

OVERSEAS AMERICANS WEEK

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Issues and Positions



Association of Americans
Resident Overseas

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American Citizens Abroad
The Voice of Americans Overseas

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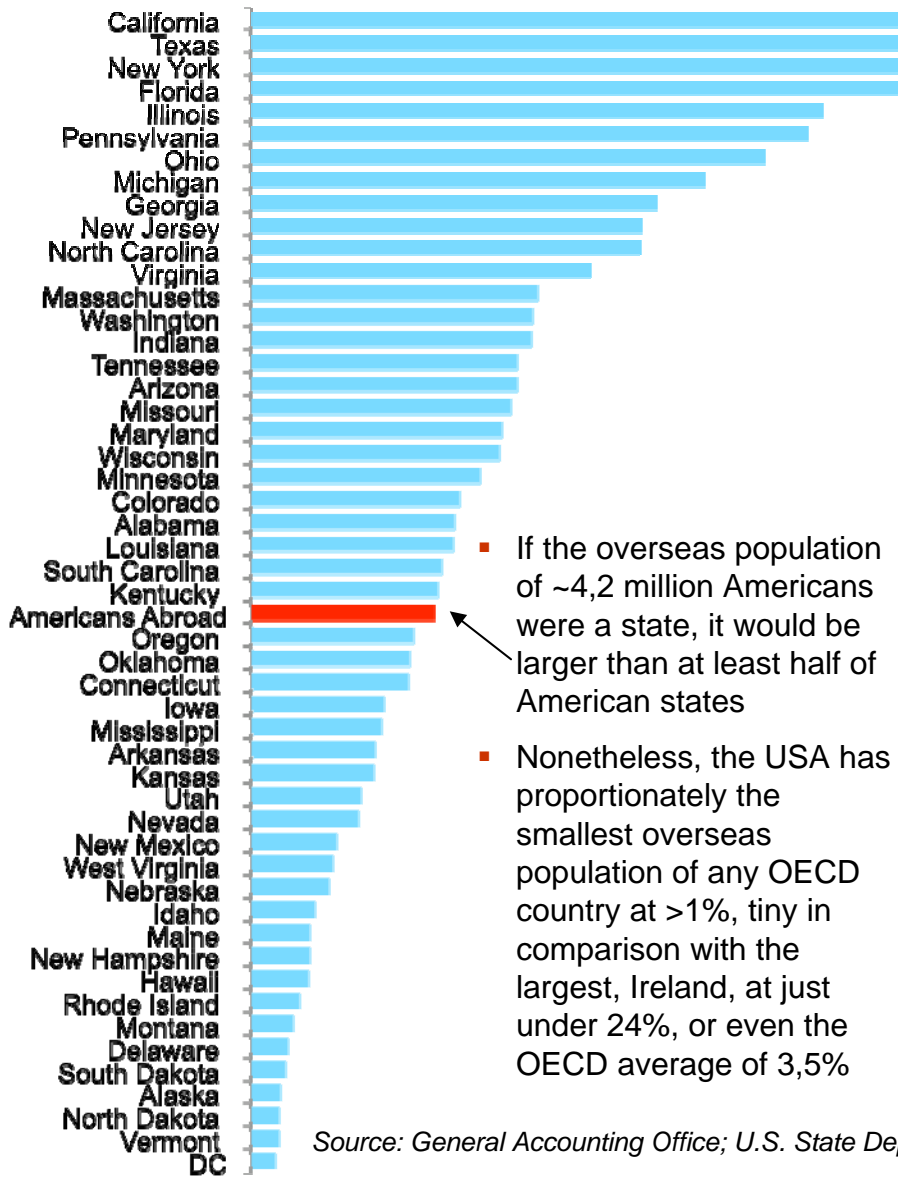
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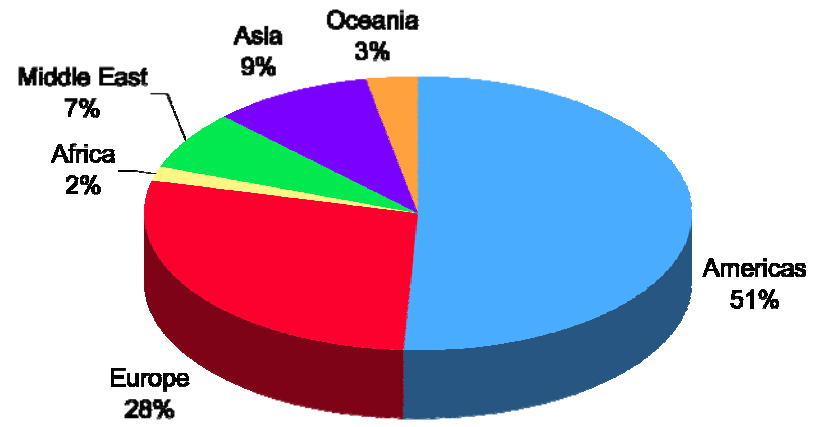
The American Community Overseas



