Investment and financial advice for Americans living abroad

Expat Financial Guide

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EXPAT PLANNERS AND AIO FINANCIAL PRESENT

EXPAT FINANCIAL GUIDE

INVESTMENT AND FINANCIAL ADVICE FOR AMERICANS LIVING ABROAD

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This text is intended to give general information about investing. It is not intended to be a substitute for personalized advice from a Certified Financial Planner. The author makes his best effort to keep the information current and accurate; however, because of continual changes no guarantee can be made as to the accuracy of the information contained within.

Your Feedback is Greatly Appreciated

I am very interested in hearing your thoughts. Please let me know if this book has been helpful or if you have any suggestions to make it better. I welcome any comments or questions.

You can email me bill@expatplanners.com or leave a message on Facebook (facebook.com/ExpatPlanners).

Thank you for your interest in this topic and I hope you find this helpful.

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1.0 Introduction

“When you move from one country to another you have to accept that there are some things that are better and some things that are worse and there is nothing you can do about it.” Bill Bryson

The purpose of this book is highlight some of the unique financial issues associated with Americans living abroad.

This book outlines financial issues that Americans living abroad should be familiar with to successfully navigate life outside of the US.

There are many good reasons to live abroad and we want you to be prepared for the challenges of this transition.

2.0 About the Author

"Making a big life change is pretty scary. But know what's even scarier? Regret."

Bill is a fee only financial advisor who works with individuals to meet their financial objectives.

Bill Holliday is a Certified Financial Planner (CFP), Accredited Investment Fiduciary (AIF), Chartered SRI Counselor (CSRIC), a member of the National Association of Professional Financial Advisors (NAPFA), US Social Investment Forum (USSIF), Green America, and the First Affirmative Network. He is a founder of the fee only financial planning firm AIO Financial (aiofinancial.com) which specializes in expat finances.

Bill works with clients as a fee only financial advisor at AIO Financial. He provides comprehensive financial service for most of them, which includes: investment management, tax planning, retirement planning, insurance review, and estate planning. He works on an hourly basis for others.

Bill hosts the AIO Financial blog (aiofinancial.com/blog) which focuses on comprehensive personal financial planning issues, such as: investing, retirement, taxes, estate plan, debt, and more.

In 2012, Bill formed a 501(c)(3) non-profit charity that supports economic development and migrants in northern Mexico called ProMex Group (www.promexgroup.org). He is the current volunteer director of ProMex Group. Bill gives talks about the impact of the project to interested groups, leads trips to visit projects in Nogales, Mexico. He is fluent in Spanish.

Bill spent two years living in Nicaragua with the Peace Corps (2002-2004). Bill currently has a home in Tucson, Arizona and Hermosillo, Sonora, Mexico. He frequently travels to Caborca where is wife has family and to San Salvador, El Salvador. He has two daughters.

Bill Holliday, CFP

3.0 Expat Financial Planning Overview

"Instead of wondering when your next vacation is, maybe you should set up a life you don't need to escape from."

There are over 9 million Americans living abroad for a wide range of reasons. There are several financial issues to consider when living abroad.

The State Department estimates that there are about 9 million US citizens living abroad. Mexico, Canada, Germany, Philippines, Israel, and the UK are the top six countries where Americans live abroad.

There are a wide range of reasons why Americans spend time away from the US, including:

- Cost of living
- Healthcare costs and quality
- Climate
- Long term care
- Relationships
- Study
- Work
- Retirement
- Seeking an adventure and change

There are several financial issues to consider to make your experience abroad successful. Here are the seven most important.

1. Taxes
2. Underestimating the cost of living
3. Banking and money transfers
4. Investment products and small businesses
5. Health and life insurance
6. Investment accounts
7. Estate Planning

4.0 Expat Taxes

“A nation’s culture resides in the hearts and in the soul of it’s people.” Mahatma Gandhi

You are going to be required to file US expat taxes no matter which country you live in

There are many aspects to taxes as an expat and they will vary depending on your host country. I will highlight some of them.

