Timothy F. Sipples
SINGAPORE

April 15, 2015

The Honorable Senator Orrin Hatch and The Honorable Senator Ron Wyden
Committee on Finance
United States Senate
Washington, DC 20510

Dear Senators Hatch and Wyden:

Thank you for soliciting ideas concerning tax reform. My views bear on both the “Individual Income Tax” and “International Tax” interest areas. Both groups should feel free to contact me. My views are my own. I am not a member of any association, group, or organization likely submitting comments.

***Brief Personal Biography***

I am a U.S. citizen who has lived and worked overseas for about 9 years, most recently in Singapore for about 5 years. I work for a major information technology company based in the U.S. Most of my work involves designing IT solutions for prospective clients in Asia, Africa, and the Middle East. Those solutions rely heavily on products and services that my company develops in and exports from the U.S.

I was born, raised, educated, and spent most of my career so far in the U.S. I earned a bachelor's degree from Harvard University and a master's degree from the University of Chicago, both in economics. My parents, siblings, aunts and uncles, cousins, and many friends live in the U.S. I am married (to a non-citizen) and, last year, we welcomed our first child into our lives.

As far as I know I am and always have been fully compliant with all tax and financial reporting obligations (and other U.S. laws). I take those responsibilities quite seriously. My wife and I have chosen to file joint U.S. tax returns since we married. We have fairly uncomplicated financial lives, though U.S. tax filing is complicated nonetheless. Fortunately I receive some limited tax preparation assistance from my employer, but there have been several occasions when I've had to educate the tax preparation firm's staff on U.S. tax matters. I am among the approximately 6% of U.S. citizens living overseas that pay U.S. personal income tax on non-U.S. source income.[1]

I vote in all U.S. federal elections where I last resided. I consider myself to be a highly engaged, civic-minded citizen, even though I don't live in the U.S. at present. I've had to educate myself a great deal on the U.S. tax code. I often provide informal financial advice to others considering overseas work.

1 Estimate by J. Richard Harvey, Jr., Villanova University.

***Important Core Tax Principles***

The raison d'être for any tax system is to raise revenues to support government services and, thus, civil society. Any responsible, appropriate tax system should incorporate the following principles:

**1**. Simplicity. The tax system should be no more complicated than necessary to achieve its goals and adhere to the other principles. Congress has much to apologize for here. In any reform Congress should seek ways to restrain itself (and those who influence it) from introducing tax expenditures, loopholes, etc. that complicate tax filing.

**2**. Based on Ability to Pay. Perhaps contrary to my own narrow self-interest, I believe in a progressive tax system with tax incidence and graduated rates highly correlated with ability to pay. Just societies impose higher rates of total tax (federal, state, local) on Warren Buffet than on his secretary. The current tax system is completely indefensible in those terms, as Warren Buffet himself points out. Moreover, as recent events in Ferguson, Missouri, highlight, a fee- and penalty-based regressive system of revenue collection can turn government into a perceived or actual foe of its citizenry.

**3**. Aware of Lifecycle and Intergenerational Factors. I believe in the estate tax. Raising revenue from dead people is perfectly reasonable. Heirs are not “entitled” to unlimited tax-free sums of inherited wealth they never acted to produce or influence and only receive through accident of birth or friendship. The estate tax is certainly no less reasonable than taxing a hardworking, living person's earned income. I urge Congress to eliminate the many ways wealthy testators and their heirs bypass the relatively modest estate tax regime the U.S. has compared to Japan, for example.

Relatedly, children and the elderly tend to need more government services than working age adults. That means, in particular, that I believe in the relatively mild form of citizenship-based taxation (CBT) that the United States and a couple other countries[2] have, albeit with a few improvements.

**4**. Minimizes economic distortions. There is merit in avoiding what economists call “deadweight losses” associated with taxation. However, I would caution that Gross Domestic Product (GDP) and similar measures are not the best ways to measure and judge the distortionary effects of tax policies.

