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# Meghan Markle, Prince Harry Baby Needs Tax Planning ... Already

How early is too early to do tax planning? This time of year, most tax advisers might say it is *never* too early. Sometimes, that can mean even before birth. Recently, the Wall Street Journal's Laura Saunders rightly pointed out that, bundle of joy aside, [Meghan Markle is about to have a little bundle of tax headaches](#). Her parents are too. Unless Meghan Markle manages to get rid of her U.S. citizenship fast--which seems unlikely--the baby will be a dual citizen. And while that may sound exotic, the tax headaches are palpable. [Early reports](#) after the royal wedding suggested that Ms. Markle might gain British citizenship, and then give up her American citizenship. But so far, it appears that both Ms. Markle and the baby will have U.S. tax obligations for a long time to come.

For the child, ironically, that could start almost immediately, since some assets are likely to be placed in the child's name and start earning income. Even if the baby never sets foot in the U.S., that means U.S. taxes and an annual return to the IRS. Bank accounts, even if someone else is the signatory, can mean other forms too. And missteps in the U.S. can be costly.

[FATCA](#), the Foreign Account Tax Compliance Act, was passed in 2010, and then [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, then Britain's Foreign Secretary. Having been born in New York but raised in Britain, Johnson was a dual citizen until a run-in with the IRS eventually led him to [renounce his American citizenship](#).

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](#). These may seem to be small numbers, but advisers say that [many who leave are not counted](#). Even so, both the [IRS and FBI track Americans who renounce](#). America's global income tax compliance and disclosure laws can be a burden. 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 may not eliminate double taxes. Annual foreign bank account reports called [FBARs](#) carry big civil and even criminal penalties. Ironically, even *leaving* America can be costly.

If Markle were to renounce her U.S. citizenship, America charges \$2,350, a fee that is more than [twenty times the average](#) of other high-income countries. 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. Even some time ago, Markle was 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 \$165,000 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.

Fortunately, the royal baby should get one big U.S. tax break. If the child relinquishes before the age of 18 and a half years, and has not lived in the U.S. for the prior 10 years, there is a kind of get-out-of-jail-free card for the U.S. exit tax. This is an important rule, that many young people do not learn about until it is too late. Here, I'm betting that a cadre of U.S. and U.K. tax advisers will be helping, so this goes more smoothly than it did for Boris Johnson, who was dogged by an IRS tax bill for years.

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