

# Accidental Americans

Tax Traps and Exit Strategies

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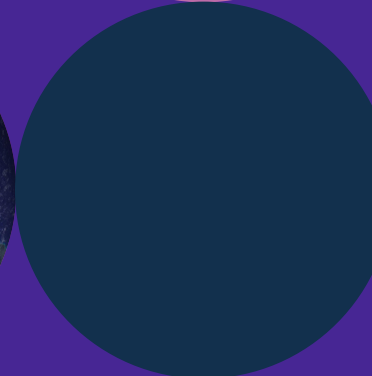
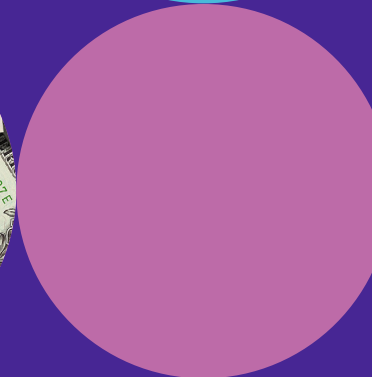
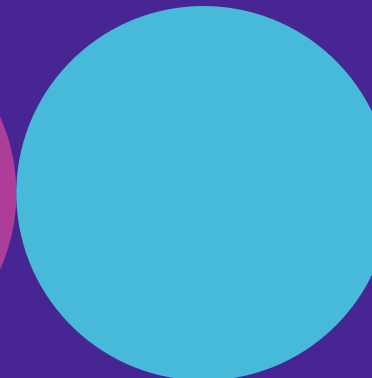
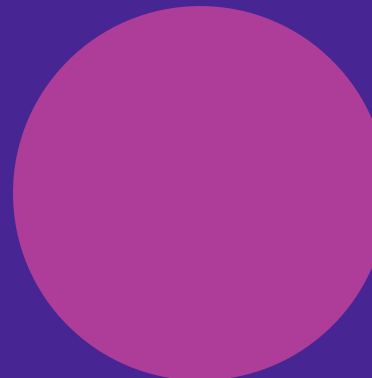
The logo for Tap Tax Advisory Partnership is located in the bottom right corner. It consists of a teal circle containing the word "tap" in a large, white, lowercase sans-serif font. Below "tap", the words "tax", "advisory", and "partnership" are stacked vertically in a smaller, white, lowercase sans-serif font.

**tap**  
tax  
advisory  
partnership

# Welcome

At Tax Advisory Partnership (TAP), we help individuals facing the complexities of accidental U.S. citizenship resolve their cross-border tax challenges with clarity and confidence. If a surprise discovery of U.S. status now means IRS paperwork and foreign account reporting, our expert team explains your obligations, relief options, and every route to compliance or renunciation.

This guide gives you the essentials—how accidental Americans are identified, what the U.S. requires wherever you live, and how TAP supports you at each step, from your first filing to permanent peace of mind. Wherever you call home, let's untangle your U.S. tax situation, together.



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# What we do

At TAP, we specialise in helping Accidental Americans navigate complex U.S. tax rules with clear, practical advice.

We support clients with annual U.S. tax filings, FBAR and FATCA reporting, and accessing relief programs like the Streamlined Filing Compliance Procedures to reduce penalties and simplify compliance.

Our team helps confirm citizenship status, obtain necessary identification numbers, and maximise foreign tax credits to minimise double taxation. For clients considering renunciation, we provide step-by-step guidance through the process, including managing exit tax issues and finalising necessary filings.

With personalised, ongoing support, TAP ensures you meet all obligations while protecting your financial future and gaining peace of mind.

We commonly advise clients on the following:





## How we work

Our service is discreet and professional, teaming up with other experts when required for a unified strategy tailored to each client's unique needs.

We understand that each client has distinct situations and offer personalised services aimed at their specific goals.

We deliver in-depth tax guidance and continued assistance with tax compliance responsibilities.



## OUR CORE VALUES



Impartial

Personal

Experts

Integrity

Value



Discretion



Knowledge



Reliable

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# Understanding Accidental Americans

This section explains who Accidental Americans are—individuals with US citizenship often unknown to them—and why their status brings significant tax and reporting obligations. It covers how accidental citizenship happens, its tax implications, and why understanding these factors is crucial for compliance and financial planning.



