Goodbye Uncle Sam

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4 MARCH 2014

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The Foreign Accounts Tax Compliance Act (FATCA) will, from 1 July 2014, impose an array of new reporting obligations, especially on foreign financial institutions that serve Americans, including the need to report directly to the IRS. Leading many non-resident Americans and EU based financial firms calling for change or looking for another option (and some financial institutions choosing not to work with US expats).

One-third of expats need help

US tax preparation company, H&R Block have recently launched a remote service supporting American expats living in the UK. During the process, surveyed a portion of US expats, revealing that nearly one-third of them are confused by complicated US tax filing requirements.

The numbers for 2013 represent a dramatic spike – triple the average for the previous five years, according to a CNN Money analysis of government data.

Unlike most countries, US taxes citizens on all income, regardless of where it is earned or where they reside. Reporting taxes can be so difficult that expats are often forced to seek expert help, which can cost thousands of dollars.

Brad Westerfield, a tax lawyer at US firm, Butler Snow, said that renunciations have increased following the implementation of a new disclosure law – the Foreign Account Tax Compliance Act – that targets overseas tax evasion.

The measure, approved by Congress in 2010, is aimed at recouping some of the hundreds of billions the government says it loses each year in unpaid taxes.

"They've become so complicated – the increased filing obligations over the years," Westerfield said. "You see more people giving up their citizenship or relinquishing their green cards... Individuals [are] wanting to simplify their financial affairs, and just pay tax and report to one jurisdiction."

Biggest tax changes in 2014

Westerfield said that the first wave of renunciations in 2010 coincided with a part of the law that requires individuals to report foreign assets worth as little as $50,000. That's in addition to a separate provision that forces Americans to disclose foreign bank holdings larger than $10,000.

Renunciations dipped in 2012, but now another part of the law is kicking in. The new provision requires financial institutions to report all foreign accounts held by Americans.

"People find that intrusive," Westerfield said. "Just because you live your life outside of the US, most of your assets are foreign assets. [Americans are] saying enough is enough."

The law has prompted some banks to close some of their American clients’ accounts rather than comply. Penalties can be high if banks make a mistake reporting US-held accounts, even if they are basic checking and savings accounts.

The filing requirements

US citizens who meet the minimum income requirement – $20,000 for married couples filing jointly, and $10,000 for single filers – are required to file a federal tax return regardless of where they live, even if all of their income was earned in a foreign country. Some taxpayers working abroad may be able to exclude some foreign income and claim a credit for foreign taxes paid on their US tax return, which could offset any taxes owed to the United States.

Taxpayers working abroad who are not able to file an accurate return by June 16 can submit a tax filing extension to make their filing deadline Oct.15.

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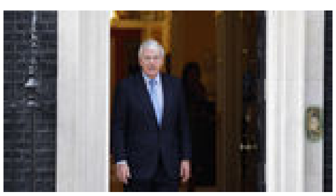

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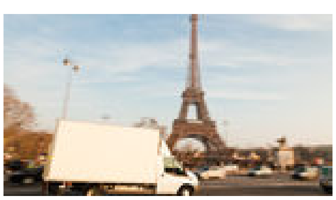

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