US Tax Obligations for Expats:
US citizens or permanent residents must file US federal taxes annually, regardless of residence.
Worldwide income is subject to US taxation.
Potential requirement for Medicare contributions, even while living abroad.

Tax-Advantaged Accounts and Charitable Contributions:
Eligibility for IRAs, Roth IRAs, 401ks, and 529 accounts depends on tax status.
Tax benefits from charitable contributions are influenced by individual tax circumstances.
US expats may be subject to US estate and gift taxes, regardless of their country of residence.

Business Taxes for Expats:
Owning a business in a host country requires local tax filing and declaring that income on the US tax return.
US self-employment tax can apply to expats, independent of their income tax obligations.

Social Security Benefits:
Benefits depend on US taxes paid; tax-exempt income abroad doesn't count towards Social Security.

Bilateral Tax Treaties:
The US has tax treaties with many countries, affecting taxation for expats.
Armenia, Australia, Austria, Azerbaijan, Bangladesh, Barbados, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Kazakhstan, Korea, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Malta, Mexico, Moldova, Morocco, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Tajikistan, Thailand, Trinidad, Tunisia, Turkey, Turkmenistan, Ukraine, Union of Soviet Socialist Republics (USSR), United Kingdom, Uzbekistan, Venezuela

Foreign Earned Income Exclusion:
Reduces taxable income on US taxes for the first $126,500 earned abroad (as of 2024).
Allows working abroad to exclude some foreign earned income from U.S. taxation.
There is a provision for excluding certain foreign housing expenses, $17,710 for 2024

Residence and Tax in Host Country:
Tax obligations depend on residency.
Residency status influenced by the “center of vital interests” and income sources.

FBAR and Tax Treaties:
FBAR filing required for foreign bank accounts exceeding $10,000.
Assets abroad over $200,000 must be declared on form 8938.

State Tax Obligations:
Some US states require tax filing from expats, depending on residency status before moving abroad.

Extended Filing Deadlines and Extensions:
US expats often have extended deadlines for filing taxes and may apply for further extensions.

Children's Tax Issues:
US citizen children born abroad are subject to US tax regulations, including the need for a Social Security Number (SSN).

Tax Implications of Selling Property Abroad:
Capital gains tax considerations for US expats selling property in their host country.

5.0 Underestimating the Cost of Living

"What makes expat life so addictive is that every boring or mundane activity you experience at home (like grocery shopping, commuting to work or picking up the dry cleaning) is, when you move to a foreign country, suddenly transformed into an exciting adventure. When abroad, boredom, routine, and 'normal' cease to exist. And all that's left is the thrill and challenge of uncertainty." Reannon Muth

Having a good understanding of your expenses in your host country will help provide a successful financial plan.

Excitement of Expat Life:
Mundane activities become adventures in a foreign country.
Expat life is often free from boredom and routine, filled with uncertainty and excitement.

Importance of Understanding Expenses:
Essential to have a clear idea of living costs in the host country.
Accurate financial planning depends on understanding these expenses.

Lack of Preparation:
Many expats move without researching living costs.
Various resources like blogs, expat Facebook groups, and websites like expatistan.com offer cost insights.

Underestimating Daily Expenses:
It's common to underestimate routine expenses like groceries and transportation.
Prices for everyday items can vary significantly from home country.

Living Like a Tourist:
Treating expat life as a long vacation leads to overspending.
New attractions and experiences can quickly strain the budget.

Lifestyle Creep:
Expenses gradually increase as previous luxuries become necessities.
Often occurs when income increases, but can also happen on a fixed or reduced budget.

Cost of Socializing and Networking:
Social activities and networking can add to living expenses.
Expats often spend more on dining out, entertainment, and social events.

Housing and Accommodation Costs:
Housing costs can be a major expense, often higher than anticipated.
Utilities and maintenance costs in some countries can be significantly higher than in the home country.

Healthcare and Insurance:
Healthcare costs can vary widely; insurance is often more expensive for expats.
Unanticipated medical expenses can be a significant financial burden.