# Understanding Accidental Americans

## Who is an Accidental American?

An Accidental American is someone considered a US citizen under US law who often has little or no connection to the United States. This status commonly arises from the following situations:

- Being born in the US to foreign parents visiting or residing temporarily, before leaving as a child.
- Being born outside the US to one or more US citizen parents who meet certain residency requirements.
- Inheriting US citizenship through descent, even if never registered with US authorities or having never lived in the US.
- Former green card holders who never formally renounced permanent residency may be treated as US tax residents.

Many Accidental Americans remain unaware of their status until tax or banking authorities request proof of citizenship or tax compliance.

Despite limited ties, US law requires them to file tax returns and report worldwide income and foreign accounts, often resulting in complex financial obligations.

Discovering you're an Accidental American can be surprising, but understanding your status is the first step toward managing your US tax responsibilities.



# Understanding Accidental Americans

## How to Confirm Your US Citizenship Status

If you're uncertain whether you are a US citizen, here are the main ways to confirm your status:

### 1. Check Your Birth Records

- If you were born in the US, your birth certificate is proof of citizenship.
- If born abroad to US citizen parents, look for a Consular Report of Birth Abroad (CRBA) or a US passport issued in childhood.

### 2. Obtain Official Documents

- US Passport or Passport Card
- Certificate of Citizenship or Naturalization from the US Citizenship and Immigration Services (USCIS)
- Certificate of Birth issued by a US state or the Department of State

### 3. Contact US Authorities

- Reach out to the nearest US embassy or consulate to verify your citizenship records.
- Contact USCIS for citizenship status and records. You can also check your application status if you filed for naturalization.

### 4. Gather Supporting Evidence

- Documents proving your parents' US citizenship and residency (if claiming citizenship through descent).
- Affidavits or legal documents evidencing your link to US citizen parents.

### 5. Request a File Search if Needed

- If you lack documentation, you may request a search for your citizenship records through the State Department or USCIS, sometimes involving a fee.

Confirming your US citizenship is essential to understanding your tax and compliance obligations.

Expert assistance can help simplify this process and ensure you have the right documents in place.



## Important!

Verify your US citizenship early to avoid unexpected tax issues.



# Understanding Accidental Americans

## Why Citizenship Matters for Tax Purposes

Citizenship is a crucial factor in determining tax obligations for US citizens worldwide. Unlike most countries that tax residents based on where they live or earn income, the United States uses citizenship as the basis for taxation. This means that even if you live abroad permanently, your US citizenship—whether known or accidental—creates specific tax responsibilities.

## Key Reasons Citizenship Affects Tax:

- **Worldwide Income Reporting:**

US citizens must report and pay tax on income earned anywhere in the world, regardless of local tax laws or residency.

- **Complex Reporting Requirements:**

Citizenship triggers the need to file additional reports, such as the Foreign Bank Account Report (FBAR) and FATCA disclosures, aimed at increasing transparency around foreign assets.

- **Avoiding Double Taxation:**

Although the US taxes citizens on global income, tax credits and exclusions exist to prevent double taxation when foreign taxes have been paid. Proper understanding and filing are necessary to benefit from these.

- **Penalties for Non-Compliance:**

Ignorance of citizenship tax rules is not a defence. Failure to file correct returns or disclosures can result in severe financial penalties and legal consequences.

- **Impact on Financial Planning:**

Citizenship-based taxation affects how you manage assets, investments, and banking abroad. Planning ahead helps minimise tax liability and ensures lawful compliance.

Understanding why citizenship matters is the first step to managing your US tax obligations proactively and avoiding unexpected liabilities.

**Ignoring  
citizenship-  
based tax rules  
risks substantial  
IRS penalties**



# US Tax Filing and Reporting Requirements

Confirming your US citizenship status is a crucial step for accidental Americans. It involves checking official documents like birth certificates, passports, or Consular Reports of Birth Abroad, and verifying records with US authorities such as the embassy or USCIS to ensure compliance and understand your tax obligations.



