US Nationals - *Tax Residency*

Americans citizens are taxable based on their citizenship, not residency. All other countries, with the exception of Eritrea, only tax the country's residents, often doing so on a worldwide basis. A non-resident individual is only subject to tax on income specifically arising within that country with worldwide income otherwise being assessed in the jurisdiction where resident for tax purposes. A US citizen, no matter where he or she resides, is subject to US income tax, as long as certain minimum income thresholds are met. That individual must file a tax return with all the associated forms and schedules and settle any tax due.

The practice of citizenship-based taxation in the US dates back to 1861 when the United States was struggling to raise revenue during the Civil War. Congress argued that American citizens living outside the country were avoiding their duties to the nation during a time of need. They determined that these citizens could make up for their absence by paying a higher rate of tax on their US-source income.

To date, no other country that has adopted citizenship-based taxation has stuck with it. Some do not have the administrative capacity to enforce it, while others have chosen to discard it in times of reform. The United States, on the other hand, has the power to enforce citizenship-based taxation and has little motivation to attempt the kind of drastic change that has enabled most other countries to abandon the practice.

The almost inevitable clash between the potentially conflicting principles of nationality and residency makes the interpretation of Double Taxation Agreements ("DTA")all the more significant. It should come as no surprise that, while most countries follow the OECD model treaty, the US has its own model treaty that serves as the starting point for negotiations of these bilateral agreements.

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12 December 2018