A GUIDE FOR NEWBIES, OLD-TIMERS, & THE CURIOUS

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The Complete Financial Guide for Expats:

39 Steps for Moving to the US

(featuring funky facts to amaze, amuse, & educate)

A GUIDE FOR NEWBIES, OLD-TIMERS, & THE CURIOUS

The Complete Financial Guide for Moving to the US

FEATURING FUNKY FACTS TO AMAZE, AMUSE, AND EDUCATE

The thought of moving to the United States of America is an exciting prospect for many people. Whether it is the opportunity to experience the energy of the 'City that never sleeps' or pursue the California Dream, the US offers many diverse opportunities.

Got your temporary work visa or permanent "Green Card" and are ready to go? Not so fast! Before you step onto US soil and into Uncle Sam's warm embrace, some important tax and financial planning can make a huge difference on your finances in the land where cash is king. This guide is designed to help those moving to the US understand some of the common pitfalls before and beyond emigration from a wealth management, legal and tax perspective.

The information provided represents our understanding of current law and practice at the time but will be subject to change in line with regulatory and statutory changes.

HOW TO USE THIS GUIDE

We've created a timeline to help you plan for your future. At different phases of your stay, the rules shift, making expats potentially more vulnerable to new levies. If you want to find out what issues loom for you now skip ahead to one of these sections:

- Planning for the American Dream – Pre-emigration Planning
- The Eagle has Landed! You have now become a US Tax Resident
- Sticking around?
- Had enough? Returning home or giving up your long-term Green Card?

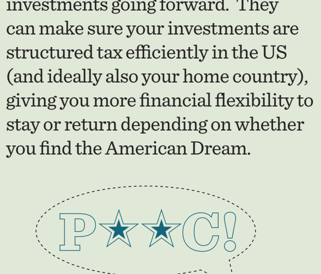
This guide is designed to help you understand the kind of questions you should be asking at each stage of your life in the US. MASECO offers more in-depth whitepapers on key financial topics for expatriates, all available on our website or in print. Please be forewarned (here's what the lawyers need us to state unequivocally): Don't construe this document as containing any financial advice for your individual needs. Consider this more as a cozy chat at a pub, sans pint. For specific questions, please consult with an adviser.

BEFORE YOU PACK...

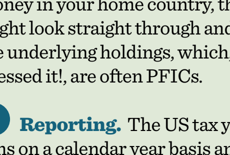
Planning for the American Dream

WEALTH MANAGEMENT

Prior to becoming a US resident, it is essential to review your finances with a US specialist wealth manager with cross border experience:



1 Asset structuring ahead of the move. Check that your assets are with custodians who will be able to provide the correct reporting for the US Internal Revenue Service (IRS) and that are willing to work with US residents. A specialist wealth manager will help you understand the treatment of your investments in the US, whether any changes are necessary and where to hold your investments going forward. They can make sure your investments are structured tax efficiently in the US (and ideally also your home country), giving you more financial flexibility to stay or return depending on whether you find the American Dream.



2 An ugly four-letter word: PFIC! You may be unaware that you own any but shares in Passive Foreign Investment Companies (PFICs) are taxed punitively by the IRS. Essentially, the IRS imposes high taxes on most non-US domiciled funds, in fact, taxes + interest can be up to 100% of the gain on these holdings (ouch!).

3 I don't see a tax wrapper? The IRS does not recognise most non-US tax-wrappers. While there may be a tax efficient way of saving money in your home country, the IRS might look straight through and tax the underlying holdings, which, you guessed it!, are often PFICs.

4 Reporting. The US tax year runs on a calendar year basis and they are concerned with what has happened in USD, not any other currency. What you need is a US style tax document called a "1099", which will make filing tax returns much more straight forward.

5 Trusts can play an important role in long-term planning for estate and gifting purposes, wherever you choose to retire. A careful review will be required of all your non-US trusts whether you are the settlor, beneficiary, trustee or protector. Non-compliance penalties are heavy so this review should happen prior to moving to the US.

