Research paper on avoiding taxes

Technology, Future

Introduction

The US government takes renunciation of US citizenship with a lot of seriousness. Whoever wishes to renounce citizenship has to do so by following the right procedure. The person must appear in person at an embassy of the US. After renouncing citizenship, the petitioner loses the rights that are enjoyed by the citizens of the US. It therefore becomes impossible for the petitioner to freely travel and enjoy privileges in the US. The US allows individuals with a positive intention to renounce citizenship but not those who are trying to evade their responsibility to the tax department or the military.

However, renouncing citizenship will not help one to avoid paying the taxes that they owe the state. One needs to pay the taxes that he or she owe the state before they think of renouncing citizenship since even after renouncing citizenship the tax liability is still attached to the individual and the individual will not get a pass to leave the country. The individual may therefore find themselves being stateless. Even the green card holders pay whatever taxes that they owe the internal Revenue Service. The US government requires that its citizens are cleared by the tax authority before seeking to renounce citizenship. Renouncing citizenship is considered a permanent situation. If the income of an individual over the past 5 years is more than $147, 000 then they will have to pay exit tax plus any tax that they owe the state (United States, 2004). If you discharge property and assets then you will have to pay income tax since you may gain from the venture. If a person is renouncing citizenship as to avoid tax liability, they will have to pay a tax of 30% on capital gains (Jacobs, 2007). Therefore, renouncing citizenship can only be used to avoid paying future taxes but not the tax that you already owe the US tax department. Whoever seeks to renounce citizenship has to pay $450 for the request to be processed. It takes several months as government consults with the tax department and other departments before clearing the individual.

The federal tax system levies income tax according to ones income as shown table below.

(United States, 2008).

However, some deductions are deducted before the tax liability is calculated. Such deductions include payments to insurance companies and the state government (Fox, 2004). Therefore, income tax = adjusted gross income - (total deductions + exemptions) Dual citizenship is a scenario in which an individual is a citizen of two countries. The individual enjoys rights privileges and responsibilities enjoyed by the citizens of the countries. Establishing dual citizenship increases your tax liability. This is because one will have to pay tax in both countries. The US laws requires that its citizens pay taxes no matter the place where they live. So long as you are a US citizen, paying taxes is compulsory. An individual whose has decided to seek citizenship in another country without renouncing US citizenship has to report all the investments that they have in the other country for purposes of taxation by the US tax department without hiding any details that may help in determining the taxes to be paid. The individual also pays taxes to the government of the state in which he has invested. Therefore, dual citizenship increases one’s tax liability.

Renouncing citizenship leads to reduction of future tax liability while establishing citizenship in two countries increases the tax liability. This is because if one decides to renounce citizenship, he will only have to pay the taxes that he already owe the state and after that future taxations shall not apply to them if they leave the country whose citizenship they have renounced. However, if they stile reside in the country, though it is illegal, taxes shall still apply to them. In the case of dual citizenship one will have to pay income tax to both countries because most countries taxes the income of its citizens without considering whether it was earned in the country or not. You have to pay any taxes imposed on your income by the government of your country.

Avoiding taxes is a crime by itself. This is because taxes are the main source of government revenue. If individuals evade paying taxes, it means that the government will have a hard time to meet its responsibilities since it will have no money to finance its development projects. Each and every individual should therefore pay taxes without perceiving it as a form of exploitation. Renouncing citizenship or establishing dual citizenship with the intent to reduce your tax liability is therefore not warranted. However, if the intention behind the establishment of dual citizenship was not to avoid tax but to further investment opportunity then that is good. Renouncing citizenship should be due to good intentions but not due to the baseless reason to avoid taxes.

One may reduce their tax liability by investing their income in fixed annuities since interests that are generated by these annuities are not taxed until when it is withdrawn. One may also reduce their tax liability by investing their income in municipal bonds since these bonds are free from the federal tax. These two methods are a good way of reducing tax liability while at the same time remaining a citizen of your country. In this way the income will continue earning interest while at the same time reducing the tax liability of the individual (United State, 2008).

References

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