Education and Schooling:
If moving with family, international schooling can be a major expense.
School fees, uniforms, and extracurricular activities add up.

Transportation and Commuting:
Costs of owning a car, public transport, or taxis can be higher than expected.
Regular travel to visit family or for vacations can add to expenses.

Currency Fluctuations:
Exchange rates can significantly impact the cost of living.
Income in one currency and expenses in another can lead to financial instability.

Unexpected Costs:
Visa fees, residency permits, and legal costs can be overlooked.
Moving and settling-in costs often exceed initial estimates.

Cultural Adaptation:
Learning new languages or adapting to local customs may incur costs.
Cultural missteps can lead to unforeseen expenses.

6.0 Banking and Money Transfers

"Life might be difficult for a while, but I would tough it out because living in a foreign country is one of those things that everyone should try at least once. My understanding is that it completed a person, sanding down the rough provincial edges and transforming you into a citizen of the world." David Sedaris

It is worth the time to investigate options when moving money to your host country to save on fees and exchange rate losses.

Research Money Transfer Options:
Investigate various methods for transferring money to save on fees and exchange rate losses.
It's important to compare different services and banks to find the best rates and lowest fees.

Bank Transfers and Exchange Rates:
Some banks offer free transfers to specific banks at reasonable exchange rates.
Evaluating exchange rates and fees for each bank is crucial.

Alternative Transfer Methods:
Apart from bank transfers, consider other options like online money transfer services which might offer better rates.
Large cash exchanges might sometimes be more cost-effective.

Local Banking in Host Country:
Setting up a local bank account is often necessary for day-to-day financial activities.
Local banking may offer more favorable terms for regular transactions.

Using Credit and Debit Cards Abroad:
Check the fees and exchange rates for using credit and debit cards internationally.
Some debit cards reimburse all bank fees, including foreign transactions.
Using US credit cards may be more beneficial than using host country cards in some cases.

Managing Credit Cards:
Consolidate and close unnecessary cards, and inform credit card companies about living abroad.
This helps in managing finances and maintaining a good credit score.

Maintaining a US Address:
Retain a US address while living abroad, either through relatives or a mailing service.
This helps in keeping US bank accounts open and maintaining credit rating.

Impact on Credit Rating:
Continuously moving money and changing addresses can affect your credit rating.
Regularly monitor credit scores and reports to manage any potential issues.

Tax Implications of Money Transfers:
Be aware of any tax obligations that may arise from transferring large sums of money.
Consult with a tax professional to understand implications in both home and host countries.

Currency Fluctuations:
Currency exchange rates fluctuate and can impact the value of transferred money.
Timing transfers to coincide with favorable exchange rates can be beneficial.

Legal and Regulatory Compliance:
Ensure compliance with legal and financial regulations in both home and host countries when transferring money.
This includes adhering to anti-money laundering laws and reporting large transfers.

Emergency Fund Accessibility:
Keep an emergency fund that is easily accessible in both the home and host countries.
This provides financial security in case of unexpected expenses or emergencies.

Long-term Financial Planning:
Consider long-term financial impacts of living abroad, such as retirement savings and investments.
Regular financial planning and review are essential to align with your long-term financial goals.

7.0 Investment Products and Small Businesses

"Instead of wondering when your next vacation is, maybe you should set up a life you don't need to escape from."

Be careful of investment product sales people. Know how your 'advisor' is being compensated

Caution with Financial Product Salespeople in Expat Areas:
Areas with high expat populations often attract financial product salespeople.
Some products may be good investments, but others might not be suitable.
Salespeople earn commissions, which may influence their recommendations over your best interests.

Investing in Local Small Businesses:
Common in developing countries for expats to invest in local businesses.
Such investments can be more risky compared to starting a business in the US.
Varying degrees of success; important to proceed cautiously.

Doing Thorough Research Before Investing:
Essential to conduct detailed research before investing in local ventures.
Understand the market, legal requirements, and cultural aspects of doing business locally.

Risk Assessment:
Acknowledge and assess the higher risks involved in foreign business ventures.
Political, economic, and regulatory environments can be less stable than in developed countries.

