

# The U.S. cracks down on rich tax evaders

A bill likely to become law aims to close the loophole on those who expatriate themselves.

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You may not like paying federal taxes, but chances are you're not going to renounce your U.S. citizenship to get out of the obligation.

That's probably wise, especially because a tax bill expected to be signed into law this week contains a provision designed to crack down on the roughly 500 rich people who expatriate themselves each year to avoid U.S. income and estate taxes.

Although the number of people who take that path may be small, the government has been enacting increasingly strong measures to stop the practice over the last dozen years.

For that you can thank billionaire and ex-Floridian Kenneth Dart, said Bill Ahern, a spokesman for the Tax Foundation, a nonpartisan research group based in Washington.

Dart is one of the heirs to a multibillion-dollar Styrofoam-cup manufacturing business based in Sarasota, Fla. In 1994, he renounced his citizenship and moved to Belize, a small Central American country known as a tax haven.

Belize promptly sought U.S. permission to open a consulate in Sarasota with Dart as its consul. Foreign diplomats are exempt from U.S. taxes, so the move would have allowed Dart to avoid U.S. taxes while continuing to live here.

The plan earned a "chutzpah" award from the late humorist Art Buchwald, but it was rejected by the State Department, which said Belize already was well represented in Florida with a consulate in Miami.

Former President Clinton,

who was in office when Dart renounced his citizenship, was so appalled by Dart's action that 10 years later he refused to go to a political fundraiser because it was being held at the Dart mansion, owned and occupied by Dart's wife.

"I don't know what he is up to now," Clinton wrote on his blog in 2005, "but I don't want to go anywhere near this guy."

Dart's tactic also so incensed members of Congress that they passed a law in 1996 aimed at stopping others from doing the same thing.

Under that law, people who paid more than \$124,000 a year in income tax and had more than \$622,000 in assets when expatriating themselves were required to pay U.S. taxes on worldwide income for at least five years.

In 2004, that was extended to as long as 10 years.

This year Congress again felt the need to tighten the vise on would-be tax exiles. Late last month, the House and Senate overwhelmingly passed the Heroes Earnings Assistance and Relief Tax Act of 2008, which President Bush has promised to sign this week.

Under the bill, which also would give tax breaks to members of the military, wealthy Americans who renounce their citizenship would be taxed as if they had sold all of their property at fair market value the day before.

Moreover, if an expatriate tried to leave money to a U.S. citizen, the gift would be taxed at the highest federal gift tax rate, which is 45%, said Mark Luscombe, principal tax analyst for CCH Inc., a publisher of tax information based in Riverwoods, Ill.

The law could affect not only U.S. citizens but also foreigners who work in this country for a period of time before going back to their home countries, said Evelyn Capassakis, principal with accounting firm PricewaterhouseCoopers.

Those who worked here for eight of the previous 15 years would get hit with the tax when

they give up their green card or when they leave money to their children who were born in the United States, Capassakis said.

"This law has a long tail out it," she said.

The government estimates that the provision aimed at expatriates would generate \$411 million in extra tax revenue over the next 10 years. That money would offset the cost of the legislation's tax breaks for the military.

The other provisions of the bill would:

- Provide about \$14 million in economic stimulus payments to U.S. service members who are married to people without Social Security numbers, or who have dependent children who lack valid U.S. identification numbers. This generally affects service members married to foreign residents.

- Allow military "death gratuities" to be paid into Roth IRAs so that heirs of service members who die in combat avoid taxes on investment earnings on the gratuities.

- Give tax breaks to companies that provide "differential pay" to military reservists on their payroll who are called up to active duty. The extra compensation is intended to make up for the difference between the reservists' active-duty pay and their civilian pay.

- Let service members count nontaxable combat pay as earned income for purposes of computing the earned income tax credit, a valuable benefit for low-income families.

- Allow the government to finance mortgages for veterans.

*Kathy M. Kristof welcomes your comments but regrets that she cannot respond to every question. Write to Personal Finance, Business Section, Los Angeles Times, 202 W. 1st St., Los Angeles, CA 90012, or e-mail [kathy.kristof@latimes.com](mailto:kathy.kristof@latimes.com). For past Personal Finance columns, visit [latimes.com/kristof](http://latimes.com/kristof).*