LEGAL

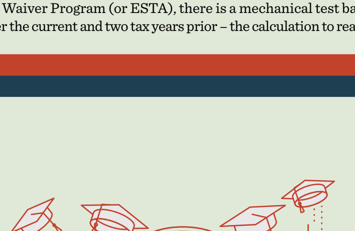
6 Enlist the help of an immigration lawyer. Having a US specialist on board will ensure you establish the right US visa strategy for your circumstances and will set you off on the right course. In a nutshell, the US visa system is split into two category types: "non-immigrant" and "immigrant". Non-immigrant visas are temporary visas and include visitor, investor and employment-based visas. Immigrant visa categories include employment, investment and family-based categories. The most appropriate visa category depends on many factors and the help of an experienced immigration lawyer from the outset is key to making sure your strategy works for you.

US TAX

7 Every US person (citizen, Green Card holder and resident alien) is required to pay taxes on their worldwide income and gains. Avoid any nasty surprises by ensuring that you understand how the IRS will tax your assets before landing in the US with a Green Card or Visa.

8 Each year every US person must file a US federal tax return and, in some states, a state tax return. The US tax year runs on a calendar year. It makes sense to enlist the help of a specialist tax accountant to help you file your tax returns correctly. Minimising onerous reporting and maximising after-tax rates of return should be a priority for any individual looking to move to the US.

9 Big capital gain on your main residence back home? Capital gains on main residences are often tax free in Europe, but only a \$250,000 (single), or \$500,000 (joint) allowance is given in the US on capital gains on your primary residence (which you must have lived in for 2 out of the last 5 years before sale).

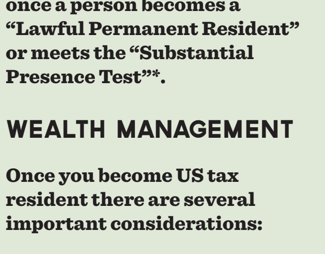


10 Currency gains on your mortgage? Yep, you can have a tax liability on mortgage repayments outside the US if they are in a different currency. If you have a currency gain in USD terms (borrowed €800k when it was worth \$1MM and repaying when €800k costs \$900k = \$100k taxable capital gain!!).

11 Non-US pensions. For the most part international pension benefits can be replicated in the US, however, it is important to ensure your pension is covered under the relevant US tax treaty to avoid adverse tax consequences. Another one to run by your new best friend, the US tax adviser.

12 Entrepreneur? Make sure you consider the tax treatment of your legal structure before going as non-US companies can be taxed aggressively by the IRS.

13 If you are planning on staying Stateside for the longer term. There are significant opportunities for tax optimization before leaving, like gifting assets pre-US arrival.



THE EAGLE HAS LANDED!

You are now a US Tax Resident

US tax residence is triggered once a person becomes a "Lawful Permanent Resident" or meets the "Substantial Presence Test"*.

WEALTH MANAGEMENT

Once you become US tax resident there are several important considerations:

14 Welcome to the largest, most powerful financial system on planet earth. It could make a lot of sense to hold your investments in the US. US financial institutions custody more assets than any other country, are generally cheaper than international custodians and carry sizeable asset protection. In the US custody accounts are protected through the Securities Investor Protection Corporation (SIPC) which is a non-profit membership corporation funded by its member securities broker/dealers. SIPC protects the cash and securities – such as stocks and bonds (though there are some exceptions) – held by a customer of a member brokerage firm in the event that the member firm becomes bankrupt or insolvent. It is important to know that if you are going to use a US-based custodian, that they are a member of the SIPC. Your wealth manager will be able to advise. Separately, deposit accounts may be insured by the Federal Deposit Insurance Corporation (FDIC), an independent agency of the US government. The FDIC protects against the loss of insured deposits if an FDIC-insured bank or savings association fails up to a limit of \$250,000 per owner. If your wealth manager is not in the US, make sure that they have relationships in the US to set up accounts and the regulatory license to provide advice on these assets.

