The Taxation of Americans Living Overseas

US tax policy is often unintentionally harmful to Americans who are on the front lines of the sales forces in Asia and elsewhere promoting US exports. The United States is the only developed country to tax its citizens on their worldwide income. The current US tax system is unfair, out of step with the international norm, decreases opportunities for Americans to work overseas, and thus negatively impacts US growth and competitiveness in emerging, high-growth markets like Vietnam.

Many factors contribute to America's export strength, but one fundamental aspect is having articulate and able representatives living and working abroad to sell American goods and services in foreign markets. Experience demonstrates that Americans are the best salespeople for American products. With this in mind, one would assume that US tax policy would support Americans working overseas; unfortunately, the opposite is true.

Unlike all other industrialized countries, the US imposes a tax on the income of its citizens regardless of where that income is earned - a system that harms America's competitiveness by making foreign workers more economical and therefore more attractive to hire for overseas jobs – even for American companies. For example, in the past few years, AmCham Hanoi has had a number of non-American Chairman including: an Indian citizen running General Motors, a Canadian citizen running AIG, and an Australia citizen running the Ford operation here. Another example is an American company that operates in the service sector with over 4,200 employees across the region, among them approximately 200 expatriates, of whom only two are Americans.

For decades, US tax law provided a limited exclusion for income earned by US workers abroad, under Section 911 of the Internal Revenue Code. However, this exclusion does not eliminate the unfairness faced by Americans working overseas, nor does it recognize the unique financial hardships and other intangible challenges of working abroad. Making matters worse, the ironically-titled Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) reduced this preexisting partial tax exclusion. As a result, Americans working overseas now pay even higher taxes than before. A survey of AmCham Hanoi members revealed that 54% have experienced a significant increase in US income taxes on foreign earned income since the TIPRA changes.

At a time when the United States is increasingly dependent on the continued growth of export markets, Americans are going home and being replaced with local or non-American workers from English-speaking countries, like Canada, Great Britain, India and others. The consequences of a declining American citizen presence in business abroad is a significant weakening of soft power and a diminishment of natural ties to US goods and services exports.

This is not a tax issue, it is a competitiveness issue. The decision to place an American in a particular job overseas should not be determined by US tax law. The 7 million estimated Americans working overseas urge Congress and the Obama Administration to implement fair and equitable tax policies. Amid ongoing discussions surrounding comprehensive tax reform, Congress should adopt a system of residency based taxation, under which Americans abroad would be taxed by the United States on the same basis as non-resident aliens. This will bring the US system into parity with our global trading partners. After all, not only do leading economists agree that Section 911 helps to boost US manufacturing, increase our export strength, and level the playing field for American goods and services abroad, it also makes America's sales people more competitive against foreign competition. At a time when other countries are doing everything possible for their citizens, America should be doing the same.