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# AARO 2020 Advocacy Survey Results

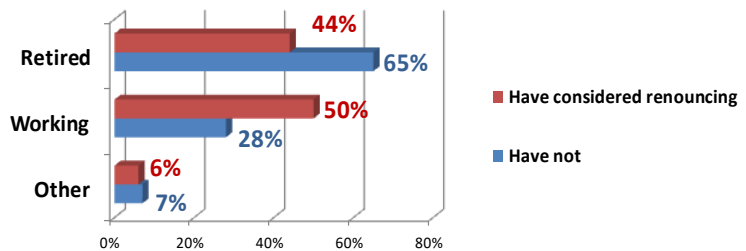
## Article 3: Americans Who Consider Renouncing Citizenship

We asked you if you have ever considered renouncing your US citizenship.

**A significant 34% answered “yes.”**

### Who considers renouncing? And why?

We analyzed your survey responses to see how those who have considered renouncing (for brevity, “renouncers”) differ from those who haven’t, and to try to understand why they feel as they do.

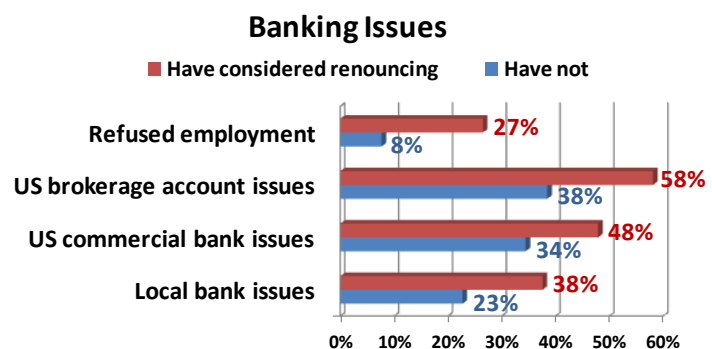


First, the renouncers tend more to be working as compared to the “non renouncers,” who tend to be retired. Also, a whopping 68% of renouncers believe that their vote does not count, as compared to 45% of the others. The renouncers consider that the US voting process is more complex by a ratio of almost 2:1.

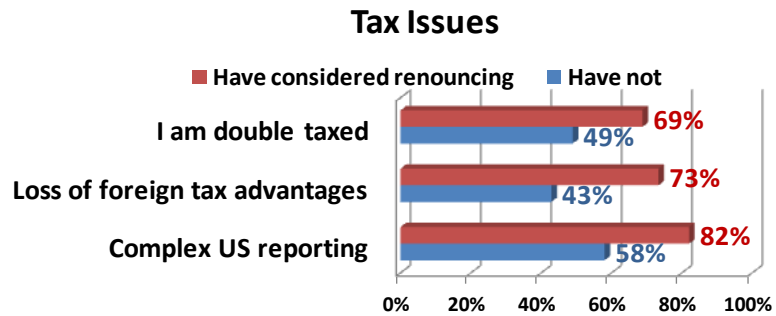
But, the real issues for them are in the areas of banking and tax, where renouncers have experienced far more difficulties than the others.

More renouncers (or their spouses) lose potential employment and/or suffer closure of bank or brokerage accounts (in each case, by 14-20%), due to tax reporting and bank regulatory issues.

Many renouncers tell us that they are double taxed (69%, as opposed to the others at 49%)

