

Doug Bandow: Tax exile flight: Blame the politicians

By Doug Bandow
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The U.S. government is driving some of its most productive citizens abroad. The only beneficiaries are countries such as Singapore and Switzerland, which offer sanctuary to Americans fleeing avaricious Uncle Sam.

Three years ago Eduardo Saverin, one of Facebook's founders, joined 1,780 other Americans in renouncing their citizenship. Heading overseas allowed him to reduce the federal government's take when his company went public.

Some people always have been ready to leave the U.S. A half century ago, actor Yul Brynner switched his nationality to Switzerland after battling the IRS. But the number of tax exiles is increasing.

Just 231 people gave up their citizenship in 2008. Last year the number was 2,999. The first three months of 2014 was 1,001, up from 679 for the first quarter of last year.

Tax flight is not an option for most people. However, the rich have more choices internationally. And they increasingly are telling Uncle Sam goodbye.

So are big corporations, such as Pfizer, which is seeking to buy the British pharmaceutical company AstraZeneca.

About 50 firms have moved their headquarters over the last three decades, half of them since 2008. Last month, the Obama administration decried the practice and proposed to increase the share of foreign ownership required for inversions.

Traditionally, the entrepreneurial and productive wanted to come to America. Many still do. But the choice is no longer so clear-cut.

Some lawyers admit that they counsel foreign businessmen to consider carefully before seeking American citizenship.

Washington's increasingly greedy and petty behavior appears to be having an impact. Hong Kong tax attorney Timothy Burns argued: "Fifteen or 20 years ago there was a big rush to make sure your kids became U.S. citizens, for access to U.S. schools for example. Now we're seeing just the opposite."

There are high, progressive rates at home on top of a comically complicated tax code. The U.S. alone among major industrialized nations taxes Americans living overseas. America also is one of the few countries to use worldwide corporate taxation – claiming a cut of money earned everywhere, no matter how little a connection to the U.S.

Moreover, Uncle Sam requires Americans to report international bank accounts over \$10,000 and assets over \$50,000. U.S. citizens overseas must file foreign bank account reports, backed by big civil and criminal penalties.

In 2010 Congress passed the Foreign Accounts Tax Compliance Act, which attempts to turn every foreign financial institution into an IRS agent. The results are significant compliance costs and fearsome legal risks.

Increasingly, banks and other companies are telling Americans to go elsewhere. Complained tax attorney Brad Westerfield, the rules have “become so complicated – the increased filing obligations over the years. You see more people giving up their citizenship or relinquishing their Green Cards.”

Not that it's easy to escape. Washington hits up departing wealthy citizens for a tax on unrealized capital gains. The fee reminds some observers of the “exit taxes” imposed on Jews escaping tyranny and murder by German Nazis and Soviet Communists. Yet Sens. Chuck Schumer, D-N.Y., and Bob Casey, D-Penn., have introduced legislation to double the levy to 30 percent for those leaving America.

Of course, most people are likely to think about more than money before giving up their citizenship. But current policy creates powerful pressure for some. Increasing tax flight should serve as a wake-up call for Washington politicians.

Unfortunately, they insist on blaming everyone but themselves. Heading overseas to save money is “immoral,” asserted Sen. Charles Grassley, R-Iowa.

But what is moral about the looting and pillaging that goes on every day in Washington? Politicians are among the greediest people in America, acting at the behest of the envious who are determined to use government to live at everyone else's expense.

Decades ago New Deal Treasury Secretary Henry Morgenthau, Jr., complained that “too many citizens want the civilization at a discount.” But that is what today's political overseers purport to give us. They promise much, take more and deliver little.

America once was a land of opportunity. As it loses that distinction more people are tempted to go elsewhere. Instead of seeking to punish those who desire to move, policymakers who are real patriots would change the punitive policies which are pushing people abroad.

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