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# THE ALLIANCE FOR A COMPETITIVE TAX POLICY

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## **A TAX POLICY THAT PROMOTES U.S. GROWTH AND EXPORTS**

According to the Commerce Department, U.S. exports of goods and services in 2007 totaled more than \$1.6 trillion – the highest recorded level for the United States. In fact, the National Association of Manufacturers (NAM) reports that exports are expected to grow by 7.6 percent in 2008, which would double the projected rate of import growth and would result in the fourth-consecutive year that export growth outpaced increases in imports – a first in 17 years.

NAM also estimates that continued growth in exports will generate nearly a quarter of total U.S. economic expansion in 2008. As the United States tries to recover from the current economic slow down, exports are an indispensable engine of growth.

Many factors contribute to America's export strength, but one critical factor is having articulate and able representatives to sell American goods and services in foreign markets. Experience has demonstrated that Americans often are the best "salespeople" for American products. With this in mind, one would assume that U.S. tax policy would support Americans working overseas; unfortunately, the opposite is true.

### **Background**

Unlike all other industrialized countries, the United States imposes a tax on the income of its citizens regardless of where that income is earned. Americans working overseas are not only subject to the taxes levied by the country in which they reside and work, those individuals also are subject to additional U.S. taxes – a system that harms America's competitiveness. Furthermore, this aspect of the U.S. tax code makes foreign workers more economical and therefore more attractive to hire for overseas jobs – even for American companies.

The U.S. Internal Revenue Code only partially offsets the burden of being subject to two tax systems. For nearly three decades, U.S. tax law provided a limited exclusion for income earned by U.S. workers overseas (under Section 911 of the Internal Revenue Code). This exclusion, though, does not eliminate the unfairness faced by Americans working overseas, nor does it recognize the unique financial hardships and other challenges of working abroad, such as uprooting a spouse and children to live thousands of miles from friends and family and living in smaller housing which can cost many times more than it does in the United States. It also does not fully take into account that overseas workers bear additional expenses because of the limited availability of adequate schools, quality health care, and other services that are taken for granted in the United States.

### **The Tax Increase Prevention and Reconciliation Act of 2005**

Making matters worse, the *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 – by some estimates, as much as \$25,000 more than in 2005. In many cases, Americans working overseas were often pushed into the highest

tax bracket as a direct effect of the TIPRA changes, although their salaries and benefits remained the same. Additionally, higher marginal rates were levied on employer-provided payments reflecting the higher cost of living overseas, and the deduction for housing costs was capped at a lower level.

### **U.S. Competitiveness and Export Growth in Jeopardy**

If these harmful changes are not reversed, U.S. companies will continue to play on an uneven playing field. The United States is the only industrialized country in the world that taxes its citizens on their worldwide income, putting employers and employees at a severe economic disadvantage to competitors in Europe, Australia, and Asia. Not only will American companies be unable to locate employees abroad, U.S. citizens also will be less willing to work outside the United States, to the detriment of U.S. competitiveness in the global economy.

At a time when the United States is dependent on continued growth in the export market, Americans are going home and being replaced with local or non-American workers.

In fact, it is estimated in a 2005 study by Price WaterhouseCoopers that repeal of Section 911 would reduce the number of Americans working abroad, and cause an \$8.1 billion loss in U.S. manufactured exports that support 77,115 U.S. domestic jobs. In contrast, removing the cap on the foreign earned income exclusion would increase U.S. manufactured exports by \$14.4 billion and support 137,319 domestic jobs.

Americans living abroad are the best good will ambassadors. American families living overseas have a positive impact on the communities in which they live. They support the proliferation of American teachers and educational standards, while spreading important American values of volunteerism, ethical business practices, social responsibility, democratic government, and environmental protection. Moreover, American business people abroad tend to source goods and services from the United States to support their sales activities in foreign markets.

This is not just a problem faced by large corporations. If the TIPRA changes are not reversed, Americans who are employees or owners of small- and medium-sized businesses or who work in other professions such as university professors will continue to face unfair tax bills. In particular, small- and medium-sized businesses rely on foreign export markets for continued growth and viability. They oftentimes employ just one or two U.S. citizens abroad, but even that will become increasingly unsustainable with the cuts to Section 911.

### **Conclusion**

There are an estimated 4 million Americans living abroad. These Americans are on the sales team and the front lines of the competitive world marketplace. They deserve fair tax treatment. For the sake of America's workers abroad, and for America's strength in the increasingly global marketplace, we urge Congress to repeal the changes made in the *Tax Increase Prevention and Reconciliation Act of 2005* and refrain from further increasing the tax burden on Americans working overseas.