A GUIDE FROM AIO FINANCIAL

CROSS-BORDER FINANCIAL PLANNING

What U.S. persons with accounts, property, or family in Mexico need to know

BILL HOLLIDAY, CFP®

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A guide from AIO Financial · Bill Holliday, CFP®

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About this guide. This is educational material, not tax, legal, or investment advice. Every situation described here has exceptions, and the exceptions are usually the part that matters. Nothing in this guide creates an advisory relationship, and no figure in it should be relied on without confirming that it still applies to the year you are filing for. AIO Financial is a registered investment advisor. We do not prepare tax returns or practice law; the work described here is done in coordination with your CPA and, where needed, a tax attorney. See the full disclosures on the last page.

About the author. Bill Holliday, CFP®, is the principal of AIO Financial, a fee-only registered investment advisor that has served clients as a fiduciary since 2012. The firm advises households whose financial lives cross the U.S.–Mexico border, with client assets custodied at Charles Schwab.

Contents

Introduction: the border runs through your balance sheet

There is a particular kind of financial life that the U.S. planning industry is not built for.

You are a U.S. citizen, a green card holder, or someone the IRS considers a U.S. person for other reasons. And some meaningful part of your financial life sits in Mexico. Maybe it is an inherited house in Guadalajara that your cousin still lives in. Maybe it is a beach condo in Puerto Vallarta held in a *fideicomiso*. Maybe it is a brokerage account at GBM or Actinver that your father opened for you, or an Afore from the eight years you worked in Monterrey, or a bank account in Hermosillo that has never held more than the equivalent of forty thousand dollars and that nobody has ever asked you about.

You are not doing anything wrong. You are doing what every family with roots in two countries does. The problem is that the U.S. tax code treats "foreign" as a single category, and it treats that category with suspicion. A mutual fund in Mexico City is subject to a punitive regime that a nearly identical fund in Dallas is not. A house you inherited from your mother triggers a filing obligation that a house from your neighbor would not. An account you have had since you were nineteen carries an annual report with a penalty attached.

Almost none of this is intuitive. Most of it is invisible until something forces it into the open — a sale, a death, a letter, a new CPA who asks a question the old one never did.

Who this guide is for

We wrote this for people in four overlapping situations:

- **You live in the United States and have assets, property, or family in Mexico.** Accounts, real estate, an inheritance in progress, parents whose estate will eventually pass to you.
- **You are a U.S. citizen or green card holder living in Mexico.** Retired in Ajijic or San Miguel, working remotely from Mérida, or moved back to be near family. You still file with the IRS.
- **Your household is mixed-status.** One spouse is a U.S. citizen, the other is not. This one carries the largest and least-known risk in the entire guide.
- **You are approaching retirement with a working history in both countries.** Social Security on one side, IMSS and an Afore on the other, and no clear picture of how they fit together.

We also wrote it with a specific asset level in mind. The strategies in Chapters 3, 7, and 11 matter most when there is enough money involved that restructuring is worth the effort. If your entire Mexican exposure is a savings account with $3,000 in it, read Chapter 2 and stop there — you have a reporting question, not a planning problem.

What this guide will not do

It will not tell you how to avoid reporting. Every chapter here assumes you want to be compliant, because the alternative has become genuinely dangerous: Mexico and the United States exchange financial account information automatically, and the practical question is no longer whether the IRS can find out about a Mexican account but when.

It will not replace your CPA. Several chapters describe forms; none of them teach you to prepare those forms.

And it will not pretend that any of this is simple. Where the answer is unsettled — and there are three or four places in this guide where the honest answer is that competent professionals disagree — we say so instead of picking the version that sounds most reassuring.

How to read it

Chapters 1 and 2 are foundational. Everyone should read them. After that, the guide is modular:

If your situation is	Go to
Investment accounts or funds in Mexico	Chapter 3
A property in a *fideicomiso*	Chapter 4
Selling Mexican real estate	Chapter 5
An inheritance or large gift from Mexico	Chapter 6
A spouse who is not a U.S. citizen	Chapter 7
IMSS, Afore, and Social Security	Chapter 8
Years of unfiled reports	Chapter 9
Moving money and managing currency	Chapter 10
Building the actual portfolio	Chapter 11
Choosing someone to help	Chapter 12

Chapter 1 — Are you a U.S. person? The question everything else depends on

Every obligation in this guide flows from one determination, and it is worth being precise about it, because a surprising number of people get it wrong in both directions.

The three ways in

Citizenship. If you are a U.S. citizen, you are a U.S. person for tax purposes. Full stop. It does not matter where you live, where you earn, whether you have ever filed, or whether you have set foot in the country in twenty years. The United States is one of a very small number of countries that taxes on citizenship rather than residence.

This catches people who did not choose it. If you were born in a U.S. hospital to Mexican parents and returned to Mexico at six months old, you are a U.S. citizen and you have U.S. filing obligations. If your father was a U.S. citizen and you acquired citizenship through him without ever holding a U.S. passport, the same is true. These are sometimes called "accidental Americans," and there are hundreds of thousands of them along the border.

Lawful permanent residence. If you hold a green card, you are a U.S. person for tax purposes from the first day of the year you receive it until the card is formally abandoned or judicially revoked. Letting it expire is not the same as giving it up. A green card holder who moved back to Guadalajara in 2019, stopped using the card, and never filed Form I-407 is very likely still a U.S. person in the eyes of the IRS — with seven years of unfiled returns and FBARs.

The substantial presence test. If you are neither, you can still become a U.S. person by being physically present in the United States for 31 days in the current year and 183 days across a three-year weighted formula: all days this year, one-third of last year's days, one-sixth of the days from the year before that.

