

Will Rich People Desert the U.S. If Their Taxes Are Raised?

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On April 30, the Treasury Department [announced](#) that 461 Americans had renounced their citizenship in the first quarter of 2012. A 1996 law requires that every person doing so be named, with their names published in the Federal Register. The idea is to shame those who may be renouncing their citizenship solely to escape taxation.

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The extreme step of renouncing one's citizenship is necessary to escape taxation by the United States, because the United States, alone among the major nations of the world, taxes its citizens wherever on earth they live.

Other countries tax only those who live and work within their borders; if their citizens live and work in another country, they are liable only for taxes incurred in that country.

Americans living abroad, however, must not only pay taxes in the country in which they are living, but [United States taxes as well](#), although there is an exemption of \$93,000 that is adjusted for inflation annually. The only legal way for American citizens to avoid American taxes is to renounce their citizenship and live their lives permanently in another country.

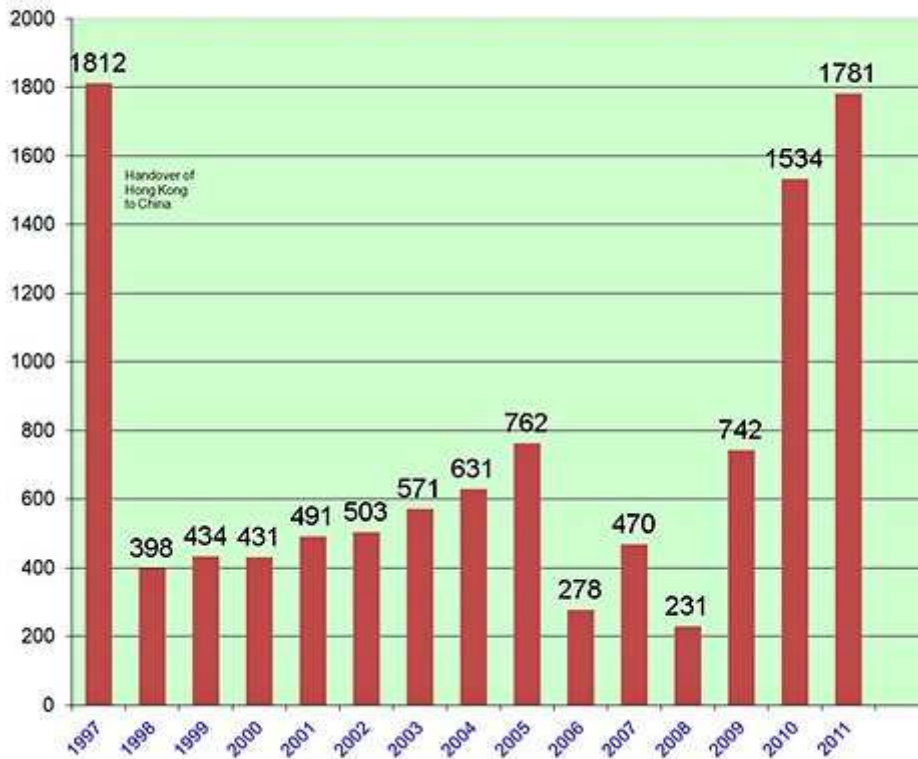
In recent years, the number of Americans renouncing their citizenship has increased. According to the international tax lawyer, [Andrew Mitchel](#), the number of Americans renouncing their citizenship rose to 1,781 in 2011 from 231 in 2008.

This led William McGurn of The Wall Street Journal [to warn](#) that the tax code is turning American citizens living abroad into "economic lepers." The sharply rising numbers of Americans renouncing their citizenship "are canaries in the coal mine," he wrote.

The economist Dan Mitchell of the libertarian Cato Institute was more explicit in a [2010 column](#) in Forbes, "Rich Americans Voting With Their Feet to Escape Obama Tax Oppression."

According to Andrew Mitchel's research, the sharp rise in Americans renouncing their citizenship since 2008 is less pronounced than it appears if one looks at the full range of data available since 1997, when it first was collected. As one can see in the chart, the highest number of Americans renouncing their citizenship came in 1997.

Number of Expatriates Per Year



United States

Treasury

Mr. Mitchel hypothesizes that the reversion of Hong Kong to Chinese control may have forced many residents of that former colony with dual citizenship to renounce their American citizenship, because China does not recognize dual citizenship.

It is undoubtedly the case that the vast bulk of those renouncing American citizenship do so for reasons unrelated to taxation. Americans who marry foreign nationals, for example, often adopt the citizenship of their spouse's nation. Also, many of those on the Treasury list are not actually American citizens, but foreigners who had permanent residence status in the United States. Those born with dual citizenship sometimes prefer to have only one to simplify their lives.

However, reports by [Bloomberg News](#) and the Zurich newspaper [Tages-Anzeiger](#) suggest that increased scrutiny by the Internal Revenue Service of Americans living in Switzerland, where a number of banks are suspected of aiding tax evasion, may have led some American expatriates living in that country to renounce their citizenship.

The mobility of individuals with a large net worth – who generally have no difficulty finding a nation to welcome them and their capital – has unquestionably increased in the last several years, especially within the European Union, where barriers against the movement of people have fallen sharply. This has reduced the ability of all governments everywhere from engaging in soak-the-rich policies.

As I noted in [a recent post](#), Britain recently reduced its top income tax rate in part because of a belief that it would reduce the number of Britons living abroad. And the victory of the Socialist François Hollande in France’s presidential election on Sunday, on a platform of raising the top tax rate to 75 percent, may lead to some relocation from there, according to [an article](#) in The Financial Times.

However, while there is no doubt that some people do migrate solely because of taxes, the number is small even when it doesn’t involve a loss of citizenship.

¶ A 2006 [study](#) in the journal International Tax and Public Finance found that taxes played no role in internal migration flows in Canada.

¶ Also in 2006, [a study](#) in the Cambridge Journal of Economics found no evidence that taxes affected migration within Switzerland despite a wide dispersion in local tax burdens.

¶ An April 2011 [study](#) by the Political Economy Research Institute at the University of Massachusetts found that taxes play almost no role in a person’s decision to move from a state, although it will influence her or his decision of where to live once the decision to move has been made.

¶ A June 2011 [study](#) in The National Tax Journal found little evidence that a sharp increase in New Jersey’s top income tax rate in 2004 had any impact on the migration patterns of those affected by it.

¶ A [new study](#) by the University of Chicago economist Tino Sanandaji examined the international movement of billionaires from 1996 to 2010. He found that 87 percent stay in the country in which they were born; only a third of those who moved appear to have done so for tax reasons.

The reality is that taxes are just one factor among many that determine where people choose to live. Factors including climate, proximity to those in similar businesses and the availability of amenities like the arts and cuisine play a much larger role.

That’s why places like New York and California are still magnets for the wealthy despite high taxes. And although a few Americans may renounce their citizenship to avoid American taxes, it is obvious that many, many more people continually seek American residency and citizenship.