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Renewal of Passport and Out of Tax Compliance?

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Please consider the following scenarios: while traveling abroad you finally find your true love and say to yourself, I'm staying put and never returning to America ever again. Please know this cardinal rule: you can leave America, but America won't be leaving you. You'll blithely follow your true love to the ends of the earth, and the U.S. tax system will just as fastidiously follow you. U.S. citizens/residents are taxed on their worldwide income. People forget this rule while living abroad, and unless citizenship is revoked, ordinary filing obligations remain in effect.

Then there is the U.S. citizen living abroad who seeks to renew their U.S. passport. They must complete form DS-82, which, in addition to requesting other information, mandates the renewing applicant provide his/her social security number, and if not face a \$500 penalty. This is cause for concern if the individual is out of compliance. The State and Treasury department share information, and assuming the applicant is residing abroad, the Treasury department can do a compliance check into the individual's tax history. If no history is found, this could present a tax nightmare for the individual if selected for an examination. Disclosure programs such as the OVDI or Streamlined program are available and could eliminate criminal penalties due to the lack of compliance, however back taxes along with penalties and interest would still be owed if a liability presented itself.

Another concerning scenario that routinely presents itself is when the individual owes the I.R.S., either due to an underpayment or an established liability, back taxes. If the individual has a delinquent balance due for one or multiple years, the I.R.S.'s field collection agency's Revenue Officer can request to submit the individual into the I.R.S.'s Treasury Enforcement Communications System (TECS). TECS is a database maintained by the Department of Homeland Security and it is used extensively by the law enforcement community. It contains information about individuals and businesses suspected of, or involved in, violations of federal law. If the Revenue Officer requests to have the individual placed in TECS, then the Department of Homeland Security will advise the I.R.S. when those individuals travel into the United States and their whereabouts and planned itinerary during their stay. It is highly likely that if placed into the TECS system, and when entering the United States, unbeknownst to the individual, an unannounced Revenue Officer may visit the hotel/location the individual is staying at and interview the tax delinquent individual in order to adequately record their financial interests domestically and internationally and the levying of any tax liability, penalty and interest arising therefrom. (I.R.M. 5.1.18.14.2)

If this tax situation presents itself and you would like to discuss this further, or if you would like to discuss any other U.S. tax and/or accounting matters, please feel free to call Gabriel at 773.269.6513 or email Gabriel.wise@wisecpagroup.com.

We look forward to hearing from you.

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