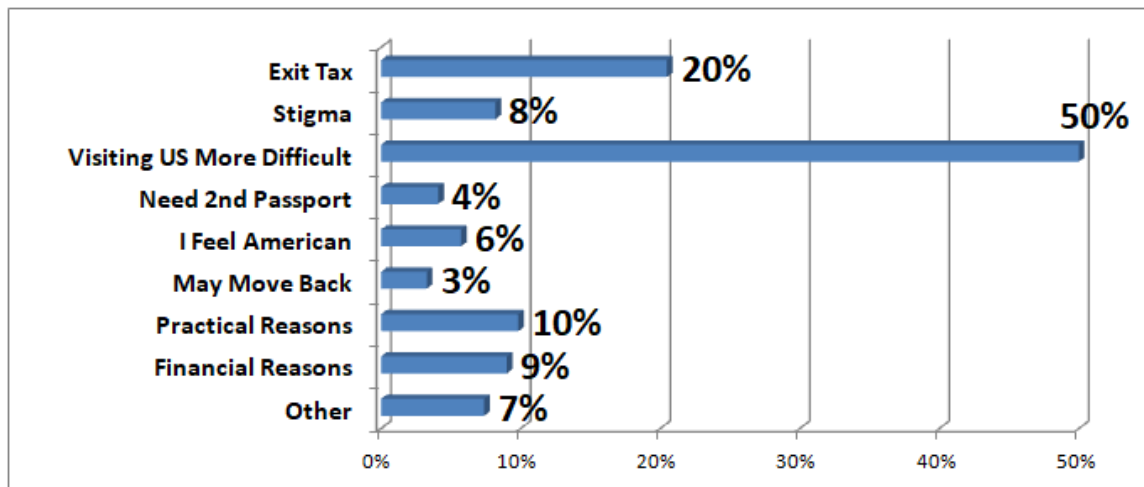


and that they have lost the tax advantages of their foreign retirement accounts. They also find US reporting requirements to be complex. One of you has chosen to “*earn less in order not to have to be double-taxed.*” Another mentioned the American historical concept of “*no taxation without representation,*” and expressed the hope that the US would eventually realize that citizenship based taxation unfairly imposes tax on Americans who move overseas to follow the “*American tradition of immigration for what they perceive to be a better life,*” and not intending “*fiscal evasion.*”



## But will they really do it?

But almost all of these people haven’t yet renounced. Why not? We asked you to tell us why. Below are your reasons (many people listed more than one):



Although a few are committed to renunciation and cited practical reasons for its delay (such as “*waiting for my 2<sup>nd</sup> passport,*” or “*they have suspended the service during the pandemic*”), the vast majority will likely never renounce due to the insurmountability of their reasons not to. These reasons could be put into 3 “buckets”: “Financial/tax,” “emotional” and “connection to the US.”

Besides the exit tax (discussed below), tax/financial reasons for not renouncing range from “*my taxes are lower because of the tax treaty*” to “*I expect an inheritance from family members in the US.*” Several believed that they would lose pension income.

Many are emotional about why they couldn’t do it: “*because it breaks my heart,*” and “*because it’s my country.*” Another person put it so well: “*I feel I cannot give up*

*something which is part of my identity even though it costs me a staggering amount of money.”*

But, by far, most renouncers have a strong connection to the US; the common perception is that, after renunciation, they could not easily visit the US, nor move back to take care of elderly family members. Of course, renouncing makes no sense for someone who may move back. But, renouncers, if they did it “correctly,” should normally not be prevented entry to the United States for visits; they would simply need to comply with visa rules as other non-citizens. Understandably, renouncers still fear being subject to the wide discretion of a border officer upon arrival. Also, one must ensure that the Department of Homeland Security does not determine that the renunciation was motivated by tax avoidance purposes, which could lead to inadmissibility to the US.

Surprisingly, not many people (8%) worried about the stigma of renouncing!

## **The dreaded exit tax**

Taxation is a major factor on both sides of this issue. Just as double taxation is a reason for some to renounce, the exit tax is what keeps many from doing so.

People of financial means justifiably worry about the exit tax. Besides the \$2,350 renunciation fee, the IRS maximizes its last chance to tax you before you leave the system. Generally, an exit tax is imposed on those who have (i) high net worth (>\$2 million), (ii) an average annual net income tax liability above \$171,000 for the prior 5 tax years or (iii) not complied with US tax obligations in the preceding 5 tax years.

The IRS imposes an income tax on the net unrealized gain in your property as if you had sold all your assets at fair market value at time of renunciation. Deemed gain above \$737,000 is subject to tax at your tax rates. So, one pays exit tax without actually realizing the gains with which to pay it! Even though the exit tax seemingly would apply to only very wealthy persons, it could also be triggered for people who, years, ago, bought a home that has greatly appreciated in value over time.

The above summary (using 2020 numbers, which are adjusted annually) is intended only to give you an order of magnitude. As the rules are very complex with many conditions and exceptions, anyone considering the renunciation path should consult an expert prior to taking any concrete steps.

## **AARO's advocacy**

AARO is working hard to convince Congress to end citizenship based taxation and to consolidate and simplify financial reporting. As one of you so appropriately put it, “*I strongly resent being forced to consider renouncing my US citizenship purely for financial reasons.*” AARO hopes to help you avoid this irrevocable step.

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The Association of Americans Resident Overseas (AARO) researches issues that significantly affect the lives of overseas Americans and keeps its members informed on these issues. Founded in 1973 and headquartered in Paris, AARO is an international, non-partisan association with members in 46 countries. For more information please email us at [contact@aaro.org](mailto:contact@aaro.org).

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