

ATTN: International Tax Reform ¹Working Group

Dear Representative Nunes and Blumenaur,

I am writing to ask that the International Taxation Committee of the Ways & Means Committee for Tax Reform seriously consider the ACA proposal for reform to Residency-based taxation RBT. See link: <http://americansabroad.org/files/6513/6370/3681/finalsbrbtmarch2013.pdf>

As one of nearly 7 million American citizens living, working and voting from abroad, and contributing to the economic growth of the U.S. economy, I believe the current Citizenship based taxation regime must be reformed. Current tax policy is negatively affecting this important sector of American and their ability to compete for jobs, grow the US economy through international business and exports, and live overseas. Current tax policy damages both individuals and the welfare of our country.

The following are some examples of the fallout on Americans working overseas from current U.S. Citizenship based taxation:

- Inability to relocate and work internationally
- Denial of job opportunities or job advancement
- Refusal of entry into business partnerships
- Closure or denial of financial instruments (pensions, insurance policies, bank accounts, etc.)
- Exposure to double taxation or increased tax burden
- Financially ruinous penalties due to broad application of criminal tax evasion regulations on those making simple filing errors due to complexity of the US tax code.

I have been personally affected by this situation as follows:

- **We are not provided the same opportunity to save tax-efficiently for our retirements as US citizens who are working and living in the US.**
 - *Annual contributions into our Swiss pensions by our employers are required to be taxed in the year of contribution and not in the year we receive payments out of the account (ie, at retirement).*
 - This is the equivalent of the US taxing US citizens working and living in the US on employer's contributions into 401(k) accounts in the year of contribution.
 - Paying taxes in the US in year of contribution into our pension requires us to set aside a lot of our take home salary each month to pay the taxes due on the employer contribution since we have not yet received any distributions from our pensions.
 - We need to keep track of the amounts that have been taxes in the US so when we pay taxes in Switzerland upon receipt of distributions, we can hopefully avoid paying taxes on the same income again in the US. We are in our mid-30s; therefore, we may need to keep track of this information for at least another 25-30+ years!
 - As a result, we are disadvantaged from US citizens living and working in the US as follows:
 - We must use cash now to pay taxes that US citizens working and living in the US are allowed to use to invest in their retirement (ie, we lose out on the time value of money);
 - Paying taxes now adds complexity to our annual tax compliance (ie, more compliance fees);
 - We could be double taxed as who knows what the tax laws will be in the US or Switzerland when we actually receive the distributions from our retirement.
 - *Not able to participate in tax-efficient retirement funds, like IRAs, like US citizens working and living in the US.*

- Switzerland has something similar to an IRA available, which is known as the Third Pillar.
 - While the Third Pillar is tax-efficient from a Swiss tax perspective, the benefit of minimizing Swiss taxes is eliminated by having to pay more taxes in the US.
 - Also, if we were to participate in any tax-efficient scheme in the US, the taxes saved in the US would then be taxed in Switzerland since we are subject to worldwide taxation in Switzerland as residents of the country.
 - Whereas US citizens working and living in the US are able to participate in these tax-efficient retirement funds within certain limits to allow people to better prepare for retirement, this is a benefit not extended to US citizens working abroad under current US tax law who are in similar situations.

- **Compliance costs are very expensive**
 - Costs required to be in compliance with the complex, continuously changing US tax laws is expensive and given the fines and penalties that can be assessed if the rules are not followed, one really needs professional help.
 - I am a US tax professional and always prepared my own tax return given my experience, but the instructions and requirements are not easy to follow and I no longer felt comfortable that I was doing everything correctly given how complex the computations, etc. are.
 - As a result, we found a non-Big 4 firm to prepare our return and paid CHF 2'268. This fee was purely to prepare our Form 1040, which the tax advisor considered our facts as simple/basic. This fee did not include the preparation of any quarterly estimates, extension, FBAR filing or any FATCA related filings. This fee also did not include the compliance costs for our Swiss tax return.
 - My colleague was recently quoted a fee of approximately CHF 4'500 to have her simple/basic US and Swiss tax returns prepared by a Big 4 firm in Switzerland.
 - Given the complexity of the US tax rules that apply to US citizens living and working abroad and then also the requirement to understand the tax rules of the country of residence that is used as the basis in preparing the US tax return, there are very few professional firms able to prepare our US tax returns and results in high compliance costs despite the fact that we have very simple/basic facts.
 - Again, I cannot imagine that any US citizens working and living in the US with our fact pattern are paying compliance costs anywhere near those we have to pay.

- **Discouraged from donating**
 - Any donations that reduce our Swiss taxes increase our US taxes. Then, in the US we use the standard deduction as not enough deductions to itemize; therefore, cannot deduct the donations made in the US.
 - Funds available to donate are greatly reduced by having to pay tax on the employer's contribution and on tax compliance fees.

- **US taxes has dictated normal life choices that US citizens living and working in the US nor people from other countries living in Switzerland have to deal with**
 - In addition to the comments above, US tax also dictates the following decision we make
 - Where we live
 - We needed to choose our home based on where we could pay the most taxes, which meant lower rent costs.
 - For example, if we lived in the city we both work, which is where we would like to live, we would pay at least \$12,000 more each year for a comparable apartment since the tax rate in the canton the city is located is low.
 - Everyone we know (Swiss and non-Swiss but excluding Americans) do not mind paying more rent because the higher rent is offset by the lower tax bill since taxes are only paid to Switzerland since that is where they live.
 - For us, it just means paying more rent and any taxes saved in Switzerland would be taxed in the US.

- Whether to buy a home
 - In the US, owning a home is part of the American dream
 - We would like to own our own home in Switzerland, but there is a good chance the deduction we take on the mortgage in Switzerland would be disallowed for US tax and increase our US taxable income.
 - If we used some of our pension (ie, equivalent to a 401(k)) to pay for a house, while using this portion of our pension to buy a house would not have a negative Swiss tax impact, it would for US tax purposes.

- **Why?**
 - Why are we being punished for living and working outside the US?
 - Why must the rules be so complex for people like us who are living and working and trying to save for retirement, just like all our friends and family in the US? Only difference is we are doing the same thing as our friends and family but in a different country.
 - Why must we pay so much taxes to the US (and we are already taxed in Switzerland on our worldwide income and use a lot of our cash to cover basic costs of living since Switzerland is an expensive country to live) when all we have in the US is some furniture in my parent's basement and my bank accounts from when we lived and worked in the US?

Please seriously consider the RBT proposal submitted by American Citizens Abroad (ACA). A move towards a residence-based system, like the rest of the world, not only would it be simpler and fairer for Americans living abroad, but it would actually bring in MORE tax revenue than the current system, which wastes compliance resources for very little return. RBT would increase United States exports strongly by facilitating American mobility in the global business environment of today's world.

Yours sincerely,

Justin & Kassie Virden

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