# US Tax Filing and Reporting Requirements

## Citizenship-Based Taxation Overview

Citizenship-based taxation is a unique and complex system where the United States taxes its citizens on their worldwide income, regardless of where they live. This overview explains how the system works, what additional reporting is required, and the options available to reduce double taxation.

### What is citizenship-based taxation?

Citizenship-based taxation means that the United States taxes its citizens on their worldwide income, regardless of where they live or earn their money. This is different from most countries that tax residents only on income earned within their borders.

### How does the US system work?

If you are a US citizen, including accidental Americans, you are required to file an annual tax return using IRS Form 1040. This return must report all your income from everywhere in the world, even if you pay tax on that income in another country.



**US citizens must report worldwide income to the IRS, even if living abroad. Understanding your tax obligations early helps**

### What additional reporting are US citizens required to do?

US citizens must file the Foreign Bank Account Report (FBAR) if the total value of their foreign financial accounts exceeds \$10,000 at any point during the year. Additionally, under the Foreign Account Tax Compliance Act (FATCA), certain foreign financial assets must be reported to the IRS on Form 8938.

### Are there ways to reduce double taxation?

Yes. The US tax system provides mechanisms like the Foreign Earned Income Exclusion (FEIE), which allows qualifying taxpayers to exclude a portion of foreign-earned income, and the Foreign Tax Credit (FTC), which offsets US tax owed by the foreign tax already paid. However, these credits and exclusions require careful calculation and adherence to IRS rules.

### Why is understanding this important?

Many accidental Americans are surprised to learn their US tax obligations extend worldwide, regardless of residence. Non-compliance can result in significant penalties, interest, and legal issues. Understanding citizenship-based taxation is essential to keeping compliant and managing your global tax exposure effectively.

# US Tax Filing and Reporting Requirements

## Annual IRS Tax Return and FBAR/FATCA Obligations

U.S. citizens, including accidental Americans, must meet important annual reporting requirements to disclose their global income and foreign financial accounts. Understanding these obligations helps avoid penalties and ensures compliance.

### IRS Tax Return (Form 1040):

- File annually by April 15 (extensions available until October 15).
- Report all worldwide income such as wages, interest, dividends, and capital gains.
- Failure to file can result in penalties of 5% of unpaid tax per month (up to 25% max) plus interest on unpaid amounts.

### Foreign Bank Account Report (FBAR):

- Required if total foreign accounts exceed \$10,000 at any time during the year.
- Filed electronically with FinCEN by April 15, with an automatic extension until October 15.
- FBAR is a disclosure requirement separate from tax owed; penalties for failure to file start at \$10,000 for non-willful violations and can reach up to 50% of account balances for willful violations.

### FATCA Reporting (Form 8938):

- Report specified foreign financial assets above set thresholds alongside your tax return.
- Penalties start at \$10,000, with additional penalties for continued failure after notice.

### Why it matters:

These filings prevent tax evasion and ensure transparency. Ignoring them risks hefty fines—as noted above—and possible legal consequences, such as IRS audits, investigations, and in extreme cases, criminal charges for tax fraud. Seeking expert help can simplify filing, reduce your tax burden, and lessen compliance risks.



# US Tax Filing and Reporting Requirements

## Key Industry Challenges

Meeting IRS deadlines and understanding your options for extensions is critical to avoiding costly penalties for U.S. citizens with global income reporting obligations.

## Key Deadlines

- **IRS Tax Return (Form 1040):** Due April 15 each year.
- **Foreign Bank Account Report (FBAR):** Due April 15 electronically via FinCEN, with an automatic extension until October 15.
- **FATCA Reporting (Form 8938):** Filed with your IRS tax return on April 15 or extended date.

## Extensions

- **Automatic Overseas Extension (June 15):** U.S. citizens and resident aliens whose main home and tax residence are outside the U.S. automatically receive an extra two months to file. No form is required, but a statement must be attached to the return explaining eligibility.
- **Standard Extension (October 15):** You may request an automatic extension to October 15 by filing Form 4868 by June 15, even if you qualify for the June deadline.
- **Discretionary IRS Extension (December 15):** In rare cases, the IRS may grant up to an additional two months (to December 15) upon written request before October 15, explaining the need for more time.

