More Americans are considering cutting their ties with the US — here's why

- A steady stream of American citizens have renounced their citizenship since the implementation of stricter tax rules.
- Many Americans who live in other countries face higher tax bills, difficulty in obtaining and keeping financial accounts and complex retirement savings rules.
- Some advocates urge the U.S. government to tax its citizens based on residency instead of citizenship to reduce those obstacles.

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When Greg Swanson decided to move to Europe to get some real experience to go with his education in international business, he told himself he would stay for just two years.

But Swanson, who worked for Kodak at the time, found he was travelling frequently, learning a lot and enjoying it, so he stayed longer.

Then he met his wife, a native of France. Eventually, they had two kids.

Swanson, 53, of Switzerland, has now lived overseas for 30 years.

And as his life has changed, so have the tax rules he faces. Admittedly, living abroad as an American has always made for a complicated tax situation.

That is because the United States is one of the only countries to tax based on citizenship, not residency.

And the U.S. government has tightened its rules in recent years to make it more difficult for Americans to evade taxes by hiding money offshore.

For Americans who reside in foreign countries, that can make it more difficult to find financial institutions who will let them open accounts.

Swanson experienced those restrictions first hand when he was denied a bank account.

“It wasn’t anything personal or even discriminatory as far as nationality,” Swanson said. “It was our own government that set up penalties for them to deal with us.”

Americans overseas often face a complex filing regimen.

Swanson received another shock when he found out he was behind on tax filing requirements he did not know about.

Greg Swanson

After living in Europe for 30 years, Greg Swanson is facing the difficult decision of whether to renounce his citizenship or move back to the U.S.

“It was in the tens of thousands of dollars to get caught up,” Swanson said.

He did not actually owe much in taxes because he had been living in Germany, a high-tax country, which offset what he owed to the U.S. Most of that money went to the cost of the paperwork and accounting fees.

When Swanson, who is currently unemployed, pitched an idea he had for a start-up company to a potential investor, he did not get the response he was seeking.

“He looked at me and called me toxic,” Swanson said. “He said, ‘If I invest in you, you’re an American company.’”

And that would include all the tax exposure that came with it.

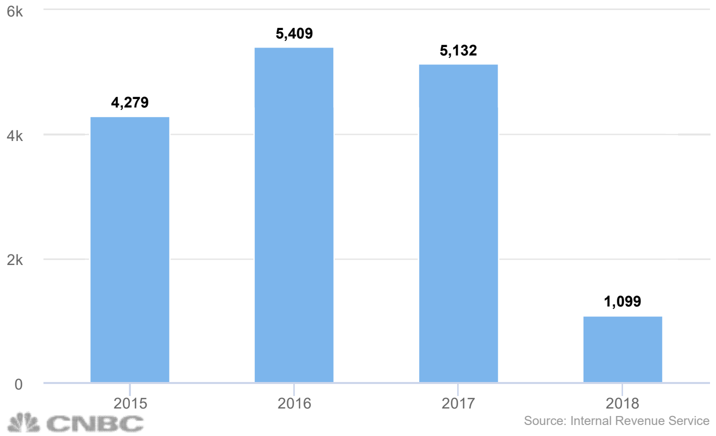
Those financial setbacks, combined with even more obstacles for saving for retirement, have put Swanson at a cross roads.

“I have to start over and move back home or renounce my citizenship. That’s what it’s gotten down to,” Swanson said. “I can’t keep my citizenship and go through the next 10 years of my life.”

Americans are renouncing citizenship at a steady rate, thanks to laws that were put in place earlier this decade.

Americans renouncing citizenship

2018 numbers are for the first three months ending March 30.



In the first quarter of this year, 1,099 Americans gave up their citizenship, according to data from the Internal Revenue Service. More than 5,000 citizens living overseas gave up their U.S. passports in both 2017 and 2016.

"Americans living abroad face a number of tax complications that folks living at home probably have never heard about," said David McKeegan, co-founder of Greenback Expat Tax Services.

Complex rules

Americans who reside in another country must file a Report of Foreign Bank and Financial Accounts, or FBAR. That form should disclose any accounts Americans have that hold more than $10,000.

If you fail to file an FBAR, you will face penalties.

Those fines vary based on whether or not a taxpayer failed to file those disclosures on purpose.

