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§877A Expatriation Tax

The mark-to-market exit tax, the covered-expatriate tests, and the Eduardo Saverin case walked with sources. July 2026.

Print edition July 2026
The Baratelli Institute

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§877A Expatriation Tax — the Cost of Citizenship Renunciation

Section 877A is the mark-to-market exit tax that applies to US citizens who renounce citizenship and to long-term green card holders who abandon their permanent resident status. For a covered expatriate, the rule treats the entire worldwide asset base as sold on the day before expatriation, generating a gain that is taxed at ordinary or capital rates depending on asset class, above the annual exclusion. This is the walkthrough of who counts as covered, how the tax is calculated, and the specific planning moves that either eliminate or defer the burden.

Snapshot: 2026-06-30 · **Applies to:** US citizens considering renunciation, and long-term green card holders (8+ of 15 prior years as a permanent resident) considering abandonment.

The rule

Who counts as a covered expatriate

The expatriation tax applies only to **covered expatriates**. Non-covered expatriates renounce citizenship or abandon green card status without §877A liability. Covered-expatriate status is triggered by meeting any of three tests:

Test 1 — Net worth. Net worth of $2,000,000 or more on the expatriation date. This is a bright-line dollar threshold that is not indexed for inflation and has not moved since 2008. Practitioners forecast that this threshold will apply to virtually every high-net-worth US person considering expatriation.

Test 2 — Average tax. Average annual net income tax for the 5 years preceding expatriation exceeds $201,000 (2026, indexed annually). This threshold moves with inflation. For 2025 it was $190,000; for 2024 it was $178,000; the number rises each year.

Test 3 — Non-compliance. Failure to certify under penalties of perjury that all US federal tax obligations for the 5 preceding tax years have been satisfied. This is the compliance-hygiene trap: a taxpayer with net worth well below $2M who has not filed a return in some prior year can still be a covered expatriate.

The three tests are alternatives, not cumulative. Meeting any one makes the taxpayer a covered expatriate. The compliance test (Test 3) is the one most often missed by expatriates who assume the net worth test is the only gate.

The tax

The mark-to-market exit tax

A covered expatriate is deemed to have sold all worldwide property at fair market value on the day before expatriation. The resulting gain (net of losses) is taxed as if it had been actually realized on that date, with the character of the gain (ordinary, capital, §1231, etc.) following the character of the underlying asset.

The §877A exclusion: $890,000 (2026, inflation-indexed) of net gain is excluded from the deemed sale. The exclusion is a per-taxpayer amount — spouses can each claim the exclusion if both expatriate. Above the exclusion, gain flows through to the taxpayer's US federal return at ordinary or capital rates as applicable.

Statutory item	Value	Detail
Net worth trigger (Test 1)	$2,000,000	Not inflation-indexed; bright-line dollar threshold
Average tax trigger (Test 2, 2026)	$201,000	Indexed annually; measured over 5-year lookback
Capital gain exclusion	$890,000	2026; inflation-indexed. Per-taxpayer amount
Compliance lookback	5 yrs	Certify prior US federal returns filed and satisfied

Specified tax-deferred accounts

The IRA and 401(k) rules that most taxpayers don't know

Specified tax-deferred accounts — primarily IRAs, 401(k)s, health savings accounts, and 529 plans — receive special treatment under §877A. Rather than being marked to market and included in the deemed-sale gain, they are treated as distributed on the day before expatriation. The entire account balance is included in the covered expatriate's ordinary income in the year of expatriation, taxed at the marginal rate, with no 10% early distribution penalty.

For a covered expatriate with substantial retirement savings, this is often the largest single line item in the §877A calculation. A $3M Traditional IRA becomes $3M of ordinary income in the expatriation year, potentially taxable at 37% federal plus state, generating over $1M of federal tax

liability at expatriation. Roth accounts, by contrast, are already after-tax and generate no additional tax on the deemed distribution.

The long-term green card holder trap

Green card holders who don't realize §877A applies

Long-term green card holders — permanent residents for 8 of the 15 tax years preceding the year of expatriation — are subject to §877A on the abandonment of permanent resident status just as US citizens are on renunciation. This surprises many green card holders who assume they can simply hand back the green card and walk away.

The 8-of-15-year trap: Even a partial year counts as a year for this test. A green card holder who had permanent resident status for 8 tax years, even if some of those years were only for part of a year, meets the long-term green card holder definition.

The treaty tie-breaker escape: A green card holder who, during their US residency period, was treated as a resident of a treaty partner country under the treaty tie-breaker rules is generally not treated as a long-term resident under §877A. This is an important planning lever for green card holders who spent significant time in a treaty partner country during their US permanent resident years.

Planning moves

What sophisticated expatriation planning actually does

Move 1 — Compliance cleanup first. Before any expatriation planning, ensure 5 years of clean US filings. The compliance-hygiene test (Test 3) is the easiest gate to fail and the easiest to fix in advance. Streamlined Filing Compliance Procedures may be available for taxpayers with historical non-filing gaps.

