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Number of Americans Renouncing Citizenship Surges

Expert Says 2013 on Pace to See Highest Number of U.S. Expatriations Ever

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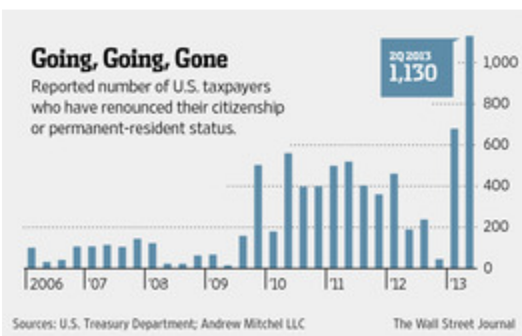
The number of U.S. taxpayers renouncing citizenship or permanent-resident status surged to a record high in the second quarter, as new laws aimed at cracking down on overseas assets increase the cost of complying and the risk of a taxpayer misstep.

A total of 1,130 names appeared on the latest list of renunciations from the Internal Revenue Service, according to Andrew Mitchel, a tax lawyer in Centerbrook, Conn., who tracks the data. That is far above the previous high of 679, set in the first quarter, and more than were reported in all of 2012.



Taxpayers aren't required to explain the move, but experts said the recent rise is likely due to tougher laws and enforcement.

"The IRS crackdown on U.S. taxpayers living abroad seems to be having an effect," said Mr. Mitchel.

The IRS declined comment.

Lags in reporting renunciations might mean that many who appeared on the current list made the move months earlier. Taxpayers who renounced can be subject to an exit tax, and people who renounced last year may have avoided higher taxes on capital gains and income that went into effect in 2013.

The U.S. is rare in that all income earned by citizens and permanent residents, even those living abroad, can be subject to U.S. tax, according to Bryan Skarlatos, a New York lawyer. The U.S. also confers citizenship on people who are born on American soil.

The U.S. launched the tax crackdown after the terrorist attacks of Sept. 11, 2001, and ratcheted up its efforts after 2009, amid evidence that UBS AG and other foreign institutions helped U.S. taxpayers hide assets.

Some taxpayers have applied for IRS limited-amnesty programs, in which they pay stiff penalties for past noncompliance but avoid prosecution.

Tax lawyers say the crackdown has ensnared smaller violators who weren't intentionally evading U.S. taxes.

In addition, a law enacted in 2010, the Foreign Account Tax Compliance Act, or Fatca, requires foreign financial institutions to certify they aren't hiding U.S. taxpayer assets, which lawyers say is leading some to reject U.S. customers.

Taxpayer penalties for failing to report assets can be severe, including up to 50% of an account balance for each year.

The web of rules is "overly burdensome," said Jeffrey Neiman, a former federal prosecutor who led the 2009 UBS case, which resulted in the bank's agreeing to a $780 million settlement. He now is a lawyer in private practice in Fort Lauderdale, Fla. "You basically find yourself in this continuous nightmare."

The cost of complying with various rules and regulations can be steep even for people with small tax bills.

Carol Tapanila, who moved to Canada more than 40 years ago and is now retired, renounced her citizenship in November and appeared on the current list. She says her U.S. taxes amounted to about $250 last year and she didn't take the step to avoid paying them.

Legal and accounting fees and other costs of making sure she was in compliance in recent years have added up to nearly $40,000, says Ms. Tapanila. "It is nothing but stress."

Expatriation can also be costly, requiring that taxpayers prove they have properly paid five years' taxes, among other things.

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