IRS figures show a record number of people renouncing U.S. citizenship; many do it to avoid tax hassles

Tax time pushes some Americans to take a hike

BY ATOSSA ARAXIA ABRAHAMIAN
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A year ago, in Action Comics, Superman declared plans to renounce his U.S. citizenship.

"'Truth, justice, and the American way' - it's not enough anymore," the comic book superhero said, after both the Iranian and American governments criticized him for joining a peaceful anti-government protest in Tehran.

Last year, almost 1,800 people followed Superman's lead, renouncing their U.S. citizenship or handing in their Green Cards. That's a record number since the Internal Revenue Service began publishing a list of those who renounced in 1998. It's also almost eight times more than the number of citizens who renounced in 2008, and more than the total for 2007, 2008 and 2009 combined.

But not everyone's motivations are as lofty as Superman's. Many say they parted ways with America for tax reasons.

The United States is one of the only countries to tax its citizens on income earned while they're living abroad. And just as Americans stateside must file tax returns each

April – this year, the deadline is Tuesday - an estimated 6.3 million U.S. citizens living abroad brace for what they describe as an even tougher process of reporting their income and foreign accounts to the IRS. For them, the deadline is June.

The National Taxpayer Advocate's Office, part of the IRS, released a report in December that details the difficulties of filing taxes from overseas. It cites heavy paperwork, a lack of online filing options and a dearth of local and foreign-language resources.

For those wishing to legally escape the filing requirements, the only way is to formally renounce their U.S. citizenship. Last year, IRS records show that at least 1,788 people did, and that's likely an underestimate. The IRS publishes in the Federal Register the names of those who give up their citizenship, and some who renounced say they haven't seen their name on the list yet.

The State Department said records it keeps differ from those published by the IRS. They indicate that renunciations have remained steady, at about 1,100 each year, said an official.

The decision by the IRS to publish the names is referred to by lawyers as "name and shame." That's because those who renounce are seen as willing to give up their citizenship primarily for financial reasons.

There's also an "exit tax" for the very rich who choose to leave. During the last 25 years, a number of millionaires and billionaires have renounced their citizenship. Among them: Ted Arison, the late founder of Carnival Cruises, and Michael Dingman, a former Ford Motor Co. director.

But those of more modest means renounce, too. They say leaving America is about more than money; it's about privacy and red tape.

MOVING ON: Lucy Stensland Laederich, who co-runs a women's expatriate organization, says onerous tax policies are deterring women abroad from keeping their U.S. citizenship. **REUTERS/THOMAS RICHARD**

LIABILITY, NOT PRIVILEGE

On April 7, 2011, Peter Dunn raised his right hand before a U.S. consular officer in Toronto and swore that he understood the consequences of giving up his U.S. citizenship. Dunn, a dual U.S.-Canadian citizen who has lived outside the United States since 1986, says he renounced because he felt American citizenship had become more of a liability than a privilege.

As an American, Dunn had to file tax returns and report all of his bank accounts – even joint accounts and his Canadian retirement fund. If he didn't, he would be breaking U.S. law and could face penalties of up to $100,000 or 50 percent of his undeclared accounts, whichever is larger. Dunn says he was tired of tracking IRS policy changes, and he had no intention of returning to the United States. Renouncing his citizenship, as he puts it, was "a no-brainer."

"If it was just me then it would be one thing," says Dunn, a part-time investor who worried that having to share information with the IRS would deter future business partners - and upset his wife, who is Canadian. "Disclosing joint accounts I hold with my wife and anyone I ever want to do business with - that's just too much. My wife's

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Genette Eysselinck

account is none of their business.”

Dunn, who blogs about expatriation, takes issue with being characterized as a tax evader. He says the taxes he pays in Canada are higher than what he would pay in the United States, and he says he had always complied with the IRS before renouncing. But, Dunn says, the IRS approach to enforcing compliance is misguided. “It’s making life difficult for a lot of people,” he says. “It’s driving us away.”

