What Facebook, Expatriation and The Ex-Patriot Act Have In Common?

By James F. McDonough, Jr. on June 4th, 2012 Posted in Expatriate tax, Taxes

The answer is Eduardo Saverin, the Facebook insider who renounced his U.S. citizenship in September of 2011 to become a citizen of Singapore. When news of Facebook's initial public offering was disclosed, the fact that Mr. Saverin was no longer a United States citizen (and taxpayer) come to light. In response, United States Senators Casey and Schumer proposed legislation that would prevent the evasion of taxes by means of expatriation. The proposed statute would also prohibit these former citizens from re-entry into the U.S.

Mr. Saverin was a US citizen for ten years, having come here from his native Brazil. Mr. Saverin denies that he renounced his U.S citizenship for tax reasons although it is true that he has no long-standing ties to the US and no longer works at Facebook. Notwithstanding the denial, financial considerations had to have played some part in his decision.

It is not that difficult to understand why Singapore was an attractive alternative, aside from the economic growth in the region. The tax climate in Singapore is benign as there is no estate or inheritance tax. When faced with the unknown tax climate in the U.S., one might argue that his departure was a reasonable step in order to obtain certainty. Singapore has a territorial system of taxation which is unlike the worldwide system of the US. One would fully expect that Mr. Saverin's Facebook stock, proceeds of any sale and other assets were deposited in a tax-friendly jurisdiction outside of Singapore. Unless the income is remitted to Singapore, it is not taxed nor even reported to the government. Those of you familiar with foreigners moving to London may know that "drop-off" trusts in the Channel Islands were a common practice. An over-simplified example follows, calling for two trusts would be created. One trust would hold assets and pay into a second trust the amount of income to be remitted to London and thus taxed.

Recently, Eaton Corporation transplanted itself into Ireland with its 12.5% corporate tax rate in order to compete more efficiently and isolate its international earnings outside the United States. Thus, the relentless assault on the high cost of doing business continues regardless of whether that the cost is in the form of taxation or labor.