

Jeremy Luterbacher

Dear Mr. Hatch,

I am an American citizen living and working Switzerland as an Assistant Professor of Chemical Engineering at the Swiss Federal Institute of Technology in Lausanne, which puts me firmly in the Swiss middle class. I am writing you to inform you of several problems and issues that I have faced as an American living abroad. These include:

- **Heavy taxation burden:** As the US is the only country in the world besides Eritrea to practice citizen-based-taxation (CBT) instead of residency-based-taxation (RBT). What this means, is that I am less competitive in the economy compared to my non-American colleagues because I end up owing several thousand dollars to the US government despite not using their services (national parks, highways, post office, insurance subsidies, public safety...etc.).
- **I am taxed on my employer's contribution to my retirement:** The US imposes a heavy tax burden on foreign retirement plans. These plans are essentially identical to tax-free plans in the US, which imposes an undue burden on us compared to our fellow non-American foreign residents and our fellow US citizens living in America who benefit from tax-free contributions to their retirement.
- **I incur high tax preparation fees:** preparing a tax return as an American living abroad is extremely complicated and high penalties can result from a mistake. So much so that neither I, nor my highly educated American colleagues (all university professors) do it alone. We all hire highly specialized accountants. These accountants typically add over a thousand dollars a year to the extra financial burden that we have to pay a year compared to our non-American colleagues. This further reduces our competitiveness abroad.
- **I am actively discouraged from visiting the US for business:** Every day spent in the US on business lowers my foreign income exclusion. Therefore, every time, I am invited in the US for a conference (for which I am not paid anything extra), I hesitate to participate because it will increase my tax burden. This incentive makes no sense since, if I go, I will use no more services than a regular foreigner, but spend money and benefit the US economy.
- **I am refused services at certain financial institutions due to my US citizenship:** because of the huge burden of FATCA, several banks have refused services to me. Specifically, I was not able to open retirement or investment accounts. The US standard response to this is that it does not

require foreign banks to act this way. However, it does not discourage this behavior by foreign banks either and does nothing to protect its citizens living abroad.

For these reasons, I am highly supportive of a proposal advocated by the American Citizens Abroad (ACA) association, which recommends residence-based taxation, the same system applied throughout the world. ACA has submitted detailed papers recommending RBT; the most recent one, which also references earlier documents, was submitted to the Senate Finance Committee in January 2014:

<http://americansabroad.org/files/9613/8987/3227/aca-submission-senate-finance.pdf>

RBT is truly a win-win proposal for the United States and for Americans abroad. The revenue stream for the United States would be comparable to that of CBT. The administrative costs to the IRS would be significantly lower as Americans abroad would be taxed in the same way that non-resident aliens are currently taxed, i.e. automatically through withholding taxes on U.S. source income. If a truly dynamic evaluation were made, the potential gain for the U.S. economy through improved competitiveness would be a high multiple of current tax revenue from CBT.

In addition to its strong recommendation to replace CBT by RBT, I also support several partial reform measures of the U.S. tax code, so as to alleviate some of the unjustified burden on Americans abroad. These partial measures include:

- Allowing the local currency, i.e. the currency of the taxpayer's country of residence, to be the functional currency for U.S. tax reporting purposes.
- Allowing a "same country exception rule" to apply to foreign bank accounts held by Americans abroad in their country of residence so that they would not be subject to FATCA reporting by both foreign financial institutions and overseas tax filers.
- Increasing or eliminating the cap on the foreign earned income exclusion.
- Recognizing foreign retirement and pension plans that are comparable to U.S. plans to be treated in the same way as U.S. plans for U.S. tax filing purposes.

However, while these partial solutions may help, they are only stop-gap measures. They do not resolve the fundamental problem that the United States requires tax filing of Americans resident abroad who are already paying taxes in the country where they reside. The only true solution to the dilemma facing Americans abroad is for the United States to adopt RBT and to bring its personal income tax situation in line with the 21st century and the rest of the world.

Sincerely,

Jeremy Luterbacher