

1040 Abroad Inc. 5 Myths about renouncing US citizenship

Toronto, Ontario May 10, 2022 ([Issuewire.com](https://www.issuewire.com)) - 1040 Abroad has helped Americans living overseas to get into compliance with their US tax obligations since 2012.

We specialize in helping American overseas renounce their US citizenship while minimizing the US tax liability.

I will discuss many misconceptions I debunked over the years related to renouncing US citizenship.

[I'm Olivier Wagner and today I'll discuss five myths surrounding renouncing U.S. citizenship.](#) Those were urban legends that oftentimes come with some old truth that might no longer apply and I'll discuss that in this video.

I have been preparing US tax returns since 2012 and really specializing in people who renounce U.S. citizenship since 2015 and those are a few things that come up as I talk to my clients.

Myth #1: You will have to dispose of all of your assets

You do not have to sever your ties with the U.S.

Unlike say, Canada or Australia, the U.S. operates on a citizenship-based taxation system; which means that you're taxed on your worldwide income as long as you're a U.S. citizen and it doesn't have to do with your ties with the U.S. except for course if you consider citizenship to be a tie. As a U.S. citizen, you have to report your worldwide income. If you're not a U.S. citizen, you would only have to report U.S. sourced income on a U.S. tax return.

At the same time, if you are a covered expatriate*, there's a deemed disposition of all of your assets. That's not an actual disposition. Rather, it would be a deemed disposition, such taxpayers would have capital gains and report that.

But you can keep on having real estate in the U.S., and have your U.S. bank account. You will get taxed as a non-resident on your U.S. sourced income.

* You will be a covered expatriate if:

- your average annual net income tax for the 5 years preceding the year of expatriation is greater than US\$165,000;
- your net worth on the date of expatriation is US\$2 million or more; or
- you have not met all your US tax compliance requirements for the 5 years preceding the year of expatriation, and you do not file Form 8854, Initial and Annual Expatriation Statement.

Myth #2: You will have to file a U.S. tax return for the next 10 years

That's no longer the case. Someone renouncing U.S. citizenship would essentially be filing their last tax return, along with form 8854 is a one-time thing you will

- Attend the interview at the consulate
- The next year you would file that final tax return on a dual-status return along with form 8854

And you'll be on your way. You might have tax owing on that final tax return but you will not have any further tax returns to file. Obviously, if you have real estate, a rental property in the U.S. you would still

file a U.S. tax return just like any other foreigner in this situation.

But from June 3rd, 2004 to June 17, 2008, IRC section 877 did plan that if somebody renounced U.S. citizenship and then they spend more than 30 days in the U.S., then they had to file a U.S. tax return reporting their worldwide income.

[That's no longer the case since 2008 as section 877 was replaced by section 877A. Section 877A put an end to that practice.](#)

Myth #3: You will lose your Social Security benefits

That is simply not the case. If you contribute to social security you will keep on having these benefits.

There is some truth in that military pension and some other government pensions might be tied to citizenship if you were working in the U.S. army and you renounced your U.S. citizenship, you will lose the benefits you receive from the army.

What are some government plans for government employees? That principle doesn't apply to the social security plans that are applicable to everybody.

Myth #4: You will lose your Social Security Number

That's not the case. Once you have that number you have it all for life. If you have a Social Security Number that doesn't have any annotation on it, you don't need to update that either.

If you have a credit history you can keep on using that to get a credit card or loan from lenders. Of course, you would have to answer truthfully. If they ask you whether you're a U.S. person or not, you will have to answer the negative to that question.

Myth #5: You will never be able to return to the U.S.

It's mostly untrue; it's mostly false. There's some truth to that in that with the Reed amendment which was passed in the 1990s, those who renounced U.S. citizenship for the purpose of evading U.S. tax would not be allowed back into the U.S.

In order to implement that law to be implemented, the U.S. government should have created some way for the IRS to share information with the Department of State. It has not been implemented. As such, the only way for people to be banned from entering the U.S. is if they themselves said that they renounced U.S. citizenship for the purpose of evading U.S. tax.

So unless you say as much at either the consulate or when talking to the border agent at the border, you were you will not be prevented from entering the U.S.

Every year thousands I think we had ten thousand people renounce U.S. citizenship. In comparison, only about a dozen people were banned from entering the U.S. based on the Reed amendment.

After renouncing, you will be treated the same way as any other foreigner. This brings us to a different point: the non-immigrant intent.

The non-immigrant intent applies to all foreigners using a non-immigrant visa/status (this includes all the most common easier immigration statuses, including that of a tourist). If you go to the U.S. as a tourist, you need to have a home elsewhere and your intent must be to return to that home so if all of your life is

in Canada, you're a Canadian citizen you can still go to the U.S. as a tourist.

On the other hand, if you've lived all your life in the U.S., you're a U.S. citizen, your families are in the U.S. so your business is in the U.S. You buy citizenship in St Kitts & Nevis and you surrender your U.S. citizenship and you want to go back to the U.S. as a tourist you might not be able to do that but that's not about the Reed amendment. Quite simply, you have not established ties to a home outside the U.S. that would allow you to convince U.S. officials that you plan on returning to that home.

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All right that was the five myths surrounding renouncing U.S. citizenship. Contact me at <https://1040abroad.com/contact/> if you want to ask me any questions.

At the best!!!

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