- If the overseas population of ~4,2 million Americans were a state, it would be larger than at least half of American states
- Nonetheless, the USA has proportionately the smallest overseas population of any OECD country at >1%, tiny in comparison with the largest, Ireland, at just under 24%, or even the OECD average of 3,5%

<i>Estimates of the Population of Americans Abroad Vary Considerably</i>	
1998: Consular Reports	3,1 million
1999: State Department	4,2 million
2005: State Department	6,6 million
2006: General Accounting Office	3,5 – 4,5 million

Other estimates have ranged from less than 2 million to more than 10 million; a 2004 trial count by the Census Bureau in three countries was unsuccessful and no estimate was published



Source: General Accounting Office; U.S. State Department

Distribution of Americans Abroad

Overseas Americans' Unique Relationship with their Home Country

The interests of overseas Americans are not formally represented in either the legislative or executive branches of government...

- In Italy, 12 of 630 members of the Chamber of Deputies and 6 of 315 Senators are elected by 3 million Italians living abroad organized into four "external electorates" - Europe, South America, North and Central America and Africa-Asia-Australia
- France: 12 Senate seats are filled by the 150 members of the French expatriate council
- Croatia allocates seats in Parliament proportionate to its population abroad
- Lebanon and Israel have ministerial-level officials responsible for their overseas citizens; China, Greece and Serbia have similar officers at the sub-ministerial level
- Ireland and several other countries are contemplating changes to their constitutions to formalize representation of their respective expatriate communities

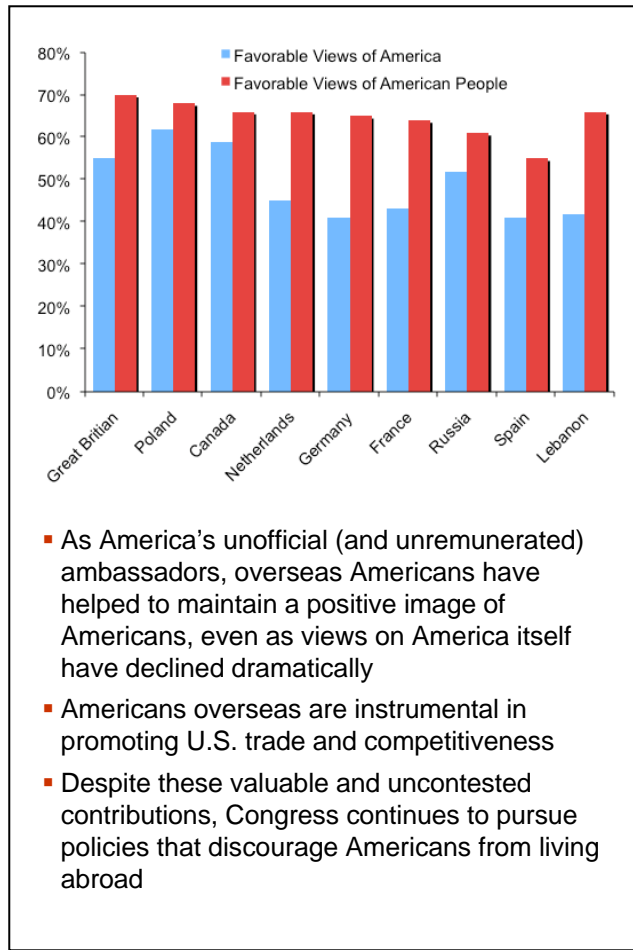
...but lack of representation has not caused Congress to hesitate to:

- make the U.S.A. the only country besides Viet Nam, North Korea and Eritrea to tax its non-resident citizens
- deny Americans abroad many benefits of citizenship, such as full rights to Social Security and Medicare, voting eligibility, or the transmission of citizenship to their children
- subject Americans abroad to extra-territorial laws that forbid or even criminalise activities that are perfectly legal for their friends and neighbours
- pass legislation that attempts to put obstacles in the path of those who have become so frustrated by these legal inconsistencies that they decide to renounce U.S. citizenship (rather than addressing the root causes of this frustration)

It has never been American government policy to facilitate or encourage living and working abroad by U.S. citizens, yet these citizens play a vital role as unofficial "ambassadors" of our nation and as representatives of American commercial interests

U.S. Policy Should *Encourage* – not Discourage – Americans to Live and Work Abroad

Americans overseas make a positive contribution to America's political and economic well-being disproportionate to their numbers



- America's surging trade deficit is a great threat to the country's economic well-being
- The increase in U.S. exports has lagged behind the much more rapid growth of U.S. imports and world commerce
- America's global market share in foreign trade has declined from 18% in 1976 to 8% today
- Although the balance of trade has always been important, the decline in the dollar's status as the world's unique reserve currency makes addressing the issue even more urgent
- Congress needs to focus on developing coherent policies to seriously encourage domestic manufacturing and an export drive; this includes allowing American citizens to be competitive when working overseas.

