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Tax Expatriates: We'll Always Have Paris

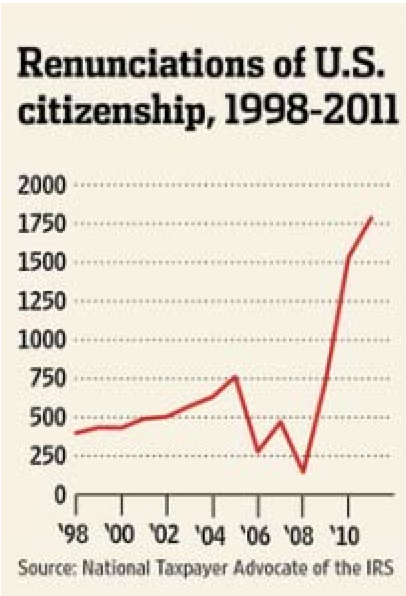

(Photo credit: Wikipedia)

When the Wall Street Journal asks What's U.S. Citizenship Worth?, revealing the stark fact that nearly 1,800 American expatriates renounced their citizenship last year, what gives? Some say tax hikes are to blame but U.S. tax rates are no worse than many countries. The larger problem is the U.S. worldwide income approach and what for many is a significant degree of non-compliance.

William McGurn describes Americans as "economic lepers." Many foreign banks don't want them as customers and many investment ventures don't want them as partners. And while the IRS has had successive tax amnesties, for many the potential penalties can still be steep.

For these and other reasons, some American citizens and U.S. permanent residents are calling it quits. Inevitably there are tax issues on the way out. See Ten Facts About Tax Expatriation. U.S. citizens or long-term residents who expatriate after June 16, 2008, are treated as having sold all their worldwide property for its fair market value the day ***before*** leaving the U.S.

The gain is taxed as a capital gain, but this "exit tax" is unforgiving and has broad application. See Rich Americans Voting With Their Feet To Escape Obama Tax Oppression. Fortunately, only "covered expatriates" face the exit tax. Some people born with dual citizenship who haven't had a substantial presence in the U.S. and certain minors who expatriated before the age of 18-and-a-half are also exempt.



However, those people must still file an IRS Form 8854, Initial and Annual Expatriation Statement. You can escape the exit tax if you have less than $651,000 of income from the deemed sale of your assets (for 2011). This exemption amount is adjusted for inflation.

If your gain exceeds this amount, you must allocate the gain pro rata among all appreciated property. The exclusion must be allocated to each item of property with built-in gain on a proportional basis. As you might expect, appraisals of property are a good idea. See Fancy Appraisals Can Defeat IRS.

Even if you owe the exit tax, you may apply to defer it by filing IRS Form 8854 (in some cases for ten years). Additional special forms may be required if you have any deferred compensation items, a specified tax deferred account, certain non-grantor trusts, etc. A good resource is Notice 2009-85.

For more, see:

The “1 Percent” Exodus

U.S. Expat Taxes Drive Americans to Give Up Citizenship

What Do I Need to Know to Be an Expatriate?

Celebrity Leavings: Bidding Stars Adieu

If IRS Is Like Kryptonite, What Would Superman Do?

FATCA Makes Banks Shut Out Americans

Ten Facts About Tax Expatriation

Primer For First Time FBAR Filers

Got FBARs? But Which One?

Should You File FBAR For The First Time?

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