



## Robert W. Wood

THE TAX LAWYER

TAXES 02/07/21

# Renouncing American Citizenship Hits All-Time Record

Treasury Department records show that [2020 set a new record for the number of Americans who renounced their U.S. citizenship](#) or gave up their long-term green cards. 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. 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. This U.S. tax law was passed in 2010 and [requires](#) an annual [Form 8938](#) filed with the IRS 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. 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.



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. 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.

Check out my [website](#).