Financial Commitment Limits:
Invest only what you can afford to lose.
It's crucial to have a clear exit strategy and not overextend financially.

Seeking Local Advice and Expertise:
Consult with local business experts or advisors who understand the local market.
Networking with other expats who have business experience in the region can provide valuable insights.

Diversification of Investments:
Avoid putting all your resources into a single investment or business venture.
Diversify investments to mitigate risk.

Understanding Legal Implications:
Familiarize yourself with local business laws and regulations.
Legal processes and protections may differ significantly from those in the US.

Cultural Sensitivity and Adaptation:
Be culturally sensitive and adaptable to business practices in the host country.
Cultural misunderstandings can impact business success.

Long-term Commitment and Realistic Expectations:
Be prepared for a long-term commitment when investing in a business abroad.
Set realistic expectations for growth and profitability.

Monitoring Investments Regularly:
Regularly review and monitor the performance of your investments.
Be ready to make changes as needed based on market or business conditions.

8.0 Health Insurance

“People take different roads seeking fulfilment and happiness. Just because they’re not on your road doesn’t mean they’ve gotten lost.” Dalai Lama XIV

Evaluate your insurance so you know what to expect when you need to use them

Inadequacy of US Insurance Abroad:
Most US insurance policies, including health and life insurance, do not provide coverage abroad.
Travel insurance often doesn't cover individuals whose permanent residence is outside the US.

Informing Your Insurer of Residence Change:
It's crucial to notify your insurance provider about your relocation.
Ensure that your insurance coverage is appropriate for your new living situation.

Local Insurance Policies:
In many cases, local insurance policies in the host country may be more suitable.
Local policies are often better tailored to the healthcare system and legal requirements of the host country.

Medicare Considerations for Seniors:
If you are 65 or older, maintaining Medicare coverage in the US is advisable.
Returning to the US without continuous Medicare coverage can lead to significantly higher premiums.

Health Insurance Requirements:
Some countries require expats to have health insurance as part of the visa or residency permit process.
Research the health insurance requirements of your host country.

Life Insurance Considerations:
Evaluate if your current life insurance policy is valid abroad and if it meets your needs.
Consider the implications of international living on your life insurance, especially in terms of beneficiaries.

Policy Limitations and Exclusions:
Review the limitations and exclusions of any insurance policy carefully.
Understand the conditions under which you are covered, especially for activities or areas that may be excluded.

Emergency Medical Evacuation Coverage:
Consider policies that include emergency medical evacuation, which can be crucial in countries with limited medical facilities.

Understanding Local Healthcare Systems:
Familiarize yourself with the healthcare system in your host country.
Know how insurance interacts with public and private healthcare providers there.

Comparing Insurance Plans:
Compare various international insurance plans for coverage options and costs.
Look for plans that cover pre-existing conditions if necessary.

Legal and Regulatory Compliance:
Ensure that any insurance plan you choose complies with local laws and regulations.
Be aware of any legal requirements for insurance in your host country.

Consulting with Insurance Experts:
Seek advice from insurance professionals who specialize in expatriate coverage.
They can provide insights into the best options for your specific situation and location.

9.0 Investment Accounts

"When you travel, remember that a foreign country is not designed to make you comfortable. It is designed to make its own people comfortable." Clifton Fadiman

We recommend keeping investment accounts in the US

Advantages of US Brokerage Accounts:
Generally, US brokerage accounts offer lower fees, more investment options, better liquidity, and favorable tax rates.
Reporting and safety can be more reliable in the US compared to some host countries.

Types of Investment Accounts:
Depending on individual tax situations and needs, consider different types of accounts like brokerage, retirement, or college savings accounts.

Currency Exposure Management:
Be mindful of exposure to the currency of the host country.
Ensure investment portfolios are balanced to mitigate risks associated with currency fluctuations.

Understanding Investment Fees:
Pay attention to loads, fees, and commissions, especially when dealing with commission-based advisors or brokers.
Sales charges or commissions for mutual funds often go to the advisor for selling the fund.

