

John L. Harris

ATTN: International Tax Reform Working Group

Dear Congressman Nunes
Dear Congressman Blumenaur,

Please use the opportunity of a comprehensive tax reform to repeal an onerous, burdensome and unfair Citizenship based taxation regime and move to a residence based taxation system, which would be in line all other countries in the world – with the notable exception of Eretria – and allow US citizens abroad to lead “normal financial lives” just as their fellow citizens do, who live within the borders of the 50 States.

The current regime of citizenship based taxation is not only an anachronism, but has significant negative effects on the US economy, and is causing extensive harm to Americans living abroad. The current system brings little revenue to the US Treasury, but makes life extremely difficult for Americans abroad. No other country in the world treats its citizens living beyond its borders this way. More and more US and dual citizens are choosing to renounce their American citizenship rather than have their and their family’s financial existence endangered.

Before I elaborate on the harm the current system has done to me and my family personally, as well as other Americans living abroad, allow me to give you a little information on my background and how I came to live abroad, so that there is no misconception of me being a “rich overseas American” shirking his tax obligations. In fact, just the opposite is true: I, like many US citizens living abroad, am subject to double taxation. We pay taxes in the country where we live, and to the United States, upon whom we make no burden.

I grew up in Colorado and joined the US Marine Corps on my 18th birthday. After serving overseas, I returned home, became an amateur rodeo cowboy and later a police officer with the Boulder, Colorado Police Dept. Career-threatening injuries, incurred in the line of duty, lead me to start college at age 25. A “junior year abroad” program brought me to Europe for the first time in the historic year of 1989. Later, after a Fulbright scholarship in Germany, graduate studies in International Relations in Washington, DC, and a post-graduate fellowship back in Germany, I was the deputy director of the German-American Institute in Stuttgart (successor to the Amerika Haus, run by the US Information Agency). Since then, I have worked in the private sector in Germany, Belgium and now, Switzerland. All in all, it is an American success story.

Honorable Congressmen, in my years living abroad I have never suffered discrimination or difficulty as an American from any foreign regime, under whose rules I have lived. The only problems have been those caused by the laws and policies my own Government!

The difficulties begin with the hiring or transfer of an American citizen abroad. For the American employee to have the same amount of take-home pay as citizens of other countries, the employer must “gross up” the US citizen’s pay to compensate for the US tax burden. Unfortunately, I did not realize this when I was hired and thusly earn considerably less than my colleagues in similar positions, but who are not Americans. In contrast to my colleagues, whether they are Swiss, German, French, Russian, British or Japanese, I alone am taxed by my home country. Many companies shy away from this financial and bureaucratic burden of hiring US citizens. There is more than anecdotal evidence that European companies are turning down American applicants simply on the basis of their passport because of US citizenship based taxation problems. Likewise, I have heard of Americans turning down a position overseas that involve a promotion because of the additional tax burden.

Solely because of the problems of double taxation (despite the Foreign Earned Income Exclusion and a double taxation treaty between the United States and Switzerland, not all Swiss taxes are counted toward my US tax liability), my family and I are struggling to make ends meet. Given the taxes we pay in Switzerland, the cost of living here and the burden of US citizenship based taxation, we cannot save enough in the course of a year to pay the additional tax I owe the US Government!

Moreover, because of US tax law, I am looking at a very bleak future when I retire.

Although Switzerland has a retirement regime quite similar to the US system of 401 (k) and IRA’s, US tax law makes it virtually impossible for me to save for my retirement. Because of the Passive Foreign Investment Company (PFIC) Act, my local bank will only allow US citizens to have a “savings account” rather than have the funds in the IRA invested. Even worse is the fact that because the Swiss company pension plans are not recognized as such by the IRS, my employer’s contributions to the (Swiss) 401 (k) have to be declared as income. This is money I neither see nor have access to, yet it sends my “taxable income” to unrealistic heights. This is all the more aggravating as the company pension plan in Switzerland is almost identical to the pension scheme I enjoyed while working as a police officer in Colorado. Furthermore, what I save in Swiss taxes by contributing to my retirement savings only increases my US tax liability!

I – and my American colleagues – feel trapped. We would like to lead normal financial lives in the community where we live and care for our families as working people everywhere in the United States do, but all efforts to take advantage of tax deductions, save for our retirement and our children’s future is brought to naught because whatever we save in Swiss local and federal taxes, we have to pay the difference in US taxes. These are difficulties and financial burdens that no American citizen living in the United States has.

The current US citizenship based tax regime discriminates exclusively – in contrast to residents of the United States and citizens of all other countries in the world – against Americans living abroad. No one other than US citizens living outside of the United States suffer so.

I am not against taxation as such. I use the local societal infrastructure, my daughter goes to the local school, and we enjoy local fire and police protection. I pay for the governmental services that are at my disposal. When I need to go to the US embassy or consulate for

“Citizen Services”, I pay for those in service fees as well, but the current system of Citizenship based taxation is not only discriminatory and unfair, but it is just plain wrong!

My daughter is handicapped, and moving back to the US is out of the question for the foreseeable future. Much of what I have written here is more of a personal testimonial than a policy critique and recommendation, but I hope that you can see how damaging the current taxation system is to individual Americans abroad. We are uniquely, among citizens of all other countries, disadvantaged by our own Government.

Please end this inequity and bring US taxation law and policy in line with the rest of the world. This would allow American citizens abroad to lead their lives, and care for the financial security of their families as Americans living in the US – and all other citizens of the world can.

The Organization, American Citizens Abroad, has put forth what seems to be a reasonable proposal to end Citizenship based taxation, and move to a Residence based taxation. Please give it due consideration.

Sincerely,
John L. Harris