That formula catches border residents who commute. Someone who crosses to work in El Paso or San Diego 150 days a year, every year, meets the test at 250 weighted days. There are exceptions — the closer connection exception, and the tie-breaker provisions of the U.S.–Mexico income tax treaty — but both require an affirmative filing. They do not happen automatically.

> **The point people miss.** U.S. person status is about your relationship to the United States, not about where your money is. A U.S. citizen living in Mexico with only Mexican assets still files a U.S. return. A Mexican citizen living in Mexico with a house in San Diego generally does not — but her estate may still owe U.S. estate tax on that house. Chapter 7 explains why.

What being a U.S. person actually obligates

Three separate things, which people routinely collapse into one:

1. **Report worldwide income.** Interest from a Banorte account, rent from the condo in Cancún, dividends from a Mexican fund, gain on a house in Sonora — all of it goes on your U.S. return, in dollars, whether or not it was taxed in Mexico and whether or not the money ever entered the United States.

1. **File information reports.** These are separate from the tax return and separate from each other. FBAR, Form 8938, Form 3520, Form 8621. They carry their own penalties and their own deadlines, and — this is the part that surprises people — the penalty applies even when no tax was owed. A late Form 3520 on a completely tax-free inheritance can cost 25% of the inheritance.

1. **Pay the residual tax.** After foreign tax credits and exclusions, most people in this guide owe the United States less than they expect. The tax is rarely the problem. The reporting is.

The treaty does not do what people think it does

The United States and Mexico have had an income tax treaty in force since 1994. It is a real and useful document. It contains tie-breaker rules for dual residents, reduced withholding rates, and provisions that prevent the same income from being fully taxed twice.

What it does not do is relieve a U.S. citizen of U.S. filing. The treaty contains a saving clause — as nearly every U.S. treaty does — under which the United States reserves the right to tax its own citizens and residents as if the treaty did not exist, with a short list of carve-outs.

There is also no U.S.–Mexico estate and gift tax treaty. None. The income tax treaty says nothing about what happens when someone dies, which is precisely why Chapter 7 exists.

The practical first step

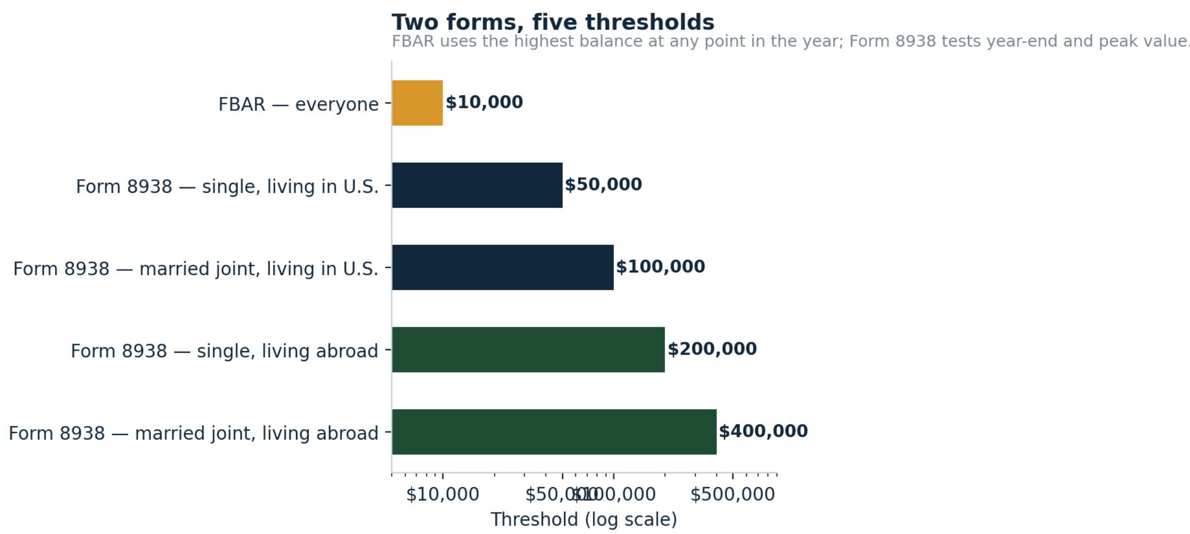
Before anything else in this guide applies to you, answer four questions and write the answers down:

- What is my status — citizen, green card holder, or neither?
- If green card: is it still active, and have I ever filed Form I-407?
- Which years have I filed U.S. returns for?
- Which years have I filed FBARs for?

If the last two answers do not match each other, or do not cover every year you have held foreign accounts, go to Chapter 9 before you go anywhere else. Fixing a reporting gap is dramatically cheaper before the IRS raises it than after.

Chapter 2 — The reporting layer: FBAR and Form 8938

These two forms are the foundation of cross-border compliance, they overlap heavily, and almost everyone assumes filing one covers the other. It does not. They come from different statutes, go to different agencies, use different thresholds, and cover different — though overlapping — sets of assets.



FBAR (FinCEN Form 114)

Who files. Any U.S. person with a financial interest in, or signature authority over, foreign financial accounts whose *combined* highest balance exceeded $10,000 at any point during the calendar year.

Three words in that sentence do the damage.

Combined. It is not $10,000 per account. Four accounts holding $3,000 each trigger the filing.

Highest. Not the year-end balance. If a Mexican account briefly held $60,000 in March — proceeds of a property sale on their way somewhere else — and ended the year at zero, you file.

Signature authority. You file for accounts you do not own. Being on your mother's account in Culiacán so you can help manage her money is a financial interest for FBAR purposes even if not one peso of it is yours.

