

Say Goodbye, America: The Rich Are Renouncing Their Citizenship to Dodge Taxes

Robert McGarvey May 14, 2015 7:00 AM EDT



NEW YORK (MainStreet (<http://www.mainstreet.com>)) — In the first quarter of 2015 the highest number of Americans - ever - renounced their citizenship. The number, 1,335, is a relatively small proportion of the population at large, but the U.S. now appears to be on track to log more citizenship renunciations in 2015 than in any prior year.

Year-on-year the total keeps growing. In 2013 (<https://www.mainstreet.com/article/file-irs-or-renounce-your-citizenship>), 2,999 renounced their citizenship, an increase of 221% from 2012. In 2014, 3,415 renounced their citizenship, the highest

total ever. But 2015 appears to be on track to see 5,000 say goodbye to the U.S., said David Hryck, a partner at Reed Smith in New York and a tax lawyer with a clientele studded with one-percenters (<https://www.mainstreet.com/article/the-state-you-live-in-determines-what-income-you-need-to-make-it-into-the-1>). He added: “I have so many clients asking me about doing this now.”

In an online survey, Greenback Expat Tax Services in Hong Kong found that 23% of respondents are “seriously considering” renouncing U.S. citizenship. Other experts said similar: there recently is a stampede of citizens seeking to turn off relationships with the U.S.

Incidentally, by law, the U.S. publishes the names of citizenship renouncers. Here (<https://s3.amazonaws.com/public-inspection.federalregister.gov/2015-11213.pdf>) is the roster for Q1 2015.

The big questions are: why are people doing this (<https://www.mainstreet.com/taxes>)? And does it matter?

Hryck, for his part, said it definitely matters, that in fact it is a kind of economic crisis, mainly because those leaving generally are in fact wealthy. The poor may leave, but in many cases, they probably do it in stealth mode, not bothering with the mechanics of a formal renunciation.

That last bit - mandatory for those who want to reap the benefits of renunciation - is not in fact easy to do. Part of the process is

appearing in person at a U.S. embassy or consulate outside the US - it must (<http://travel.state.gov/content/travel/english/legal-considerations/us-citizenship-laws-policies/renunciation-of-citizenship.html>) be done on foreign soil - and telling a U.S. official that one is surrendering citizenship. In Canada, right now, the local press reports waits of up to a year to get an appointment to renounce citizenship.

The money question is why do it?

In the 1960s and 1970s, many did it as a form of political protest against the war in Southeast Asia.

Today, it is about dollars and cents.

“The Internal Revenue Code requires each American citizen to report and pay taxes on all worldwide income, even if the individual does not live in the United States and did not earn any income from sources within the country,” Los Angeles tax lawyer Robert Hoffman explained. “U.S. citizens living abroad must also report and pay taxes to their countries of residence.” As a result, he added, many American citizens decide that a U.S. Passport is not worth the price, especially when so many countries provide lower tax rates.

Hoffman also noted that, additionally, U.S. citizens living abroad (<https://www.mainstreet.com/article/financial-considerations-expats>) are legally obliged to cooperate with extensive U.S. reporting requirements (<https://www.mainstreet.com/article/tax-returns-of-americans-living-abroad-are-under-facta-scrutiny>) on foreign bank

accounts. "Failure to report foreign accounts can lead to criminal prosecution and penalties of up to 50% of the account balance for each year that the account was open," he said. "In some cases, the penalties can exceed the amounts held in the account."

Many foreign banks refuse to open accounts for U.S. citizens, because the reporting requirements on them are viewed as too burdensome, said Reid Kirchenbauer, founder of advisory firm InvestAsian.

So why not just pull the plug on the U.S. of A.? That is: why aren't all one-percenters in line? Two reasons and the first - not unexpectedly - is also about money. Paul Jacobs, Atlanta-based chief investment officer of wealth manager Palisades Hudson Financial Group, elaborated that U.S. citizens, in renouncing citizenship, are required to pay what is called an exit tax (<http://www.irs.gov/Individuals/International-Taxpayers/Expatriation-Tax>). According to Jacobs, that "can make renouncing citizenship unattractive for some. For purposes of the exit tax, a U.S. citizen is deemed to have sold his assets the day before expatriation. The hypothetical sales proceeds are then subject to U.S. capital gains tax. This tax was put in place to severely limit the tax benefits of leaving the country."

That tax can quickly become very big bucks. (Calculations are complex. But, generally, those with a net worth of less than \$2 million will not be forced to pay the exit tax.)

The other reason: a U.S. passport has its advantages. In a recent

ranking of the most powerful passports, it ranked at the top along with four other countries (Sweden, Finland, Germany, United Kingdom), all of which have passports that gain visa-free entry to 174 countries. Countries with easy citizenship requirements - such as Malta, Cyprus and St. Kitts and Nevis (where a \$250,000 contribution to the Sugar Industry Diversification Foundation buys entry) - have passports that are less useful to globetrotters.

Add up the negatives and, said Hryck, for many of his clients, once they look into renunciation, they change their mind. “It’s not the best choice 99% of the time,” said Hryck. But, for one-percenters, it’s in fact time to say goodbye.

— *Written by Robert McGarvey for MainStreet*