**5**. High Quality Service. Compliance should be straightforward. Taxpayers must receive written, timely answers to all their tax questions that they can rely on. That means the IRS must be well funded, ideally with protected revenue sources. The IRS can then offer what most other countries' tax agencies offer: pre-filled returns. Most taxpayers should be able to review their draft tax returns securely online, at IRS.gov, with pre-filled W-2 and 1099 data, and click “Submit” if the data are complete and accurate. Congress should ignore Intuit and other special interests opposed to tax filing simplification.

**6**. Mild Incentives and Disincentives. To a limited extent a tax system ought to encourage and discourage certain human behaviors when there is broad popular consensus. For example, tobacco excise taxes discourage smoking while raising revenue to help fund smoking cessation programs, lung cancer research, and medical care. As another example, there is broad consensus that greenhouse gas concentrations are rising, contributing to global climate change. Congress should consider taxing greenhouse gas emissions to help protect the climate. (I would recommend taxing at the source and, if a

2 Hungary and Eritrea reportedly also have mild CBT regimes. Other countries incorporate CBT attributes in portions of their tax codes. Japan, for example, has CBT attributes in its estate and gift taxes.

foreign source, taxing equivalently upon import.) As yet another example, the present tax code tends to encourage passive income and wealth accumulation over earned income from work in a world now awash in savings and near-zero interest rates. Congress should get rid of that bias against employment.

To avoid complexity, Congress should pick only a few important human behavior battles in the tax code, leaving the remainder to direct fiscal expenditures. One of the important battles is that state and local governments should work toward the same set of tax-related goals. Unfortunately all states currently have regressive state-level tax systems,[3] and that must change. Congress could contribute greatly to tax simplification, high quality service, and progressivity by allowing state and municipal governments to participate directly in IRS tax filing and collection processes rather than having their own, separate forms and processes. States and localities could add their own rates (expressed as a simple percentage of U.S. tax owed) at least for full year residents, and taxpayers would then file and pay in one step, inclusive of state and local income tax. In exchange, states and localities would agree to a minimum required level of overall progressivity inclusive of all taxes, fees, and penalties.

**7**. Automatic Macroeconomic Stabilizers. I recommend that Congress incorporate economic stabilizers into the tax system that trigger instantly and automatically in an economic crisis and cease automatically when the crisis is well passed. Stabilizers could include Earned Income Tax Credit increases, withholding rate reductions, an employee-side payroll tax holiday, and a simple refundable tax credit with no particular strings attached. Congress could allow the U.S. Federal Reserve to declare an "economic crisis" that triggers the stabilizers. Congress could also straightforwardly tie the automatic activation and termination of the stabilizers to the national unemployment rate ("U3").

There are sometimes trade-offs in trying to achieve all of these core tax principles simultaneously, but *in general* all of these goals are achievable simultaneously.

### *Specific Tax Policy/Rule Recommendations*

**A**. Eliminate Duplicative Foreign Financial Reports. I join the chorus urging Congress to consolidate foreign financial reporting into a single, simplified report. Right now individuals may be required to file IRS Form 8938 ("FATCA"), FinCEN Form 114 ("FBAR"), and/or IRS Forms 3520 and 3520-A ("Foreign Trusts/Gifts"). These forms are highly duplicative for no public policy reason. I recommend that Congress merge these duplicative processes and forms, probably using FinCEN Form 114 as the foundation for a new, combined form with common reporting rules. I recommend adopting a single, simple $100,000 filing threshold (adjusted annually for inflation) per individual instead of the current hodgepodge of thresholds.[4] However, Congress should also provide funding to FinCEN so the new consolidated form can be filed using open Web standards from PCs, tablets, and smartphones.

One of the organizations representing overseas Americans recommends eliminating foreign financial reporting altogether on all accounts held in Americans' countries of residence. I doubt Congress would agree to such a broad exception, but a $100,000 (2015 dollars) single, uniform filing threshold would assure that the vast majority of Americans would not have foreign account reporting obligations.

