

Avoiding taxes research paper examples

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Introduction

Many US expatriates have of late been feeling that a very large proportion of their income is being lost in the name of paying taxes and are therefore earnestly seeking for ways through which they can reduce their tax liability. This is very important because avoiding tax using illegal means comes with very expensive penalties that are not easy to bear. This means that the only means by which they can save their income from being largely expended on tax is through the use of legal means of reducing their tax liability. One of these means is through renouncing U. S. citizenship while the other is through establishing dual citizenship. In this paper, these two means of reducing tax liability are analyzed as well as suggestions on various available alternatives of reducing tax liability.

Effects of Renouncing Citizenship on Tax Liability

Renouncing U. S. citizenship has the effect of reducing one's tax liability. This is the case because US is one of the few countries in the world which taxes its citizens on their worldwide income whenever they live and work abroad. This means that when a U. S. citizen lives abroad, the income this person earns would be taxed first by the country in which the person would be living and then by the United States. This leads to double taxation on this individual thus increasing the person's tax burden (Abrams and Doernberg, 1999). As compared to a person living in a different country, even if the two will be earning the same amount of gross income, the U. S. citizen would end up paying more tax and hence having less disposable income than this other person. Avoiding this tax is not possible for the U. S. citizen because the

penalties that would be imposed on a person trying to avoid tax would be so stringent the person may not even be able to bear them. The only option available to this tax payer is therefore to renounce his or her U. S. citizenship. This would significantly reduce the person's tax liability because he or she would only be required to pay tax to one country and not two. The amount of tax payable by this person would therefore be to the country in which he would be working or running a business. This would reduce his tax liability by a considerably large margin.

Effects of Dual Citizenship on Tax Liability

Dual citizenship also enables one to reduce the tax liability because a certain proportion of his income is exempted from U. S tax liability. This means that before this person's income is taxed, a certain percentage is deducted from his gross income. Before the taxable income could be arrived at the person's income would have been reduced to such a level that he or she may not even be liable for any tax (Johnson, 2008). Acquiring dual citizenship is therefore one of the means that can be applied by a person in order to reduce their tax liability. A person who enjoys this privilege is one who is said to be a resident in a foreign jurisdiction for tax purpose. Such a person would be paying tax to the country in which they live and while they would be required to file tax returns to the U. S. each year, they would only be taxed by this country if their income surpasses a particular set threshold. This therefore means that for people with dual citizenship, only a few who earn exceptionally high incomes would fall in the category of those who are liable to pay tax to the US. Those people whose incomes are not very high would therefore not fall in this class and would therefore enjoy a reduced tax

liability (Eicke, 2008). Since most of the people who live abroad tend to be in middle income class, a majority of them would not pay double tax if they acquire dual citizenship since their incomes do not surpass the threshold set for those to pay tax to the US government. It is therefore worth noting that the acquisition of dual citizenship plays a major role in reducing one's tax liability. Consequently, it is advisable for one to acquire dual citizenship in order to reduce their tax liability.

Comparison of the Effects of Renouncing Citizenship to Establishing Dual Citizenship on Tax Liability

It is notable that both the two approaches have the effect of reducing tax liability. However, a number of differences occur as far as these two methods are concerned. The most notable among the differences is the fact that after renouncing citizenship, one ceases completely paying tax to the US government. Establishing dual citizenship on the other hand only reduces the person's tax liability but does not eliminate it completely (Cartano, 2008). Consequently, it is advisable for one to renounce citizenship as opposed to acquiring dual citizenship as the former would completely do away with all tax liability whereas the latter would only reduce the tax liability for those citizens who earn medium income while retaining tax liability for those who earn larger incomes.

Alternatives Ways of Reducing Tax Liability without Renouncing Citizenship

Tax liability can be reduced through reducing one's adjusted gross income. This can be achieved through among other means, contributing money to a retirement plan at work. This increases the amount of deductions made on

one's income in order to arrive at the taxable income. If savings for retirement are large, deductions from the person's income will also be large which reduces the person's taxable income and hence tax liability. One can also reduce his or her tax liability by taking advantage of tax credits. There are tax credits for saving for retirement, for adopting children and for college expenses. One could therefore enroll for some college courses from whose expenses he or she will be able to acquire some tax credits thus reducing their tax liability. Since adopting children may not be easy for some people, taking college classes would be the best method of reducing their tax liability.

References

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