



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

SEP 05 2005

Ms. Jacqueline B. Bugnion
Director, American Citizens Abroad
5 Rue Liotard
1202 Geneva, Switzerland

Dear Ms. Bugnion:

Thank you for your letter to Secretary Paulson on the taxation of U.S. individuals living and working outside the United States. In particular, you urge the Treasury Department to support the Working American Competitiveness Act, which would allow the full exclusion of foreign earned income of individuals who meet the requirements of Internal Revenue Code section 911. Because your letter concerns a matter of international tax policy, it was referred to me.

As you note in your letter, the Tax Increase Prevention and Reconciliation Act of 2005 made several changes to section 911, including a limitation on the amount of housing costs that may be excluded under section 911. The legislation authorizes the Treasury Department to adjust the housing cost amount limitation on the basis of geographic differences in housing costs relative to housing costs in the United States. The Treasury Department is actively working to promulgate guidance in response to this grant of regulatory authority.

In addition, the Treasury Department is considering potential tax reform proposals. Americans living and working overseas bring a valuable perspective and first-hand experience on the impact of U.S. tax rules on international hiring, purchasing, and selling decisions. Accordingly, as we move forward in consideration of reform to our international tax rules, we will very much keep in mind the competitiveness points that you make in your letter.

Thank you again for your letter on this important subject.

Sincerely,

A handwritten signature in blue ink that reads "Hal Hicks".

Hal Hicks
International Tax Counsel