Tax burdens prompt more Americans to ditch their citizenship

- Some 9 million Americans reside abroad.
- More than 4 in 10 wouldn't rule out renouncing U.S. citizenship, according to a survey.

Darla Mercado | @darla_mercado
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Americans abroad have just about had it with Uncle Sam's tax filing requirements.

Those were the findings from a recent survey of more than 2,100 U.S. expatriates, according to Greenback Expat Tax Services, which specializes in working with American taxpayers residing overseas.

Just over 4 in 10 respondents said that while they aren't planning to renounce their U.S. citizenship, they wouldn't rule it out, and 19 percent said they're seriously considering it.

Half of those who are either planning or considering giving up their citizenship say the primary reason is the burden of U.S. tax rules.

"Tax requirements like the Foreign Account Tax Compliance Act (FATCA) and the report of foreign bank and financial accounts (FBAR) start to become more painful for people and they write to their congressperson, seeking action," said David McKeegan, co-founder of Greenback Expat Tax Services and an American residing in Indonesia.

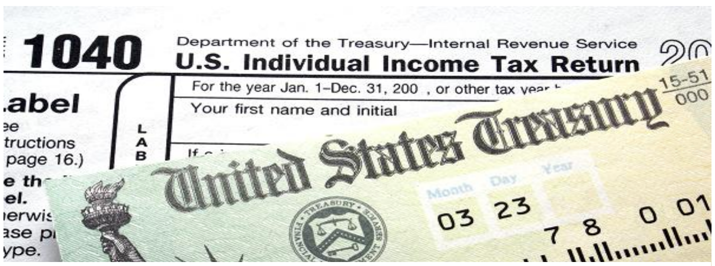
"There's nobody lobbying on the behalf of these people and fighting for your average American living overseas," he said.

Here are some of the tax issues facing the estimated 9 million Americans who live abroad.

Filing complexities

Two-thirds of the expats polled said they do not feel they should be required to file U.S. tax returns each year — even though more than 6 in 10 said they either didn't owe Uncle Sam anything or hadn't received a refund last year.

Filing aside, however, citizens abroad still face plenty of reporting requirements each year to keep the IRS and Treasury up to date on their holdings in foreign bank accounts.



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FATCA requires taxpayers to file Form 8938, a statement of specified foreign financial assets.

These Americans abroad must also file an FBAR if they had an interest in or signature authority over at least one account outside the U.S. and the aggregate value of all the foreign accounts exceeded $10,000 at any time in the year.

Penalties are painful for those who fail to file an FBAR. You may have to cough up as much as $10,000 for nonwillful violations. If you knowingly ditch the requirement, you may have to shell out $100,000 in penalties or 50 percent of the balance in the account.

Of course, even the act of filing is cumbersome for expats.

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>
> -David McKeegan, co-founder, Greenback Expat Tax Services

"First you deal with the foreign currency conversion," said McKeegan.

"Then you have to collect your bank records to show interest and capital gains; not every place will provide that information the way U.S.

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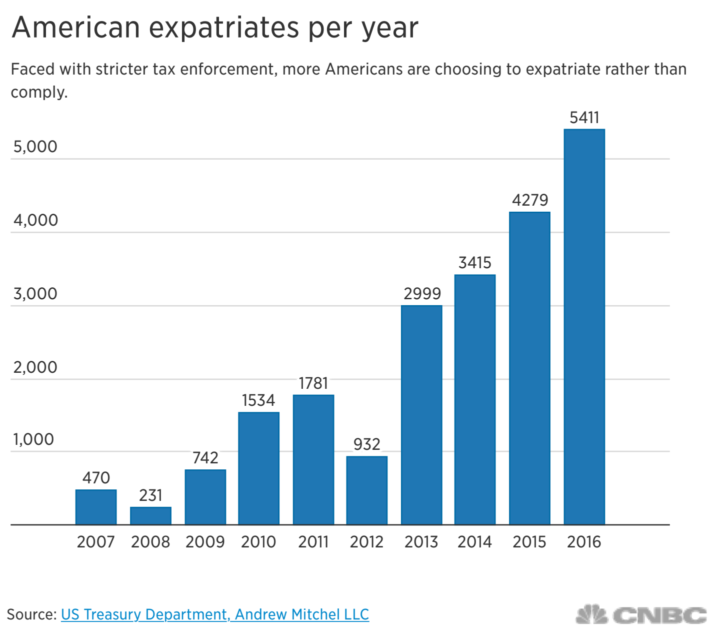
banks do in a 1099-style form," he said.

Meanwhile, foreign retirement savings accounts are subject to a different tax treatment under the U.S. tax laws. For instance, contributions to superannuation funds in Australia may be subject to taxes, said McKeegan.

Pause before you bail

Last year, a record 5,411 individuals renounced their citizenship or ended their long-term residency in the U.S., according to data from the Treasury. That's a 26 percent increase from 2015 when 4,279 people did so.



If you give up your U.S. citizenship, you may have to pay an exit tax.

In this case, the IRS would require you to estimate your assets at fair market value and treat them as if you sold them the day before you became an expatriate.

What you owe will be based on the type of asset you own.

For instance, if you have a brokerage account, you could be on the hook for a tax as high as 20 percent, plus a 3.8 percent net investment income tax. Other holdings could be subject to federal income taxes, which have a top rate of 39.6 percent.

You may encounter additional complications related to estate and gift tax planning, too: U.S. citizens generally can exclude up to $5.49 million from estate taxes.

Once you give up your citizenship, your stateside heirs could be on the hook for a 40 percent tax on assets they receive from you or your estate.

"Since the person expatriated, the U.S. can't claim taxes from the donor," said Joshua Ashman, a CPA and co-founder of Expat Tax Professionals. "You need good planning to avoid the pitfalls in gift