

Can back taxes cost you your passport? In some cases – yes.

Your U.S. passport is your lifeline to travelling abroad, and as a U.S. expat, that fact has more weight than it does for other Americans.

Imagine this — you've been living outside the U.S. for a few years, building a new life in a far-away home away from home. You've weathered the pandemic alright and planned a trip back to the States to get the Coronavirus vaccine or to see family and friends. Imagine your surprise when you get to customs and find out your passport was revoked by the IRS. Alarming, right? It may sound like a scare tactic, but this scenario is a reality for some U.S. expats —

Take care of your passport by taking care of your expat taxes

As a U.S. expat, you likely know where your passport is at any given time and the requirements needed to keep it up to date. Can you say the same about your tax requirements? You should be able to — the IRS recently said it's following through on plans to implement tax penalties like revoking passports or denying renewals for those with tax debt of \$54,000 or more. As a first step, the IRS sends at-risk taxpayers a letter. But as many expats know, international mail can be slow — or not arrive at all.

Then, while your letter is in the mail, your case is also sent to the Department of State. This is what could potentially prevent your return trip. Instead of traveling back to your home abroad, you're stuck in the States until your situation is resolved, which could take months or years. Meanwhile, you may have a job, family and other responsibilities counting on you abroad.

If you're thinking there's no way you could owe that much, consider this: Many citizens living abroad don't know they have to pay U.S. taxes on foreign income, meaning their unpaid taxes start stacking up. Pile on yearly penalties of \$10,000 or more for failing to file returns or other required forms and \$54,000 is not so much of a stretch.

Here's what it means to you: If you owe the IRS \$54,000 or more and you don't have a payment plan or other agreement set up, your passport could be at risk.

If this makes you nervous, YOU SHOULD BE. You should know the IRS does give you options, such as payment agreements, so you can avoid risking your passport. Plus, you're not alone — our international tax advisors are experts in helping clients to become compliant and avoid tax penalties in these situations.

You might be thinking, “I’ve been filing my taxes; I’m good, right?” Well, maybe, but U.S. taxes for citizens living abroad are tricky and you need to be up-to-speed on the additional expat tax rules. It’s truly a case of what you don’t know might hurt you — and cost you dearly.

Your foreign pension. Saving for retirement is smart, but the type of foreign pension account you have matters. You may need to file specific forms depending on the account type and value. If they’re not reported correctly or not at all, you may owe large penalties — starting at \$10,000 — but may be more. You need a knowledgeable tax advisor to help you figure out what to do in your situation.

Your bank accounts. Don’t owe the IRS? You still might face penalties if you didn’t file the right paperwork (Foreign Bank and Financial Accounts or FBAR) for your foreign bank account. These penalties can be steeper than tax penalties — \$10,000 for each violation.

The IRS is turning up the heat with enforcement. While the IRS began the program to revoke passports a few years ago, it got more aggressive in 2019 with the involvement of the State Department. This tactic along with FATCA and FBAR reporting rules make it harder for expats to hide. What’s more, the amnesty programs for tax debt, interest and penalties have changed and may continue to change. That said, options available now might not be available in the future.