**B**. Tax Real, After-Inflation Income and Equalize the Rates. Currently there are lower tax rates on

3 A key finding from the Institute on Taxation and Economy Policy and the Citizens for Tax Justice, among others.
4 Current filing thresholds range from $10,000 (FinCEN Form 114) to as much as $600,000 (IRS Form 8938).

long-term capital gains and qualified dividends, especially when considering payroll taxes. However, capital gains (and deferred income) are calculated based on *nominal* gains, not on real, after-inflation gains. Taxing inflation has distortionary effects, and distortions partly explain why Congress adopted lower tax rates on certain passive income. I recommend that Congress eliminate tax rate preferences for passive income while taxing only real, after-inflation passive (and deferred) income. All income that has a significant time dimension ought to be inflation-adjusted. These two changes would reduce biases in the tax code against income from work and also reduce current perverse incentives for excessive risk taking (the unrelenting drive to generate above-inflation yields). They would also encourage more long-term investing. And, on net, these two changes would greatly simplify tax filing and compliance.

Most individuals receiving only ordinary bank interest would pay no income tax whatsoever since bank interest is typically at or below the Consumer Price Index (CPI). There'd be no 1099-INTs, no Schedule Bs, etc. for tens of millions of Americans. Only individuals receiving bank or bond interest above the CPI would pay tax, and then only on the amount above the CPI (as 1099-INTs would report). Banks and credit unions would then enjoy lower costs for deposits and would pass those savings to borrowers, lowering loan and credit card rates. They would also face further competitive pressure to reduce fees.

The distinction between qualified and unqualified dividends would be dropped, and all dividend amounts above the CPI would be taxed at ordinary income tax rates, again with 1099-DIVs reporting the taxable amount (if any) paid above the CPI. Same with capital gains: inflation would be an allowable subtraction in calculating long-term capital gains, so the taxable gain would be the real gain. (Given this inflation adjustment Congress will probably need to reduce the capital gains exemption on primary residence sales.) Same with deferred compensation: taxed after inflation, at ordinary rates.

The IRS would publish a simple, annual table of CPI-based “deflators” to help taxpayers calculate real gains in case there isn't a 1099 available to do the work for the taxpayer. IRS.gov would also provide a simple online calculator. Taxpayers could skip the inflation adjustment if they wish.

An important benefit of this pair of changes is that the so-called “hedge fund manager loophole” and many other tax avoidance strategies would be closed. Also, the whole concept of “tax exempt interest income,” notably municipal bond interest, should be eliminated, again simplifying tax filing. Inflation adjustment would already exempt most or all municipal bond interest from tax, but any remaining tax on real bond interest would discourage overborrowing, a current problem among municipalities.

**C**. Shift All Tax Incentives for Retirement Savings from Defined Contributions to Defined Benefits. America's retirement savings system is a disaster with too many Americans facing dire financial circumstances. The reason is simple: the move away from traditional *defined benefit* pensions to voluntary defined contribution schemes. The 401(k)s, IRAs, SIMPLEs, SEPs, etc. are complicated, largely ineffective, and expensive tax expenditures. The whole system needs an overhaul. Fortunately there's an excellent U.S. model that works: U.S. Social Security. Social Security is nearly universal, it offers broad protections (retirement, disability, spousal, and survivorship), it's simple, it's appropriately flexible (choice of retirement starting from age 62 to 70), and it's extremely effective.

My recommendation is simple. First, strengthen Social Security. That means bolstering the trust funds to pay promised benefits well past 2034. I recommend a top-down surtax on all real income like the

Medicare surtax.[5] Bedrock U.S. Social Security would become "Social Security Part A."

Second, Congress should freeze all the current tax-advantaged retirement schemes. Those with such accounts can continue enjoying their tax benefits, but additional contributions would not be permitted.