Key Issue Summary

- **Voting:** Procedures should be simplified for absentee registration and voting for Americans abroad; no citizen should be disenfranchised due to unnecessary technical requirements
- **Citizenship:** all Americans should enjoy the same right to transmit U.S. citizenship to all of their children at birth, including all children born to, or adopted by, a U.S. citizen abroad
- **Social Security:** Americans abroad should not be penalized simply because they spent part of their careers abroad, or because they retire abroad and/or have a foreign-born spouse or adopted children
- **Medicare:** All Americans who are eligible for benefits in the U.S. should be able to receive these or equivalent benefits anywhere in the world
- **Taxation:** Section 911 exemptions and other measures aimed at eliminating double or unfair taxation should be expanded in order to restore American competitiveness

Voting

- Significant progress towards addressing the obstacles facing overseas voters was initiated in 2007 with the introduction of two bills
- Both bills are amendments to the Uniformed and Overseas Citizens Absentee Voting Act (UOCAVA)
- Support for these bills is urgently needed in order for them to come into force in time for the upcoming 2008 general elections

Overseas Voting Practical Amendments Act of 2007 (H.R. 4237)

- Sponsored by Carolyn Maloney (D - NY); co-sponsored by Alcee Hastings (D-FL) and Michael Honda (D-CA)
- Simplifies and clarifies terminology used in voting materials
- Bans the rejection of votes based on “non-essential” requirements such as paper size, color or shape
- Permits submission of ballots by means other than by post (e.g. air courier)
- Extends voting eligibility to 2nd generation overseas Americans who have never established a US domicile

Overseas Vote Act (H.R. 4173)

- Sponsored by Michael Honda (D-CA); co-sponsored by Rush Holt (D-NJ), Sheila Jackson-Lee (D-TX), Carolyn Maloney (D-NY), Donna Christensen (D-VI), and Neil Abercrombie (D-HI)
- Contains most provisions of the Maloney bill
- Prohibits refusal to accept ballot for lack of notarization on envelope
- Eliminates the application for a state absentee ballot as a condition for casting a federal write-in ballot
- Provides for \$5 million in funding for non-partisan voter outreach programs
- Requires and funds inclusion of voting information in US passports

Citizenship Issues

Not all Americans residing abroad can transmit US citizenship to their children due to restrictive provisions of US law; it is even possible for such children to be born stateless

- Some countries do not grant citizenship to the children of US citizens who are born there
- These children would be legally stateless and not eligible for an American or another country's passport unless at least one American parent meets the requirements specified in the Immigration and Nationality Act

To facilitate transmission of citizenship and to avoid the hardships of statelessness:

- an unwed mother should be able to transmit citizenship to her child if she satisfies either the residence requirements provided under point 2 (below) OR the existing requirements under point 3
- Residence requirements in points 2 and 3 (below) should be decreased to two years and one year total, respectively

Children born to American citizens abroad can inherit citizenship only as specified in Sections 301 and 309 of the Immigration and Nationality Act:

- 1. Both of the parents are U.S. citizens and are married:** a child born abroad is a U.S. citizen at birth if either of the parents has ever resided in the United States; no amount of time specified.
- 2. Only one of the parents is a citizen of the United States:** the U.S. citizen parent must have resided in the United States for a period or periods totalling not less than five years, at least two of which were after attaining the age of fourteen. ("Residence" in this case includes time spent abroad on US military duty or employed by the US government or by certain international organizations, or as the dependent of someone so employed.)
- 3. U.S. citizen mother giving birth to a child out of wedlock:** she must have resided in the United States for one uninterrupted year at any age prior to the child's birth.
- 4. U.S. Citizen father of a child born out of wedlock:** he must have resided in the United States not less than five years, at least two of which were after attaining the age of fourteen years; he must also establish the blood relation, agree to support the child up to age 18 and assume legal paternity of the child before he reaches 18.

