

## **Current U.S. Taxation Policy Undermines the Nation's Competitive Position in the Global Economy**

### **American citizens' rights are limited by current policy**

**Competitive landscape** – As the global economy evolves, more and more opportunities, especially in the emerging markets, are present for American companies. Our economic miracle after World War II was unquestionably based on the fact that large numbers of Americans – our most valuable asset – went abroad to work, develop markets and sell American products. This created economic expansion never before seen in the modern world and the economic leadership which America can still claim. Our economic dominance, however, is rapidly being eroded by current tax policy. The number of Americans employed overseas by U.S. corporations has been in decline for 30 years. The trade deficit is the most dramatic manifestation of this short-sighted policy. Today, the nation imports double the goods it exports. As this erosion continues, our ability to turn the tide is in jeopardy. Although the solution is complex, one important element, which we can quickly address, is eliminating the barrier to Americans that handicaps them from being able to work overseas on a level playing field. We must take steps to eliminate the double tax laws that make American labor in foreign markets too expensive.

**Double Taxation** – All Americans who pursue career or personal opportunities in foreign environments must pay taxes in the countries where they reside. They also continue to pay tax to the U.S. This simple equation makes us too expensive. Due to U.S. citizenship-based taxation, Americans abroad pay an additional \$3.5 billion a year in U.S. income taxes - proof that double taxation exists. Section 911 of the Internal Revenue Code, which includes a limited foreign-earned income exclusion, foreign housing deduction and foreign tax credits, does not come close to mitigating the unfairness of double taxation. The term “exclusion” in U.S. law is a misnomer. It gives the impression that Americans, while overseas, receive preferential treatment. This provides an incorrect perception to policy makers in Washington and makes Americans overseas easy targets when Congress looks for additional tax revenue. This is evidenced by the revenue offset provision increasing taxes on overseas Americans that was integrated into the *Tax Increase Prevention and Reconciliation Act of 2005*, passed in May 2006.

**Foreign Exchange Risk** – Since U.S. taxes must be calculated and paid in U.S. dollars, Americans working overseas are subjected to the additional burden of absorbing fluctuations between the U.S. dollar and the currencies in which they are paid. This creates an additional cost which must be compensated by the employer or absorbed by the individual. This makes us too expensive.

**Differences between the U.S and other nations' tax systems lead to double taxation** – The differences between how U.S. tax laws and the host country tax laws recognize income and deductions leads to situations where American citizens must pay tax twice on the same income. For example, Value Added Taxes and social taxes are very high in many countries but are not eligible for deduction against U.S. taxes.



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**Non-convertible currencies create an unsolvable dilemma** – Many developing countries have non-convertible currencies. U.S. tax law makes it impossible to survive in these countries without violating either U.S. or foreign laws.

**U.S. tax policy hinders the development of exports** – Americans overseas are highly instrumental in and desperately needed to continue to develop new and existing foreign markets for US goods. They influence procurement decisions, plant closings and new ventures; they are critical in negotiating large commercial transactions to penetrate vast global markets such as China. Yet double taxation makes Americans too expensive. The U.S. trade deficit exceeded 6% of GDP in 2005. The U.S. must become more export oriented, which in today's global economy is the key source of domestic job growth, national prosperity and tax revenue.

**Taxing Americans overseas creates competitive disadvantage** – The tax laws should allow American citizens to work and compete in all markets across the globe furthering the economic interests of the United States. The United States is the **only** major trading nation that financially penalizes its citizens who work and live overseas. Citizenship-based taxation creates an export tax on American labor.

**Eliminate the cap on the foreign-earned income exclusion. Cancel the stacking rule on taxable income.**

Please see graphs, page 3.



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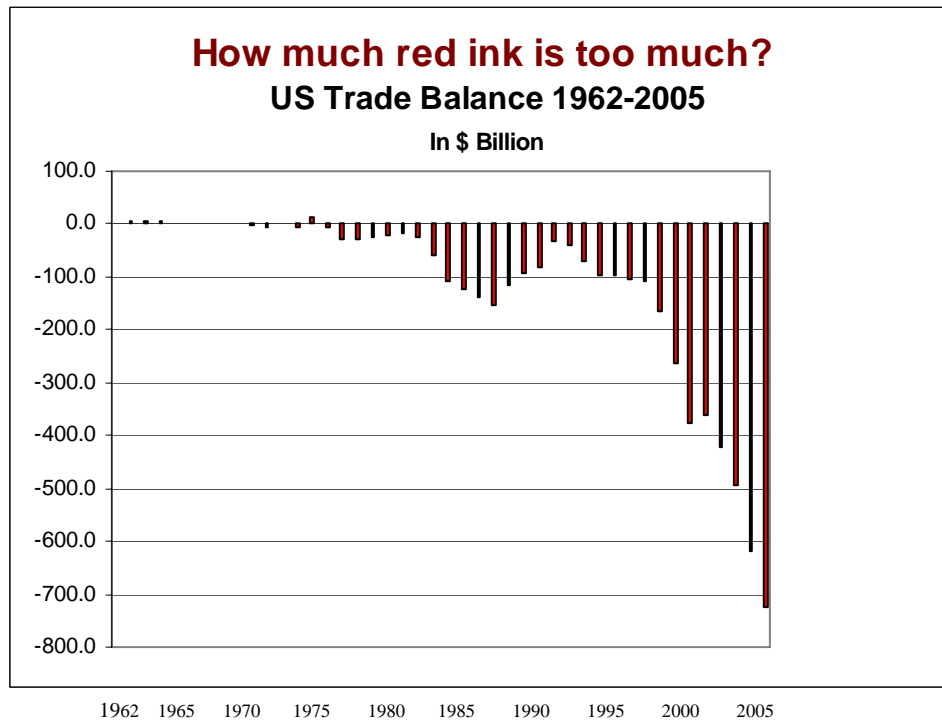
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## What's wrong with this picture?

### Comparative Tax Policies on Expatriates by Major Trading Countries

Country	*Trade Balance	Tax on Salary	Tax on Benefits	Tax on Cost of Living Allowance	Tax on Foreign Passive Income	Government Support to Individuals
<b>USA</b>	<b>Large Deficit</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>
Japan	Surplus	No	No	No	No	Yes
Italy	Surplus	No	No	No	Complex formulas	Gov't owned companies
France	Surplus	No	No	No	Complex formulas	Gov't owned companies
Korea	Surplus	No	No	No	No	Yes
Germany	Large surplus	No	No	No	Some limitations, Generally liberal	Yes
Canada	Surplus	No	No	No	No	Yes
Sweden	Surplus	No	No	No	No	Yes
UK	Small Deficit	No	No	No	Complex requirements	Yes

\* Year 2004 – latest available WTO full-year statistics



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