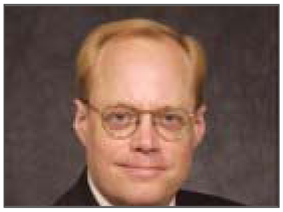
Wood LLP Tax Alert



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If U.S. Had 75% Tax Rate, You'd Leave Too

Americans have faced a host of donnybrooks abroad and at home. The fact that some Americans vote with their feet doesn't seem too serious–you can't please everyone. Besides, our inflow still dramatically exceeds our outflow.

Luxury group LVMH CEO Bernard Arnault leaves the Matignon Hotel in Paris after a meeting with French Prime minister Jean-Marc Ayrault, on September 5, 2012. (Image credit: AFP/Getty Images via @daylife)

Still, when Facebook's Eduardo Saverin defriended us, some took it personally. See Why Facebook's Co-Founder Just Defriended America. Others thought it was a great idea. See Why Denise Rich Followed Eduardo Saverin's Expat Lead. It prompted a tax bill to slap even higher taxes on those deigning to say sayonara. (That bill didn't go anywhere, but still.)

In all this it's somehow nice to see others facing these issues, especially a country Americans love to hate. France's richest man is leaving to avoid a 75% tax rate. The understated newspaper headline: "Get Lost, You Rich Bastard."

The object of this ire is none other than Bernard Arnault, CEO of LMVH. After France's socialist President François Hollande proposed a 75% tax on earnings over one million euros Mr. Arnault applied for Belgian nationality. After Libération condemned the action, Mr. Arnault is suing. See Press Release.

Our worldwide income tax system is unlikely to change. See Expats Lobby For Tax on Residence, Not Worldwide Income. Expatriates face a U.S. exit tax on their worldwide property computed at fair market value the day before they leave. But the tax can be reduced or avoided in many cases. See Ten Facts About Tax Expatriation.

Although tax motivated expatriations used to trigger tougher rules, they do no longer. See Celebrity Leavings: Bidding Stars Adieu. "Covered expatriates" face the exit tax. Some people born with dual citizenship are exempt but must still file an IRS Form 8854. You can escape the exit tax if you have less than $651,000 of income from your deemed sale of assets, adjusted for inflation.

As you might expect, appraisals 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 forms may be required if you have deferred compensation, tax-deferred accounts, certain non-grantor trusts, etc. A good resource is Notice 2009-85.

The real savings come ***after*** leaving. Still, don't leave home without some good advice.

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