The penalty for a non-willful filing starts at $10,000. But if the act is deemed willful, it's a $100,000 penalty or 50 percent of the balance of the account, whichever is greater.

At the same time, the Foreign Account Tax Compliance Act requires foreign institutions to disclose the holdings U.S. citizens have.

Americans also need to disclose any foreign mutual funds and insurance or pension products that they own. Those holdings may be viewed as passive foreign investment companies, or PFICs, by the IRS, according to McKeegan.

There are certain rules that can offset the tax bills that Americans living abroad face.

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That includes the foreign earned income exclusion, which allows Americans to exclude up to $104,100 in 2018 that they earned in another country.

In order to take that exclusion, Americans must pass one of two tests. The first is a physical presence test, which requires individuals to demonstrate they have been in that country for 330 days of a year. The other is a bona fide residence test, showing that they have lived abroad for an uninterrupted period of time.

An American living overseas may also be able to take a foreign housing exclusion or deduction. To take that, an individual must reside overseas and pass either the physical presence or bona fide residence tests.

But there are complications that can cause unintended penalties to individuals' bottom lines.

Even if an American is not on the hook for a tax bill to their host country, they still face taxes on their income in the U.S., according to McKeegan.

"Americans living abroad face a number of tax complications that folks living at home probably have never heard about."

-David McKeegan, Co-founder, Greenback Expat Tax Services

Americans overseas still face capital gains taxes on property sales.

There are situations where that requirement can lead to a greater loss, according to McKeegan.

If the property purchase occurred when the dollar was stronger than the native currency, and that switches, property owners face a tax on a gain that did not occur when they go to sell the property.

Self-employed individuals will still be on the hook to pay the same 15.3 percent self-employment tax they would face in the U.S.

The Tax Cuts and Jobs Act that was passed last year has also introduced new complications, according to McKeegan.

Companies are now able to bring back the money to the U.S. at a reduced tax rate. For foreign earnings in cash and cash equivalents, it is 15.5 percent; for non-cash assets, it is 8 percent.

For individual business owners, this tax could be a "potential disaster," according to McKeegan.

That is because, at that rate, a business with $300,000 in retained earnings could be looking at a $50,000 tax bill.

"That is not chump change for somebody with a business that size," McKeegan said. "This could be really dangerous for small companies owned by Americans outside the U.S."

No-win situation

All of the tax restrictions have put American expatriates in what they see as a no-win situation.

When Laura Snyder, 51, moved to Europe in 1995, she knew "absolutely nothing" about how her tax situation would change.

Snyder, who is a lawyer, was made aware of the particular tax rules she faced by the fellow lawyers her worked in her Paris law firm.

In the beginning, the requirements were not a big deal, she said.

But over the years, her family grew and her tax situation became more complicated, as did U.S. tax rules.

Today, Snyder is now independently employed as she finishes up a Ph.D. on the regulation of legal services with the University of Westminster.

Laura Snyder

Laura Snyder, an American living in France, has faced tax complications for years but is reluctant to renounce her citizenship.

And what she pays to her tax preparer just to stay compliant with both U.S. and French tax laws has soared to 20 percent of her income.

Fortunately for Snyder, she has not owed taxes in recent years.

But her tax obligation is a subject she said is best not to bring up with her husband, who is not a U.S. citizen.

“If you talk to him about the fact that we have to pay, or at least I have to pay, taxes to the United States, it’s a very upsetting topic for him,” Snyder said.

The couple has also had other issues come up around FATCA rules.

The financial institutions they held joint accounts with started sending letters. Some asked for Snyder to be taken off the account because she is an American citizen. Others requested W-9s — IRS forms for requesting taxpayer identification numbers and certifications — so that they could report the accounts to U.S. authorities.

"Being an American is part of who I am. I just don’t know who I’d be if I didn’t have American citizenship."

-Laura Snyder

Snyder’s husband took her off the accounts that asked them to do so.

“Obviously, that puts me in a worse situation because that’s money now if something happens to my husband — he dies or we get divorced — I don’t know what’s going to happen to that,” Snyder said. “Certainly I won’t have access to it like I would if we held those as joint accounts.”