Move 2 — Pre-expatriation gift and asset transfer. Assets given away before expatriation are removed from the covered-expatriate calculation. The annual gift tax exclusion and the lifetime unified credit remain available. A pre-expatriation gifting program to family members can materially reduce the covered-expatriate calculation, though the gift tax rules require careful application.

Move 3 — Roth conversions. Because Roth accounts are already after-tax, they do not generate ordinary income on the deemed distribution. A pre-expatriation Roth conversion of a Traditional IRA converts the future ordinary-income problem into a current ordinary-income event that may be tax-efficient depending on rate arbitrage.

Move 4 — Realize gains in advance. Assets with substantial built-in gain that will be affected by the deemed sale can be realized in advance at existing rates. This trades acceleration of the tax against the timing benefit of avoiding the §877A regime. Sometimes the answer is to realize; sometimes deferral to expatriation is better; the math is specific to the asset and the taxpayer.

Move 5 — Deferral election for the exit tax. §877A(b) permits a covered expatriate to defer payment of the §877A tax on specific assets until actual disposition, in exchange for interest at the underpayment rate plus a security bond. This is useful for illiquid assets (private company stock, closely-held partnerships, real estate) where a deemed-sale tax would be difficult to pay without actually selling the underlying asset. The deferral election is at the asset level, not the taxpayer level.

A worked case — the canonical §877A story

Eduardo Saverin, September 2011 — the expatriation that changed the political conversation

Eduardo Saverin was the Brazilian-born Facebook co-founder portrayed in *The Social Network* — the CFO character Zuckerberg pushes out in a Series A dilution. Saverin later regained a meaningful stake through litigation. He held US citizenship (naturalized), moved to Singapore in 2009, and quietly renounced US citizenship in September 2011 — roughly eight months before Facebook's May 18, 2012 IPO. The IRS listed his name in its Q1 2012 *Quarterly Publication of Individuals Who Have Chosen to Expatriate*. The renunciation only became public when a reporter noticed the listing in April 2012, weeks before the IPO. Congress erupted. Senator Schumer proposed the "Ex-PATRIOT Act." It never passed, but the case became the canonical §877A example every international-tax lecturer walks through.

Reading the tables below. Every row is tagged in the "Source / Basis" column with one of three labels: **VERIFIED** means the number ties to statute, an IRS revenue procedure, an SEC filing, or a similar primary source. **REPORTED** means the number is press consensus from mainstream financial media (Bloomberg, Reuters, Wall Street Journal, Forbes) but is not itself a primary source. **RECONSTRUCTION** means the number is the Institute's practitioner estimate used to walk the math — not a filed or disclosed figure. Saverin's actual §877A tax has never been publicly disclosed. What follows is a reasoned reconstruction, not IRS records.

Step 1 — The setup

Fact	Value	Source / Basis
Country of birth / non-US citizenship	Brazil	REPORTED — Bloomberg (April 2012), NYT, Reuters
US immigration status	Naturalized US citizen	REPORTED — Bloomberg (April 2012)
Physical residence at expatriation	Singapore (moved 2009)	REPORTED — Bloomberg, NYT
Renunciation date	September 2011 (US consulate, Singapore)	VERIFIED — IRS Q1 2012 quarterly publication under IRC §6039G; date corroborated by Bloomberg
Facebook IPO	May 18, 2012 at $38.00/share	VERIFIED — SEC Form S-1 / 424B4 IPO prospectus
Time between renunciation and IPO	~8 months	VERIFIED — calendar
Post-renunciation tax residence	Singapore — 0% capital gains tax on foreign or Singapore-source gains	VERIFIED — Singapore Income Tax Act

Step 2 — Was he a covered expatriate? All three tests, obliterated

Test	Threshold at Sept 2011	Saverin's fact pattern	Source / Basis
1. Net worth test	$2,000,000	Facebook stake alone reported > $1B on private secondary markets	Threshold: VERIFIED — IRC §877A(g)(1)(A). Stake value: REPORTED — Bloomberg 2012
2. Average income tax (5-yr) test	$147,000 for 2011	Multi-year seven-figure investment income assumed	Threshold: VERIFIED — IRS Rev. Proc. 2010-40. Fact: RECONSTRUCTION
3. Certification of 5-year compliance	Must certify under penalty of perjury	Presumed cleared before renunciation	Requirement: VERIFIED — IRC §877A(g)(1)(B). Fact: RECONSTRUCTION

Step 3 — The FMV valuation problem

This is the piece that made the Saverin case both interesting and politically explosive. Facebook was still *private* on the expatriation date (September 2011). §877A requires FMV on the day before expatriation, based on all the facts and circumstances. Facebook shares were trading actively on the private secondary markets (SharesPost, SecondMarket) in 2011, giving practitioners a legitimate basis for an FMV that was materially *below* the eventual May 2012 IPO price of $38. The lower the pre-IPO FMV, the smaller the §877A tax.