What counts as an account. Bank accounts at Banorte, BBVA México, Banamex, Santander. Brokerage accounts at a *casa de bolsa* — GBM, Actinver, Kuspit, Vector. Mutual fund accounts. Cetesdirecto accounts. Insurance policies and annuities with a cash surrender value. Certain e-money and fintech accounts. What generally does *not* count: real estate held directly in your name, and physical assets such as jewelry or vehicles.

When and how. FBAR is filed electronically with FinCEN, not with the IRS, and not attached to your tax return. It is due April 15 with an automatic extension to October 15 — you do not need to request it.

Penalties. Non-willful violations carry a penalty that is capped per annual report and adjusted for inflation; the Supreme Court's 2023 decision in *Bittner v. United States* confirmed that the non-willful penalty applies per report rather than per unreported account, which meaningfully limited exposure for people with many small accounts. Willful violations are an entirely different universe — the greater of an inflation-adjusted six-figure amount or half the account balance, per year, with criminal exposure behind it. The gap between non-willful and willful is the single most consequential distinction in this area of law.

Form 8938 (Statement of Specified Foreign Financial Assets)

Who files. U.S. persons whose specified foreign financial assets exceed thresholds that vary by filing status and by where you live:

Filing status	Living in the U.S.	Living abroad
Single or married filing separately	$50,000 at year end, or $75,000 at any point	$200,000 at year end, or $300,000 at any point
Married filing jointly	$100,000 at year end, or $150,000 at any point	$400,000 at year end, or $600,000 at any point

The "living abroad" thresholds are four times higher, which is one of the few places in this guide where the rules cut in favor of the person who moved.

What it covers that FBAR does not. Form 8938 reaches beyond accounts into assets: shares in a foreign corporation held directly, an interest in a foreign partnership, a foreign-issued note or bond held outside an account, an interest in a foreign trust or foreign estate, and — relevant to many readers — interests in foreign pension arrangements. It is filed *with* your Form 1040, and failure to file can keep the statute of limitations open on your entire return, not just on the unreported asset.

What neither form covers. Real estate held directly in your own name is not a specified foreign financial asset and is not an FBAR account. A house in Mérida in your name, generating no rent, is not itself reportable on either form. Hold that same house through a Mexican entity, and the *interest in the entity* becomes reportable. This is a common and expensive misunderstanding.

> **A rule of thumb that is wrong often enough to be dangerous:** "I file the FBAR, so I'm covered." Roughly two-thirds of the readers of this guide who file an FBAR also need a Form 8938, and the two forms ask for different information about the same accounts. Filing one is not filing the other, and the IRS treats them independently.

Does the IRS actually know?

Yes, increasingly, and the mechanism is worth understanding because it changes the calculus on Chapter 9.

Mexico and the United States operate under a FATCA intergovernmental agreement. Mexican financial institutions identify account holders with U.S. indicia — U.S. birthplace, U.S. address, U.S. phone number, standing transfer instructions to a U.S. account — and report those accounts to the Mexican tax authority, which transmits them to the IRS. Mexico also participates in the OECD Common Reporting Standard, which covers most of the rest of the world.

In practice this means the account you opened in 2011 with your U.S. passport as identification has probably been reported already. People sometimes tell us that no one has ever contacted them, and conclude that no one knows. Data arriving is not the same as data being acted on. The absence of a letter is not evidence of anything.

What to actually do

- Build a list of every foreign account you own or can sign on, including your parents' and any business accounts.
- For each: institution, account number, account type, and the **highest** balance during the year, converted to dollars at the Treasury year-end rate (the FBAR instructions specify the rate to use).
- Compare that total against the FBAR $10,000 line and your Form 8938 threshold.
- Ask your CPA, in writing, which of the two you are filing. If the answer is only one of them, ask why.

The whole exercise takes an afternoon in the first year and twenty minutes in every year after, because the list barely changes. It is the cheapest risk reduction available anywhere in this guide.

Chapter 3 — PFICs: the most expensive account you probably own

If you take one thing from this guide, take this chapter. It contains the largest recoverable dollar amount, it is the least known, and it is the one problem in the guide where restructuring the portfolio actually solves it rather than merely reporting it.

The rule, in plain terms

A **Passive Foreign Investment Company** is any non-U.S. corporation that meets either of two tests: 75% or more of its gross income is passive, or 50% or more of its assets produce (or are held to produce) passive income.

Read that again with a Mexican *fondo de inversión* in mind. A mutual fund's entire business is holding assets that produce interest and dividends. It meets both tests, comfortably, every year.

The result is that almost every pooled investment vehicle organized outside the United States is a PFIC for a U.S. person who owns it. Not because Congress was targeting Mexican savers — the rules were written in 1986 to stop offshore deferral schemes — but because the definition is mechanical and it sweeps in the ordinary case along with the abusive one.

What is likely to be a PFIC

Subject to confirming the specific vehicle, this list covers most of what our clients hold:

- Mexican mutual funds and *sociedades de inversión* — the funds distributed by BBVA México, Banorte, Actinver, GBM, Santander, Scotiabank, Franklin Templeton México, Principal México
- Money-market and short-term debt funds, including the peso "liquidity" funds many people use as a savings vehicle
- Funds that hold Cetes on your behalf, as distinct from Cetes held directly
- ETFs listed on the BMV that are organized in Mexico or in a third country
- Foreign-organized hedge funds, private funds, and many pooled real estate vehicles
- Certain *seguro dotal* and investment-linked insurance products, depending on structure

What is probably not a PFIC

- **Cetes, Bondes, and Udibonos held directly in your own name.** A government bond is a debt instrument, not stock in a corporation. Holding Cetes directly through a cetesdirecto account generally produces ordinary interest income reportable on your U.S. return — a straightforward, if unglamorous, outcome. The account itself is still an FBAR account.
- **Individual shares of a Mexican operating company** — Cemex, Femsa, Walmex — held directly. An operating business is not a PFIC as long as its income is genuinely operating income.

