



BDO Seidman, LLP
Accountants and Consultants

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IRS revises Form 8854 (Initial and Annual Expatriation Information Statement)

Expatriate Tax Alert

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The Internal Revenue Service (IRS) released a revised May 2005 version of Form 8854 which must be filed by former U.S. citizens and long-term residents who changed their status after June 3, 2004.

Background

I.R.C. § 877 requires, in general, that U.S. citizens and long-term residents (i.e. certain “green card” holders) who abandon their U.S. citizenship or residency are subject to an “alternative tax” for a period of 10 years following their expatriation, provided that the expatriate’s income or assets exceed certain levels. Under the alternative tax regime, the individual’s U.S. gross income includes only gross income from U.S. sources or income that is effectively connected with a U.S. trade or business. However, certain gains from the disposition of U.S. property or U.S. stocks (among other things) are deemed to be from U.S. sources. Form 8854 serves as a notification by the taxpayer that he or she is going to expatriate and to provide the information required by I.R.C. § 6039G.

Affected taxpayers

All U.S. citizens or long-term U.S. residents expatriating or terminating residency after June 3, 2004.

Form 8854

Some key issues with respect to the new Form 8854 and its disclosure requirements are outlined below:

- (1) All individuals who expatriate or terminate their U.S. residency must file Form 8854 once in order for the expatriation or termination to be effective for U.S. tax purposes;
- (2) If the expatriate is subject to the alternative taxation under I.R.C. § 877, he or she will be required to file Form 8854 annually to provide the information required under I.R.C. § 6039G;
- (3) Section 877 applies to a former U.S. citizen or long-term resident if the individual:
 - a. Has had an average net income tax liability for the five years prior to the expatriation or termination of residency in excess of a set amount (\$124,000 in 2004);
 - b. Has a net worth of \$2 million or more at the date of expatriation or termination of residency; or
 - c. Fails to certify on Form 8854 that he or she complied with all U.S. federal tax obligations for the five years preceding the date of expatriation or termination of residency.
- (4) Form 8854 must be filed with the IRS Philadelphia Service Center (rather than with a U.S. embassy or consulate).

If you need assistance with the filing of the new Form 8854 or if you need help determining your status for purposes of the U.S. expatriation regime, please contact ...

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