my life without interference from the Internal Revenue Code of the United States.

As a general principle: Please understand that any and all changes to the taxation of U.S. corporations will have a huge impact on the U.S. taxation of U.S. individual citizens living outside the United States and running small businesses outside the United States. Individuals are *not* immune to the effects of raising the U.S. corporate income tax rate and/or doubling the GILTI tax.

More generally (whether or not one is a small business owner), the U.S. extraterritorial tax regime makes it difficult for my clients and me to save, invest, participate in pension plans and generally behave in a financially responsible way. This is because all of these essential activities are taking place in my country of residence and not in the United States. My retirement investments are foreign to the United States, but local to me. In addition, the United States impose taxes on things (for example sale of principal residence) when my country of residence does not. Because I am required to live my life with the USD as my functional currency, I am subject to "fake income" on nothing but changes in the exchange rate. As a tax resident of both the United States and my country of residence, I get the worst of both tax systems. What one giveth, the other taketh.

And please don't believe that foreign tax rules and/or the Foreign Earned Income Exclusion solve these problems. They don't!

This is extremely unjust. For many years, Americans abroad have been attempting to get both Treasury and Congress to address these issues.

Very Sincerely Yours,

Elizabeth Zitzow

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