

Renouncing U.S. Citizenship



By Eileen M. Martin

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I read an article recently that claimed that most of those who renounce their U.S. citizenship are ultra-wealthy. While that may be true, most the dozens of people I have worked with to achieve this goal have been successful middle-class Americans living outside the U.S.

The article suggested reduction of tax burden was the reason for the high volume of Americans shedding their citizenship. Not so with my clients. Most are looking to reduce their *accounting* burden, not their tax burden. You see, Canadian taxes are higher than U.S. personal taxes, so most of my clients don't owe the U.S. government anything. However, the cost of hiring a competent, specialized, cross-border accountant year after year is often sufficient impetus to push a U.S. citizen living abroad to the Embassy or Consulate to renounce. If these Americans do not take advantage of the benefits of U.S. citizenship, it hardly seems worth the great effort and expense of remaining compliant with U.S. tax filing requirements. For many, the balance tips to renunciation, even with the U.S.

government filing fee of \$2,350 USD.

Anyone considering renunciation should be attentive to the Reed Amendment, passed in 1996. It says that if you renounce your U.S. citizenship for tax avoidance reasons, you become inadmissible to the U.S. This law has no implementing regulations, and I have heard of a single case of enforcement. While my clients worry about it, it is my opinion that there is a distinction between renunciation for tax avoidance and renunciation for tax filing avoidance. I do not know if the U.S. government would agree because they almost never try to enforce this statute.

Renunciation of U.S. citizenship is a big step, and it should be undertaken with a complete understanding of the potential consequences, however likely or unlikely they may be.

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