

Calculation of typical tax burden upon US citizen family living overseas.

The following calculation uses the characteristics of a typical US citizen, as part of a family living outside of the USA. The calculation is made for each of a 6 year period, and the result is shown for totals over the 6 year period and average per year, as is appropriate for each value.

The values calculated are

--The quantity of each type of form needed for this family, total forms for the 6 year period and for one year.

--The number of pages of instructions for the forms, totalled

--The number of hours to submit each form needed, according to the standard IRS calculated time as posted in each form's instructions.

--The listed penalty for the form. In this case, given that the quantity of hours needed to file the forms is so great, it would be impossible to complete the forms. The taxpayer would be forced to give up, and that taxpayer would likely be deemed by an IRS agent to be "willfully non-compliant".

--The period of 6 years is assumed, as this is the retroactive period for which compliance is demanded for many of the forms.

TARGET PROFILE FAMILY

One US person spouse.

Works as a purchasing agent at a small, family company, with authority to write checks for purchases from 3 corporate accounts.

Works to purchase supplies for his wife's business, with purchases from 3 of her business accounts.

Volunteers as a purchaser for his son's soccer team, helping to purchase sports supplies for the elite division, with authority to write checks from 3 organization accounts.

Has 3 joint family accounts.

Has 8 mutual fund accounts (because each chosen account is separated out at his chosen financial institution)

Has 1 transaction of interest per year.

Has established one trust for each of his 3 children, for such things as education or long-term stability versus his personal health risks.

Makes 2 transactions per year in each of those trusts.

Helped his wife to establish separate hair salon and beauty-products boutiques. Provided startup capital for her and is part owner together with her.

His wife's salon & shop require infusions of capital---loans from the family accounts.

His wife's salon & shop earned income which is retained in the firm.

SUMMARY

The reader can see that the quantity of forms and hours is so high, that “compliance” for a modestly-successful family with a US person is impossible.

The penalties which would be applied show that the penalty system is draconian.

In more than 80% of the cases, a US person living overseas owes no tax to USA, due to exclusions and credits for high taxation in most countries.

The amount of informational forms is unreasonable.

There is no other country in the world which subjects its citizens to this type of treatment. Separate documents can show that this treatment (reference Roger Conklin’s historical submissions to House Ways and Means committees) of citizens overseas is correlated to the USA’s unique trade deficit.

In this analysis, you see that this target family requires 1324 calculated hours of preparation time per year, with 132 pages of forms submitted per year, 789 pages of instructions to read. When this taxpayer gives up and says it is impossible, he is subject to fines of \$11,190,000.

The analysis shows that the tax reporting burden and penalty structure for US citizens abroad is seriously flawed and needs to be deleted.

No other country in the world taxes its citizens living outside of its borders.

Type of form	Form	Title	Description	QTY	Form pages	Instruction pages	total prep time (hrs)	Total Penalty
			Total over 6 years		789		7941	\$11 190 000
			Total per yr		132	690	1324	
								\$50,000
<u>INFO FORMS</u>	<u>FBAR:</u>	Foreign Bank Account Report	personal accounts	24	120	8	30,0	\$2 400 000
			jointly with Finnish spouse	12	0		15,0	\$1 200 000
			volunteer organization account	18	0		22,5	\$1 800 000
			accounts at workplace	36	0		45,0	\$3 600 000
	<u>8938</u>	Same as FBAR	New form, duplicate	6	12	12	6,5	\$300 000
	<u>8621</u>	mutual funds		48	144	12	2238,4	\$480 000
	<u>8886</u>	"transaction of interest"		6	12	7	129,0	\$60 000
	<u>3520</u>	transactions with foreign trust or report of gifts	transactions with foreign trusts, Ownership of foreign trusts under the rules of sections 671 - 679, & Receipt of gifts or bequests from foreign persons.	36	216	12	1964,4	\$360 000
	<u>3520 a</u>	Annual Info Return of Foreign Trust With U.S. Owner	annual info return of a foreign trust with at least one U.S. owner. info about the foreign trust, & any U.S. person owner of the foreign trust	18	72	6	780,6	\$180 000
<u>BUSINESS INFO FORMS</u>	<u>8865</u>		report 10% partner in a Finnish partnership.	6	36	17	402,0	\$300 000
	K-1			6			81,8	\$0
	O			6			75,0	\$0
	P			6			31,5	\$0
Type of form	Form	Title	Description	QTY	Form pages	Instruction pages	total prep time (hrs)	Total Penalty

	<u>8832</u>	Entity Classification Election	For a Finnish citizen starting up a Finnish corp. elect if it classifies as a corp or partnership	1	3	4	7,1	\$0
	<u>5471</u>	10% or more shareholder in a Finnish corp.	for officers, or shareholders in foreign corps. Used to satisfy the reporting requirements of sections 6038 & 6046, & other regs	6	24	18	496,5	\$300 000
			Sch. J (5471)	6	0		22,9	\$0
			Sch. M (5471)	6	0		192,3	\$0
			Sch. O (5471)	6	0		64,5	\$0
	<u>5472 –</u>		Info Return of a 25% Finnish-Owned U.S. Corp or a Finnish Corp Engaged in a U.S. Trade	6	12	4	145,6	\$0
	<u>926</u>		to report property transfers from Finnish citizen to a Finnish corp, including undistributed earnings. (for example, loaning startup money to one's own Finnish corp? Or maintaining earnings in a Finnish corp)	18	54	7	806,4	\$100 000
<u>YEARLY TAX FORMS</u>	<u>4868</u>	4 month time Extension		6	6		6,0	\$0
	<u>1040</u>	Main tax form		6	12	506	300,0	\$0
	<u>1040 A:</u>	Itemized Deductions.		6	6	15	0,0	\$0
	<u>1040 B:</u>	Interest & Dividends		6	6	2	0,0	\$0
	<u>1040 D:</u>	Capital Gains & Losses		6	12	13	0,0	\$0
	<u>2555:</u>	Foreign income exclusion		6	18	12	0,0	\$0
	<u>1116:</u>	Foreign Tax credit		6	12	23	36,0	\$0
	<u>1040 x</u>	Changes to 1040		6	12	12	42,0	\$60 000