Snyder’s teenage children, who were born in France but are American citizens, do not have bank accounts of their own. But she anticipates more difficulties when they try to open them.

The complexities of their tax obligations would make it a rational choice for them to renounce their citizenship, she said.

“They’ll have to make a decision when they turn 18. Do they want to hold onto their U.S. citizenship? Is it worth it?” Snyder said. “And that’s a very sad thing.”

For her part, Snyder is not ready to cut her ties with the U.S.

“I would feel like I was having an arm amputated. Being an American is part of who I am,” Snyder said. “I just don’t know who I’d be if I didn’t have American citizenship.”

Plans to renounce

Those same sentiments are not shared by Jen Carlsen, 46 of Switzerland, who has lived in Europe since 2004.

Carlsen plans to renounce her citizenship as soon as she is able to.

“At one point, I thought about renouncing now but then I become stateless and I don’t know what that means,” Carlsen said.

Carlsen first moved to Denmark as a student and then found a job there. She moved to Switzerland in 2007 when she was recruited for a new role in biotechnology and pharmaceutical sales.

Today, Carlsen is unemployed after the company she was working for downsized.

She has applied for more than 200 jobs and has not been successful in finding a new one.

Carlsen, a single mother to a son who is preschool age, also needs to be readily available for his care. Swiss schools typically close for two hours for lunch, when the students go home. The schools are also closed on Wednesdays.

Becoming self-employed would be a logical next step, Carlsen said, except for one major hurdle: taxes.

“I don’t even want to think about the kind of reporting I need to do as a business owner living abroad,” Carlsen said. “Right now, it’s just too expensive filing taxes in Switzerland and in the U.S.”

> "Our current system of citizenship-based taxation makes Americans nearly 40 percent more expensive to employ overseas than their foreign counterparts."
>
> -Congressman George Holding, (R-North Carolina)

Carlsen currently spends about $2,000 per year in accounting fees. That bill would probably be much higher if she decided to become a business owner, she said.

In addition to employment issues, Carlsen has also faced problems with her mortgage.

Several years ago, the local bank that provides Carlsen’s mortgage tried to force her then-spouse to report his financial information to the U.S. government.

Just recently, Carlsen said she had to turn over copies of her individual income tax return forms and FBAR filings to prove she was reporting to the U.S.

“I was fighting that for a while, but they threatened to close my mortgage account,” Carlsen said. “If I don’t have a mortgage accounts, I can’t pay the mortgage and therefore my house would have been forcibly sold.”

The complications do not end there.

In Switzerland, a lot of mortgages require you to own after-tax retirement products to help increase the principal you own.

“When I take that deduction in Switzerland, it lowers my overall tax liability in Switzerland,” Carlsen said. “But it increases the tax liability in the U.S., because they don’t recognize that product.”

The same treatment goes for the Social Security type retirement system she pays into in Switzerland. The money she contributes is treated as income in the U.S.

As Carlsen sees it, renouncing her citizenship will put an end to all of those hassles. But giving up her U.S. passport will come with hefty fees: $2,350 to renounce plus an exit tax, which applies to all of an individual's assets as if they were sold on the day of expatriation.

Carlsen is in the process of applying for Swiss citizenship and most recently took a test to demonstrate her proficiency in French.

“I can finally be able to become my own business owner without having to worry about the burdens of reporting requirements,” Carlsen said.

Prospects for change

In the haste to put together new tax legislation late last year, the U.S. government lost an opportunity to address the situation American expatriates face, according to Charles M. Bruce, legal counsel at American Citizens Abroad, an advocacy group.

“There really was no time and no oxygen to focus on something like this,” Bruce said.

But moving toward a residency-based tax system is on the radar of Congressman George Holding (R-North Carolina), who believes it could help both American citizens and businesses.

“Our current system of citizenship-based taxation makes Americans nearly 40 percent more expensive to employ overseas than their foreign counterparts,” Holding said in a statement. “It’s important to ensure that talent, not tax burden, is the driving factor in the hiring decision of multinational companies."

Barring any changes, Americans abroad will have to continue to grapple with the complex tax rules they face.

"Nobody's giving them all the information they need in a nice little package to comply with their U.S. tax obligations," said Paul Sczudlo, of counsel at law firm Withers. "There are still a lot of people who haven't come into compliance with respect to that."

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