- **Real estate held directly.**

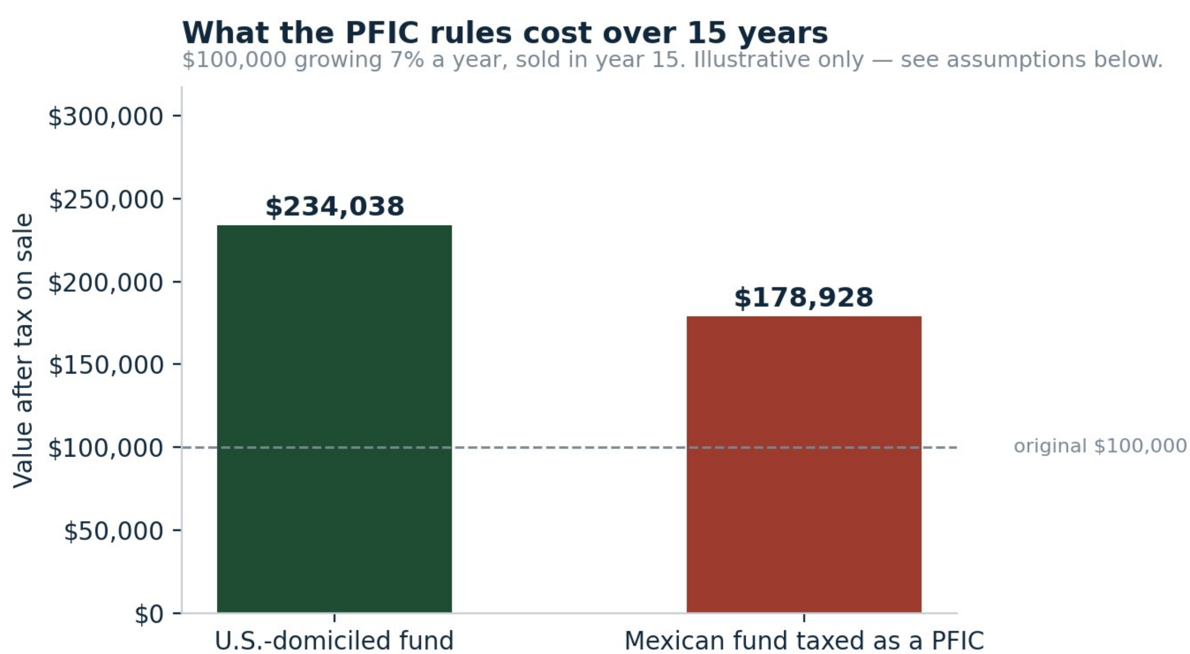
> **The Cetes distinction is the one worth memorizing.** Spanish-language financial media regularly encourages U.S. residents to invest in Cetes through Mexican platforms, without ever mentioning the PFIC regime. The advice is not entirely wrong — direct Cetes are fine — but the same platforms also sell funds, and the fund next to the Cetes on the same screen is a PFIC. Whether you have a problem depends on which button you pressed.

Why it costs so much

If you do nothing, your PFIC is taxed under the default regime of Section 1291, which is designed to be worse than ordinary treatment.

When you receive an "excess distribution" — broadly, a distribution exceeding 125% of your average distributions over the prior three years — or when you sell the fund at a gain, the entire amount is allocated ratably across every day you held it. The portion allocated to the current year is ordinary income. The portion allocated to *every prior year* is taxed at the highest ordinary rate in effect for that year, regardless of what bracket you were actually in, and then an interest charge is added running from that year's due date to today.

Three consequences follow. There is no long-term capital gains rate. There is no offsetting of PFIC losses against PFIC gains. And the longer you have held the fund, the worse the outcome — which inverts the usual logic of patient investing.



Assumptions: $100,000 invested, 7% annual growth, sold in year 15. The U.S.-domiciled column applies a 23.8% long-term capital gains rate including the net investment income tax. The PFIC column applies Section 1291 treatment at a

37% ordinary rate with an assumed 7% simple interest charge. Actual results vary with rates, holding period, and distribution history. This is an illustration, not a projection.

The two elections, and why they usually are not available

QEF (Qualified Electing Fund). The best outcome. You include your share of the fund's ordinary earnings and net capital gain annually, and capital gain keeps its character. The election requires a **PFIC Annual Information Statement** from the fund, prepared to U.S. specifications. Mexican fund companies do not produce these, because their U.S. investor base is negligible and the reporting burden is real. In fifteen years we have not seen a Mexican retail fund provide one. If you can obtain one, that changes the analysis entirely — ask.

Mark-to-market (Section 1296). Available for "marketable stock," which generally means shares regularly traded on a qualified exchange. You recognize unrealized appreciation as ordinary income each year and take limited ordinary losses. It is worse than QEF and much better than Section 1291. Whether shares in a particular Mexican fund qualify as marketable stock on a qualified exchange is a technical determination that turns on the specific vehicle and how it trades. Do not assume it either way.

Both elections are generally made in the first year you hold the fund. Making them late requires a purging election that triggers tax on the built-up gain. This is why finding a PFIC early is worth so much.

Form 8621

One form, per fund, per year. If you hold six Mexican funds, that is six forms — every year, whether or not there was a distribution.

There is a narrow filing exception: no Form 8621 is required if the aggregate value of all your PFIC stock is $25,000 or less ($50,000 if married filing jointly), you are not making an election, and you received no excess distribution and made no disposition during the year. The exception is real, but it is smaller than most people's holdings and it evaporates the moment you sell.