Social Security and Medicare

Current legal frameworks have created a number of gaps that can result in Americans resident abroad being fully or partially denied coverage by the Social Security and Medicare programs, even in the cases where their FICA tax burdens are identical to US residents

Social Security Issues

- The *Windfall Elimination Provision* (WEP) can reduce Social Security payments by as much as half of foreign-source pension income
- Self-employed Americans working abroad must pay FICA taxes in addition to the social security taxes they pay in their country of residence; as a result they pay fully into two systems, but because of WEP they receive only partial benefits
- No voluntary program exists for non-self-employed Americans to contribute to the Social Security system
- Supplemental Social Security benefits are cut off for Americans who are outside the country for 30 or more consecutive days
- Foreign spouses and adopted children of Americans are often denied survivor benefits
- Foreign spouse benefits are also subject to other provisions that limit benefits and/or impose withholding requirements more stringent than those on Americans

Medicare Issues

- Overseas Americans who are eligible for Medicare cannot use these benefits while they are outside the United States
- This is not only unfair, but needlessly costly to taxpayers as well, since it encourages citizens to travel back to the US for treatments that almost invariably cost far less in their countries of residence (private insurance rates suggest US costs are at least triple the global average)
- Overseas military personnel and their families receive health cover under TriCare; this program could easily be extended to cover *all* overseas Americans, just as the original scope of the Federal Voting Assistance Program was expanded to cover all citizens abroad

The Turbulent History of Taxation of Americans Abroad

Taxation of Americans Abroad

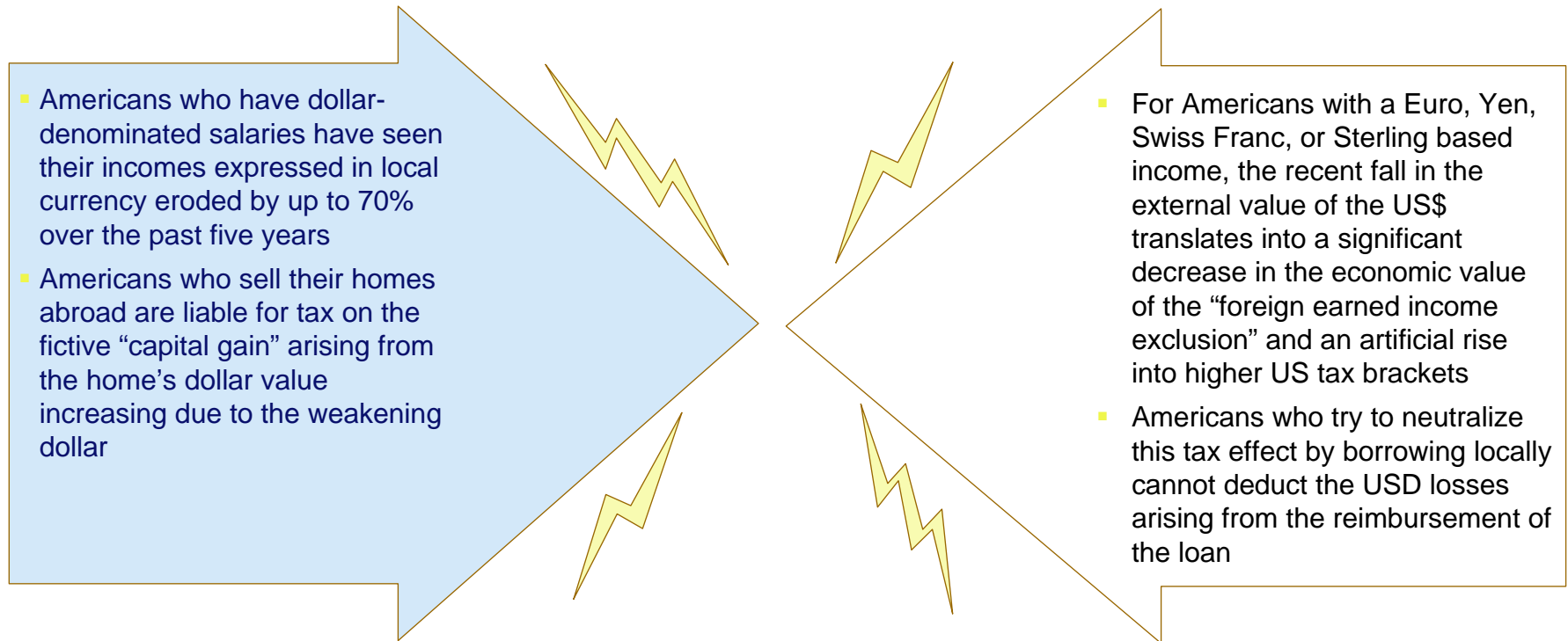
- The U.S.A. is the only OECD country to apply a citizenship-based approach to taxation
- As Americans abroad are taxed in their country of residence, this often results in double-taxation
- Since 1926, the Revenue Act, and subsequently, section 911 of U.S. Tax Code, have partially alleviated double taxation of Americans working abroad through the Foreign Earned Income Exclusion (FEIE)
- The Tax Reform Act of 1976 reduced this protection; rather than increase tax revenues as the bill's authors projected, the result was a massive loss of American competitiveness and a record trade deficit
- To restore competitiveness, Congress re-instated the FEIE in 1981, with a planned increase to \$95,000 by 1986, as well as additional exclusions for housing
- In 2006 "Tax Increase Prevention and Reconciliation Act" ("TIPRA") again reduced the 911 protections: although the FEIE was raised from \$80,000 from \$82,400, income above this level was taxed at a higher rate and some other exclusions were limited; the net effect was to increase taxes for most taxpayers

