

Citizenship and taxes: Evaluating the effects of the U.S. tax system on individuals' citizenship decisions

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Abstract: The U.S. tax system applies to its citizens' worldwide incomes and estates, whether those citizens live in the U.S. or abroad. Fully escaping the U.S. tax system requires renouncing or relinquishing U.S. citizenship, and in recent years a growing number of individuals have done so. I use administrative tax microdata to answer three questions: Who is renouncing their citizenship? Why are they renouncing? What are the policy consequences? I show that the recent increase in renunciations is mainly driven by those who have for many years lived abroad, rather than by individuals leaving the U.S., and that these renunciations are primarily a response to increased compliance costs, not tax consequences. I also present evidence that some individuals responded to tax law changes that affected the costs of renunciation. I then discuss how recent renunciations relate to U.S. tax policy, including the revenue impacts, policy spillovers, and the implied value of U.S. citizenship.

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