**Payments Still Due:** Any tax owed remains due by April 15, regardless of filing extensions. Interest and late-payment penalties apply if unpaid, even if the filing deadline is later.

## Penalties for Non-Compliance

- **Late or Missing Tax Return:** 5% of unpaid tax per month, up to a maximum of 25%, plus interest.
- **Failure to File FBAR:** Penalties range from \$10,000 for non-willful violations to up to 50% of account balances for willful violations.
- **Failure to File FATCA (Form 8938):** Penalties start at \$10,000, with additional \$10,000 penalties for continued failure after notice.

## Why Timely Filing Matters

Missing deadlines can result in severe financial consequences and may trigger IRS audits or investigations. Staying informed and proactive about both standard and overseas filing extensions is the best way to minimise risk, avoid penalties, and reduce compliance stress.





# Tax Relief and Compliance Options

Discover effective tax relief strategies and compliance options available to US citizens living abroad. Learn how to minimise double taxation, take advantage of exclusions and credits, and navigate IRS programs designed to streamline reporting and reduce penalties.



# Tax Relief and Compliance Options

## Streamlined Filing Compliance Procedures Explained

The Streamlined Filing Compliance Procedures (SFCP) provide a simplified way for US taxpayers living abroad or in the US who have inadvertently failed to file required tax returns, FBARs, or FATCA reports to become compliant with the IRS while minimising penalties.

### Who Qualifies?

- **Non-Resident Streamlined Procedure:** For US citizens residing outside the United States for at least 330 days in each of the past three years.
- **Resident Streamlined Procedure:** For taxpayers residing in the US who can certify that their failure to file was non-willful.

### Key Features

- **Reduced Penalties:** SFCP eliminates the usual failure-to-file and failure-to-pay penalties on prior years' tax returns for eligible taxpayers.
- **Amended Returns Required:** Taxpayers must file amended returns (Form 1040X) for the previous three years to report accurate income.
- **FBAR Filings:** Must also file FBARs for the past six years where applicable.
- **Certification of Non-Willfulness:** Taxpayers must certify that their failure to file was due to negligence, not intentional wrongdoing.

## Benefits of SFCP

- A low-risk way to resolve past non-compliance without harsh financial penalties.
- Provides a clear, structured process approved by the IRS for cleanup of unreported foreign financial information.
- Offers peace of mind by resolving longstanding reporting gaps and avoids potential criminal exposure.

## Important Considerations

- SFCP is not for taxpayers with willful conduct or those under IRS examination or investigation.
- Full disclosure and accurate documentation are essential to a successful submission.
- Seeking professional advice can ensure eligibility and proper preparation of all required filings.



# Tax Relief and Compliance Options

## Relief Procedures for Certain Former Citizens

Former US citizens may face complex tax responsibilities even after expatriation. When past filing obligations were missed, the IRS offers relief procedures to help resolve these issues and reduce penalties, provided the failure to comply was not willful.

### Who Qualifies?


This relief is designed for individuals who have expatriated or relinquished US citizenship but did not willfully avoid their tax or reporting duties. It's not available to those under investigation or with intentional misconduct.

### Relief Options

Former citizens can use the IRS Relinquishment Compliance Program or the Streamlined Foreign Offshore Procedures tailored for non-willful filers. These programs provide a pathway to file required tax returns and FBARs while potentially eliminating or reducing penalties. Additionally, Section 877A governs specific tax rules related to expatriation, which can limit tax obligations.

## Benefits and Considerations

These procedures help establish a clean compliance record and avoid severe financial penalties. However, full disclosure and accurate filing are mandatory. Professional tax advice is strongly recommended to navigate these complex rules effectively.



Former citizens can clear past tax issues through voluntary compliance programs

# Tax Relief and Compliance Options

## Using Foreign Tax Credits to Minimise Double Taxation

US citizens and residents working or investing abroad often face the challenge of being taxed by both the US and the foreign country on the same income. To alleviate this burden, the IRS provides the Foreign Tax Credit (FTC), a valuable tool to reduce or eliminate double taxation.

