



## Press Release

報道資料

*For Immediate Release*

### **ACCJ Urges Repeal of Recently Enacted Changes to Section 911 Exclusion under The Tax Increase Prevention and Reconciliation Act of 2005**

**June 21, 2006** - The American Chamber of Commerce in Japan (ACCJ) today expressed deep concern over recently enacted amendments to Section 911 of the Internal Revenue Code (Section 911) and called upon the US Congress to repeal these amendments, which went into effect on January 1, 2006.

Amendments to Section 911 will create a much higher overall tax burden for US citizens/residents living in Japan, who are subject to both Japanese and US taxes.

The Section 911 amendments not only place US citizens/residents and businesses at a competitive disadvantage in key foreign markets but they also result in a strong economic disincentive both for Americans to enter or remain in the international marketplace, and for US companies to hire Americans in their overseas operations.

The recent Section 911 amendments are detrimental to US interests both domestically and internationally, and for this reason the ACCJ strongly urges that such amendments be repealed.

For more details, please see the attached full statement.

#### **About the ACCJ**

The mission of the American Chamber of Commerce in Japan (ACCJ) is to further the development of commerce between the United States of America and Japan, promote the interests of U.S. companies and members, and improve the international business environment in Japan. Established in 1948 by representatives of 40 American firms, the ACCJ has grown into one of the most influential business organizations in Japan, with close to 3,000 individual members representing more than forty countries and 1,400 companies.

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## **Repeal of Recently Enacted Changes to Section 911 Exclusion under The Tax Increase Prevention and Reconciliation Act of 2005**

The American Chamber of Commerce in Japan (ACCJ) expresses concern over the recently enacted amendments to Section 911 of the Internal Revenue Code (Section 911) and calls upon the US Congress to repeal these amendments, which went into effect on January 1, 2006.

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005, which, among other things, reduces tax relief available to expatriates under Section 911 by (1) substantially reducing foreign housing expenses which up to now could be excluded from taxable income and (2) adding back income excluded under Section 911 in the determination of the marginal tax rates applicable to non-excluded income, also referred to as the stacking provisions.

The combined result of these amendments is a much higher overall tax burden for US citizens/residents living in Japan, who are subject to both Japanese and US taxes. The increased tax burden is largely due to the high cost of housing in Japan's commercial centers, which Japan addresses by allowing a portion of rental housing costs to be excluded from taxable income. Although Section 911 had likewise allowed such high costs to be generally excludable from US taxes, these amendments have largely eliminated that exclusion.

The principal purpose and rationale for tax relief provided by Section 911 has been to reduce the elements of the US taxation system which make Americans abroad less competitive relative to foreign nationals, and, in so doing, to promote the export of US goods and services. Yet these amendments to Section 911 have exactly the opposite effect, as they increase the costs of hiring American employees for companies which pay their employees' assignment related taxes or necessitate such companies to pay higher gross salaries to employees who bear their own taxes so that they may realize the same after-tax benefits enjoyed by employees who are not US citizens/residents.

Even prior to these amendments, US citizens/residents working abroad bore heavier tax burdens than citizens/residents of most other countries, since they are -- contrary to prevailing global practices -- taxed by their home country on their worldwide income while residing abroad. This places Americans among the highest-cost employees in the world, while today's globally competitive market demands that companies seek out more cost-effective employees. The overall effect is that The Section 911 amendments not only place US citizens/residents and businesses at a competitive disadvantage in key foreign markets but they also result is a strong economic disincentive both for Americans to enter or remain in the international marketplace, and for US companies to hire Americans in their overseas operations.

Americans abroad play a vital role in promoting exports and US domestic business interests. The nationality of their employees often directly affects the countries in which foreign companies invest and do business. For example, a company with US employees overseas is much more likely to purchase US materials, utilize US suppliers and services

and develop more ties with US businesses, simply because the company's US employees have more relationships with US businesses. The net effect being that, in addition to more domestic job creation, more international money is spent and invested within the US. However, by increasing the tax burden on US citizens/residents working overseas, the Section 911 amendments make the cost of doing business overseas more burdensome both for these individuals and their employers and materially impairs US global business interests.

Such increased tax burdens fall especially hard on those individuals having relatively lower incomes and higher housing costs, such as entrepreneurs, teachers, and families who require larger living spaces. US expatriates paying their own US and foreign taxes—often middle income taxpayers and small and medium size business owners—are already saddled with the burden of double taxation and higher costs of living abroad, such as tuition fees for their children to attend English-speaking schools and the additional costs of living and housing. Americans abroad generally pay much more for such services than if they were resident in the US, and this is especially true in Japan.

Furthermore, most lower to upper-middle income taxpayers do not generate sufficient foreign tax credits to offset the additional housing-related US taxes now imposed by these Section 911 amendments. Not only will they now be taxed on a greater portion of their unavoidably high living expenses in Japan, but the effect is made even worse since such individuals also will be pushed into higher US tax brackets due to the stacking provisions, without the benefit of the foreign tax credits which higher-income taxpayers might claim.

Beyond the aforementioned concerns regarding the effect upon individuals and businesses and the flow of US capital, goods, and services, in this age of globalization American political and business leaders increasingly require international experience and understanding. A disincentive to hire Americans abroad will result in a decrease in the numbers of Americans with international experience and perspective, and accordingly the number of Americans in positions of global leadership; effectively undermining America's continued global leadership by a lack of international experience and involvement.

Section 911 was itself once repealed, but Congress reenacted it in 1981 due to a perceived need to increase America's international competitiveness. Since such time, the changes in global business and political dynamics have only increased the need for the US to remain internationally competitive. If further changes are to be made to Section 911, such changes should be aimed at increasing American competitiveness in the global marketplace, not unfairly burdening those US citizens/residents and companies who are doing so much to expand the success of Americans and American businesses internationally. America's continued global success and leadership hinges upon the US Congress recognizing the necessity of keeping its citizens/residents on a competitive international footing. The recent Section 911 amendments are detrimental to US interests both domestically and internationally, and for this reason the ACCJ strongly urges that such amendments be repealed.

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