THE WALL STREET JOURNAL.
WSJ.com

WEEKEND INVESTOR | Updated May 18, 2012, 7:01 p.m. ET

# Should You Renounce Your U.S. Citizenship?

By LAURA SAUNDERS

Should you renounce your U.S. citizenship for the tax perks? Facebook founder Eduardo Saverin's decision to do so has sparked interest in the strategy. Laura Saunders on The News Hub points out the downsides of such a move. Photo: AFP/Getty Images.

For some people, the best tax strategy is simply to pack up and leave.

That is the lesson from the disclosure that Eduardo Saverin, the 30-year-old billionaire who helped found Facebook, has renounced his U.S. citizenship to become a resident of Singapore.

Singapore offers huge tax advantages for people like Mr. Saverin, whose wealth is primarily in the form of capital gains. The Southeast Asian city-state has no capital-gains tax and its top income-tax rate is 20%—compared with rates of 15% and 35%, respectively, in the U.S.

According to his spokesman in New York, the Brazilian-born Mr. Saverin, whose family moved to the U.S. in 1992 and who became a citizen here in 1998, made the move for reasons other than taxes. Mr. Saverin merely found it "more practical" to become a resident of Singapore, said the spokesman, who added that Mr. Saverin remains "extremely passionate" about the U.S. and Brazil. (See How Much Did He Really Save?)

Almost any U.S. citizen can decide not to be one. Should you follow Mr. Saverin's lead and high-tail it to a lower-tax country? While it might seem tempting, renouncing one's citizenship has many drawbacks.

Among them: a large "exit tax" owed to the U.S. government upon leaving, steep tax bills for any U.S. heirs and big travel headaches for people who try to return to the U.S. Some lawmakers, picking up on the Saverin case, said Thursday they want to strengthen a law barring expatriates who left for tax reasons from ever re-entering the country.

Whether or not you consider the act of renouncing one's citizenship savvy tax planning, the ultimate protest gesture, a rank insult to a system that enables great wealth or just plain weird, some U.S. taxpayers are pondering such moves. Last year, almost 1,800 U.S. citizens turned in their passports and green cards, a sixfold increase from 2008.

"I'm getting twice as many inquiries as I used to," says Freddi Weintraub, an immigration lawyer with the Fragomen firm in New York. "People want to know their options."

## *Reasons to Flee*

Some pundits cite looming tax increases in the U.S. as the main force driving the exodus. Next year, unless Congress acts, the top income-tax rate will jump to 39.6%, while the top capital-gains rate will rise to 20%. The top rates on estate and gift taxes are scheduled to soar to 55% from the current 35%. A 3.8% tax on investment income for high earners will kick in as well.

But other factors are just as important, experts say. The U.S. is highly unusual in that it imposes taxes on "world-wide" income, which includes international as well as domestic earnings, no matter where you live, above an exemption of about $100,000. That means any U.S. citizen or resident with earnings abroad owes U.S. taxes on the income even if the money stays overseas. Most other countries don't tax earnings from abroad, although some tax them when they are repatriated.

Also, unlike many countries, the U.S. has a broad definition of who is a citizen—including, for example, people born on American soil. That produces a large number of "accidental citizens" who don't consider themselves American but nevertheless owe U.S. taxes.

Steven Cantor, a lawyer at Cantor & Webb in Miami, says he recently had a Latin American client accused by the Internal Revenue Service of hiding offshore accounts, but who was a citizen only because he was born here after his mother sought

### Eight Famous Ex-Americans

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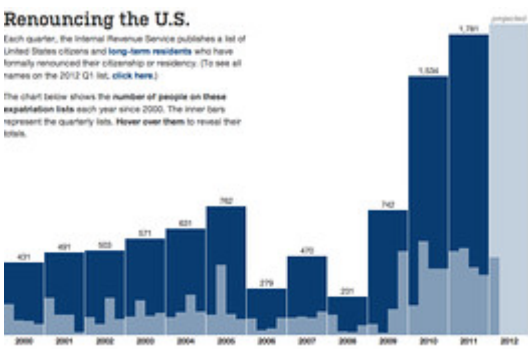
Jet Li became a citizen of Singapore in 2011, and while the kung fu superstar did not say whether he had renounced either his Chinese or American citizenship, Singapore law forbids dual citizenship

### Renouncing the U.S.

Track the number of U.S. citizens who have formally renounced their citizenship or residency each year since 2000.

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Late actor Yul Brynner

medical attention during a difficult pregnancy. Mother and son immediately moved back home.

"He had no U.S. passport or Social Security number and had traveled to the U.S. on a tourist visa, but I had to struggle to convince the IRS of his innocence," Mr. Cantor says. An IRS spokesman declined to comment on the case, but said the agency has since clarified the rules to provide reduced penalties for U.S. citizens in such circumstances.