Third, Congress should introduce "Social Security Part B." Part B (for "Booster") would be incredibly simple: Part B would increase Part A's retirement, disability, spousal, and survivors' benefits by a single multiplication factor "X." Individuals (and employers) could voluntarily contribute tax free to Part B up to an annual limit (e.g. $10,000 in 2015 dollars). The more and earlier the contributions, the higher X rises, always guaranteed. The Social Security Administration, with improved funding, would administer both Parts A and B. All benefit rules would be uniform except for SSI (kept only in Part A).

Every 7 years SSA would issue a public tender for national Part B fund administrators. Bidders must be truly separate and independent, and they must describe their management plans and guaranteed "X" schedules. Bids would be evaluated transparently based on fund management safety and security and on cost efficiencies. SSA would declare 4 to 6 tender winners ranging from a minimum 10% to maximum 35% share of Part B's national, centralized fund management.

Americans residing overseas, even those not required to contribute to Part A, would be allowed to contribute to Parts A and B. All tax policies associated with Social Security benefits would apply consistently to Parts A and B alike, including international tax treaties. U.S. Social Security benefits are among the best protected benefits internationally, with or without treaties. Overseas Americans face unique challenges in trying to protect their financial futures. U.S. Social Security is the most viable solution given complex foreign tax regimes. IRAs, 401(k)s, etc. are either unavailable to many overseas Americans or, to the extent they are U.S. tax-advantaged, the tax advantages are often lost overseas.

Naturally Americans can still save for retirement or for any other purpose outside of Parts A and B with ordinary tax rates applied to real, after-inflation income. Expensive tax expenditures would be laser focused exclusively on the new Social Security Part B that provides a sensible booster package of enhanced, guaranteed, *defined benefits*: retirement, disability, spousal, and survivorship.

I also recommend that individuals with sufficient Part B contributions be allowed to draw combined Part A and Part B benefits starting at an extra early retirement age of 60. Specifically, I recommend allowing that age 60 start if either the combined Part A and B retirement benefits (with age 60 actuarial adjustment) would exceed 138% of the poverty line or if the recipient is already in poverty. Some accounts currently allow tax-free withdrawals at age 59½, so a controlled age 60 option is appropriate.

Employers with 20 or more employees (part-time or full-time) must offer Part B deductions on an opt-out basis, defaulting to 5% of wages. Other employers could participate if they wish. Individuals could "top up" their Part B accounts by April 15 if they haven't reached their annual limit. Employer matches (recommended maximum of $5,000 added to the $10,000 limit, 2015 dollars) would be encouraged. Since America's retirement crisis is here, now, I recommend pre-funding Part B with a modest one-time contribution, paid for partly with the 401(k)s, IRAs, SEPs, SIMPLEs, 403(b)s, etc. contribution freezes. Finally, conceptually at least, I recommend maintaining existing tax incentives for fully PBGC-protected defined benefits, to discourage further erosion of remaining traditional pensions.

5 Some overseas Americans reportedly cannot claim the Medicare surtax as a foreign income tax credit on their foreign tax returns. Both surtaxes should be seamlessly woven into the mainline tax brackets to avoid that unintended problem.

**D**. Eliminate Tax Filing Statuses. Single, Head of Household, Married Filing Separately, Married Filing Jointly, Qualifying Widow(er).... It's complicated, and there doesn't seem to be any *good* reason for this complexity that many countries don't have. Congress ought to move tax filing to a single filing status: one individual, one individual tax return. If Congress then wants to dole out credits, exemptions, deductions, exclusions, etc. – hopefully very few – it can still do so effectively within one filing status.

