Fewer Americans Renounce Citizenship, But Taxes Still Drive Them

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. In recent years there has been a marked upswing in expatriations, and tax considerations are often at least a part of the equation. Moreover, these published numbers are probably lower than the actual number of those who expatriated. How complete these lists are remains unclear. Despite the official list, many leavers are not counted, and both the IRS and FBI track Americans who renounce.

The figures for recent years show an important trend. The total for calendar year 2016 was 5,411, up 26% from 2015, which had 4,279 published expatriates. The 2015 total was 58% more than in 2014. The reasons for renouncing can be family, tax and legal complications, and some renouncers write why they gave up their U.S. citizenship. Expats have long clamored for tax relief. One law motivating some is FATCA, the Foreign Account Tax
Compliance Act. FATCA has been ramped up worldwide, and requiring an annual Form 8938 filing if your foreign assets meet a threshold.

FATCA was enacted in 2010, and over five years, was painstakingly implemented worldwide by the U.S. Treasury Department. In now spans the globe with an unparalleled network of reporting. America 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. Some renounce because of global tax reporting and FATCA. Dual citizenship is not always possible, as this infographic shows. America’s global income tax compliance and disclosure laws can be a burden, especially for U.S. persons living abroad. Their American status can make them untouchable by many banks.

Americans living and working abroad 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. Moreover, enforcement fears are palpable for the annual foreign bank account reports called FBARs. They carry big civil and even potential criminal penalties. The civil penalties alone can consume the entire balance of an account.

Ironically, even leaving America can be costly. America charges $2,350 to hand in your passport, a fee that is more than twenty times the average of other high-income countries. The U.S. hiked the fee to renounce by 422%, as previously there was a $450 fee to renounce, and no fee to relinquish. Now, there is a $2,350 fee either way. The State Department said raising the fee was about demand and paperwork, but the number of American expatriations kept increasing. 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 to renounce.

However, 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. This discussion is not legal advice.