15 Keep it global! Wealth managers have a tendency for home country bias and US wealth managers are no different, even though you are now a resident in the US it is probably wise to keep your investments diversified globally.

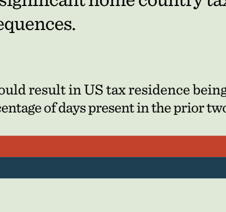
16 It's not all bad. US pensions and other saving products may offer more generous allowances than what you may be used to back home and they are generally protected under the US tax-treaty, so make sure you take advantage of these opportunities.

17 Greenback, Euro, Krone or other? Currency fluctuations can have a large impact on the value of your investments. Many wealth managers will automatically measure risks exclusively in their local currency, which may be inappropriate if you intend eventually to spend those funds in a different currency. Additionally, the exchange rates on the date of purchase and sale are used to determine the taxable gain in local currency. So, without proper currency consideration of the exchange rate during the period of ownership, a taxpayer may unknowingly realise significant gains in one currency or another. Finding this tricky? So do many wealth managers who do not have experience with international families!

LEGAL

18 Caught in the tax-net – 'Covered Expat'. If someone holds a Green Card for 8 out of the last 15 taxable years that person is considered a 'covered expatriate' and is considered a long-term permanent resident of the US. Therefore, your long-term residency intentions should be carefully considered prior to getting a Green Card or a passport for that matter.

› **PS.** If you do have a Green Card and leave before reaching 8 years make sure you fill in the appropriate forms to cancel the Green Card from both an immigration and a tax perspective (USCIS Form I-407 and IRS Form 8854). An expired Green Card still counts towards the 8/15 years!!).



19 Buying a property in the US and getting a US Will? US probate process for US situs assets? Do you need a 'living trust'? These are all complex issues so make sure you take good, joined up, US and home country estate advice. The likelihood is that, in the eyes of your home country, you will remain subject to Inheritance Tax there for a while after your move, so anything you do could have significant home country tax consequences.

*For those in the US on a temporary visa, even under the Visa Waiver Program (or ESTA), there is a mechanical test based on the number of days you are physically present in the US which could result in US tax residence being established (at least 31 days in the current year and 183 days in total over the current and two tax years prior – the calculation to reach the 183 days is based on 100% of your days in the current year and a percentage of days present in the prior two years).

TAX

20 War & Peace. Even a 1000-page US tax return is not unheard of and they can seem mind-bogglingly complicated. In addition, the IRS requires US residents to provide detailed information on their non-US bank accounts and other investments outside the US – failure to comply with the reporting can result in significant penalties.

21 Filing accurate returns at home. If you have any income or gains at home you will need to make sure that your returns are kept up to date while you are living abroad. The best approach is often to enlist one US/home country specialist. Alternatively, it may help if your accountants in the US and at home discuss your tax affairs with each other prior to filing your returns to make sure you only pay tax on the same income once. Oh, and make sure at least one of them knows how the tax treaty works!

22 Real Estate. Thinking about buying a home in the US? Keep in mind that the tax treatment is most likely different to what you are used to at home So, seek advice to understand the differences.

FOR THE LONG-TERM...

Sticking

WEALTH MANAGEMENT

If you decide to remain in the US for the long term it is time to make some long-term planning decisions, primarily around gift and estate tax:

23 Consider switching provision. If you held on to your wealth manager and accounts back home thinking you would return soon, now is the time to consider switching to someone with a US focus who truly understands your new requirements and can take advantage of the products available in the US.

24 Gifting. Due to the differing gifting rules between the US and other countries it may make sense to make gifts from either your US or offshore assets.

25 Charitable giving. For those living in the US for the long-term who are in a position to give generously to charitable causes a good wealth manager can help maximise the impact of your donations. This might involve setting up a Donor Advised Fund that grows over time, or simply through effective planning of regular donations.

