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PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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Hon. Connie Mack III
Chairman
The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW
Suite 2100
Washington, DC 20220

Dear Chairman Mack,

Taxation of Americans Resident Abroad

I wish to comment on the United States system of federal income taxation as it impacts United States taxpayers residing abroad, and to suggest possible changes to that system. I have spent most of my life living abroad in Brazil, Italy, South Korea, the Netherlands, The United Kingdom, and now in Saudi Arabia. I am a graduate of Harvard College and Harvard Law School, and now work as a lawyer and business executive.

As is widely known, the United States is one of only a handful of countries which tax on the basis of citizenship, not residence. Section 911 of the Internal Revenue Code provides for a limited exclusion of some foreign earned income. Foreign earned income in excess of the exclusion is taxed at normal rates which apply to all United States taxpayers.

One indication that this policy choice might be unwise is the company we keep. Only North Korea and a few of the former Soviet Bloc countries also tax on the basis of citizenship, not residence. Virtually all developed economies do not tax on the basis of citizenship.

Why might this be so? One obvious reason is that countries wish to encourage their citizens to live and work abroad. Americans abroad are our country's unofficial goodwill ambassadors. In this age of rising anti-Americanism, it is essential that America introduce itself to the world. The most effective way to communicate "how Americans really are" and what our values are is to foster people-to-people interactions. Americans should be encouraged to live and work abroad, should they wish to do so.

Further, American citizens are the most effective salesmen and women for American goods and services overseas. Globalization is a good thing, but buyers of United States goods and services do expect to see United States

citizens in the process. Clients in Riyadh wishing to retain an American law firm are obviously disappointed when they learn the Riyadh offices of some major United States law firms employ no Americans. A Saudi buyer dealing with Boeing, Raytheon, Lockheed-Martin, or Microsoft, or similar American industrial icons, expects to see United States citizens who read and speak English. Today that sadly is not always the case; major American companies often simply cannot afford to post Americans abroad because United States tax policy makes Americans much more costly for American companies to hire than nationals of other countries. Today, in Saudi Arabia, many of the largest United States industrial and service firms doing business in the country employ no United States citizens at all in Saudi Arabia.

One way of understanding this problem is, somewhat cold heartedly, to view Americans working abroad as exported labor. Just as it makes no sense to tax exported goods, so too it makes no sense to tax exported services or labor. To do so simply makes United States exports uncompetitive with the exported goods and services of our industrial competitors.

One lesson I have learned working abroad is that either we in America should convince our industrial competitors to adopt our policy, or we should adopt theirs, on this matter. If we insist on ignoring the importance of engaging with the world we will continue to lose markets to more aggressive exporters from Asia, Europe, and even from Australia and Canada.

I do hope the Committee will consider harmonizing United States tax policy on its expatriates with the policies of our competitors. Americans abroad should be taxed on the basis of residence, not citizenship.

Kind regards.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Neal L. Johnson', with a stylized flourish at the end.

Neal L. Johnson