Failure to file Form 8621 has a consequence beyond penalties: under Section 6501(c)(8), an unfiled international information return can leave the statute of limitations open on your **entire return** until three years after the missing form is filed. A 2014 return with an unfiled 8621 may still be open today.

Special cases we get asked about constantly

Seguro dotal and investment-linked life policies. These sit at an unpleasant intersection. Depending on structure, a policy may be treated as a PFIC, or as a foreign policy that fails the U.S. definition of life insurance under Section 7702 — in which case the inside build-up is currently taxable — or both. There is also a federal excise tax on premiums paid to foreign insurers. Any specific policy needs to be reviewed on its own documents.

Afores and Siefores. The Afore is your account; the Siefore is the fund it is invested in, and a Siefore has the economics of a PFIC. Whether the PFIC rules actually apply is genuinely unsettled and depends on how the arrangement is characterized for U.S. purposes — as a foreign grantor trust, an employees' trust, or something else — and on whether it falls within the relief the IRS has provided for certain tax-favored foreign retirement arrangements. Competent advisors reach different conclusions on this. We flag it, we document the position taken, and we do not tell clients the question is settled, because it is not.

What to actually do

1. **Inventory.** Pull statements for every Mexican investment account. For each holding, write down whether it is a direct security or a pooled fund.
2. **Get the dates.** Original purchase date and cost for each fund position, in pesos and translated to dollars. You will need these regardless of which path you take.
3. **Talk to your CPA before you sell anything.** Selling a PFIC is a taxable disposition under Section 1291. The order and timing of sales matters, and a sale in a low-income year is not the relief it would be for a normal investment, because the prior-year allocations are taxed at the highest rate regardless.
4. **Rebuild the exposure in U.S.-domiciled vehicles.** Everything a Mexican fund does for you can be done by a U.S.-domiciled fund or ETF without the PFIC regime — including Mexican equity exposure and peso exposure. This is the step that ends the problem permanently, and it is ordinary investment management work.

Chapter 4 — The *fideicomiso*: the good news chapter

Most of this guide describes obligations. This chapter describes one you probably do not have, and it is the single most common source of unnecessary filings and unnecessary penalties among U.S. owners of Mexican property.

What a *fideicomiso* is

Mexico's constitution restricts direct foreign ownership of land within 50 kilometers of the coastline and 100 kilometers of the borders — the *zona restringida*. That is where most of the property Americans want happens to be: Los Cabos, Puerto Vallarta, Cancún, Playa del Carmen, Rocky Point, Tulum.

The workaround, in place since the 1970s, is the *fideicomiso*: a Mexican bank holds bare legal title, and you hold the beneficial interest. You choose the property, you pay for it, you live in it, you rent it, you renovate it, you sell it, you leave it to your children. The bank does none of those things and has no discretion over any of them. It charges an annual fee, renews on a 50-year term, and otherwise stays out of the way.

The false friend

In Spanish, *fideicomiso* is the ordinary word for a trust. In a U.S. estate planning conversation, "trust" means a living trust, a revocable trust, an irrevocable trust — vehicles with a trustee who owes real fiduciary duties and exercises real discretion.

They are not the same thing, and the shared vocabulary caused a decade of over-reporting.

Revenue Ruling 2013-14

On June 24, 2013, the IRS issued **Revenue Ruling 2013-14**, holding that a typical Mexican land trust of this kind is **not a trust** for U.S. federal tax purposes. The reasoning is straightforward: the bank has no power to vary the investment, no duty to manage or protect the property, and no meaningful responsibility beyond holding title. The U.S. beneficiary is treated as owning the property directly.

The consequences are almost entirely favorable:

- **No Form 3520 and no Form 3520-A** for the *fideicomiso* itself, in the typical case.
- **You are treated as the direct owner** of the underlying real estate for U.S. tax purposes — so the gain calculation on sale, the depreciation on a rental, and the step-up in basis at death all work the way they would for U.S. property.
- Before the ruling, the IRS had assessed 3520/3520-A penalties against owners who had not filed. Many of those were subsequently abated or refunded.

> **If you were penalized before 2013 and paid it, or if you have been filing Forms 3520 and 3520-A every year for a beach condo, this is worth raising with your CPA.** Continuing to file

> forms you do not owe is not harmless — each one is a sworn statement about a legal characterization, and the filings are inconsistent with the position you take on your return.

The limits of the good news

The ruling addresses the *typical* residential *fideicomiso*. It is not a blanket exemption for anything called a *fideicomiso*, and the word covers a wide range of arrangements in Mexican practice. The analysis changes if:

- the trust holds **cash, securities, or a business** rather than bare title to real property;
- the bank has **actual powers** — to manage, invest, lease on its own initiative, or distribute proceeds at its discretion;
- the arrangement is a **development, guarantee, or investment trust** rather than a residential title-holding trust;
- the beneficial interests have been **divided among multiple parties** in a way that gives the bank a real administrative role.

Read your *contrato de fideicomiso*. If the bank's obligations extend past holding title and following your instructions, get the document reviewed rather than assuming the ruling applies.

The forms that may still apply

FBAR. The *fideicomiso* itself is real property, not a financial account, so it does not create an FBAR filing. But the Mexican bank account you opened to pay the trust fee, the property taxes, and the *cuota de mantenimiento* is an FBAR account like any other.

Form 8938. Directly held foreign real estate is not a specified foreign financial asset. Where the *fideicomiso* fits is less clean than people assume, and reasonable practitioners take different positions. Discuss it explicitly rather than defaulting to silence.