26 What about college? Perhaps your children will one day study at a University in the US (Gulp!) – Consider opening a 529 plan for each child. These education investment accounts enable direct family members to contribute towards University expenses (also for some international Universities). The money invested grows tax free inside the plan provided they are used for 'qualifying expenses'.

27 The land of no social security – think again! US social security is attractive; you need 40 credits (40 quarters or 10 years) to qualify. The full benefit is over \$40,000 per person (2022) with benefits available for non-working spouses as well.

LEGAL

28 Make sure that you have a Will, and, if you have a separate Will for your non-US assets, ensure that it is up to date with your US assets and holds up in the US. There are different rules in the US on estates and so discussing this with a specialist lawyer could save your executors or beneficiaries having to sort this out at a time when they are least likely to want to focus on such matters.

TAX

29 Estate tax. The US allowance is currently at \$12.06m per person. It is important to understand what your tax exposures are for yourself and your dependents. Taking steps to remove your home country estate tax liability should be considered.

30 Long distance relationship? Gifting – assets can generally pass freely between spouses* who are both US citizens without limitation and an unlimited tax-free wealth transfer applies at the death of the first spouse. However, if one or both spouses are non-US citizens (including Green Card holders) this can be more complex. \$164k (2022) can be gifted each year to non-resident alien spouses (as the IRS charmingly labels non-Americans) and gifts to all other non-spouse individuals are subject to an annual allowance of \$16,000 (2022) before filing a US gift tax return is required.

HOMEWARD BOUND...

Missing your motherland, family or favourite food?

Returning home and giving up your US passport or long-term Green Card also needs some planning, in particular if you are a 'covered expatriate'. You may be a covered expatriate and subject to an exit tax if:

- **you have held your Green Card for 8 of the prior 15 years or**
- **you are a US passport holder and**
- **you are wealthy or a high earner; or**
- **you have not met your US filing obligations over the past five years**

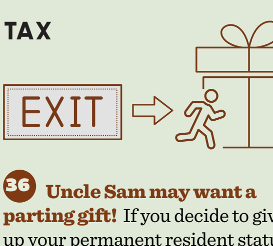
WEALTH MANAGEMENT

Once you become a US tax resident there are several important considerations:

31 How will your investments be treated back home and what are the costs of exiting them? This will have a big impact on your planning, so determining this is step 1.

32 Can you do any planning before your global assets will be subject to taxes at home again? Before you leave the US, or 'in-transit'?

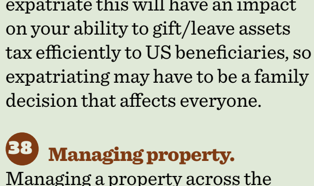
33 Keeping your assets in custody in the US may be tempting but might be a big mistake. If you are not considered a US domiciliary resident your US estate tax allowance will go from \$12.06 million to \$60,000 on US situs (located) assets. Uncle Sam's inheritance tax rate on the rest: 40%!



34 Tax wrappers. Re-familiarise yourself with the tax-wrappers of your home country to see whether you should move your assets into these (again).

35 Currency. Time to review your currency exposure again as well and potentially reposition yourself depending on your plans..

TAX



36 Uncle Sam may want a parting gift! If you decide to give up your permanent resident status you may have to pay an exit tax. How much? Imagine you sold all your assets (yes, ALL) on the day prior to expatriation AND distributed all of your tax deferred accounts and pensions. It would be the tax on the gain/income of this less an exclusion amount on gains up to \$767,000 (2022).

37 A family affair. If you expatriate this will have an impact on your ability to gift/leave assets tax efficiently to US beneficiaries, so expatriating may have to be a family decision that affects everyone.

38 Managing property. Managing a property across the Atlantic is not just complicated in practice, but also from a tax perspective. Consider selling up before leaving, or at least understand the implications of keeping property in the US after leaving.

39 Global tax liability. In many countries you will regain your global tax liability from day one, so plan ahead of the move.

*In jurisdictions where their marriage is recognised.

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Wealth management tailored to the needs and concerns of American and global clients.

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