Forbes

Robert W. Wood

THE TAX LAWYER

TAXES 07/14/21

Buy Passport With Bitcoin, Escape Taxes?

Have you ever considered living in a Caribbean tax haven, becoming a citizen, maybe even ditching your main passport? If you could implement such a plan without having to pay taxes and could do it quietly with appreciated crypto, wouldn't that be alluring? Plan B Passport seems to think so. The company offers clients who hold crypto a way to use their crypto to buy a second passport. Customers can take their pick of seven tax-haven nations including Antigua & Barbuda, Dominica, Grenada, Nevis & St. Kitts, Portugal, Saint Lucia, and Vanuatu. Not coincidentally, the jurisdictions happen to exempt crypto holdings from capital gains taxes. You can read more about Plan B Passport and Americans who are looking for a tax break on bitcoin. You are buying into a citizenship by investment program, which is not illegal. You can keep your U.S. passport, or you could give it up if you wish. A key feature of the deal is the notion that you are making a donation of $100,000 or $150,000 to the sustainable growth fund of the country, plus some fees.

If you are paying for this with crypto, remember that most transfers of crypto are taxable, unless the transfer qualifies as a gift or a charitable contribution. Here, it isn't clear if this is a real donation or is rather the purchase of citizenship. If the latter, one might expect the IRS to say that using appreciated crypto for the purchase triggers U.S. taxes. Remember, the IRS is still on the hunt for taxpayers not paying taxes on crypto in a big way. Having a second passport would be nice, but what about people who decide to give up American citizenship along with U.S. taxes? Ironically, that can bring more taxes: the U.S. exit tax. To exit, you must prove 5 years of IRS tax compliance, and getting into IRS compliance can be expensive and worrisome. If you have a net worth greater than $2 million, or have average annual net income tax for the 5 previous years of $171,000 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, gifts, separate tax returns for married persons, and valuations can reduce or eliminate the tax. However, plan carefully, and run the numbers, as the tax worry can be real, even for those who can sidestep the tax. A more modest cost is administrative, as America charges $2,350 to hand in your passport, a fee 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.

Common reasons for renouncing can be family, tax and legal complications for people who generally live outside the United States. There is an official list published quarterly, and the names for the fourth quarter 2020 made the annual total 6,707, a 237% increase from 2019. In fact, 2020 set a record for the number of Americans who renounced their U.S. citizenship or gave up their long-term green cards.That may not sound like many, but the *actual* number of expatriates is often assumed to be higher, with many apparently not counted. Both the IRS and FBI track Americans who renounce. Some renouncers write why they gave up their U.S. citizenship, but tax considerations are often part of the equation. Expats have long clamored for tax relief. Adding fuel to the fire is FATCA, the Foreign Account Tax Compliance Act. FATCA was passed in 2010 requiring annual Forms 8938 if your foreign assets meet a threshold.

FATCA spans the globe with an unparalleled network of reporting, requiring foreign banks and governments to hand over 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. Americans living and working abroad must generally report and pay tax where they live.

However, 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. Then there are annual foreign bank account reports called FBARs. They carry big civil and even potential criminal penalties. The civil penalties can consume the entire balance of an account. Ironically, even leaving America can be costly.

Check out my website.