The act of expatriating isn't new, whether for tax or other reasons. Global investing titan John Templeton famously gave up his U.S. citizenship in the 1960s to become a citizen of the Bahamas, although his family says it wasn't for tax reasons. Biographers of deceased director John Huston and the late actor Yul Brynner report that each gave up his American citizenship in the 1960s.

In the 1990s, Kenneth Dart, president of disposable-cup maker Dart Container, renounced his citizenship. A short time later, Belize sought permission to install Mr. Dart as its consul in Florida, near his former home. (President Bill Clinton said no.) A spokesman for Dart Container declined to comment.

**Exit Wounds**


Linzie Hunter

## *Tough New Rules*

One reason why more Americans are expatriating is the increasingly tough tax-enforcement climate in the U.S.

Enforcement was fairly lax until worries about capital flows and terrorism rose sharply following the attacks of Sept. 11, 2001, experts say. Soon after came evidence that giant Swiss bank UBS and other offshore providers were encouraging U.S. taxpayers to hide money abroad.

In reaction to both issues, Congress in recent years has stiffened rules on undeclared foreign accounts.

**Defriending the United States?**

The new penalties for a willful failure to report a foreign financial account are up to 50% of the highest value of the account each year, notes David Lifson, a CPA at Crowe Horwath in New York who has many international clients. "Two years of willful noncompliance can empty an account," he says.


In 2010 lawmakers also enacted an ambitious law, the Foreign Account Tax Compliance Act, or Fatca, requiring foreign financial institutions to certify that U.S. taxpayers aren't hiding money in them. Foreign banks and investment funds already are refusing U.S. customers because they don't want to cope with Fatca compliance, Mr. Lifson says.

"The people I see who are considering expatriation often have global connections and are finding that U.S. citizenship isn't worth tax and compliance headaches," he adds.

## *Many Complications*

Are you thinking of following Mr. Saverin's lead? Here are some considerations.

**Get ready for questions.** Expatriation involves an exit interview with a U.S. official, usually abroad—although not always in the host country. Experts say the meeting is typically short unless officials are worried about irregularities, in which case it can last much longer.

**You need somewhere to go.** How to find a new home? Some countries, such as Ireland and Italy, often welcome relatives or descendants of their citizens—but don't always offer tax advantages. In other nations you must have a stronger argument, such as a big investment there.

On its website, the Caribbean nation of St. Kitts and Nevis says its Citizenship-by-Investment Program requires a real-estate investment of at least $400,000 or a contribution to a public charity of at least $250,000.

**You might owe an exit tax.** U.S. citizens who expatriate are treated as though they sold all of their property the day before they renounce, even if they will continue to own it and pay property or other taxes.

Capital gains (net of losses) are taxed at the current top rate of 15%, after an exemption of $651,000. The tax on some assets, such as an individual retirement account, will be at ordinary income rates up to 35%, notes Dean Berry, an attorney with Cadwalader, Wickersham & Taft in New York.

The tax applies to U.S. taxpayers whose net worth is greater than $2 million or whose average annual income tax for the past five years is $151,000 (adjusted for inflation).

There are important exemptions; one involves people who have been dual citizens from birth. For more information, see the instructions to IRS form 8854.

**You will have to certify that you have been tax-compliant for the last five years.** The upshot: Expatriation is a bad strategy for coping with past noncompliance.

**Your heirs could get a big tax bill.** The U.S. heirs of wealthy taxpayers who renounce their citizenship usually owe inheritance tax equal to the U.S. estate tax on assets left to them by the expatriate. (This doesn't apply to spouses who are U.S. citizens.)

For example, a woman worth $50 million renounces her citizenship and becomes a citizen of the Bahamas. If she leaves each of her three grandchildren in the U.S. $10 million, each will owe (at current rates) $3.5 million of federal tax on the bequest, as a substitute for estate taxes the woman didn't pay.

**You might find travel more complicated.** World-wide travel might require getting more visas, Fragomen's Ms. Weintraub notes, and you might not be able to re-enter the U.S. without one. Once here, it may be hard for you to spend more than 120 days a year (on average) in the U.S., and you must not appear to be using your visitor status to live in the U.S.

There is more: Under the "Reed amendment," named after a Democratic senator from Rhode Island, U.S. officials may bar entry to any person who renounced citizenship for tax reasons. This provision is rarely, if ever, invoked—Ms. Weintraub has never heard of a case—but it is on the books. Experts say the attention surrounding Mr. Saverin's case could revive it, and recently lawmakers proposed raising the exit tax.

Is all this hassle really worth a tax savings? You be the judge.

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*A version of this article appeared May 19, 2012, on page B7 in the U.S. edition of The Wall Street Journal, with the headline: Should You Renounce Your U.S. Citizenship?.*