Schedule E, if you rent it. Rental income from the Cancún condo goes on your U.S. return, in dollars, whether or not it was taxed in Mexico and whether or not the money left Mexico. You deduct real expenses. You depreciate the building — foreign residential rental property placed in service after 2017 uses a 30-year recovery period under the alternative depreciation system, rather than the 27.5 years used for U.S. property. You claim a foreign tax credit for Mexican tax paid on the same income. Airbnb-style rentals in Mexico also carry Mexican IVA and ISR withholding obligations that the platform typically handles; those withholdings are creditable, and you need the *constancias* to prove them.

Form 3520 on death or inheritance. Inheriting a *fideicomiso* interest from a Mexican relative is a foreign inheritance, and Chapter 6 governs it — separately from anything in this chapter.

What to actually do

- Locate the *contrato* and read what the bank is actually obligated to do.

- Confirm with your preparer which position you are taking and why, in writing, in the file.
- If you have been filing 3520/3520-A on a residential trust, ask whether you should stop, and whether prior-year penalties are recoverable.
- Keep every *factura* for improvements. Mexico requires them to increase your Mexican cost basis, and while the U.S. accepts other proof, the *facturas* are the cleanest evidence you will ever have. Chapter 5 explains why this matters more than it sounds.

Chapter 5 — Selling property in Mexico

A property sale is usually the largest single transaction in a cross-border financial life, and it is the one where the two tax systems diverge most sharply. People arrive at closing having planned carefully for the Mexican side and having no idea that a second, independent calculation is waiting on the U.S. side.

What happens in Mexico

The *notario público* is not a notary in the U.S. sense. He is a state-appointed official who executes the deed and acts as a withholding agent for the Mexican tax authority. He calculates the *impuesto sobre la renta* on your gain, withholds it from the proceeds, and remits it. You do not get to negotiate this.

For non-residents, the tax is generally computed as the greater-of-two-methods calculation — a percentage of the gross sale price or a rate applied to the net gain — and the notario will apply whichever the law directs. Your Mexican cost basis is the acquisition value in the deed, indexed for inflation, plus documented improvements. “Documented” means *facturas* with your name and RFC. A renovation you paid for in cash without invoices does not exist for this purpose.

There is a Mexican exemption for a principal residence — *casa habitación* — but it is generally available to Mexican tax residents who can prove residence at the property, subject to a value cap and a frequency limit. Many U.S. owners do not qualify. Those who do sometimes assume the exemption carries over to the United States. It does not. The Mexican exemption has no effect whatsoever on your U.S. return.

What happens in the United States

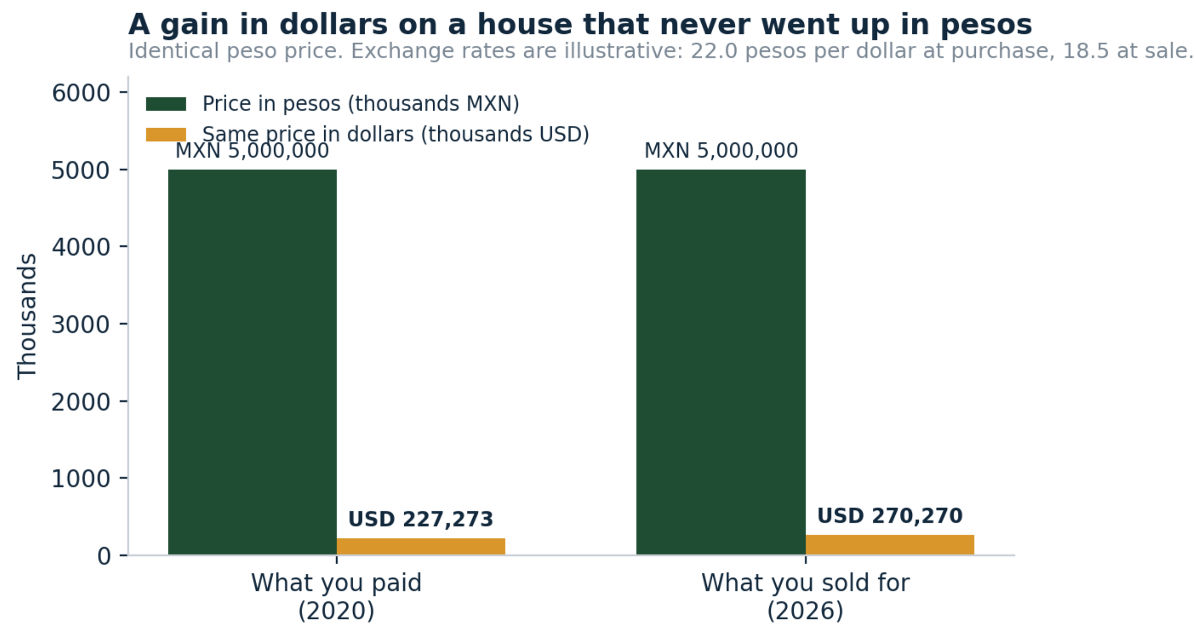
Your U.S. gain is computed in dollars, under U.S. rules, from scratch:

- **Basis** is what you paid, translated to dollars at the exchange rate on the date of purchase, plus improvements translated at the rate on the date each was paid, less any depreciation you took (or should have taken) if it was ever a rental.
- **Amount realized** is the sale price, translated at the exchange rate on the date of sale.
- The difference is your U.S. capital gain, taxed at long-term rates if you held it more than a year, plus the 3.8% net investment income tax if you are over the income threshold.

Notice what is not in that calculation: the peso. The peso appears only twice, as the currency you happened to transact in on two specific dates.