### What is the Foreign Tax Credit?

The Foreign Tax Credit allows taxpayers to offset the US tax owed on foreign-source income by the amount of income tax paid to a foreign government. This prevents paying tax twice on the same earnings.

### How It Works

- You can claim a dollar-for-dollar credit for foreign income taxes paid or accrued during the tax year.
- The credit applies to income taxes but generally excludes other taxes like VAT or social security.
- If foreign taxes exceed the US tax liability on foreign income, unused credits may be carried back one year or carried forward up to ten years.

## Claiming the Credit

- Form 1116 is typically used to claim the FTC with your IRS tax return.
- Proper documentation of foreign taxes paid is required, including foreign tax forms or payment receipts.
- It is important to categorise income correctly and apply the credit to matching income types to avoid disallowance.

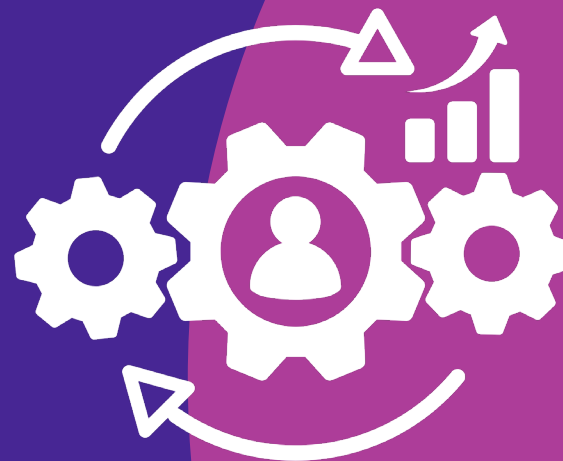
## Benefits

- Reduces US tax liability and helps safeguard worldwide earnings.
- Supports compliant and tax-efficient international financial planning.
- Can be combined with the Foreign Earned Income Exclusion (FEIE) for optimized tax outcomes.



# U.S. Citizenship Renunciation Process

Renouncing U.S. citizenship is a formal process with important legal, tax, and financial consequences. This section outlines the key steps and highlights what to expect regarding exit taxes, reporting obligations, and the impact on your international finances. obligations, and impacts on your global financial affairs.





# U.S. Citizenship Renunciation Process

## Why Some Accidental Americans Choose Renunciation

Accidental Americans—individuals born in the US or to US parents but living mostly abroad—face continual tax and reporting obligations with the IRS. These include filing annual tax returns on worldwide income, submitting FBAR reports of foreign bank accounts, and complying with FATCA requirements regardless of their residence.

### Motivations to Renounce

For many, the prolonged complexity and financial cost can be overwhelming. Choosing to renounce US citizenship offers significant relief by:

- Eliminating the lifetime requirement to file US tax returns and reports
- Avoiding potential penalties, audits, and exit tax exposures
- Simplifying their global financial and legal obligations

## Peace of Mind and Freedom

Renunciation allows individuals to fully sever their US tax and legal ties. This freedom from ongoing US compliance responsibilities brings peace of mind and the ability to focus on life and finances in their country of residence.

## Important Considerations

Renouncing US citizenship is a serious and irreversible legal action. It carries important tax and personal consequences, making professional tax and legal advice essential before making this decision.



# U.S. Citizenship Renunciation Process

## Step-by-Step Renunciation Process

Renouncing US citizenship involves a formal legal procedure with specific steps to ensure your renunciation is valid and recognized by the US government.

### Step 1 – Understand the Consequences

Before starting, carefully consider the legal, tax, and immigration consequences. Consult with experienced legal and tax professionals.

### Step 2 – Schedule an Appointment at a US Embassy or Consulate

Renunciation must be done in person at a US embassy or consulate outside the United States. Contact the nearest location to book an appointment.

### Step 3 – Prepare Required Documents

Gather essential documents including your US passport, proof of citizenship, foreign passport (if applicable), and completed forms requested by the consulate.

### Step 4 – Attend the Renunciation Appointment

At the appointment, you will complete Form DS-4079 (Request for Determination of Possible Loss of United States Citizenship) and take the Oath of Renunciation.

### Step 5 – Pay the Renunciation Fee

A processing fee (currently \$2,350) must be paid during the appointment.