The current approach to taxation of Americans abroad needs to be changed because it is **unfair to overseas taxpayers** and because it runs **counter to America's national self-interest**

- The U.S. Commerce Department estimates that the number of U.S. citizens working for U.S. companies abroad has declined by 50% over the past 20 years
- Simultaneously, the U.S. trade deficit has skyrocketed – from a surplus of \$12.4 billion in 1975 to a deficit of \$764 billion today – even while nearly every other OECD country either has a trade surplus or is near balance
- Testimony given at Congressional hearings and numerous independent studies have clearly established the linkage between these two phenomena, yet many in Congress still believe eliminating the so-called 911 "exclusion" is a sensible way to raise revenues

The "**Working Americans Competitiveness Act**" (**S.1140 and H.R. 4752**), introduced in 2007, proposes to reverse the TIPRA provisions that are forcing US businesses to scale back their American workforce abroad

Current tax policies trap overseas taxpayers in “lose-lose” situations

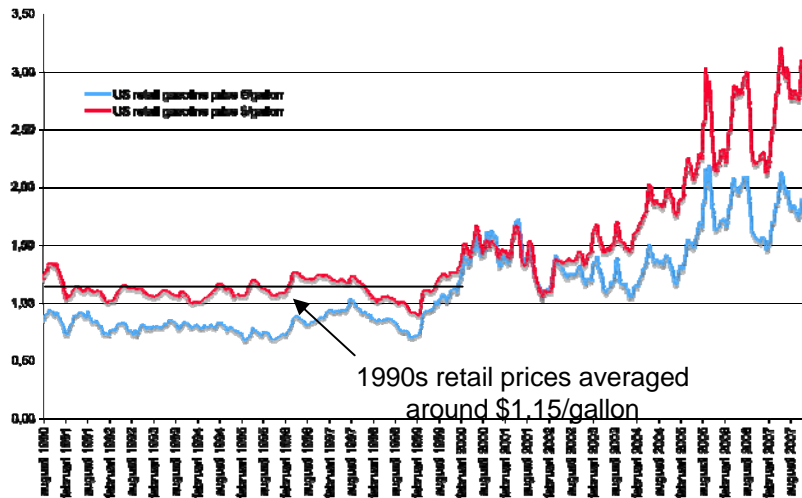


- Americans who have dollar-denominated salaries have seen their incomes expressed in local currency eroded by up to 70% over the past five years
- Americans who sell their homes abroad are liable for tax on the fictive “capital gain” arising from the home’s dollar value increasing due to the weakening dollar

- For Americans with a Euro, Yen, Swiss Franc, or Sterling based income, the recent fall in the external value of the US\$ translates into a significant decrease in the economic value of the “foreign earned income exclusion” and an artificial rise into higher US tax brackets
- Americans who try to neutralize this tax effect by borrowing locally cannot deduct the USD losses arising from the reimbursement of the loan

- Americans who live in low-income tax, high consumption tax jurisdictions (increasingly the norm in Europe) pay income tax as if they lived in a high-income tax, low-consumption tax environment like the U.S.A., but additionally pay high consumption taxes inherent to a low-income tax environment
- Americans in no- or very low-income tax, high-cost environments (such as Dubai or Hong Kong) pay taxes to the U.S.A. in addition to their housing, schooling and other costs (and are attempting to compete against others who pay *only* the high living costs but no taxes).
- The U.S. government implicitly acknowledges the inherent unfairness of current policy by exempting soldiers and diplomats from paying tax on housing, education and other allowances, yet refuses to extend the same conditions to private sector Americans working abroad

U.S. tax policy runs counter to its economic interests



Almost 40% of the subsequent price “increase” is due in fact to the decline of the dollar, a decline caused by an ineffective (or nonexistent) export policy

- America's trade deficit has reached crisis levels, leading to a collapse in the value of the dollar
- The first 20th century U.S. trade deficit occurred in 1971; the U.S. has not had a surplus since 1975
- At 5.8% of GDP, the current deficit is unsustainable and far exceeds that of any other OECD country
- Currently, the U.S. is borrowing around \$100 million **per hour**, 24 hours a day, 365 days a year to fund this deficit
- Many lenders are showing increasing reluctance to extend further credit, which can only accelerate the decline in the dollar
- Congress' principal response to date has been to engage in protectionist measures, ignoring the fact that the problem is not increasing imports, but insufficient exports from the U.S.A.; no country has ever devalued its way to competitiveness
- Instead, **America needs policies that will enable the country and its citizens to compete** in today's *global* economy, which means motivating (rather than discouraging) the kind of export promotion, market penetration and expansion abroad that America's competitors are engaged in

