

Internal Revenue Service

Department of the Treasury
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Person to Contact:

Telephone Number

Refer Reply to
PLR-120896-98/CC:INTL:B1

Date:
August 18, 2000

A =
Date B =
Year C =
Date D =
Year E =
Country F =

Dear

This is in response to your letter dated November 11, 1998, requesting a ruling under section 877(c) of the Internal Revenue Code of 1986 ("Code") that A's loss of U.S. citizenship did not have for one of its principal purposes the avoidance of U.S. taxes under subtitle A or subtitle B of the Code. The information submitted for consideration is substantially as set forth below.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by penalty of perjury statements executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

A was born on Date B in Country F and became a naturalized U.S. citizen in Year C. A's mother and father were citizens of Country F. During Date D, A reclaimed his Country F citizenship. A plans to renounce his United States citizenship during Year E. On the date of A's expatriation, his net worth will exceed the net worth prescribed in section 877(a)(2).

Section 877 generally provides that a citizen who loses U.S. citizenship or a U.S. long-term resident who ceases to be taxed as a lawful permanent resident (individuals who "expatriate") within the 10-year period immediately preceding the close of the taxable year will be taxed under section 877(b) and the special rules of section 877(d) for such taxable year, unless such loss did not have for one of its principal purposes the avoidance of U.S. taxes. Sections 2107 and 2501 (a)(3) provide special estate and gift tax regimes, respectively, for individuals who expatriate with a principal purpose to

avoid U.S. taxes.

A former citizen or former long term-resident will be treated as having expatriated with a principal purpose to avoid U.S. taxes for purposes of sections 877, 2107 and 2501 (a)(3) if the individual's average income tax liability or the individual's net worth on the date of expatriation exceed certain thresholds. See sections 877(a)(2), 2107(a)(2)(A) and 2501 (a)(3)(B).

A former U.S. citizen whose net worth or average tax liability exceeds these thresholds, however, will not be presumed to have a principal purpose of tax avoidance if that former citizen is described within certain statutory categories and submits a request for a ruling within one year of the date of loss of U.S. citizenship for the Secretary's determination as to whether such loss had for one of its principal purposes the avoidance of U.S. taxes. See sections 877(c)(1), 2107(a)(2)(B) and 2501(a)(3)(C).

Under Notice 98-34, 1998-27 I.R.B. 40, modifying Notice 97-19, 1997-1 C.B. 394, an eligible former citizen will not be presumed to have a principal purpose of tax avoidance if that former citizen submits a complete and good faith request for a ruling as to whether such loss had for one of its principal purposes the avoidance of U.S. taxes.

Notice 98-34 requires that certain information be submitted with a request for a ruling that an individual's expatriation did not have for one of its principal purposes the avoidance of U.S. taxes.

A is eligible to request a ruling pursuant to Notice 97-19 because A has become a citizen of the country in which he was born and in which his mother and father were born. See section 877(c)(2)(A)(ii)(I) and section 877(c)(2)(A)(ii)(III).

Accordingly, based solely on the information submitted and the representations made, we conclude that A has made a complete and good faith submission in accordance with section 877(c)(1)(B) and Notice 98-34. However, we further conclude that A will, nevertheless, be treated under section 877(a)(1) as having as one of his principal purposes of expatriating the avoidance of U.S. taxes because the information submitted clearly established a principal purpose to avoid taxes under subtitle A or B of the Code.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In addition, no opinion is expressed as to A's U.S. tax liability for taxable periods prior to his loss of U.S. citizenship or for taxable periods after his loss of U.S. citizenship under sections of the Code other than sections 877, 2107, and 2501(a)(3).

Because A is treated under section 877(a)(1) as having as one of his principal purposes for expatriating the avoidance of U.S. taxes, he must annually file a U.S. income tax return (Form 1040NR), with the information described in Notice 97-19,

section VII, Annual Information Reporting, for each year in the 10-year period following expatriation if he is liable for U.S. tax under any provision of the Code, as modified by section 877. For purposes of computing the tax due under section 877, A must recognize the realized or unrealized gains as a result of any "exchange" described in section 877(d)(2)(B), (d)(2)(E)(i), or (d)(2)(E)(ii) in the year of the exchange. For further information, A should refer to the Instructions to Form 1040NR, U.S. Nonresident Income Tax Return.

A copy of this letter must be attached to A's U.S. income tax return for the year in which A obtained the ruling (whether or not A is otherwise required to file a return).

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to A.

Sincerely yours,

ALLEN GOLDSTEIN
Reviewer
Office of the Associate Chief Counsel
(International)

cc: Director International
International District Operations OP:IN:D
Chief, Examination Division