### Step 6 – Receive Certificate of Loss of Nationality (CLN)

After processing, the Department of State issues a Certificate of Loss of Nationality confirming your renunciation.

### Step 7 – File Final US Tax Return and Exit Tax Forms

You must file a final US tax return, which may include Form 8854 to address any expatriation tax obligations.



# U.S. Citizenship Renunciation Process

## What to Expect After Renunciation

Renouncing US citizenship is a permanent, significant legal act with ongoing consequences beyond the renunciation ceremony itself.

## Loss of Rights and Protections

You immediately forfeit your US passport, voting rights, and entitlement to US consular protection. Traveling to the United States requires a visa or ESTA travel authorization, which is not guaranteed. You will be treated as a foreign national in all legal respects.

## Final Tax Obligations and Exit Tax

You must file a final US tax return for the part of the year you were still a citizen and submit IRS Form 8854 to certify tax compliance for the prior five years. Failure to comply may result in being classified as a “covered expatriate,” potentially triggering an exit tax on unrealized gains exceeding set thresholds. The exit tax treats your assets as if sold the day before renunciation, with taxes due on the gains.

## Social Security and Benefits

You may still receive Social Security benefits earned before renunciation, but payments could be subject to US withholding tax based on your residency and applicable tax treaties.

## Future US Travel and Immigration

Entry to the US requires obtaining a visa or ESTA authorization. Renunciation may be scrutinized by immigration officials, especially if perceived as tax avoidance. Obtaining US visas may involve additional complexity and discretion.

## Irrevocability and Emotional Impact

Renunciation is generally irreversible and may carry personal, family, or identity implications. It's essential to consider these effects fully and seek professional legal, tax, and emotional advice before proceeding.

You lose your US passport, voting rights, and automatic entry to the US. You must file final taxes and renunciation is permanent.



# How Can TAP Help You

This section explains how our expert tax advisors guide you through the complex renunciation process, helping you understand your tax obligations, plan strategically, and ensure full compliance for a smooth transition.



# How Can TAP Help You



## **Comprehensive UK and US Tax Compliance**

We ensure your tax filings meet all UK and US regulatory requirements. Our team handles the preparation and submission of accurate, timely returns—covering everything from your final US tax return to complex expatriation forms.



## **Specialised Reporting Made Simple**

Our expertise covers challenging filings including Foreign Bank Account Reporting (FBAR), Passive Foreign Investment Company (PFIC) disclosures, and other detailed reporting required of US persons living abroad. We help prevent costly penalties by navigating these requirements expertly on your behalf.



## **Strategic Tax Planning and Optimisation**

Beyond compliance, we focus on minimising your overall tax liability. From optimising foreign tax credits to planning the timing of payments, we leverage UK-US tax treaties and tailor strategies around your unique financial circumstances—including pensions, trusts, and investment income.



## **Peace of Mind with Expert Support**

By choosing Tax Advisory Partnership, you gain a trusted advisor who simplifies your complex tax obligations. We reduce your administrative burden, provide clear actionable guidance, and ensure your financial future is secure, compliant, and optimised.



## Our fees

**We are pragmatic and sensible with our approach on fees, we understand that clients want transparency and no unexpected costs.**

We therefore ensure that fees are agreed in advance wherever possible and practical.

For annual compliance work we will generally agree a fixed fee, for advisory services we will agree a detailed scope of the advice we have been instructed to provide and will agree a fixed fee or work on a time spent basis as appropriate and agreed in advance.

Our transparent approach encourages clients to pick up the phone to discuss their affairs.



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# Contact us

If you wish to discuss any US or UK tax matters, please get in touch with your usual TAP contact or speak to the following team members:



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# Thank you

The Tax Advisory Partnership is a member firm of the Chartered Institute of Taxation (CIOT). We are not Financial Advisors and are not regulated by the Financial Conduct Authority (FCA). Where appropriate we will work with your Independent Financial Advisor or we can introduce you to one who we have worked with in the past who can take care of the FCA aspects of any advice you require. However, our focus is on ensuring that any investment strategy you may select meets with your overall financial and taxation objectives.

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