**E**. Eliminate the Presidential Election Checkbox. Fund the FEC without bothering tax filers.

**F**. Streamline the Foreign Earned Income Exclusion, Foreign Housing Exclusion, and Foreign Tax Credit. The current "package" of exclusions and credits is complicated and could be vastly simplified without material impact to any of the public policy objectives underlying the current arrangement. The approach I favor, at least conceptually, is that all overseas Americans would follow the FTC path and would not choose between the FEIE (with FTC) or an FTC-only path as they do today – a complex decision that many overseas Americans incorrectly decide. I'd eliminate the FEIE/FHE as a separate construction, keeping only a simplified FTC with a single income category. Equal treatment of all real income means the FTC could naturally reduce to one income category. I'd then allow Americans who qualify for the current FEIE (through physical presence or bona fide residence) who do not have an FTC of at least some minimum level to, instead, have a "Deemed Minimum FTC" (DMFTC):

(1) DMFTC would be a non-refundable tax credit.

(2) DMFTC would be adjusted annually for inflation.

(3) DMFTC could only be "spent" on the current year's U.S. tax obligation, not carried back one year or carried forward up to 10 years like the ordinary (non-DMFTC) FTC.

(4) DMFTC would only apply to non-U.S. source income.

(5) DMFTC would be pro-rated in "exit" and "entry" years.

In short, the DMFTC would simulate today's foreign exclusions but within the FTC and with a couple differences. First, the explicit preference for foreign housing would disappear – a reasonable concession assuming DMFTC is set reasonably (about $25,000 in 2015 dollars recommended) and given the changing characteristics of overseas Americans. Other countries (e.g. Singapore) have eliminated their "assignment" housing tax preferences, so there's precedent. Second, foreign source (real) passive income and earned income would be treated equally, whereas today the FEIE only applies to earned income – again a reasonable approach given the increasing numbers of Americans retiring overseas with modest foreign passive income. Third, the DMFTC would not bar overseas Americans from certain refundable tax credits and tax-advantaged retirement savings contributions (i.e. the new Social Security Part B), unlike today's FEIE.

In IRS filing terms, IRS Form 1116 can be improved to include the DMFTC in a fairly simple, straightforward way and reduced to a single copy per taxpayer (i.e. reduction to a single FTC income category). Then IRS Forms 2555 and 2555-EZ could be abolished, and other areas of the tax code (and associated forms) could be greatly simplified since they no longer have to account for FEIE "quirks." All of that could be done in a revenue-neutral (or better) way while still closely matching (or even improving on) all of the public policy goals Congress has in mind in these tax areas.

One remaining issue is that the FTC is unbounded. Consider the hypothetical case of a highly

compensated American executive posted by her company to Paris on a 3 year assignment. France has a higher tax rate, so that executive would accumulate excess FTCs during her 3 year stint. Let's suppose she is paid $5 million per year and that the French income tax is $700,000 per year greater than her hypothetical U.S. income tax. Over 3 years she accumulates $2.1 million in excess FTCs. Then she returns to the U.S., still paid $5 million per year. She has 10 years to "spend down" her excess FTCs. The U.S. Treasury ends up effectively paying the *entire* difference between the U.S. tax and the higher foreign tax to that highly compensated individual and others like her. The more highly compensated, and the longer the overseas stint (up to the FTC's 10 year carryforward limits), the more the U.S. pays.

The U.S. tax code should not provide an effectively unlimited subsidy to highly compensated individuals to take international assignments in high tax jurisdictions, paying *so much* of their higher French (or Belgian, etc.) tax bill. I suggest a simple "spend down" cap on carryback/carryforward excess FTCs of $250,000 (2015 dollars) per year. Even with a $250,000 cap that hypothetical highly compensated executive could still spend down her entire pool of excess Foreign Tax Credits. She'd just take longer to do it. *Very* few people have $250,000+ U.S. income tax bills to offset.

The FTC only currently applies to narrowly defined foreign income taxes. Congress ought to broaden FTC coverage *slightly* to include foreign taxes that are highly income-correlated, notably some foreign wealth taxes, compulsory foreign "church taxes," and certain surtaxes. Congress should boost funding so the IRS can research and publish annual lists of FTC-allowable tax types, by tax name and country.

