

10 Common Financial Pitfalls for US Citizens Moving to the UK

Introduction

Moving from the United States to the United Kingdom introduces a complex web of cross-border financial and tax considerations. Despite the close ties between the two countries, Americans who relocate often find themselves caught between competing tax systems, unfamiliar regulations, and administrative burdens that can have serious financial consequences.

This white paper outlines ten of the most frequent mistakes made by US persons moving to the UK. By understanding these issues and implementing appropriate strategies, individuals can preserve wealth, ensure compliance, and reduce financial stress.

1. Misunderstanding the Dual Tax System

US citizens are required to file annual tax returns with the IRS regardless of where they reside. This includes those who become tax residents of the UK. IRS filing obligations remain in force even if a person is fully compliant with HMRC.¹

The UK tax year runs from 6 April to the following 5 April, while the US follows a calendar year. This misalignment can lead to difficulties in claiming Foreign Tax Credits efficiently, especially if income is earned near year-end.

Although the US UK Tax Treaty helps to avoid double taxation, you still need to be mindful of timing your tax payments correctly to match up income and relevant taxes in both jurisdictions. It is critical to maintain detailed financial records and consider prepaying UK tax liabilities by 31 December each year to align better with US tax obligations.

Differing tax years also means differing due dates for tax returns. So, as well as being timely with tax payments, you will also need to continue filing tax returns timely in both jurisdictions.

2. Holding Tax Inefficient Investments (US Perspective)

A common misstep involves investing in non-US mutual funds or pooled investment vehicles. These are generally classified by the IRS as Passive Foreign Investment Companies (PFICs), and are subject to punitive taxation and complex reporting requirements. Investors holding PFICs must file IRS Form 8621 for each holding. According to the IRS, the estimated time to complete and file a single Form 8621 is over 48 hours.²

Common UK investments such as OEICs and unit trusts often fall into this category. US persons in the UK should favour US domiciled investments that are also recognised under UK reporting fund rules.

3. Holding Tax Inefficient Investments (UK Perspective)

The UK imposes high tax rates on certain US investment products. Many US mutual funds and ETFs do not have UK Reporting Fund status, meaning gains may be taxed as Offshore Income Gains (OIGs), which are taxed at your marginal income tax rate, up to 45%.³

After four complete UK tax years of residence, individuals lose access to beneficial tax regimes and are taxable on worldwide income and capital gains. It is essential to reassess investment holdings ahead of crossing this threshold and seek out tax efficient alternatives recognised under both UK and US frameworks.

1. <https://www.irs.gov/individuals/international-taxpayers/taxpayers-living-abroad>
2. <https://www.irs.gov/forms-pubs/about-form-8621>
3. <https://www.legislation.gov.uk/ukpga/2025/8>

4. Misusing UK Investment Wrappers

UK tax advantaged accounts such as ISAs and SIPPs may seem like excellent savings vehicles, but they do not enjoy the same status under US tax law. ISAs are tax free in the UK, but the IRS treats income and gains within them as taxable.

While offshore bonds and insurance products are common products for UK investors, the IRS scrutinises these products heavily, and often view them as PFICs, causing compliance headaches for US investors.

Equally, SIPPs may be viewed as foreign trusts for US tax purposes, potentially triggering complex reporting requirements on IRS Form 3520 and Form 3520-A. Tax advice should be sought to fully understand the US obligations in this regard.

US persons should consult a dual-qualified investment advisor before opening any UK onshore investment accounts, to ensure that tax efficiency is retained in both the US and UK, and to ensure they understand the long-term implications of investing in these products.

5. Overlooking US Reporting Requirements for Foreign Accounts

Failure to report foreign financial accounts is a frequent compliance error. US persons must file a Foreign Bank Account Report (FBAR) using FinCEN Form 114 if the aggregate value of foreign financial accounts exceeds \$10,000 at any time during the calendar year.⁴

Additionally, IRS Form 8938 (under FATCA) may be required where your wider base of foreign financial assets breach the relevant threshold (which changes depending on where you are resident, and your US filing status). Non-compliance can lead to penalties of up to \$10,000 per omission.

