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Meghan Markle's tax bill will get a lot more complicated after royal wedding

- Like millions of other Americans living abroad, Meghan Markle will still have to pay taxes to the U.S. after her nuptials to Prince Harry in May.
- Markle can instead opt to renounce her U.S. citizenship, though the process will take time and come with a hefty fee and taxes on her assets.

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Britain's Prince Harry, with his US fiancée Meghan Markle.

When Meghan Markle marries Prince Harry on May 19, she will probably be saying "I do" to a bigger tax bill.

And that goes regardless of whether she keeps or renounces her U.S. citizenship, a quandary all American expatriates face. About 9 million Americans **currently live abroad**, according to the State Department.

The American actress is likely to pursue **British citizenship**, a process which can take five years after she obtains a family visa.

Markle, who reportedly has a net worth of \$5 million, has a choice as to whether or not to retain her U.S. citizenship.

As an American, Markle will still be on the hook for a slew of taxes, regardless of the fact that she no longer lives in the country.

If Markle chooses instead to renounce her citizenship, she will likely face substantial fees for doing so.

Keeping a U.S. passport

The United States is one of the few countries that taxes based on citizenship, not residency.

While American citizens are still on the hook to pay taxes to the U.S. while living overseas, there are ways to reduce that bill, according to David McKeegan, co-founder of Greenback Expat Tax Services.

That includes the foreign earned income exclusion, which may allow you to exclude a certain amount of earnings while living in another country from your U.S. federal return. In 2018, the limit for that exclusion is \$104,100.

The **IRS** has definite rules for what qualifies as **foreign earned income**.

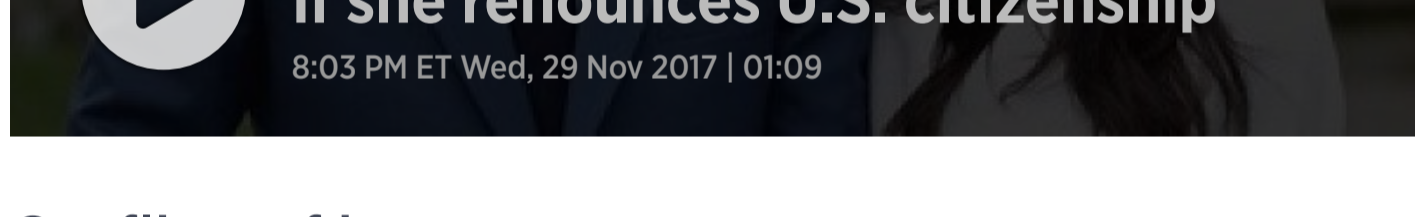
In order to be eligible, you must also must pass one of two tests. The first is the **physical presence test**, which means you have been in a foreign country for 330 days of the year.

The second is the bona fide residence test. This status is for individuals who are living overseas and do not plan to return to the U.S., according to McKeegan. In order to pass, you must be a resident of a foreign country for a continuous period of time including one tax year.

You may also be able to claim a **foreign housing exclusion or deduction**. In order to qualify, your tax home must be in a foreign country and you must be eligible for either the physical presence or bona fide residence tests.

In the United Kingdom, the limit for this exclusion is around \$68,700 for expenses such as rent and utilities, according to McKeegan. It does not cover extravagant housing costs. Markle, who lives with Prince Harry on the grounds of Kensington Palace, probably won't qualify, McKeegan said.

You may also be able to take advantage of the **foreign tax credit**, which may be applied if you were taxed on the same income by the U.S. and another country.



Conflicts of interest

For Markle, disclosures of the income she receives could reveal information about the royal family to the U.S. government.

For example, Prince Harry reportedly receives both investment income through assets left to him by his mother and an allowance from his father.

If those assets are in a foreign trust, Markle would have to fill out Form 3520 to disclose the gifts she receives from it. She would also have to report other gifts, such as jewelry, that she receives.

"She would be disclosing to the U.S. government how much the British monarchy is giving her," McKeegan said.

Markle would also be subject to the reporting requirements for Foreign Bank and Financial Accounts, or FBAR, for accounts over which she has ownership or signatory authority. That means she would have to report accounts worth more than \$10,000, even if it's only there for one day, according to McKeegan.

Any foreign institutions that hold Markle's assets would also have to disclose that to the U.S. government under the Foreign Account Tax Compliance Act, or FATCA.

"There's probably a high likelihood that they would not combine their bank accounts," McKeegan said. "I can't imagine that Harry wants his bank balances reported to the IRS."

Another potential conflict could come up around the sale of property. While you don't pay capital gains on the sale of a home in the U.K. if it's a primary residence, the same does not go for the U.S.

That issue tripped up British Foreign Secretary Boris Johnson. Johnson, who was born in New York, was forced to pay taxes to the U.S. when he sold his London home in 2015. He subsequently **renounced his U.S. citizenship** in 2016.

Couples can avoid this issue by limiting how much of the home a U.S. citizen owns, according to Joshua Ashman, a partner at Expat Tax Professionals.

"There's different ways to hold houses that don't necessarily have to be 50-50," Ashman said.

Renouncing citizenship

Markle also has the option to part ways with the U.S. as Johnson did, though it will take some time.

Markle, who recently applied for a visa, can **apply for British citizenship** once she has lived in the U.K. for five years.

Giving up a U.S. citizenship currently comes with a \$2,350 fee.

Markle would also have to face the exit tax if she leaves the U.S. permanently. This would treat all her assets — including stocks, bonds and property — as if they were sold on the day before the expatriation date and would impose levies on them based on their fair market value.

Severing ties with your country of origin is an emotional decision, Ashman said.

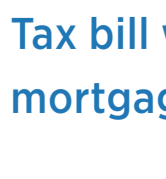
"It's not so easy to say, 'OK, I'm not a U.S. citizen,'" after living in the country for more than 30 years, Ashman said. "It's who you are."

If Markle still has her citizenship and the couple has children, their offspring would eventually face all the responsibilities of American citizenship, including taxes.



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