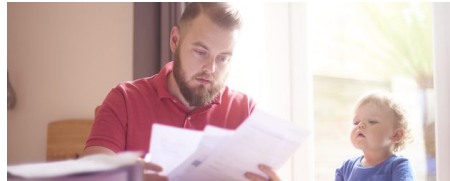


# Harry, Meghan and Royal Family Welcoming New Bundle of Tax Hassles



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Americans have long been fascinated by the British royal family, but the imminent arrival of Prince Harry and Meghan Markle's child is of interest for another reason.

Baby Sussex will of course be a British royal. But U.S. law holds the child may also become an American citizen and therefore a taxpayer, as well. The thought of a member of the royal family writing checks to the IRS may seem strange (and indeed, some reports suggest the family could take steps to avoid dual citizenship), but it highlights rules that can take many parents by surprise when they raise children abroad.

Here's what two experts say American parents should know about starting a family overseas.

## 1. Babies born abroad may be U.S. citizens

According to the State Department, a person born overseas to an American who is married to a non-U.S. citizen automatically has U.S. citizenship at birth if the American parent lived in the U.S. for at least five years (at least two of which were after age 14). Other circumstances can automatically confer American citizenship on foreign-born children, too.

"We have a lot of, we'll call them 'accidental citizens,'" says Dean Hedeker, an attorney at Hedeker Wealth in Lincolnshire, Illinois. "There are people all over the world who don't realize they're U.S. citizens."

## 2. American citizens must report income — from everywhere

The United States generally requires citizens to report their global income, meaning that an American's income may be taxable no matter where it's earned or where the person lives.

“That’s one of the biggest areas of noncompliance in the U.S. tax system,” Hedeker says. “When people move overseas, they think that they don’t have to file.”

### 3. Citizenship is sticky

Renouncing American citizenship can loosen the IRS’s grip, but it’s not easy, says David McKeegan, an enrolled agent at Greenback Expat Tax Services. Parents can’t renounce the U.S. citizenship of minor children, for one thing. The kids must do it themselves, and it’s really not an option until they’re at least 16, according to the State Department.

There’s another factor: the so-called exit tax in the U.S. “The minute you renounce, what happens is it’s treated as though you’re selling all your assets and you’re essentially paying a [capital gains tax](#) to the U.S.,” Hedeker explains. However, certain exclusions, such as ones pegged to your net income or net worth, mean many people may not have to pay the tax, he notes.

### 4. Reporting income doesn’t always mean paying taxes on it

Even though the IRS [taxes](#) American citizens on their worldwide income, it generally also allows them to exclude up to about \$106,000 of their income earned overseas.

Of course, it might take filing a U.S. tax return to claim the exclusion in the first place. Earning more than the exclusion could create a U.S. tax bill, but paying taxes in another country might merit a foreign tax credit from the IRS, Hedeker notes.

### 5. Foreign accounts create more paperwork

U.S. citizens with more than \$10,000 in foreign bank or investment accounts typically must report those accounts every year. Large gifts from non-U.S. citizens can also trigger reporting requirements.

“It’s just piles and piles of paper. That’s what it is,” Hedeker says. The penalties for noncompliance can be onerous, he adds.

A few things can make tax time easier for everyday Americans starting families abroad, the tax pros say.

- **Think about where the accounts are.** If you want less paperwork to deal with, having accounts at U.S. financial institutions rather than foreign ones can help. You might also get better tax treatment in the U.S. on capital gains and [dividends](#), McKeegan notes. “That can be a real surprise for people — a negative surprise,” he says.
- **Minimize baby’s assets.** Make plans for the exit tax if you think your child will eventually decide to renounce his or her American citizenship. “You want to make sure that the assets the baby has are less than the exclusion on the renunciation,” Hedeker says.

- **Get help.** Taxes are complicated enough even without the added intricacies of foreign finances, which is why it might be a good idea to consult with a tax pro who specializes in expats. The IRS also operates an international taxpayer service call center that can provide help. “If one of the parents is a U.S. person and the other is not, or if both parents are U.S. persons, they really do have to have an eye on the tax side of things,” McKeegan says.