OLD, NEW REGULATIONS

Dunn is referring to two filing requirements that affect Americans abroad: the Report of Foreign Bank and Financial Accounts - which has been around since 1970 but now carries penalties for noncompliance - and the Foreign Account Tax Compliance Act, passed in 2010 with the aim of reducing offshore tax evasion.

The first regulation requires all Americans, including those living abroad, with at least $10,000 in overseas bank accounts, to file a supplementary form disclosing all of their foreign accounts. That includes any accounts in which the U.S. citizen has a financial interest. That could include a joint account with a spouse or child, accounts for corporations in which the American owns more than 50 percent of the value of shares of stock, or any trust or estate that benefits the U.S. citizen.

The tax compliance act - the newer law - asks foreign financial institutions such as banks, hedge funds, and private equity funds to provide the IRS with information

DIFFICULT CHOICE: Genette Eysselinck renounced her U.S. citizenship early this year. She called the decision “gut-wrenching.”
REUTERS/PASCAL PARROT

on U.S. clients.

The United States and five European Union countries recently announced their intent to allow institutions to report the information through their own governments, rather than directly to the IRS. Institutions that do not comply will be subject to a 30 percent withholding tax on certain U.S.-sourced payments and proceeds of property sales beginning in the 2013 tax year – for instance, dividends on investments in U.S. companies.

Some expatriates say they were unaware of the first regulation for years and even decades. In 2008, the IRS received only 218,840 such filings. American nationality law grants citizenship to almost everyone born in the United States or born abroad to American parents, regardless of how much time they’ve spent in the United States. Many may not even know the extent of their U.S. ties.

In 2004, the stakes for noncompliance rose. Failure to file meant potential fines and criminal charges. Americans abroad can be punished for noncompliance even if they owed no income tax – and IRS data show that most of them don’t owe money.

Income up to $95,100 isn’t taxed under a rule called the Foreign Earned Income Exclusion. In 2009, the income cap was $91,400, and 88 percent of all taxpayers claiming the foreign earned income exclusion owed nothing. Since 2008, the IRS has offered several voluntary-disclosure grace periods during which expatriates can file back taxes without facing criminal charges - but with the possibility of incurring penalties.

Marylouise Serrato, head of American Citizens Abroad, a nonprofit organization based in Geneva, says that many members feel scared about reporting requirements they did not know existed. Their disenchantment, she says, is pushing some to renounce.

“Americans abroad are terrified. We’ve had people pay tens of thousands of dollars in fines. We’ve had people … pay huge amounts of back taxes,” she says. “Up to this point, we never heard of anyone renouncing, or if they did, they didn’t talk about it,” says Serrato, who says her group does not advocate renunciation.

“Now,” she says, “we’re seeing a lot of people speak openly about it and come to us for information.”

Congress is taking note. “While I fully support measures that reduce fraud and address offshore havens, the U.S. should not have policies that place undue burdens on legitimate Americans abroad,” says Representative Carolyn Maloney, D-N.Y., and the chair of the Congressional Americans Abroad Caucus.

Maloney says she has taken the matter to the Department of the Treasury, which oversees the IRS.

‘TOO EXPENSIVE TO KEEP’

Lawyers report that banking is a big reason why people renounce. “I hear about banking problems again and again and again,” says Phil Hodgen, an attorney who has been helping Americans expatriate since 2008. The new reporting rules, he says, pose “a huge administrative burden. It’s made Americans too expensive to keep.”

Francisca N. Mordi, vice president and senior tax counsel at the American Bankers Association, says she has received a number of calls from Americans in Europe complaining about banks closing their accounts. “They’re going to drop Americans like hot potatoes,” Mordi says. “The foreign banks are upset enough about the regulations that they're saying they just won't keep American customers, and it's giving (Americans living abroad) a lot of sleepless nights."

Taxpayer complaints sometimes make their way to Nina Olson, the U.S. taxpayer advocate for the IRS, who addressed some of the international tax issues in a December report.