The phantom gain

This is the part that surprises people, and it is where a cross-border advisor earns their keep in a single conversation.



Consider a house bought for 5,000,000 pesos and sold, years later, for exactly 5,000,000 pesos. In peso terms you broke even. Adjusted for Mexican inflation you lost real money. Your Mexican paperwork shows no gain, and the notario may withhold little or nothing.

Now translate it. If the peso was 22.0 to the dollar when you bought and 18.5 when you sold, your U.S. basis is about $227,300 and your amount realized is about $270,300. You have a **U.S. taxable gain of roughly $43,000** on a house that never appreciated. The gain is entirely a currency movement, it is real to the IRS, and there is often little Mexican tax to credit against it — because Mexico, correctly, saw no gain.

It runs the other direction too. Buy when the peso is strong and sell when it is weak, and you have a U.S. *loss* on a property that appreciated in pesos. If it was personal-use property, that loss is not deductible. You get the downside in both directions and the benefit in neither.

Two related traps:

Peso-denominated mortgages. If you borrowed in pesos and repaid the loan in a year when the peso had weakened, you may have a taxable foreign currency gain under Section 988 on the debt itself — separate from the property. Losses on personal-use borrowing are generally not deductible; gains are generally taxable. The asymmetry is unpleasant and easy to miss.

Currency of the deposit. Proceeds that sit in a peso account and are converted later create a second, separate currency gain or loss between the sale date and the conversion date.

Section 121: yes, it can apply

The $250,000 exclusion ($500,000 for a married couple filing jointly) on the sale of a principal residence is not limited to U.S. property. If the Mexican house was genuinely your main home for at least two of the five years before the sale, and you have not used the exclusion on another sale in the prior two years, it applies.

This is a substantial benefit for U.S. citizens retired in Mexico, and it is regularly overlooked because people assume a foreign house cannot qualify. The catch: to the extent you exclude gain, you cannot claim a foreign tax credit for Mexican tax attributable to the excluded portion. You cannot use the same income twice.

The foreign tax credit

Mexican ISR withheld by the notario is generally creditable against U.S. tax on the same income, claimed on **Form 1116** in the passive category.

Two timing problems recur:

Mismatch of amount. Because the two countries compute the gain differently — different basis rules, different indexation, different currency — the Mexican tax often does not line up with the U.S. tax. You can end up with excess credits you cannot use (carry back one year, forward ten) or with U.S. tax remaining after full credit.

Mismatch of year. Mexican withholding happens at closing. If a Mexican refund or adjustment arrives in a later year, the credit may need to be redetermined. Keep the *constancia de retención* and the closing statement; you will need them years later.

What to actually do

- **Talk to someone before you sign, not after.** Almost every planning lever — timing across tax years, establishing Section 121 use, choosing which spouse holds title, sequencing against other income — closes at signing.
- **Reconstruct your dollar basis now**, while you can still find the documents. Original *escritura*, the exchange rate on that date, every improvement invoice with its date.
- **Get the* constancia*.** Without proof of Mexican tax paid, the foreign tax credit is difficult to defend.
- **Plan for the proceeds before they land.** A large peso balance sitting in a Mexican account creates an FBAR filing, currency exposure, and — if someone at the bank suggests a fund to park it in — a brand new PFIC. This is exactly how a clean transaction becomes Chapter 3.

Chapter 6 — Inheritances and gifts from Mexico

Someone dies in Mexico. Months or years later, after the *juicio sucesorio* runs its course, money or property arrives. The family is grieving, the process was long, and nobody involved is thinking about a U.S. information return.

This is the chapter with the worst ratio of penalty to wrongdoing in the entire guide. The inheritance itself is usually not taxable in either country. The form is usually easy. The penalty for missing the form is up to 25% of the inheritance.

The Mexican side, briefly

Mexico has no federal inheritance or estate tax. Property passing at death is generally exempt from ISR for the heir, though large inheritances must be reported on the heir's Mexican return if the heir has one. Transfer of real property triggers a local acquisition tax and notarial costs.

The process is either **notarial** (a *sucesión testamentaria* where everyone agrees and there is a will) or **judicial** (contested, or intestate). Notarial takes months; judicial takes years. During that period the estate exists as a separate thing that may hold bank accounts, collect rent, and earn interest — which matters for the U.S. analysis in a way we will come back to.

The U.S. side: no tax, but yes, a form

There is no U.S. income tax on receiving an inheritance or gift. Not from a U.S. person, not from a foreign person. It is not income.

There is no U.S. estate tax on your Mexican grandmother's estate. The U.S. estate tax applies to the estate of a U.S. citizen or U.S.-domiciled decedent (on worldwide assets) or to a non-domiciled decedent's *U.S.-situs* assets. A Mexican citizen who lived and died in Mexico owning only Mexican property is outside it.

But you file Form 3520. Part IV, for large gifts and bequests from foreign persons, when:

Source	2026 reporting threshold
A nonresident alien individual or a foreign estate	More than $100,000 in aggregate for the year
Foreign corporations or foreign partnerships	More than $20,573 in aggregate for the year (indexed annually)

The $100,000 threshold is **aggregated across related donors**. Your father sends $60,000 and your mother sends $55,000 in the same year: that is $115,000 from related parties and it is reportable, even though neither transfer alone crosses the line. Above the threshold, you separately identify each gift over $5,000.

Form 3520 is filed separately from your Form 1040, at the same due date, and it follows your extension.

The penalty. 5% of the gift per month, capped at 25%. On a $400,000 inheritance reported two years late, that is $100,000 for a filing that generates zero tax. Reasonable cause relief exists and is regularly granted, but it is a process, and these penalties are assessed administratively — meaning they can appear on a notice before anyone hears your explanation.

