Too Much Tax Leads To Expats Returning US Passports

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Red tape and the long arm of the US Internal Revenue Service are forcing one in five American expats to consider giving up their passports.

In the first three months of this year, 1,018 Americans renounced the citizenship, and 250 of them blamed US taxes as the trigger for their action.

The details come from a recent survey by US tax consultants Greenback Expat Tax Services.

The firm asked 3,000 US expats for their thoughts about giving up their passports to the State Department.

American expats must report their worldwide income to the IRS with income, estate and gift tax returns.

FATCA feedback

Their banks and other financial institutions they deal with must tell the IRS about any accounts they control. This information is cross-checked against tax filings under the Foreign Account Tax Compliance Act (FATCA).

More than 100 countries are engaged in tax data sharing relating to American citizens with the IRS.

Failing to make the correct tax filings can come with significant penalties.

"The reporting requirements can carry some life-changing penalties for people," said David McKeegan, co-founder of Greenback Expat Tax Services.

"Indeed, 20% of those polled were unfamiliar with FATCA — the law that requires them to tell federal authorities about their foreign accounts."

Charade of avoiding state taxes

The IRS says 65,000 Americans have come forward to amend their tax returns as FATCA revealed they had filed incorrectly or failed to disclose a liability.

In short, moving out of the United States regardless of the length of time someone is away does not impact the ability of the IRS to demand taxes.

Some even go through the charade of avoiding state taxes by moving to a low or no tax state before leaving for overseas, but they are still liable for federal taxes to the IRS.

For many, the launch pad for expat life is South Dakota, considered the most tax friendly state in the USA.

According to official data, around 5,000 Americans hand back their passports each year, with the trend slightly increasing with time.