



Quitting America: Giving up citizenship to save money on taxes

A 2010 tax law has caused a threefold increase in Americans relinquishing their citizenship.

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by [Jaime Hellman](#)

There's been a lot in the news lately about President Barack Obama's executive action protecting undocumented immigrants who would like to become citizens of the United States. But there are thousands of Americans who are voluntarily giving up their citizenship in order to avoid paying a new tax that is part of the [Foreign Account Tax Compliance Act](#) (FATCA). The critics say the FATCA has caused a threefold increase in the number of Americans surrendering their passports. From 2010 to 2013, [7,246 Americans renounced their citizenship](#), compared with only 1,721 from 2006 to 2009, the four years before the FATCA was enacted.

Passed in 2010 by Congress, FATCA was intended to crack down on overseas tax cheats, with the Congressional Research Service projecting that the FATCA would generate [\\$8.7 billion over 10 years](#).

The FATCA was inspired by the testimony in 2007 of Bradley Birkenfeld, a former UBS banker turned whistleblower. He described before Congress how UBS used exotic techniques to help its American clients evade paying taxes. Largely on the basis of his testimony, [UBS was fined \\$780 million in 2009](#), and the bank turned over the names of 4,500 U.S. account holders to the IRS.

The law imposes a 30 percent tax on Americans who have money in foreign banks or countries that refuse to identify and provide information on their American clients. To date, [over 77,000 institutions and 112 countries have signed off on the FATCA](#). But that leaves 83 countries that are not FATCA compliant, including Russia, Argentina, Monaco, Bosnia, Pakistan and Vietnam.

Critics say the FATCA has gone too far, is too draconian and is imposing an undue hardship on Americans living overseas. So says Dan Mitchell of the [Cato Institute](#), a libertarian think tank in Washington. He says the law is "causing lots of headaches and heartaches around the world, not

only for foreign financial institutions but also for overseas Americans, who are now being treated as Pyrrhus because financial institutions view them as too costly to service.”

The U.S. is one of the few countries that tax its citizen on the basis of nationality, not residency. And faced with a larger tax bill, thousands of Americans living overseas would rather give up their passports than pay a new tax to Uncle Sam. The [Taxpayer Advocate’s Office of the IRS](#) has reported that the FATCA “has the potential to be burdensome, overly broad and detrimental to taxpayer rights.”

Mitchell says, “An American living and working in some other country is required to not only pay tax to that country where they live but also file a tax return to the U.S. No other civilized country does that.”

One thing is clear: For an increasing number of American citizens, holding on to a bigger share of their money has become more important than holding on to their U.S. passports.