MASECO ASIA

Challenges facing US citizens living abroad

Challenges facing US citizens living abroad

High net worth US citizens living abroad face a number of complex challenges when it comes to allocating and investing their assets, from IRS reporting requirements to conflicting tax considerations with their resident jurisdiction.

Rules and regulations

Reporting obligations to the IRS and other entities

- The US taxes the worldwide income and capital gains of all US citizens regardless of where in the world they live.
- The US Bank Secrecy Act states that every US citizen, Green Card holder or resident must file a report of Foreign Bank and Financial Accounts (FBAR) if they have a financial interest in (or signatory authority over) foreign accounts worth $10,000 or more during any one tax year. This includes US beneficiaries of foreign trusts. The FBAR is required because foreign financial institutions (FFIs) may not be subject to the same reporting requirements as US financial institutions.
- The passing of the 2010 Hiring Incentives to Restore Employment (HIRE) Act in the US and its Foreign Account Tax Compliance Act (FATCA) provisions were set up with the explicit aim of tackling offshore tax evasion. The Act requires all FFIs to report all significant accounts held by US taxpayers to the US (Internal Revenue Service (IRS).
- Depending on the country of residence, a US citizen living abroad may also have both a tax filing requirement and an obligation to pay overseas tax.

Tax issues

- Investing in offshore ETFs or collectives will cause Americans living abroad to fall foul of the IRS's Passive Foreign Investment Company (PFIC) rules. They will be taxed aggressively by the IRS, and all gains may be subject to taxes and penalties of up to 100% of any growth in value of the investment.
- Utilizing local savings arrangements such as insurance bonds or savings plans may have unattractive US tax consequences for US citizens resident abroad. Generally, these products do not enjoy a tax deferred status in the eyes of the IRS, and the US tax consequences of such an investment can become very complex.
- The way the IRS classifies certain non-US pensions is also highly technical and beyond the scope of this paper. Some foreign pensions would be classified in the US as 'foreign trusts'. As a foreign trust, growth within such a pension is fully taxable. Fortunately, some countries (such as the UK) have a treaty with the US that may allow the US taxpayer to claim the asset as a foreign pension and, thus, any growth in value will be tax deferred.

- For US individuals with entitlements to assets held in a foreign trust, additional US trust reporting may arise. In some cases, trustees will segregate assets for the benefit of a US person in a distinct US-compliant trust in order to avoid any unnecessary US tax or penalties.
- The country of residence of the US person living abroad may or may not have a tax treaty with the US. This means the US person may have exposure to tax in two countries that cannot be offset against other tax liabilities.
- For US persons investing or holding assets/ liabilities overseas, foreign exchange is another important consideration. One example is that a US person could be exposed to a US capital gain on exchange rate movements associated with a long-term debt such as a mortgage.

Investment considerations

It is essential to appreciate that Americans are taxed on a worldwide basis, irrespective of where income/gains arise. Their investments need to be risk-managed, currency-sensitive and tax-compliant. Any experienced investment adviser should also consider whether there are any tax-efficient or tax-planning opportunities.

There are a number of key considerations in developing an appropriate investment strategy, and it is important that they are not looked at in isolation.

- Are any of the current investments PFICs for US purposes?
- Have appropriate tax wrappers been used to ensure that the currency of assets matches the client's long-term liabilities?
- Are the client's foreign tax credits being used effectively?
- In the case of couples who are of dual nationality, an understanding of the framework of both tax jurisdictions is vital.
- With dual nationality families, are the assets titled in a way that is optimal for the purposes of wealth transfer?
- In the case of entrepreneurs, careful wealth structuring can result in flexible investment options.
- A deep understanding of legacy plans for US families can be of significant benefit when developing a wealth plan.

Getting good advice

How MASECO Asia Limited can help Americans

There are many reasons why Americans living abroad should seek out the advice of an experienced wealth manager who understands their specialist circumstances and is authorized and regulated to give advice locally and the US. It is virtually impossible for local investment advisers to adequately advise US citizens if they are not fully aware of the intricacies of US investment tax law, retirement planning and estate planning.

MASECO Asia Limited is authorized and regulated by the Securities and Futures Commission in Hong Kong. Its founding partners each have a decade of experience specializing in this complex area.

Our service

We provide an integrated wealth management service that encompasses the implementation and ongoing monitoring of US clients who need:

- Wealth structuring
- Investment strategy
- Tax-efficient investing
- Estate and Trust structuring
- Philanthropic considerations/Charitable Giving
- Relationship management

Although MASECO Asia does not provide tax, legal or accounting services, we have a deep understanding of where they fit in the process. When required, we work closely with a network of expert tax advisers and lawyers. This professional network can help implement the complex tax and legal issues facing US citizens and we are happy to make appropriate introductions if required.

MASECO Asia solution

Portfolio management:

MASECO Asia has developed what we believe are market-leading strategies and structures specifically designed to cater to the needs of international Americans. Our portfolio management service includes managing assets within:

- Taxable Accounts
- Trust Accounts
- IRAs (or other qualified retirement plans)
- 529 plans
- UK SIPPs

US custody:

There are a number of reasons why it may be beneficial for Americans living abroad to invest globally but have their assets custodied in the US.

- No FBAR – avoids up to 50% US tax penalties on filing mistakes on non-US based assets
- 1099 US Tax reporting – makes life easier
- Lower fees – custody and transaction costs tend to be considerably lower in the US compared with most other places in the world
- Tax-efficient accounts
- US collective investments are typically much cheaper than offshore collective investments
- We use institutional funds that are typically comparatively inexpensive.
- Custody is regulated by the SEC
- If the custodian should go bankrupt, typically client assets are covered by $500,000 SIPC (Securities Investor Protection Corporation) insurance and excess SIPC insurance
- Investments avoid coming under the IRS's PFIC rules. This means gains are subject to 15% capital gains tax in the US, whereas PFICs can be taxed at up to 100%of the gain at ordinary income tax rates.
- The funds are tax managed from a US perspective with the purpose of reducing US taxes within the fund.

Retirement accounts and education planning:

- We help our clients make use of tax-advantaged retirement vehicles such as IRAs, 401ks and Roth IRAs. This may help to reduce their tax burden.
- We also help our clients with 529 accounts as savings vehicles for their children's education. There is potential for tax-free growth, while removing assets from a parent's estate.

Reporting and record keeping:

- US-compliant tax reporting
- Consolidated reporting across multiple jurisdictions, irrespective of where the assets are custodied, allowing for more accurate asset allocation and performance reporting.
- USD calendar year tax reporting and bespoke, non-calendar tax year reporting available upon request.

MASECO Asia Limited is not regulated to provide tax advice in Hong Kong, the US, or any other jurisdiction. We strongly recommend that every client seeks their own tax advice prior to acting on any of the strategies described in this document.

If you are interested in discussing your financial requirements with MASECO Asia Limited then please contact us to discuss our offering in more detail.

T: +852 5808 2064

E: enquiries@masecoasia.com

www.masecoasia.com

MASECO ASIA

Registered office at Room 6693, 66/F, The Center, 99 Queen's Road Central, Central, Hong Kong | Registered in Hong Kong, Number 65796856.

MASECO Asia Limited (CE# BHR224) is authorized and regulated by the Securities and Futures Commission of Hong Kong to carry out Type 9 Regulated Activities.