THE WALL STREET JOURNAL.
WSJ.com

JUNE 20, 2011

Before You Get on That Plane...

If you're being transferred outside the U.S., make sure you know the financial implications. There are a lot of them.

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Planning to live and work outside the U.S.? Make sure you do your homework before getting on the plane.

Journal Report

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While becoming an expatriate can be exciting, wealth managers say it's essential to understand legal, tax and financial issues in advance. Even when employers provide lots of assistance, it's important to know what's at stake if only to be able to judge the value of the package being offered.

Here's a look at the top areas requiring attention:

Taxes

When living overseas, you can be eligible for foreign tax exclusions, deductions or credits to protect against being taxed twice on the same income.

If you'll be paying your local taxes yourself, hire a qualified international tax expert to learn what credits and exclusions you may qualify for. Belgium, for example, lets temporary foreign workers claim deductions that locals can't. Expats in Belgium can also exclude income from any days worked outside of Belgium, like for a business trip to Luxembourg or Germany.

Employers often include tax preparation in their expat packages, and some offer what is called a tax-equalization contract. In such cases, the company covers the employees' foreign taxes and employees essentially pay U.S. taxes as if they were still living at home. However, there are potential pitfalls here. You could end up owing money to your employer if your company's accountants determine that you've paid less than what they calculate to be your U.S. tax burden.

In addition, while the company may promise to pay for all of your tax preparation so that you are in compliance with U.S. laws, it may fail to mention ahead of time that you will be responsible for any locally required paperwork, which can cost $1,000 or more. In some cases, you may also be responsible for local taxes, without any preparation assistance or guidance as to what deductions or exemptions may be available.

"Even if the employer is providing tax-filing assistance, it is wise for expats to also engage their own expert tax adviser to oversee the process," says Jeannie Pedersen, senior portfolio manager at Maxim Global Wealth Advisors, Portland, Ore.

Inheritance Issues

Laws in some countries could void long-set inheritance plans.

To protect inheritance plans, expats can specify in their wills that U.S. law should govern their estates, says Robin Vos, a partner at the London law firm MacFarlanes LLP who specializes in advising foreigners moving to Britain.

Trusts, which wealthy Americans often use as a substitute for a will, can get caught in a tax net in Britain. British law considers the residence of the trustee, rather than the location where the trust is based, as a determinant for taxes. So if an expat living in Britain were to die, his or her trust could be taxed by the U.K. on income gains and capital gains, even before any assets are actually sold. Moreover, the name of the trustee cannot be changed once the trustee is already living in the U.K.

"While they think they've kept all assets offshore, they haven't," says Mr. Vos. "You would want to either get rid of the trust or appoint somebody else who wasn't coming to the U.K. as trustee."

Estate taxes are much higher in Britain, too. While the first $5 million of an estate is exempt from taxes in the U.S., the limit in the U.K. is £325,000, or about $525,000, which could easily represent just a fraction of a London home's value.

To avoid inheritance tax on a real-estate purchase in the U.K., Mr. Vos suggests making the purchase with loans, which can be deducted from the value of the property.

Savings and Investing

Many expats are able to accumulate more savings in their new postings. But some wealth advisers suggest putting those savings in a U.S. account.

"Many expats I work with live in countries where the cost of living is very low, and therefore save substantial amounts of cash," says Don Freeman, managing director at Freeman Capital Management, a wealth-management firm in Phuket, Thailand. "Establishing a savings plan is important."

Mr. Freeman suggests keeping the bulk of savings and investments in the U.S. to protect against changes in currency rates, and to ensure compliance with the Internal Revenue Service, especially if the expat plans to return home in the near future. For investing needs as well, the fees at U.S. brokerage firms tend to be significantly lower than they are at offshore firms.

In any case, many offshore banks don't want U.S. business, due to recently imposed IRS reporting requirements for foreign banks with U.S. customers.

But U.S.-based brokerage firms can have similar concerns when an applicant for a new account is using a foreign address.

"Make certain that your brokerage firm allows accounts for residents of your host country," says Mr. Freeman. "It can be more difficult to establish [U.S.-based] accounts with a foreign address once you are already abroad."

If you do set up a foreign bank account, be careful. Americans must report all holdings in foreign bank accounts outside the U.S. each year if the aggregate value of the accounts exceeds $10,000—or face stiff penalties.

Forex Rates

It can be painful to watch the value of your salary shrink due to a decline in the dollar's exchange rate.

U.S. expats on limited contracts should try to negotiate that a portion of their salary is paid in local currency for immediate and medium-term needs, while another segment is paid in dollars for long-term savings and retirement, say advisers. If this is not an option and an expat is paid exclusively in local currency, ask if the employment contract can include regular reviews of the exchange rate to compensate for significant changes.

While most experts advise keeping a large portion of income in the U.S., a healthy cash reserve in the new country is important to avoid exchanging currency at an inopportune time.

Foreign-exchange rates also play an important role in buying a home abroad. Money managers warn against foreign-currency mortgages, which could leave a borrower at risk when financial markets are volatile because the gap between the currency of income and the currency of a mortgage liability could widen dramatically.

Insurance Coverage

Confirm that your health-care and other insurance plans are accepted where you'll be living.

"Work with your insurance provider prior to deployment to understand your coverage and the need for supplemental insurance," says Chad Creveling, managing director of Creveling & Creveling Private Wealth

Advisory, in Bangkok. "Check local company policies to be sure pre-existing conditions of all family members are covered."

Buy or Rent?

In setting up a new residence, bringing items from home can help in the transition. However, some countries tax the import of these items if they come too long after an expat's first entry.

"If you move to the U.K. and maintain your home in the U.S., and a year later bring over a painting, at that stage you may have to pay customs duties," says Mr. Vos of MacFarlanes.

Most advisers favor renting over buying. For one thing, real-estate transfer taxes can be quite high, lengthening the holding period necessary to recoup expenses, says Ms. Pedersen.

Also, she says, "many expats can deduct certain housing expenses while living abroad, diminishing the appeal of home ownership."

Keep Finances in Order

Setting up online banking services can make it easier to move money between accounts. Online bill payments through a U.S. checking account will also help ensure that any bills back in the U.S. are paid on time.

Mr. Freeman suggests hiring a service to collect and forward, sometimes in electronic format, mail received at a U.S. address.

Meanwhile, many credit cards charge high fees for overseas purchases. It's worth finding cards that don't impose international fees.

While expats will need to set up local accounts and credit cards, wealth managers say maintaining U.S.-based credit accounts while abroad is important for those who expect to return.

"Many Americans who repatriate find themselves unable to obtain credit because of a long lapse in activity on their credit report," says Ms. Pedersen. She advises using U.S. credit cards several times a year to maintain a U.S. credit rating.

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