

14 April 2015

US Senate Finance Committee

Dear Sir,

Tax Reform — individual and international

I am writing as a US citizen who grew up in the US but who has lived in the United Kingdom for more than 40 years. I am pleased to hear that tax reform for individuals living abroad is being seriously considered since the current system of worldwide taxation of US citizens creates major injustices. Some of the main issues are:

- 1 “De facto” double taxation. By this I mean that, even after taking the foreign tax credit into account, my total tax bill is greater than the maximum of either my tax bill to the UK alone or to the US alone (both countries tax me on worldwide income).
- 2 Mismatch between different tax systems, so that tax efficient investments in one jurisdiction are not tax efficient in the other. This problem makes it much more difficult for citizens living abroad to carry out sensible financial planning than for citizens living in the US.
- 3 Increasingly complicated and onerous forms and regulation. If I lived in the US, with all my investments and income in the US, my tax return would be so simple that I could do it in a day. As it is, it takes me months to gather the information and interpret the forms. Further, the potential penalties for minor mistakes (typically \$10000 for each mistake) seem orders of magnitude greater than the penalties US residents face for similar infractions.

Hence I strongly support major change to the current system.

- 1 The best solution would be to adopt the proposal for residence based taxation, as proposed by the group American Citizens Abroad.
- 2 However, if such a solution is not feasible, the second best solution would be to remove the “savings clause” found in many tax treaties, so that as a UK resident (with no US income), I would be taxed only in the UK on my worldwide income.
- 3 If neither of these general solutions is feasible, it would still be helpful to make detailed changes to the tax code to make life fairer for US citizens living abroad. Two simple examples are:
 - a Remove the different “baskets” in the foreign tax credit, so that all my UK tax paid could be set against my US tax due.
 - b Allow US citizens resident abroad to invest in overseas pooled investments such as mutual funds without being crippled by the current PFIC rules.

Yours sincerely,

John Kent