

## Thank You, Mayor Boris Johnson, For Speaking for Many

To the Editor:

London's Mayor Boris Johnson, Britain's most popular politician, has expressed outrage at the tax bill presented to him by the IRS, for taxes due on capital gains realized on the sale of his first home in England. The frustration he has voiced echoes that of millions of American citizens residing overseas, many of whom contact American Citizens Abroad, Inc. (<https://www.americansabroad.org>) with narratives of their treatment under citizenship-based taxation (CBT), which taxes U.S. citizens wherever they reside in the world. The United States and Eritrea share the distinction of being the only countries in the world to apply CBT to non-residents. The rest of the world, as well the U.S. federal government and each American state, taxes residents on the basis of residence-based taxation (RBT), the advantages of which were summarily apparent to whoever invented taxation.

Mayor Johnson's case is a clear example of the harm befalling citizens caught in the maws of multiple tax systems — a status imposed on every American resident abroad, given that they are already taxed by their country of residence. In Great Britain, there is no capital gains tax on the sale of a first home, but, unfortunately for the Mayor, U.S. capital gains tax applies. Because there is no capital gains tax on the sale of a first home in Great Britain, no foreign tax credits can be claimed against the U.S. tax liability.

Even though the United States recognizes the first right of taxation to be with the country of residence, CBT systematically penalizes Americans abroad. Differences between tax systems always redound to the disadvantage of the American abroad, and such differences are inevitable, given the sovereign right of nations to determine their specific tax programs. It is a recipe for inequitable treatment of Americans abroad owing to various forms of double taxation.

The United States recognizes only foreign taxes on income as qualifying for foreign tax credits; it does not take into consideration the total tax burden imposed on individuals by their country of residence. Yet, it is well documented that most OECD countries have significantly higher total taxation of individuals, and in particular higher Social Security,

net wealth and indirect taxes (VAT, excise taxes on gasoline, etc.) than the United States.

Quite apart from the inequities inherent in CBT, it has become a model for inefficient tax administration. Scarcely one-fifth of the overseas Americans filing a tax return owe any tax at all, yet many pay thousands of dollars each year for experts to complete the requisite forms, the publication and collection of which must constitute a barren and arid exercise even for the US tax authorities. The intrepid filer must comply with the terms of a tax code that takes 73,954 pages to explain, and failure to complete and timely submit any of the required forms normally gives rise to heavy penalties, even when no tax is due. No comprehensive effort has ever been undertaken to determine the total revenue impact of CBT, including revenue lost to the tremendous disincentives and opportunity costs it imposes upon American businessmen. CBT was created and is perpetuated on the basis of legislative fiat wholly detached from any demonstrable or attempted economic justification. The argument put forth for CBT is that all Americans should be taxed the same, yet the multiple instances of double taxation of Americans abroad demonstrate exactly the opposite.

The fundamental justification for taxation is that it funds taxpayer services. CBT contradicts this principle, as the pension, healthcare, education, and infrastructure costs that overseas Americans engender are paid by foreign governments and the taxpayers themselves. Conversely, the imposition of a *sui generis* extraterritorial tax regime manifests a decision on the part of the United States to unilaterally grant itself the right to extract from the economy of every other country a scarce and strategic economic resource: cash.

At the individual level, tax treatment of Americans abroad is pushing many to the brink, particularly after the introduction of FATCA. As a result, Americans can no longer lead normal lives abroad owing to severe and inevitable discrimination in hiring, in obtaining financial services, and in developing foreign markets for U.S. goods.

To all its Members, and indeed all Americans living overseas, American Citizens Abroad *recommends strict observance of the law*. But for the reasons outlined above, and in light of the impact of CBT on the millions of Boris Johnsons who suffer a common

**COMMENTARY / LETTERS TO THE EDITOR**

fate bereft of his silver tongue, charisma and visibility, we urge the U.S. Congress to adopt RBT.

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Nov. 23, 2014