**G**. Replacement of the Alternative Minimum Tax (AMT) with the "Buffet Rule". The AMT is a huge, complex burden on tax filing, effectively doubling tax preparation. It exists because of all the deductions, exemptions, credits, and exclusions Congress adopted. A strong, simple, watertight "Buffet Rule" would allow Congress to eliminate the AMT and all its complexity.

**H**. "Eat Own Dog Food" Rule for Congress and the White House. With the Patient Protection and Affordable Care Act Congress required all its members and staff to participate in the same medical insurance exchanges as other Americans. I applaud Congress for taking that approach.

The same ought to be true for tax reform, to make sure that every member of Congress (and their staff) always comprehends what most Americans must do each year to prepare and file their required tax and financial reports. In particular, Congress ought to require its members and staff to file their own tax and financial returns without professional tax assistance or unique IRS help. They can use IRS.gov, TurboTax, TaxAct, or any other tax software generally available to the public but not Ernst & Young, KPMG, Deloitte, or other paid accountants. After filing their returns they would still be permitted to hire a tax professional or lawyer if there is a formal IRS inquiry or criminal investigation. (It would likely not be constitutional to bar any American from legal representation.) Also, members of Congress (and staff) would still be allowed to hire professionals to handle their business returns. Alternatively, Congress could require all its members and staff to make contributions to the Treasury (to reduce the national debt) equal to what they spend on tax preparation software and professional tax assistance.

Including a "Dog Food" provision of either type – first type preferred – would help convince an understandably skeptical American public that Congress stands behind tax reform. It would help reduce growing complexity post-reform, avoiding repeating post-Tax Reform Act mistakes. It would assure that Congress stays informed of all tax policies. And it would encourage Congress to, in turn, encourage states and municipalities to join forces with the IRS in unified filing as described above.

**I**. Slightly Narrow the Definition of Foreign Trusts and Passive Foreign Investment Companies (PFICs). Overseas Americans (in particular) face tough challenges dealing with the complex foreign trust and PFIC rules. No doubt the Senate is hearing from affected Americans. Unfortunately in the past too many Americans avoided U.S. tax through the use of foreign vehicles and their failure to report annual distributions correctly. Congress understandably adopted rules to try to clamp down. Recently Congress and the IRS have made progress carving out foreign trust and PFIC exceptions for certain highly regulated Canadian accounts. I encourage Congress to add two more modest exceptions:

(1) Ordinary stocks and exchange-traded mutual funds (ETFs) publicly listed and traded every trading day on major foreign stock exchanges (that the IRS lists annually) and either held directly or held at a foreign financial institution (such as a brokerage) that makes regular account statements available.

(2) Foreign government-regulated and -reported individual contributory accounts (that the IRS lists annually) held with governments or with financial institutions in countries that have FATCA financial data sharing agreements with the United States, provided regular account statements are available.

General U.S. tax and financial report treatment would still govern, but these types of financial accounts would not be subject to either foreign trust or PFIC rules. In short, there must be a reasonable, watertight way to separate the "plain vanilla" financial accounts that overseas Americans routinely use (and cannot abuse) from the problematic foreign accounts. Congress might also decide to limit the total value of such foreign trust- and PFIC-exempt accounts to $1 million (2015 dollars) per individual.

**J**. Limited Additional Provision for Foreign Currency Fluctuations. Some overseas Americans, particularly those who are long-term overseas residents, argue that currency fluctuations can cause capital gains to appear "outsized" when converted back into U.S. dollars, even in some cases turning capital losses in the foreign currency into capital gains when converted to U.S. dollars. That's because the current tax rules only allow gains to be calculated based on first converting the cost basis into U.S. dollars, then converting the sales proceeds into U.S. dollars, then finally calculating the capital gain (or loss) between the two U.S. dollar values. Corporations, on the other hand, are permitted to calculate gains within the foreign currency – Australian dollar sales proceeds minus the Australian dollar cost basis, for example – *then* convert the net Australian dollar gain into U.S. dollars for U.S. tax reporting.