Maintaining good records of all foreign accounts, and seeking tax advice, are essential to ensuring full reporting compliance.

4. <https://www.fincen.gov/report-foreign-bank-and-financial-accounts>



6. Transferring Money Without Understanding Remittance Rules

For those who have previously claimed the remittance basis of taxation in the UK prior to April 2025, improper money transfers can result in unexpected tax liabilities. Under the remittance basis of taxation, the UK taxed foreign income and gains only when they are 'remitted' to the UK, meaning physically brought into the country or receiving some benefit from them while in the UK (such as paying a credit card bill). While the remittance basis of taxation has been abolished along with the non-dom regime, any legacy income and gains previously sheltered from UK tax under the regime are still taxed in the same way.

If previously taxed and non-taxed monies are mixed in a single offshore account, HMRC applies ordering rules to any remittances from that account. Each year, one would be deemed to remit any previously non-taxed income and gains ahead of any previously taxed income and gains.

Before moving funds to the UK, individuals should identify their source and consider whether relief options, such as the Temporary Repatriation Facility (TRF) apply.

The TRF presents a transitional relief for individuals who were previously on the remittance basis of taxation before April 2025. It allows individuals to elect for previously untaxed income and gains to be remittable to the UK at a reduced flat tax rate. The TRF is only available for three tax years, 2025/26 through 2027/28.

7. Letting Your US Credit Score Lapse

Expatriates often damage their US credit history by closing all American credit cards or letting them go dormant. According to Experian, 15% of your credit score is determined by the length of your credit history, which is affected if accounts are closed.⁵

Keeping one or two US based credit cards active and using them occasionally, while paying them off in full, can help maintain a positive score. This small habit provides long term flexibility and access to credit in the US to help with refinancing or managing any loans or mortgages you may still have in the US or want to have in the future.

8. Assuming US Trust and Estate Plans Work in the UK

Trust and estate planning requires careful review under both systems. UK inheritance tax and US estate tax differ in thresholds, exemptions, and scope. Furthermore, the UK may not agree with the local treatment of US trusts, this becomes an issue especially where there are UK resident settlors, trustees or beneficiaries. This can lead to double tax issues.

A trust designed to avoid probate in the US may result in immediate tax exposure in the UK. Professional advice is essential to ensure wills, trusts, and lasting powers of attorney are effective in both jurisdictions and retain the intended results.

5. <https://www.experian.com/blogs/ask-experian/how-short-account-history-affects-fico-score/>

9. Ignoring UK National Insurance Contributions

US citizens in the UK may need to make voluntary National Insurance Contributions to qualify for a UK State Pension. Individuals need at least 10 qualifying years to receive any payment, and 35 years for a full pension.⁶

Applying early for a National Insurance number and evaluating Class 2 versus Class 3 contributions based on employment status can optimise outcomes.

The US and UK have a Social Security Totalisation Agreement that allows for qualifying years of National Insurance Contributions to be viewed as qualifying credits for US Social Security benefits, and vice versa. This means that years of service in the UK can allow you to reach the minimum number of credits to qualify for US Social Security, and time spent working in the US can help you meet the minimum requirement for UK State Pension.

Furthermore, with the recent abolishment of the Windfall Elimination Provision (WEP), your claim for US Social Security benefits is no longer hampered by the amount of pension income received from other sources. Therefore, it is always sensible to explore your eligibility for US Social Security and UK State pension benefits.

10. Trying to Manage Everything Yourself

Navigating US and UK tax and financial systems without help is risky. Seemingly minor mistakes can lead to double taxation, missed reliefs, or penalties. Cross border financial planning is highly specialised and often requires coordinated legal, tax, and investment advice. Dual qualified advisers help ensure compliance and efficiency.

Final Thoughts: A Financial Checklist for Americans Moving Abroad

Before moving abroad, US persons should aim to understand how both tax systems interact and review their financial plans for dual jurisdiction efficiency. Keeping accurate records, avoiding problematic investments, and using qualified professionals are essential to long term peace of mind.

6. <https://moneyweek.com/personal-finance/pensions/state-pensions/605948/how-much-state-pension-will-i-get?>

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