

Forbes



Robert W. Wood

THE TAX LAWYER

TAXES 2/06/2016

Record Numbers Renounce Their U.S. Citizenship

Once again, the [number of Americans renouncing U.S. citizenship has gone up, up 560% from its Bush administration high](#). In 2015, there were approximately [4,300 expatriations](#) according to the published [names of individuals](#) who renounced. The name and shame list is published quarterly, with the most recent three-month total being 1,058. That brings the total to 4,279 for 2015.

One recent change that could pay a part in the future is that the [IRS now has the power to revoke your passport](#). Of course, these numbers seem tiny compared to the influx of immigrants. Yet expatriations have historically been much lower. Moreover, the published list is also incomplete, with [many not counted](#). Surprisingly, no one seems to know exactly how big the real number is, even though the [IRS and FBI both track Americans who renounce citizenship](#). There is no single explanation, though with global tax reporting and FATCA, the list of the [individuals](#) who renounce keeps increasing,



(Photo credit: Victor J. Blue/Bloomberg)

2014 was also a record year with [3,415 published expatriates](#). The reasons that [Americans renouncing citizenship is at an all-time high](#) can be over

family, tax and legal complications. Dual citizenship isn't always possible, as this [infographic](#) from MoveHub [shows](#). Some countries make citizens pay a fee to hand in their passport. Some countries have no fee, but America's \$2,350 fee is more than [twenty times the average level](#) in other high-income countries.

Many now find America's global income tax compliance and disclosure laws to be a burden, some say downright oppressive. No group is more severely impacted than U.S. persons living abroad, who can be pariahs shunned by banks for daily banking activities. For those living and working in foreign countries, it is almost a given that they must report and pay tax where they live. But they must also continue to file taxes in the U.S.

What's more, U.S. reporting is based on their worldwide income, even though they are paying taxes in the country where they live. Many can claim a foreign tax credit on their U.S. returns, but it generally does not eliminate all double taxes. These rules have long been in effect, but enforcement was historically less of a concern with expats. Today, enforcement fears are palpable. Moreover, the annual foreign bank account reports known as [FBARs](#) carry civil and criminal penalties all out of proportion to tax violations. Even civil penalties can quickly consume the balance of an account.

FATCA has [ramped up worldwide](#) and [requires](#) an annual [Form 8938](#) filing if foreign assets meet a threshold. Foreign banks are sufficiently worried about keeping the IRS happy that many simply do not want American account holders. Still, leaving America can be costly. To exit, you generally must prove 5 years of IRS tax compliance. Plus, if you have a net worth greater than \$2 million or have average annual net income tax for the 5 previous years of \$160,000 or more, you can pay an [exit tax](#).

It is a capital gain tax as if you sold your property when you left. Long-term residents giving up a [Green Card](#) can be required to pay the exit tax too. No one wants to pay an exit tax if they can avoid it. Sometimes planning and valuations can reduce or even eliminate the tax. But taxed or not, many still seem to be headed for the exits. Last year, dual citizens in Canada trying to shed their U.S. citizenship [created a backlog](#) at the U.S. consulate in Toronto. President [Obama has joked about his birth certificate, but accidental American status is no joke](#). Many end up in untenable financial situations.

The [U.S. has been criticized for hiking its fee to renounce by 422%](#) to \$2,350. Previously, there was a \$450 fee to renounce, and no fee to relinquish. But the precise difference between the two procedures was often confused.

Presently, the \$2,350 fee is supposed to apply either way. That was a hike from \$450 to \$2,350 for renouncing, and an even steeper hike—from zero to \$2,350—for relinquishment. The U.S. State Department said [raising the fee](#) was about demand and paperwork, but American expatriations still grew even after the increase.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.