



<http://finance.senate.gov>
Press_Office@finance-rep.senate.gov

For Immediate Release

Tuesday, March 13, 2007

Response to WSJ Editorial Criticizing Grassley on Taxes on Americans Working Abroad

On Feb. 27, 2007, a Wall Street Journal editorial praised the IRS for rescuing Americans working abroad from Sen. Chuck Grassley. Sen. Grassley took strong issue with the editorial and immediately wrote a letter to the editor outlining the editorial's inaccuracies. The Wall Street Journal editorial page has not run Sen. Grassley's letter and has not responded to inquiries from his office. Sen. Grassley's letter and the editorial follow here.

February 27, 2007

Letters to the Editor
The Wall Street Journal
200 Liberty Street
New York, N.Y. 10281
E-mail: wsj.ltrs@wsj.com

To the Editor:

The editorial "IRS to the Rescue," February 27, is way off base. First, it's completely wrong to say the Internal Revenue Service "strikes a blow" against the recent changes to the tax subsidy for U.S. citizens who work abroad and for employers who send employees to work overseas. The IRS wouldn't be able to provide relief for high housing cost locations in the absence of congressional direction to do so. Congress recognized the issue and gave the IRS the authority to do exactly what it's doing.

Second, it's incorrect to claim it's my "grand idea" to tax U.S. citizens who live abroad. The United States has taxed its citizens, regardless of where they live, since the income tax began in 1913. The Supreme Court upheld the constitutionality of this taxation in 1924. I'm a senior member of Congress, but not that senior. It's fair to debate whether Congress should revisit this longstanding policy, but to call it my idea demonstrates a complete lack of knowledge about one of the most fundamental aspects of our tax code. Your readers deserve better.

Third, even with the new provisions, Americans working abroad still receive very generous tax

treatment compared to Americans working in the United States. Those working in the United States are not allowed to exclude any compensation or deduct any personal housing costs.

The changes came at the recommendation of the nonpartisan staff of the Joint Committee on Taxation in its report on ways to improve tax compliance and expenditures. Congress took that recommendation and improved it by giving the IRS the authority to make adjustments for varying housing costs around the world. These changes helped Congress extend lower tax rates for capital gains and dividends and provide relief from the Alternative Minimum Tax for 15 million taxpayers. That's a true rescue.

Sincerely,

Chuck Grassley
United States Senator
Ranking Member, Committee on Finance
Washington, D.C.

The Wall Street Journal
REVIEW & OUTLOOK

IRS to the Rescue
February 27, 2007; Page A16

It's not often that the Internal Revenue Service plays the hero, but these days it's a regular Clark Kent for American expatriates. The agency has issued another round of tax relief for U.S. citizens working abroad hit by Congress's double-taxation laws.

Friday's Notice 2007-25 strikes a blow against a provision in last year's omnibus tax bill that cut tax exemptions on housing for Americans working overseas and substantially raised taxes on compensation above \$82,500. The move came courtesy of Republican Senator Chuck Grassley, who apparently thinks Americans abroad are living the high life. Congress claims the tax will raise \$2.1 billion for Uncle Sam over the next decade. But that doesn't factor in companies that will cut back on U.S. employees in favor of less expensive locals or third-country hires.

The IRS mitigated some of the damage in October, bumping up tax exemptions on housing in more than 100 specified cities. In the latest notice, Americans working in China and India will see the biggest benefit; special exemptions were instituted for Mumbai and Beijing residents, and several cities already on the IRS's list saw their deductions adjusted upward. A clutch of suburban London towns were also added, presumably because the local American Chamber of Commerce kicked up a fuss. But why is the IRS trying to work out which Yanks live in, say, London versus Surrey?

The U.S. is the only developed nation to tax its citizens abroad. Now China has picked up on Mr. Grassley's grand idea. From March 31, all mainland citizens working abroad will be taxed on their world-wide income. That might give some comfort to U.S. protectionists worried about China's labor competitiveness, even though mainland employees aren't so far a huge force abroad. But as America is now discovering, punitive taxation is an export that comes with a high price.

