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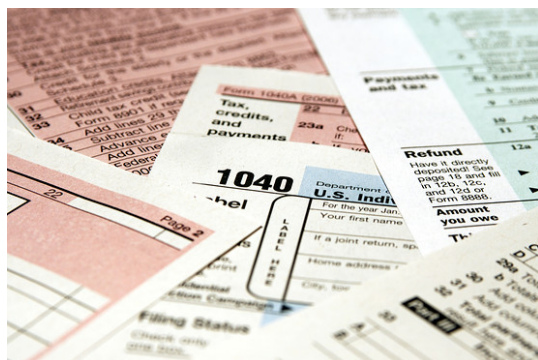
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EXPAT | COMMENTARY

Opinion: Senate Proposal Could Aid 'Marginalized' U.S. Expats

By JONATHAN LACHOWITZ

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Jonathan Lachowitz of White Lighthouse Investment Management weighs in on last week's report on tax reform from the Republican staff of the U.S. Senate Committee on Finance, which has caused a flutter in the global expat community:

Overseas Americans may have new friends in the U.S. Senate. The Republican staff of the Senate's Finance committee released a 300-page report on Dec. 11 which lays out a strong case and framework for Congress to reform Federal Taxation of Individuals and Companies on their overseas income. The authors highlight, on pages 282-283, the well-known fact to most overseas Americans, that the U.S. is the only industrialized country that imposes citizenship based taxation and they further state "The United States needs to rethink its taxing rules for nonresident US Citizens."

Estimated at over 7 million strong, overseas Americans have long felt marginalized by the democratic process and due to the fact that they can only vote through their last state of residency. Representation of the unique needs and challenges of this constituency is spread among all members of Congress and often poorly understood. The thousands of pages of federal laws that apply uniquely to overseas Americans — combined with dozens of different income and estate tax treaties and totalization agreements (aligning social security benefits) — make tax compliance and personal financial planning challenging for this group.

With the implementation of FATCA combined with the IRS crackdown on holders of overseas bank accounts through the OVDP program, overseas Americans have gone from feeling ignored by their home country to feeling persecuted. Treatment by the government as well as the increasing complexity have been key factors cited in the rapidly rising numbers of Americans who have decided to renounce their U.S. citizenship.

Organizations that represent overseas Americans have been doing their best to raise concerns in Washington and through their embassies for many years, though they rarely have felt as though they could influence legislation. The Senate's report, on page 282, shows that this has changed, and in footnote 783 the authors highlight a Residence Based Tax Proposal made by the organization American Citizens Abroad that suggests how the U.S. could transition from a citizen-based to a residency-based taxation system

while creating a more equitable tax system that would even potentially raise more revenue for the U.S. Treasury and reduce costs to the IRS.

Comprehensive tax reform is high on the priority list of many members of Congress and with a Republican majority in both houses the chance for a tax reform bill being sent to the Oval Office for a signature in 2015 has been significantly increased. All this said, legislators must also be careful that, in their efforts to improve the lot of overseas Americans, they don't inadvertently make things worse for some American expats by exposing them to higher taxes under a different part of what is a very complex federal tax code.



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