In USD terms, U.S. retail gasoline prices are up over 160% from the 1990s to around \$3.00/gallon; in Euro terms, the increase has been only slightly above 100%. This implies that approximately 40% of the fuel price “increase” is in fact due to the dollar declining, as opposed to an increase in the value of the commodity. It therefore suggests that in the absence of the unfortunate trade policies the U.S. has pursued over this period, retail gasoline prices in the U.S.A. would likely be around \$2.30, rather than the current \$3.00

The Americans Abroad Caucus: A Step in the Right Direction

The Americans Abroad Caucus represents the first effort in Congress to formally recognize the existence of their overseas constituents and their unique concerns and issues

Co-Chairs:

- Carolyn Maloney (D-NY)
- Joe Wilson (R-SC)

Caucus Members:

- Sheila Jackson Lee (D-TX)
- Alcee Hastings (D-FL)
- Tom Davis (R-VA)
- Frank Wolf (R-VA)
- Steven Cohen (D-TN)
- Michael Capuano (D-MA)
- Chris Van Hollen (D-MD)
- Kay Granger (R-TX)
- Susan Davis (D-CA)
- John Boozman (R-AR)
- Henry Waxman (D-CA)
- Donna Christensen (D-VI)
- Michael Honda (D-CA)

- Although the numbers of Americans overseas are collectively substantial, the lack of dedicated representation means that their political power is diluted across the 50 states and five territories with representation in Congress
- Capitol Hill policies and attitudes prevent overseas Americans from becoming fully engaged in the political life of their home country: staffers cannot return calls from overseas constituents, switchboard and correspondence staff are unaware that not all constituents have mailing addresses in the district they vote in, and webforms do not accept non-US addresses or telephone numbers
- Caucus members have changed their web contact forms and made other changes to facilitate communications with their overseas constituents
- Two caucus members have introduced legislation to improve overseas voting procedures.

The Caucus provides a focal point for Americans overseas to communicate on their issues

“Unfortunately, many of these constituents often have to struggle to have their representatives in Congress respond to them. Constituent letters with foreign addresses are often quickly discarded or forwarded even when the text of the letter explains that they are indeed constituents. In addition to upsetting constituents who feel they are being ignored, these misunderstandings often prevent overseas constituents from obtaining timely casework services.” (from Rep. Carolyn Maloney’s June 2007 “Dear Colleague” letter inviting them to join the Americans Abroad Caucus)

Your Support is Needed!

- Support the voting rights of overseas Americans by becoming a co-sponsor of **H.R. 4237**, **H.R. 4173** or companion legislation in the Senate
- Eliminate double-taxation and restore American competitiveness by co-sponsoring the **Working Americans Competitiveness Act** (S. 1140) or its companion House legislation, H.R. 4752
- Address the problems created by the WEP by supporting the **Social Security Fairness Act of 2007** (H.R. 82 and S. 206)
- **Sponsor legislation** that will **address inequities** concerning Medicare and transmission of citizenship
- Join the **Americans Abroad Caucus** by contacting Jennifer Keaton in Rep. Maloney's office at 5-7944 or Paul Callahan in Rep. Wilson's office at 5-2452, and implement changes to website contact forms and communications policies so that overseas citizens no longer feel treated as "second-class" constituents

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Background Information

About the Organizers

- **Overseas Americans Week (OAW):** For several years now, **AARO**, **ACA** and **FAWCO** have come together for a week in Washington D.C. to present to Congress and the Administration the issues of concern to Americans residing overseas. Thanks to this focused effort, overseas Americans have gained new visibility in Washington. OAW and its participating organizations were instrumental in the founding of the recently created Americans Abroad Caucus.

www.overseasamericansweek.com

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- **AARO (Association of Americans Resident Overseas)**, founded in 1973 and headquartered in Paris, is an international, non-partisan advocacy group working on behalf of Americans living overseas on a broad range of issues. AARO represents Americans abroad through its advocacy efforts in Washington and keeps its members informed about U.S. laws and regulations affecting them.

www.aaro.org

- **ACA (American Citizens Abroad)**, founded in 1978, is a non-profit, non-partisan association with membership worldwide, based in Geneva, Switzerland, whose mission is to defend the rights of Americans living overseas. ACA works to address issues facing private sector overseas Americans such as voting, citizenship, taxation, social security, Medicare and representation in Washington.

