

H.R. 7358 – Tax Fairness for Americans Abroad Act of 2018

Tax Fairness for Americans Abroad Act – Summary

This bill would take the first step toward ending citizenship-based taxation by essentially taxing only those individuals that are resident in the United States or have income that is connected to the United States.

Under this bill, nonresident citizens that make an election to be taxed as qualified nonresident citizens will be exempt from taxation on, and will exclude from gross income, their foreign source income. All nonresident citizens will, however, remain subject to tax on any U.S. source income.

Current Law – Citizenship-Based Taxation

Our system of citizenship-based taxation, which taxes all citizens regardless of where the income is earned or where the citizen resides, places a unique burden on American citizens. This form of taxation stands in stark contrast to the rest of the world, as nearly every other country has adopted some form of territorial or residence-based taxation, and thus only taxes the income of individuals resident in the respective country – Eritrea is the only other country that operates a citizenship-based taxation regime.

In addition to creating costly and onerous compliance requirements, citizenship-based taxation often subjects many Americans abroad to double taxation and can severely hamper their ability to save for retirement. Further, citizenship-based taxation places increased burdens on Americans working abroad, which discourages businesses from hiring U.S. citizens for jobs in foreign jurisdictions. In fact, it can often cost as much as 40% more to hire an American than their foreign counterpart.

Benefit of the Tax Fairness for Americans Abroad Act

The Tax Fairness for American Abroad Act would create a tax regime that is simpler, fairer, and more competitive for Americans around the world. This bill takes a meaningful step to address the discriminatory double taxation of Americans abroad as well as ease the burden of dual tax filing requirements. Further, this bill will ensure that Americans around the world are able to accurately plan and save for their future without the fear of punishing tax liabilities.

American citizens abroad promote U.S. businesses, support U.S. exports, and represent U.S. interests throughout communities around the globe. By leveling the competitive playing field, this bill will allow more Americans to enter into the global workforce, thus encouraging both domestic job growth and increased reliance on U.S. products and services in global operations.