FMV data point	Per share	Source / Basis
Private secondary trades, mid-2011	$21 — $32	REPORTED — SharesPost / SecondMarket trade data as reported by Wall Street Journal, Bloomberg (2011)
Reconstruction FMV used in this walk-through	$25.00	RECONSTRUCTION — Institute mid-point of the reported range, no blockage discount applied
Facebook IPO price (May 18, 2012)	$38.00	VERIFIED — SEC 424B4 prospectus (not the §877A number — too late)
Facebook low (Sept 2012, post-IPO)	~$19.00	VERIFIED — public NASDAQ closing prices

Step 4 — The §877A deemed sale computation (illustrative reconstruction)

Line item	Amount	Source / Basis
Facebook shares held (assumed ~2% of Class A+B outstanding)	42,000,000	RECONSTRUCTION — based on REPORTED ~2% stake (Bloomberg); no primary-source cap-table filing names him at the expatriation date
Reconstruction FMV per share (Sept 2011)	$25.00	RECONSTRUCTION — see Step 3
Aggregate FMV of Facebook position	$1,050,000,000	RECONSTRUCTION — 42M × $25
Cost basis in founders' shares (2004 grant)	~$0	REPORTED — founder equity issued at nominal value; standard for founder cap-table
Built-in gain	$1,050,000,000	RECONSTRUCTION — FMV minus basis
§877A exclusion (2011 amount)	($636,000)	VERIFIED — IRS Rev. Proc. 2010-40; would be $890K in 2026
Taxable gain under deemed sale	$1,049,364,000	RECONSTRUCTION
Long-term capital gain rate (2011, pre-Obamacare NIIT)	15%	VERIFIED — IRC §1(h) as in effect 2011; NIIT did not begin until 2013
Illustrative §877A tax at $25 FMV	$157,404,600	RECONSTRUCTION — the Institute's walk-through number, not a filed figure

What Saverin actually paid is unknown. Press estimates in 2012 spanned a wide range: Bloomberg calculated ~$67M using a lower FMV assumption; Forbes calculated up to ~$365M using a near-IPO FMV; several other outlets landed in the $150M-$250M band. None of these represents an actual disclosure. Saverin's Form 8854 filing (the §877A information return) is confidential. The $157.4M walk-through above sits mid-range in the press estimates but is not, and does not claim to be, the number that was actually paid.

Step 5 — The counterfactual: order-of-magnitude comparison, not a claim

This section is *not* a claim about what Saverin would have owed. It is an order-of-magnitude exercise showing why the §877A math becomes so favorable at founder scale. Each row below

assumes an unrealistic all-at-once liquidation at the stated price — no actual founder sells that way (IPO lock-ups, 10b5-1 programs, and staggered exits change the pattern materially). The point of the row is not the specific dollar; it is the direction and rough magnitude of the difference. Every price and every calculation is **RECONSTRUCTION**.

Hypothetical scenario	Illustrative US tax	Source / Basis
Expatriate September 2011 (his actual path)	~$157,000,000	RECONSTRUCTION — from Step 4
Stayed US citizen; hypothetically sold entire stake at IPO $38 in May 2012	~$239,400,000	RECONSTRUCTION — 15% × ($1.596B gain); IPO price VERIFIED, all-at-once assumption is illustrative only
Stayed US citizen; hypothetically sold entire stake at ~$250 (Meta 2020 midpoint)	~$2,499,000,000	RECONSTRUCTION — 23.8% × $10.5B gain; Meta 2020 range $185-$300, midpoint $250
Stayed US citizen; hypothetically sold entire stake at ~$500 (Meta 2024 midpoint)	~$4,998,000,000	RECONSTRUCTION — 23.8% × $21B gain; Meta 2024 range ~$350-$740, midpoint $500

The direction is defensible even if the specific dollars are not: Saverin's September 2011 renunciation locked in his US liability at a pre-IPO valuation and left every subsequent dollar of Facebook / Meta appreciation outside US taxation. Post-expatriation, his non-US-source gains were taxed only by Singapore, which levies no tax on capital gains. That structural feature — a founder trading one-time toll-charge for lifetime future avoidance — is what motivated Sen. Schumer's (Ex-PATRIOT Act) proposal in May 2012 to strip re-entry rights and impose a 30% withholding on high-net-worth expatriates' future US-source income. The bill never became law.

The practitioner takeaway. The Saverin case is not a template — the FMV of a pre-IPO position is highly fact-specific, and IRS challenges to lowball valuations are routine. What the case does illustrate is the structural feature of §877A that makes it attractive to founder-scale wealth: a one-time toll charge at pre-IPO valuation replaces a lifetime of future US tax on appreciation and income. For a founder holding meaningful pre-IPO private-company stock in a business likely to appreciate 5-10x post-IPO, the §877A math can favor expatriation even before considering foreign-jurisdiction advantages. This is exactly the fact pattern the current statute is designed to reach — and exactly the fact pattern that the political system periodically tries to close.

Consular processing

The mechanical steps of renunciation

Renunciation of US citizenship is done at a US consulate or embassy abroad by executing Form DS-4079 (Statement of Renunciation of United States Nationality). The consular officer confirms voluntary intent, the taxpayer pays the $2,350 consular processing fee, and the Certificate of Loss of Nationality is issued. The taxpayer must not already be stateless (must have citizenship in another country at the time of renunciation).

Green card abandonment is done by filing Form I-407 (Record of Abandonment of Lawful Permanent Resident Status) with the USCI