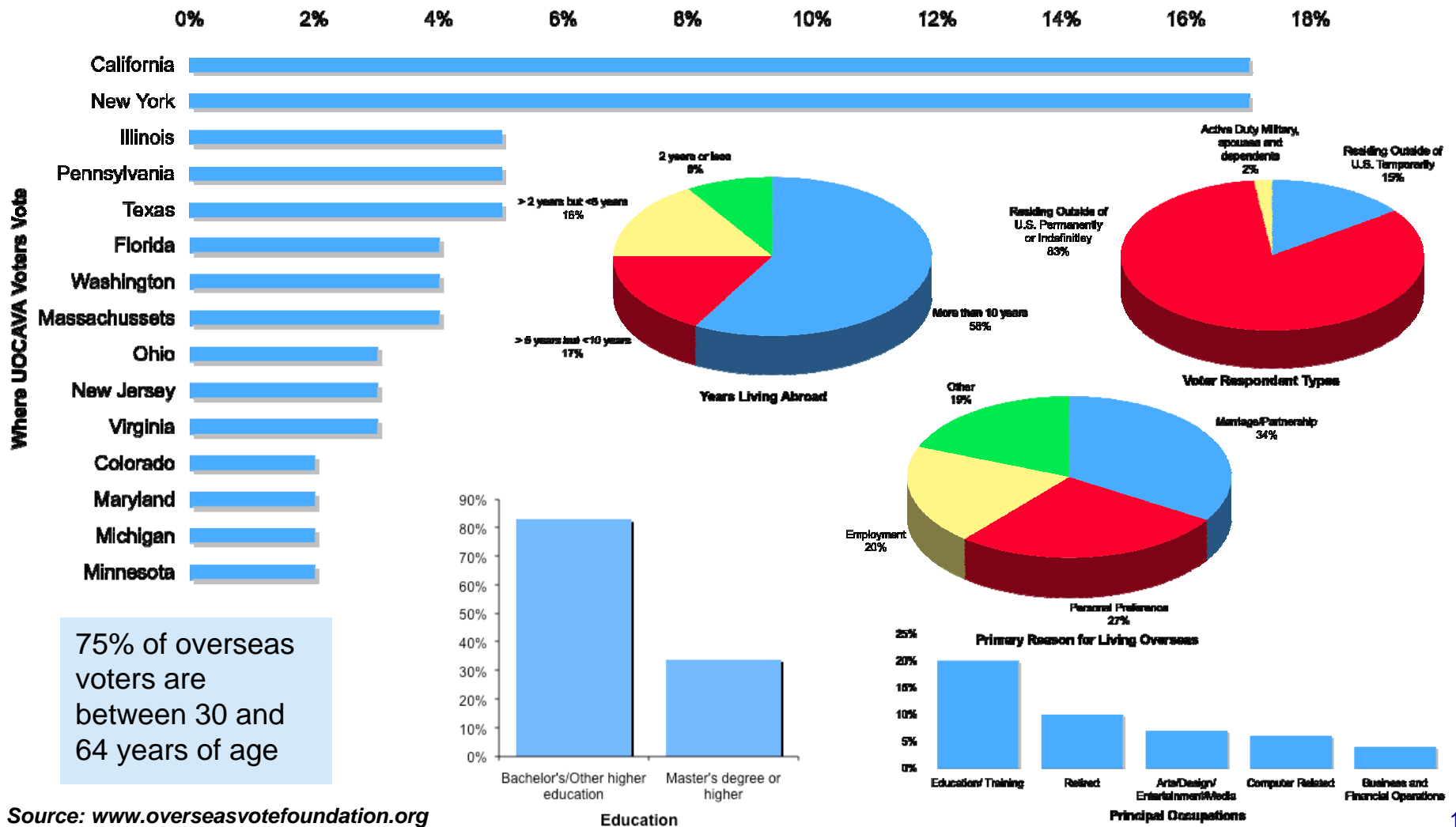
www.aca.ch

- **FAWCO (Federation of American Women's Clubs Overseas Inc.)** is the oldest and largest organization serving private sector Americans abroad. Founded in 1931, FAWCO is a non-partisan, not-for-profit U.S. corporation that serves as an umbrella network linking over 75 independent American and international volunteer organizations in 39 countries worldwide. A recognized Non-Governmental Organization (NGO) since 1995, FAWCO was granted special consultative status to the Economic and Social Council of the UN in 1997.

www.fawco.org

Americans Overseas: A Profile

- No official data is available as Americans overseas are not included in the U.S. Census.
- However, the **Overseas Vote Foundation 2006 Post Election Survey** (based on 4,506 completed on-line forms, a 10% response to the survey sent out) provides a glimpse at the profile of overseas voters, with one big exception: there were few respondents from Mexico, which represents one of the largest communities of overseas Americans



Source: www.overseasvotefoundation.org

Exchange Rate Impact on Taxation

Illustrative example of Married Filing Jointly with Salary of €120,000, Housing Allowance of €45,000 and Other Income of €5,000

