



## Robert W. Wood

THE TAX LAWYER

TAXES 05/15/2018

### As Prince Harry & Meghan Markle Wedding Arrives, So Do Taxes

As American actress Meghan Markle prepares to wed Britain's Prince Harry, most people will not focus on the tax problems complex U.S. tax laws inevitably seem to bring. Early in their engagement, Buckingham Palace announced that Markle will become a British citizen after marriage. Yet tax lawyers quickly pointed out that [Meghan Markle's U.S. citizenship could cause tax headaches for Britain's royal family](#). Unless she renounces her American citizenship, she must continue to file U.S. tax returns, plus FBARs, every year, reporting her worldwide income, *and* disclosing her assets. Even if the couple try to keep their assets separate, disclosing assets may be a particular worry.



More recent reports underscoring Markle's coming British citizenship have noted that she may well decide to give up her American citizenship. At least this royal couple will be very well advised. Many a dual country couple innocently starts filing

U.S. taxes together, and then are *both* caught forever in the U.S. tax net. 95% of married couples file joint tax returns, making each spouse liable for *everything* on the return—and anything that might *not* be on the return.

Markle will surely be advised to file taxes separately, so Prince Harry will hopefully not be caught within the U.S. tax net. But if they have children, what about them?

[FATCA](#), the Foreign Account Tax Compliance Act, was passed in 2010, and was [ramped up worldwide](#). It [requires an annual Form 8938](#) filing with the IRS that could end up involving royal assets. [FATCA's](#) unparalleled network of reporting requires foreign banks and governments to hand over secret bank data about depositors. Non-U.S. banks and financial institutions around the world must reveal American account details or risk big penalties. Markle could follow London's former Mayor Boris Johnson, now Britain's Foreign Secretary. Having been born in New York but raised in Britain, Johnson was a dual citizen of the U.S. and U.K. A run-in with the IRS eventually led him to renounce his American citizenship.

According to recently released numbers, for the first time in five years, the number of Americans who renounced their citizenship fell slightly in 2017 (5,133) from the previous year (5,411), [which had been a record](#). The total for the first quarter of 2018 was 1,099. The total for calendar 2016 was 5,411, while 2015 had [4,279 published expatriates](#). Despite the official list, [many who leave are not counted](#), although both the [IRS and FBI track Americans who renounce](#). America's global income tax compliance and disclosure laws can be a burden, especially for U.S. persons living abroad. Many foreign banks do not want American account holders.

Americans living and working in foreign countries must generally report and pay tax where they live. But they must also continue to file taxes in the U.S., where reporting is based on their worldwide income. A foreign tax credit often does not eliminate double taxes. Annual foreign bank account reports called [FBARs](#) carry big civil and even criminal penalties. The civil penalties alone can consume the entire balance of an account. Ironically, even leaving America can be costly.

What if Markle renounces her U.S. citizenship? America charges \$2,350 to hand in your passport, a fee that is more than [twenty times the average](#) of other high-income countries. Previously, there was a \$450 fee to *renounce*, and no fee to *relinquish*, but the U.S. [hiked the fee by 422%](#). Now, there is a \$2,350 fee either way. Moreover, to exit, one generally must prove 5 years of IRS tax compliance. And getting into IRS compliance can be expensive and worrisome. For some, a *reason* to get into compliance is only to renounce, which itself can be expensive.

Markle is said to have a net worth of \$5 million, which would mean also paying an exit tax to the U.S. if she renounces. If you have a net worth greater than \$2 million, or have average annual net income tax for the 5 previous years of \$162,000 or more, you can pay an [exit tax](#). It is a capital gain tax, calculated as if you sold your property when you left. A long-term resident giving up a Green Card can be required to pay the exit tax too. Sometimes, planning and valuations can reduce or eliminate the tax, but the tax worry can be real, even for those who will not face it.

*For alerts to future tax articles, email me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not legal advice.*