AMCHAM ABU DHABI
Member of the Global Network of American Chambers of Commerce

THE AMERICAN BUSINESS COUNCIL of Dubai & the Northern Emirates
Chapter, U.S. Chamber of Commerce

Americans Abroad = U.S. Exports = Jobs at Home

Passport Revocation or Denial

The 2015 "Developing a Reliable and Innovative Vision for the Economy Act" (Public Law 114-94) included a provision to revoke or deny the issuance of passports to any individual whose tax debt exceeds $50,000. While we agree with policymakers concerns about collecting U.S. taxes that are owed, there are practical concerns and unintended impacts on the millions of American citizens living abroad:

The $50,000 threshold figure is not exclusive to federal taxes, and includes penalties and interest.

Interest and the plethora of penalties add up quickly; a relatively small mistake or missed filing quickly exceeds the $50,000 threshold based on mandatory penalties that do not depend on amount of tax owed.

For example, failing to file a Foreign Bank and Financial Accounts form on either unvested foreign pension benefits (which can be very difficult to value and potentially do not vest for decades), or on short term proceeds from a home sale being held for purchase of a new residence, could lead to a penalty of either $10,000 per form per year or 50% of the highest balance in the bank account. These relatively innocent mistakes can immediately cross the $50,000 threshold and compound the monetary penalty with the potential loss of a passport.

Americans living abroad are required to fill out a number of tax forms annually, and each misfiled form carries minimum tax penalty of $10,000 per form, per year if the taxpayer failed to comply on a timely basis and/or complete the correct forms.

IRS Methods for Communicating With Expats Not Sufficient Given Penalty of Losing Passport

Because the IRS' primary method of communication is through the use of traditional paper mail delivery to send notices to the taxpayer, U.S. citizens residing abroad are at a particular disadvantage because they physically reside overseas.

A 2015 Treasury Inspector General for Tax Administration report found the IRS mail system is not well designed for or sufficiently able to accommodate international mail. IRS notices may not arrive to their overseas addresses on an accurate and timely basis and international mail frequently is lost. The report also found the IRS cannot determine if the international taxpayer ever received any correspondence sent to them; therefore, the IRS cannot even determine the impact of its outreach Americans living abroad.

While overseas mail takes about 40 to 50 days just to arrive to its destination on average, the IRS allows taxpayers approximately 45 days to reply to a mailed IRS notice. When an account exceeds approximately 120 days without any reply, the IRS will close the assessment phase and the tax obligation gets transferred to the collection department. Once the matter is forwarded to the IRS' collection department, the taxpayers have in essence lost their appeal rights with IRS and now are labeled as being delinquent. Their passport may now be subject to seizure and resolving such a matter can take several months.

Practical Impacts on Daily Life

In addition, having a valid passport is vital for living daily life for U.S. citizens living abroad, including getting their overseas driver's license, demonstrating their residency, or executing a property lease, opening a bank account, and undertaking other daily transactions.

We urge to the Treasury Department to encourage the IRS to take cases affecting American citizens abroad into special consideration during individual evaluation. In addition, we believe that this law needs to be modified to allow for exceptions and allow for a higher threshold to $100,000 versus $50,000 and/or create an expedited process such as a having permanent IRS appeals officer and settlement officer solely dedicated to cases which affect U.S. citizens who are living abroad.