Stop Extraterritorial American Taxation

Re: "Full Committee Hearing with Treasury Secretary Scott Bessent"

Hearing June 11, 2025

Submission on behalf of Stop Extraterritorial American Taxation (SEAT)
info@seatnow.org

Email to: WMSubmission@mail.house.gov
House Committee on Ways & Means

9 June 2025

Please accept this as our submission with respect to the June 11, 2025, House Committee on Ways & Means Hearing: "Full Committee Hearing with Treasury Secretary Scott Bessent."

The hearing was held to "discuss the priorities"[1] of the Department of the Treasury

The nationality-based U.S. extraterritorial tax system is destroying the lives of Americans who are bona fide residents – and tax residents – of other countries. The issues are not well known or understood, but they are a tremendous burden on millions of ordinary people who happen to live outside the United States.

For decades overseas Americans and others have appealed to Congress to act with respect to the U.S. extraterritorial tax system. The long-standing system discriminates against Americans living outside the United States, subjecting them to a tax regime that is more burdensome and punitive as compared both to persons residing in the United States (of any nationality) and to persons residing outside the United States who are not American.[2]

In October 2024 President Trump heard their appeals. During his campaign for the Presidency, he made this promise:

> [O]nce and for all I'm going to end double taxation on our overseas citizens. You've been wanting this for years and no one has listened to you. And you deserve it. And I'm going to do it. It's the right thing to do. And no American leader has ever been willing to stand up and commit to you the way that I have.[3]

Responding to President Trump's promise, in December 2024, Representative Darin LaHood (R-IL) introduced H.R. 10468 – Residence-Based Taxation for Americans Abroad Act. While the bill does not address the problems of the U.S. extraterritorial tax system in their entirety, it would offer some relief for many overseas Americans. We expect that Representative LaHood will reintroduce the bill in the 119th Congress.

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[1] *Chairman Smith Announces Hearing with Treasury Secretary Scott Bessent*, June 4, 2025.
[2] For more information about the U.S. extraterritorial tax system and the problems it creates for overseas Americans, see, e.g., Laura Snyder, *The Criminalization of the American Emigrant*, 167 TAX NOTES FED. 2279 (June 29, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3655145.
[3] Donald J. Trump, *I Will End Double Taxation...*, YOUTUBE (Oct. 12, 2024), at 0:22 to 0:41, https://www.youtube.com/watch?v=LrQCFZHgQr0&t=25s.

We urge the members of the Committee on Ways & Means to offer their full, bipartisan support to LaHood's bill.

We also call upon Congress to come into alignment with every other developed nation on the planet and move to a residence-based taxation system for individuals.[4] American who are tax residents of other countries would continue to be liable for U.S. federal income tax for any income that is effectively connected with the United States, as all non-resident aliens are, by using Form 1040-NR instead of Form 1040.

Finally, we would like to remind Treasury Secretary Bessent that, in the absence of a legislative solution (which would be preferable), a regulatory solution is also available. As we have discussed in detail in our article *A Simple Regulatory Fix for Citizenship Taxation*,[5] we propose that after Treasury Regulation Section 1.1-1(c) there be added a Regulation Section 1.1-1(d)[6] as follows:

> (d) "Qualified Nonresident" — When a U.S. citizen for nationality purposes may elect to not be a U.S. citizen for tax purposes and become a "qualified nonresident":
>
> Any U.S. citizen who meets the following conditions for two consecutive years may elect to be treated as a noncitizen for purposes of the Code when that person:
>
> - meets the conditions in section 911(d)(1)(A) of the code as a qualified individual for two consecutive years (foreign residence test); and
> - while meeting the test in section 911(d)(1)(A) of the code, is a "tax resident" of a country outside the United States for those same two years.
>
> An individual meeting those conditions will be considered to be a "qualified nonresident." Qualified nonresidents will continue to be U.S. citizens for immigration and nationality purposes and will be treated as U.S. citizens for the purposes of taxation on U.S.-source income, including capital gains realized on the sale of U.S. property.

Modifying Regulation Section 1.1-1 in this manner – to exclude Americans living overseas from the definition of the terms "individual" or "citizen" – would change the lives of those millions of Americans. Further, it would enable the IRS to stop diverting resources to the ineffective administration of a global tax system and to employ those resources to more effectively administer a national one.[7]

Thank you for your attention to this matter.

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[4] Other countries offer examples of how the United States can end its tax policies that discriminate against Americans while also protecting against tax abuses by wealthy persons. *See* Laura Snyder, *Extraterritorial Taxation #15: Taxing in Respect of Rights*, SEAT Working Paper Series #2023/15, at 7-11 (June 5, 2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4466241.

[5] John Richardson et al.,, *A Simple Regulatory Fix for Citizenship Taxation*, 169 TAX NOTES FED. 275 (Oct. 12, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3725506.

[6] This will require changing what is now Regulation Section 1.1-1(d) to be Regulation Section 1.1-1(e).

[7] To understand the multitude of challenges the IRS faces in attempting to administrate the U.S. extraterritorial tax system, see Laura Snyder et al., *Mission Impossible: Extraterritorial Taxation and the IRS*, 170 TAX NOTES FED. 1827 (March 22, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3828673.

Respectfully submitted by:

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About SEAT – Education to Facilitate Change

Stop Extraterritorial American Taxation (SEAT) is an independent, nonpartisan organization with no affiliation with the tax compliance industry. The mission of SEAT is to provide an educational platform for individuals, policymakers, governments, academics, and professionals about the terrible effects of US extraterritorial taxation. The imposition of U.S. taxation on the residents of other countries damages the lives of the affected individuals and siphons capital from the economies of other nations while eroding their sovereignty.

While SEAT is created under the laws of France (Law of 1901), it is an international organization.

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