

## More Americans abroad giving up citizenship for lower taxes

By Doreen Carvajal

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PARIS

She is a former U.S. Marine, a native Californian and, now, a former American who prefers to remain discreet about abandoning her citizenship. After 10 years of warily considering options, she turned in her U.S. passport last month without ceremony, becoming an alien in the view of her homeland.

"It's a really hard thing to do," said the woman, a 16-year resident of Geneva who had tired of the cost and time of filing yearly U.S. tax returns on top of her Swiss taxes. "I just kept putting this off. But it's my kids and the estate tax. I don't care if I die with only one Swiss franc to my name, but the U.S. shouldn't get money I earned here when I die."

Historically, small numbers of Americans have turned in their passports every year for political and economic reasons, with the numbers reaching a high of about 2,000 during a Vietnam War-era boom in the 1970s.

But with new tax pressures facing American expatriates due to legislation enacted in Washington this year, some international tax lawyers say they detect rising demand from citizens to renounce ties with the United States — the only developed country that taxes its citizens while they are overseas. Americans abroad are also taxed in foreign countries where they reside.

"The administrative costs of being an American and living outside the U.S. have gone up dramatically," said Marnin Michaels, a tax lawyer with Baker & McKenzie in Zurich.

To date this year, the Internal Revenue Service has tallied 509 Americans who have given up their citizenship, said Anthony Burke, an IRS spokesman in Washington, although he added that the full figures were still being counted for "renunciants."

Applications are on the rise at the U.S. Embassy in Paris, according to an official who did not want to be named. In London, a U.S. Embassy spokeswoman, Karen Maxfield, said that the number of renunciations had remained stable for the last two years. Neither embassy disclosed the actual count of applications.

A Geneva-based tax lawyer, however, said that clients of his seeking to turn in their passports were facing far longer waits for appointments at the London embassy than in previous years.

Typically, Maxfield said, expats take the step "because they do not have strong ties to the United States and do not believe that they will ever live there in the future. All have two citizenships and generally say they would like to simplify their lives by giving up a citizenship they are not using."

Andy Sundberg, a director of Geneva-based American Citizens Abroad, has been tracking renunciations dating back to the 1960s through U.S. Treasury Department figures published yearly. He considers the numbers relatively low at this point, but he has also noticed a surge in interest among Americans in taking the ultimate step.

"I think the cup is boiling over for a number of people living abroad," Sundberg said. "With the Internet and the speed and the ubiquity of information, people are more aware of what's happening." With the changes in the tax laws, he said, some expatriates fear "they're heading toward a real storm."

He cites, for example, a survey released last month by the American Chamber of Commerce in

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Singapore, which polled its members in October and November and found that many were considering returning to the United States because of higher taxes.

Concern about taxes among expatriates has surged since President George W. Bush signed into law a bill that sharply increases tax rates for Americans abroad with income of more than \$82,400 a year. The legislation also increases taxes on employer-provided benefits like housing allowances.

The changes, enacted in May and tweaked by the Treasury Department under guidelines issued in October, apply retroactively to last Jan. 1.

Matthew Ledvina, an international tax lawyer in Geneva, said demand for legal counsel on the citizenship issue was coming largely from American citizens who hold second passports and who have minimal ties to the United States.

He said some expatriates were weighing the value of their American passports and debating whether it was worth keeping them if the cost topped \$50,000 a year.

"There are incentives to do it before the end of the year so that you can minimize your future reporting," he said.

Ledvina said the waiting period for appointments at the U.S. Embassy in London had increased from a few days to more than three and a half months, with more than two applications processed each day.

He said he had approached embassies in Vienna, Bern, London, Paris and Brussels before finally getting an appointment in Amsterdam for a client's renunciation.

The legal ritual of renunciation is largely unique to the United States because other countries base taxation on residency, not citizenship, said Ingmar Dörr, a tax lawyer with Lovells in Munich.

"We don't have that issue," he said. "We only have the problem that rich people who don't want to pay taxes in Germany just move to a lower-tax country in Switzerland."

While taxation is driving many Americans to turn in their passports, others cite political reasons and their displeasure with the Bush administration.

Their mix of sentiments, tax lawyers say, is more complicated than the motives of some of the superrich in the 1990s.

In 1996, Congress sought to stop that flow by requiring former citizens to continue filing tax returns for a decade and forbidding Americans who renounced their passports for tax reasons from visiting the United States again.

But in practice the government is mainly interested in wealthier ex-citizens with a net worth of more than \$2 million — few of whom pay further U.S. taxes because they generally avoid making American financial investments after giving up citizenship, Ledvina said. As for the bar on entry to tax refugees, he said, it has not been enforced by the authorities.

Still, that threat prompts ex-citizens to tread carefully and remain discreet about their choices.

"I didn't give up my citizenship with a sense of hostility," said an importer in Geneva who renounced her citizenship five years ago as Bush was taking office in 2001. "I gave it up with a sense of fairness."

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