"The complexity of international tax law, combined with the administrative burden placed on these taxpayers, creates an environment where taxpayers who are trying their best to comply simply cannot," the report reads. "For some, this means paying more U.S. tax than is legally required, while others may be subject to steep civil and criminal penalties. For some U.S taxpayers abroad, the tax requirements are so confusing and the compliance burden so great that they give up their U.S. citizenship."

In the same report, the IRS responded to the criticism, stating that the penalties for failing to report foreign accounts issued in its guidelines are maximums, not set amounts. It said the agency will not fine filers if the lapse is due to a "reasonable cause." The IRS also acknowledged the need for more public awareness, and it detailed its efforts to inform Americans overseas through fact sheets, a telephone help line and Twitter.

The IRS did not respond to requests for comment.

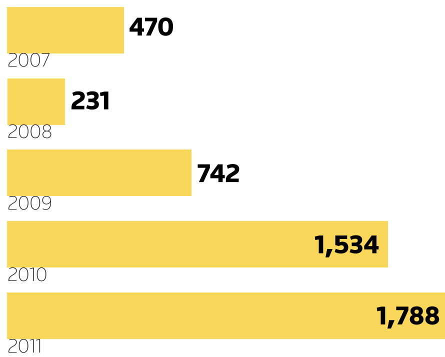
WOMEN IN A TOUGH SPOT

Around the world, American women's clubs – known for promoting American culture overseas through Fourth of July celebrations and Thanksgiving dinners - are growing empathetic toward those who renounce.

The American Women's Club in Dusseldorf, for instance, now links to renunciation information on its Website. The Federation of American Women's Clubs Overseas has opposed new IRS rules, in part because the rules were pushing members to give up their citizenship. "The candidates are not tax-evaders or un-patriots," reads the organization's last annual report.

Un-American Activity

The number of U.S. citizenship renunciations reported by the IRS:



Source: U.S. Internal Revenue Service

In Europe, American women say they feel pressure to renounce even from their husbands.

"American women married to non-Americans are only just now finding out that they have to disclose years and years of income and accounts," says Lucy Stensland Laederich, a leader of the women's club who lives in Bordeaux, France.

Laederich has been acting as the group's liaison with politicians and bureaucrats in Washington, D.C., and plans to attend a meeting to discuss expatriate tax issues with Maloney and Treasury Department officials on Tuesday.

"When they decide to come clean and report everything," she says, "they have to go ask their husbands for all of their bank information, retirement funds, and investment accounts, everything."

Some of their husbands, Laederich says, refuse to hand over information to the IRS. That leaves the women in difficult predicaments.

"Your options are to ignore the IRS and stick your head in the sand; take your name off of all the accounts and live in a completely cash economy; divorce; or renounce U.S. citizenship," Laederich says. "We've seen all of these things happen."

DIVORCE OR DISCLOSE

Genette Eysselinck, a friend of Laederich's, renounced early this year. Her husband, a European Union civil servant, saw no good reason to share his account information with the IRS, she says. And after considering all her options, Eysselinck decided that renouncing was the best path.

"It created a lot of tensions around here," she says. "Divorce seemed a little extreme, so I asked myself, 'What am I gaining as an American?' And the cons outweighed the pros."

Eysselinck was born in Fort Bragg, North Carolina, and says she grew up on military bases all over the world. Her father, she says, was an Air Force pilot. Eysselinck has lived abroad for decades and no longer has any close connections in the United States.

She spent her final months as an American collecting paperwork and filing tax returns from the past five years, even though she says she owed nothing. Her last act as a citizen was to swear before an American flag that she renounced all ties with the United States. She called the process "gut wrenching."

"I grew up in a military family where patriotic feeling was very strong" Eysselinck says. "I'm amazed at how terrible I felt renouncing. But it was the only way to get them off my back. It's very distressing and time consuming to keep up with all the paperwork. But if it's this bad when I'm 64, how bad will it be when I'm 74?"

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