I recognize this is a genuine problem for some overseas Americans. My recommendation to tax only real, after-inflation income would help to some extent since lower yielding nominal gains in U.S. dollar terms would be U.S. tax free. However, inflation adjustment would have to rely exclusively on the U.S. CPI, not on any foreign inflation rate. That said, individuals ought to be able to calculate gains as corporations do, with the gain calculated first in the foreign currency then converted to U.S. dollars as the last calculation step. I would only allow individuals to use that corporate-style calculation method if they plausibly could have bought the asset using that particular foreign currency. For example, Congress could allow the corporate-style calculation only if the individual received at least half his income in that foreign currency in the year the asset was acquired. Congress might also require using one calculation method consistently for all sales of all assets acquired in the same year. Weighing against this relief is the fact that some Americans enjoy a U.S. tax advantage if the currency moves in the opposite direction. Nonetheless, I think it's a fair argument worth Congress's attention.

**K**. "Deep Freeze" Tax-Related Citizenship Provision. A very few Americans renounce their U.S. citizenships each year, some for tax-related reasons. As mentioned, I find a mild CBT regime to be reasonable since it reflects genuine lifecycle effects. Children are not born into the 25% tax bracket, for

example, yet government invests heavily in them. Then adults in their prime working ages often repay those investments. I also believe that Americans ought to have a right to stop being Americans if they wish. Americans that are most financially successful are, generally, subject to the Expatriation Tax when they renounce, and again I broadly agree with that principle. Congress has recently considered making the Expatriation Tax more onerous. I recommend a slightly different, more nuanced approach.

U.S. citizenship is a valuable, inseparable mix of rights, privileges, and obligations. Among the most important rights U.S. citizens enjoy is the right to enter their own country to stay as long as they wish. Non-citizens have no such guaranteed right. They are legally mere guests, admitted only at the government's pleasure. Guests in "good standing" are routinely admitted; others are not. I propose that U.S. renunciants, especially those subject to the Expatriation Tax, should not be guests in good standing. Indeed, that might already be unofficial U.S. government policy.[6] I would clear up that ambiguity and make the unofficial policy official – or at least elevate entry exceptions to the President.

At the same time U.S. entry privileges are officially revoked I propose that U.S. renunciants have the option to reacquire their U.S. citizenships under the following narrow terms:

(1) They must file amended and/or new U.S. tax returns and financial reports, as applicable, for the *entire* non-citizenship interval and pay any U.S. tax owed, plus interest (but not late filing or late payment penalties). Any other outstanding U.S. tax issues would also need to be settled.

(2) They must pay the same true cost-based application fee they paid to renounce, currently $2350.

(3) The IRS would have 90 days to decide whether to clear the individual for reacquisition of U.S. citizenship after submission of all the late tax returns and financial reports. Then the IRS would have 3 years to review the tax returns more fully. If the IRS discovers any undeclared income or any material misstatement in the tax returns or financial reports within that 3 year period, the individual's reacquired U.S. citizenship can be terminated permanently, subject to appropriate judicial review.

(4) This particular round trip can never be repeated. It's a once per lifetime offer.

(5) Restored U.S. citizenships are not retroactive to the non-citizenship interval.

Some might interpret this particular approach as redemption or forgiveness. Perhaps it is.

**L.** Introduce IRS Form 1040XP. About 94% of overseas Americans owe zero (or less) U.S. tax. I recommend that Congress fund an IRS effort to create and maintain a simplified, 1040EZ-style "Form 1040XP," preferably online only, targeting 75% of overseas Americans or more. Recently I took a close look at whether an "XP" form would be viable. It certainly appears to be, even with today's rules.

Again, I encourage your staff to contact me with any questions about these recommendations or other ideas. I appreciate the opportunity to provide input to the Finance Committee, and I also appreciate your efforts to improve America's tax system for all Americans.

Regards,

Timothy F. Sipples

6 Roger Ver, a former U.S. citizen, is a possible example. The Reed Amendment (1996) may also apply.