Choosing a Fiduciary Financial Advisor:
Consider using a fiduciary (fee-only) financial advisor who doesn't earn commissions or sell products.
They are compensated solely by their clients, aligning their interests more closely with yours.

Investment Products Preference:
Exchange Traded Funds (ETFs) and No Load institutional share Mutual Funds are recommended for their lower expense ratios.

Geographic Restrictions and Possibilities:
Some countries have specific regulations for opening new investment accounts for residents.
Countries like Canada may require setting up a trust in the US for opening US accounts.
Restrictions vary on maintaining existing US accounts based on residency and address in different countries.

Consulting Professional Financial Services:
For comprehensive investment advice, consider consulting with professional financial planning firms.
These firms can offer personalized advice and information on investment strategies suitable for expats.

For more information about investing, you can download our free investment ebook for more information www.aiofinancial.com/resources/

You are allowed to open a new account if you are residing in the following countries: Argentina, Belgium, Bermuda, Brazil, British Virgin Islands, Cayman Islands, Chile, China, Columbia, Costa Rica, Ecuador, Germany, Guam, Guatemala, Hong Kong, Israel, Jersey, Malaysia, Mexico, Panama, Peru, Philippines, Puerto Rico, Qatar, Spain, Switzerland, Thailand, United Arab Emirates, United Kingdom, Uruguay, U.S. Virgin Islands, and Venezuela.

There are other countries (Canada included) that require setting up a trust in the US, in order to open accounts in the US. There are many countries where you are allowed to keep your existing accounts if you are residing in these countries and others where you are not allowed to keep your US accounts if that is where your address and residence is located.

10.0 Estate Planning

“Because in the end, you won’t remember the time you spend working in the office or mowing your lawn. Climb that goddamn mountain.” Jack Kerouac

Verify that your estate plan is in order (in the US and in your host country) to insure that your desires will be carried out without excessive expenses or delays

Often Overlooked by Expats:
Estate planning is a crucial aspect frequently neglected by expatriates.

Components of Estate Planning:
Includes creating a will, setting up healthcare and financial powers of attorney, a living will, and ensuring correct beneficiaries on accounts and property.

Complexity of Cross-Border Estate Planning:
Estate planning laws vary by country; a will valid in the US may not be recognized in the host country.
May require separate estate planning documents in both the US and the host country.

Challenges with International Families:
Estate planning can be more intricate for expats with families both in the US and abroad.
Different laws and customs in each country can complicate inheritance and asset distribution.

Probate and Inheritance Laws:
Probate and inheritance processes can differ significantly in the host country.
Important to understand how these processes work in both the home and host countries.

Consulting with Estate Planning Professionals:
Advisable to speak with legal professionals who specialize in cross-border estate planning.
They can ensure assets are transferred according to wishes and help navigate complex inheritance laws.

Updating Estate Documents Regularly:
Regular updates to estate planning documents are essential, especially after major life changes.
Changes in residency, marital status, or the birth of children should prompt a review of estate plans.

Understanding Tax Implications:
Be aware of potential tax implications for inheritances across different countries.
This includes understanding estate taxes, inheritance taxes, and gift taxes in both the US and the host country.

Ownership Structures and Trusts:
Consider setting up trusts or specific ownership structures to manage assets effectively across borders.

Trusts can offer more control over how and when assets are distributed.

Digital Assets Management:
Include digital assets like online accounts and digital properties in your estate planning. Ensure access and transferability of these assets are clearly outlined.

11.0 Thank You

"A goal without a plan is just a wish." Antoine de Saint-Exupery

Thank you very much for your interest in investing and for reading *Investing Guide, How to make money*. If you would like more information about investing, please sign up for our newsletter and follow our podcasts and blogs at aiofinancial.com.

Please share your thoughts and comments. I would like to make the next version even better and more useful.

You can email me bill@expatplanners.com or leave a message on Facebook (facebook.com/ExpatPlanners).

Bill Holliday at migrant project in Sonora, Mexico