THE 7 BIGGEST FINANCIAL PROBLEMS BRITISH EXPATS FACE IN AMERICA (AND HOW TO SOLVE THEM)

1. NOT TAKING ADVICE BEFORE ARRIVING IN THE US

PROBLEM

While in the UK, you probably accumulated a variety of financial accounts, including investments and pensions. Although there's a tax treaty in place between the US and the UK, the US will view many types of financial assets very differently than the UK.

For example, the US treats ISAs, offshore bonds and endowments differently than the UK. Additionally, not all pensions are created equal. You may have an overseas pension that the US does not recognize as qualified. Both these cases may result in punitive taxes and reporting requirements.

SOLUTION

Before you move to the US (or as soon as possible after you arrive), find tax, legal and financial advisors who specialise in advising people who immigrate to the US. Partner with experts that know the landmines and how to resolve these issues before it gets expensive.

2. FAILING TO ADEQUATELY REPORT YOUR OVERSEAS ACCOUNTS

PROBLEM

You may not be aware, but US persons are required to disclose certain non-US assets and submit a variety of informational reports to the IRS and the US Treasury Department. US taxpayers are also required to report foreign income. This reporting does not necessarily result in tax, but not submitting all the reports can result in enormous penalties for even innocent non-compliance.

SOLUTION

Pay a little more and work with a cross-border tax adviser, preferably one with specific UK experience and expertise. Working with a local adviser (or worse, DIY-ing it) could cost you much more in the long run.

3. PAYING HIGH FOREIGN EXCHANGE FEES

PROBLEM

Transferring money between USD and GBP can be expensive. A number of companies will advertise 'no fees' but there certainly are fees and they're hidden in something called spreads, which is the difference between the rate you see when you google it Vs the rate you actually get.

If £1 is equivalent to $1.40 and you receive $1.35 via your bank, then the spread is nearly 4% which is a cost borne by you! If you do that for every transfer from a UK pension, then you're effectively paying fees on that pension of 4% a year PLUS any investment, trustee, adviser fees.

SOLUTION

Establish a foreign exchange account with a company like Wise where you can lock in the rate for 24 hours and, in our experience pay nearer 0.5% for the service.

4. NEGLECTING YOUR UK PENSIONS

PROBLEM

UK pensions, especially ones from the 90s and 00s, can have higher fees, may be invested in 'old fashioned' products which you wouldn't choose to invest in today, and/or invested in low-risk investments not maximising the opportunities for growth pre-retirement.

SOLUTION

Review your UK pensions to assess how you're invested today as well as your investment options within the scheme. Next review transfer/rollover options like a UK SIPP to understand if you'd be better off moving out of the scheme to suit your goals.

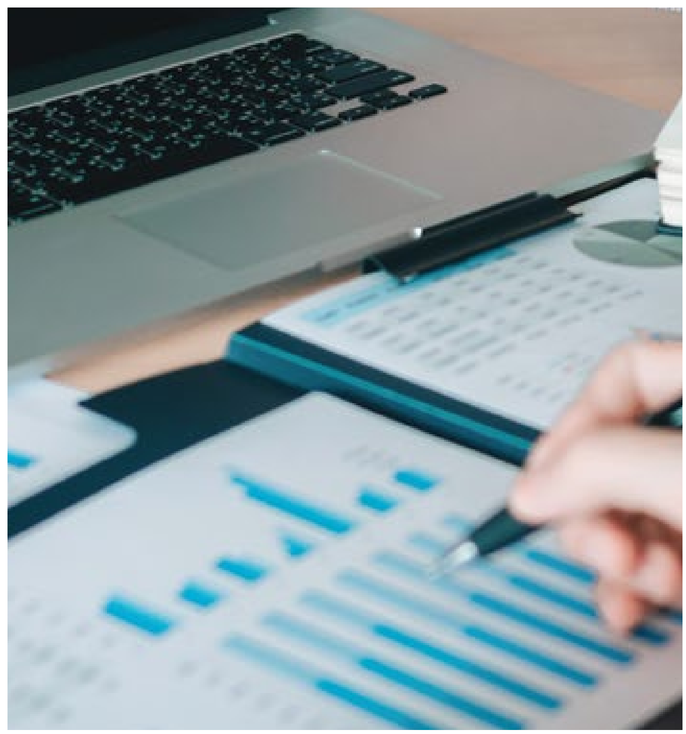
5. NOT KNOWING THE RULES ON SOCIAL SECURITY AND WEP

PROBLEM

To qualify for Social Security retirement benefits, you need to have worked in the US for ten years. If you've worked in the US for more than 10 but less than 30 years, then your Social Security could be reduced if you're entitled to receive another state pension - the UK state pension. This is known as the windfall elimination provision, or WEP.

SOLUTION

Maximise your UK state pension to offset any reduction in your Social Security by making voluntary contributions. Also, if possible, consider working a sufficient number of years to reach 30 years of employment in the US, and as a result no longer be subject to WEP. The closer you are to 30 years, the less WEP will impact you.



6. MAKING ESTATE PLANNING MISSTEPS

PROBLEM

A person's tax "residence" vs. their "domicile" are two very different matters. In simplistic terms you pay your income taxes, capital gains taxes, etc. where you live that year – i.e. your "residence". However, when you die, gift (including to your spouse) –and/or when you settle property into trust - it's your "domicile" that matters to your estate tax and/or inheritance tax liability. Your "domicile" could be where you were born, i.e. the UK, and the UK may still have taxing rights on your entire estate. Do not assume gifts to your spouse are exempt/tax free.

SOLUTION

This one is complex and messy. The key point is when planning your estate, don't assume you're going to be treated like your US-born neighbour. And don't assume your local estate planning attorney knows about the intricacies of UK tax law, as it's very unlikely they do. Find a professional that works with people like you, UK-born or UK connected individuals now living in the US.

7. NOT TAKING ADVICE BEFORE LEAVING THE US

PROBLEM

Many expatriates who return to the UK (or simply move out of the US), do not realise that an Exit Tax may be applied by the US. Once you have been a permanent and legal resident for 7 years (including partial years) out of the last 15, the US may apply the exit tax to you upon your departure. Certain financial criteria must be met before the exit tax applies, the most common trigger is having a global net worth of at least $2m.

SOLUTION

You could depart the US before you fall into this criteria, or you could become a US citizen before you leave. Alternatively, if you believe you will be caught, then plan ahead by finding a tax and legal team to review your tax exposure and help you mitigate the tax liability.

LET'S REVIEW!

- Before you move to the US, find tax, legal and financial advisors who specialise in people who immigrate to the US
- Work with a cross-border tax adviser with specific UK experience and expertise
- Establish a foreign exchange account with a company like Wise where you can lock in the rate for 24 hours
- Review your UK pensions to assess how you're invested, and review transfer/rollover options
- Maximise your UK state pension to offset any reduction in your Social Security by making voluntary contributions
- When planning your estate, find a professional who works with UK-connected individuals living in the US
- Find a tax and legal team to review your tax exposure and help you mitigate tax liability of an Exit Tax

WE INVITE YOU TO START SECURING YOUR RETIREMENT

If you'd like to have a further conversation about how to address these issues in your particular situation, and are interested in an uniquely experienced partner helping you protect your life's work, tap below and set a meeting with us now or call 646-201-4865.

Schedule your appointment