<ul style="list-style-type: none"> ▪ Stable Euro income all three years - €170,000 ▪ US tax jumps from 0 in 2005 to \$18,531 in 2006, due to TIPRA limit on housing exclusion and stacking rule – i.e. higher tax rate ▪ Taxes increase another 10.7% to \$20,506 in 2007 due to 9% dollar devaluation and the stacking rule ▪ Exclusions/deductions in fixed dollars are insufficient ▪ Foreign tax credits no longer protect from double taxation ▪ Another hike programmed for 2008 if Euro maintains its early 2008 level of €1 = \$1.55 	Forex rates: €1 =	\$1.3686	\$1.2546	\$1.2429
	\$ tax return	<u>2007</u>	<u>2006</u>	<u>2005</u>
	Total Income	232,611	213,282	211,293
	FEIE	- 85,700	- 82,400	- 80,000
	Housing exclusion	- 11,998	- 11,536	- 43,130
	Adj. Gross Income	134,913	119,346	88,163
	Standard deductions	- 17,500	- 16,900	-16,400
	Taxable Income	117,413	102,446	71,763
	US Marginal tax rate	33%	33%	16%
	Tax before FTC	50,187	44,788	11,274
Foreign Tax Credit*	29,681	26,256	11,274	
(*based on 22% of AGI)				
Tax due to USA	20,506	18,531	0	
Annual Increase	10.7%	n/a		

Social Security

- The Windfall Elimination Provision (WEP) eliminates up to 50% Social Security benefits if an individual receives a foreign source pension. OAW organizations strongly support the Social Security Fairness Act of 2007 – H.R.82.IH and S.206.IS, which would eliminate the WEP for Americans at home as well as Americans overseas.
- Self-employed Americans overseas must pay Social Security Self-Employment Tax on self-employment income earned abroad. No credit is allowed against the self-employment tax for a similar tax paid to a foreign social security system and foreign contributions are not deductible for purposes of computing net earnings for self-employment. This creates a heavy burden on self-employed Americans residing abroad in countries that do not have bi-lateral social security totalization agreements with the United States.
- No voluntary program exists for salaried Americans overseas to contribute to U.S. Social Security
- The Earnings limits test, which applies to Americans who claim social security benefits and have not yet reached full retirement age, is different for Americans at home (dollar amount earnings limit) and Americans abroad (no more than 45 hours of work per month for those abroad, or else all of the benefits for that month will be lost).
- Supplemental Social Security benefits are cut off for persons who are outside the United States for more than 30 consecutive days.
- Denial of survivor Social Security benefits to foreign spouses who do not have five years residency in the United States with their U.S. citizen spouse and to children adopted outside the United States, even if the five year U.S. residency requirement is met – exceptions include citizens of Greece, Ireland, Israel or Japan or citizens or residents of countries with which the U.S. has a Social Security agreement.
- Withholding tax: Social security benefits received by non-resident alien spouses of U.S. citizens are subject to U.S. income tax withholding of 30% on 85% of benefit amount which is equivalent to 25.5% on the full benefit, with exceptions for residents of Canada, Egypt, Germany, Ireland, Israel, Italy, Japan, Romania, the UK and India; for Switzerland, the withholding is reduced to 15%.
- Filers in the “Married Filing Separately” category (often used by Americans overseas with foreign spouses) are severely penalized as Social Security benefits are subjected to taxes from the first dollar, with no amount being exempted as for the “single” and “married filing jointly” categories.

U.S. Banks Refuse Americans Overseas as Clients

“Know Your Customer” provisions in the **Patriot Act** discourage U.S. banks from accepting Americans with a foreign address as clients

- New accounts are impossible to open
- Transfers from abroad are refused
- Long established accounts are forcibly closed
- Banks cited include major U.S. banks and brokerage firms
- Major inconvenience and frustration for Americans residing abroad
- This short-sighted policy pushes billions of dollars of American savings offshore when the nation needs financing from abroad to finance its trade deficit
- One more instance of repeated discrimination against Americans abroad

Testimonies of Americans Abroad

- “I am named in wills of family members who reside in the U.S. I do not want the funds to leave the U.S., but I cannot open an account.”
- “It is very difficult for non-residents to get a mortgage for an investment or future retirement property because they cannot open an account in the U.S.”
- “After 46 years as clients, we were informed that, because of our foreign address, the bank had to close our account within thirty days.”
- “I found myself unable to transfer funds to my son who was in school in America.”
- “My trading accounts in the U.S. were frozen without notice; the reason given was that I resided overseas.”
- “I have had 529 College Savings Plans accounts for five years for my two daughters. The bank suddenly refused any further deposits because I live overseas.”
- **“Why can’t I invest in my own country?”**

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