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U.S. Tax Policy on Americans Working Overseas Hinders Export Development and Costs Domestic Jobs

Competitive landscape – As the global economy evolves, more opportunities, especially in the emerging markets, are present for American companies. Yet the U.S. has become progressively less dominant as a trade partner for most countries as US export growth has trailed the rest of the world. Our share in world exports today is less than 9%, compared to more than 18% ten years ago. From 1996 to 2006 the U.S. trade deficit multiplied 7 times reaching $764 billion in 2006, as imports grew faster than exports. The trade deficit has accelerated from 1.4% of GDP in 1996 to an unsustainable 5.8% of GDP in 2006. Imports of goods exceed exports by 50%. **The U.S. must become more export oriented.** In today's global economy, this is the key source of domestic job growth, national prosperity and tax revenue.

Americans are desperately needed overseas to develop new and existing foreign markets and to increase sales of US goods. They influence procurement and manufacturing location decisions as well as new ventures; they are critical in negotiating large commercial transactions to penetrate vast global markets such as China. Yet American tax policy makes Americans too expensive. The number of Americans employed overseas by U.S. corporations has been in decline for 30 years. One important element needed to encourage exports is to modify the current tax laws that discourage Americans from working overseas and that make American labor in foreign markets too expensive.

Taxed twice – All Americans working overseas pay taxes in the countries where they reside as well as in the U.S. Section 911 of the Internal Revenue Code, which includes limited foreign-earned income exclusion, limited foreign housing exclusion and foreign tax credits, does not come close to mitigating the unfairness.

Easy target for raising revenue – 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 an easy target when Congress looks for additional tax revenue, as evidenced by the revenue offset provision increasing taxes on overseas Americans that was integrated into the *Tax Increase Prevention and Reconciliation Act of 2005 (TIRPA)*, passed in May 2006. Yet "exclusion" in Section 911 is merely intended to provide a partial offset for taxes paid overseas on foreign earned income.

Foreign Exchange Risk – U.S. taxes must be calculated and paid in U.S. dollars while Americans working overseas earn salaries in foreign currencies. With the declining dollar, a stable income in a foreign currency leads to a higher taxable income in the United States.

Differences between tax systems – U.S. and host country tax laws recognize income and deductions differently. American citizens overseas must pay tax twice on the same income. For example, VAT, social, personal property and wealth taxes are very high in many countries but are not deductible against U.S. taxes.

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.

Recommendations to make Americans working overseas more competitive:

- **Update the president's Export Council report of December 5, 1979 and the 1981 GAO Report to Congress ID-81-29, *American Employment Abroad Discouraged by US Income Tax Laws*.**
- **Eliminate the cap on the foreign-earned income exclusion as proposed in the *Working Americans Competitiveness Act, S 1140*, introduced in the 110th Congress.**
- **Repeal the stacking rule on taxable income and the limitation on housing exclusion in Section 911 of the tax code as introduced in 2006 under Section 515 of TIRPA.**

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