> This is, per dollar, the most avoidable penalty in this guide. If money or property is coming to you from Mexico, tell your CPA the year it happens — not the year you get around to mentioning it.

Basis: the part that is worth real money

When you inherit property, your U.S. basis is generally its **fair market value at the date of death** — the step-up — under Section 1014. This applies to property acquired from a decedent regardless of whether any U.S. estate tax was paid, and regardless of whether the decedent was a U.S. person.

That is worth a great deal. A house your grandfather bought in 1968 for the equivalent of $4,000 and that is worth $300,000 today comes to you with a $300,000 basis. Sell it the following year for $310,000 and you have a $10,000 gain, not a $296,000 one.

To claim it, you need evidence:

- A Mexican **avalúo** — a formal appraisal — dated as near as possible to the date of death. Order it during the succession process, when it is routine, not five years later when it is an argument.
- The **acta de defunción** establishing the date.
- The *escrituras* transferring title, and the exchange rate on the date of death.

Basis is expressed in dollars, at the date-of-death exchange rate. Everything in Chapter 5 about phantom currency gains applies to inherited property from the moment you own it.

When the estate itself becomes a U.S. reporting problem

If the Mexican succession drags on and the estate holds assets that generate income, the estate may be a **foreign estate** for U.S. purposes, and distributions to you from it are reported in a different part of Form 3520 than a simple bequest — Part III rather than Part IV. If the family used an actual Mexican trust structure rather than a simple succession, the foreign trust rules may apply, with the annual reporting that comes with them.

The distinction between "I inherited money" and "I received a distribution from a foreign estate that has existed for four years" is not obvious to a layperson and matters to the IRS. If the succession took more than a year and the assets earned income during it, say so out loud to your preparer.

Once the money is yours

The day the funds land in a Mexican account in your name, three things become true:

- It is an **FBAR account** (Chapter 2).
- It may push you over the **Form 8938** threshold.

- Someone at the bank will suggest a place to put it, and that place will very likely be a **PFIC** (Chapter 3).

That last one is not hypothetical. A large peso balance attracts a relationship manager. The recommendation is almost always a *fondo* — sometimes a perfectly good one, by Mexican standards, and a permanently expensive mistake for a U.S. person.

The reverse direction: sending money to family in Mexico

Two rules apply.

Gift tax. As a U.S. person you may give $19,000 per recipient in 2026 without filing anything. Above that, you file Form 709 and use part of your $15 million lifetime exemption; you almost certainly do not pay tax. Supporting a parent is a gift, even if you would not call it one, and paying tuition or medical costs directly to the institution is excluded entirely.

The remittance excise tax. Beginning January 1, 2026, a 1% federal excise tax applies to remittance transfers funded with **cash, money orders, or cashier's checks**. Transfers funded from a U.S. bank account or with a U.S.-issued debit or credit card are exempt. For a family sending $600 a month in cash at a *casa de cambio*, that is $72 a year that disappears entirely by funding the same transfer from a checking account.

Chapter 7 — When your spouse is not a U.S. citizen

This chapter describes the largest uninsured risk we see in mixed-status households, and the one that clients are least likely to have heard of. It is not obscure among estate attorneys. It is nearly unknown among the people it affects.

The rule that does not apply to you

When a U.S. citizen dies leaving everything to a U.S. citizen spouse, the unlimited marital deduction applies. No estate tax, no return in most cases, nothing due until the second death. It is so routine that most people assume it is simply how marriage works.

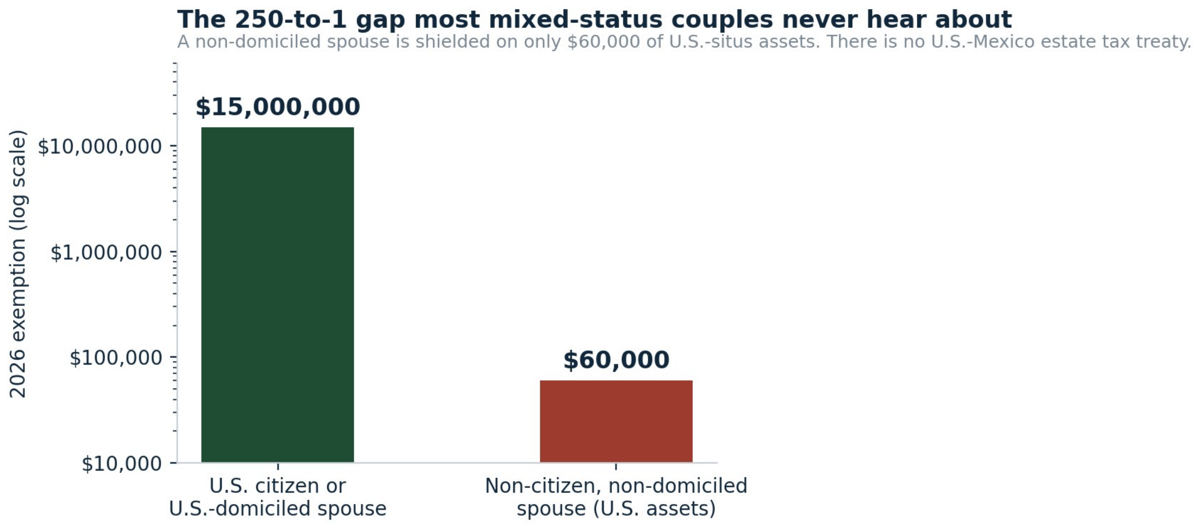
It does not apply when the surviving spouse is not a U.S. citizen. Section 2056(d) denies the marital deduction for property passing to a non-citizen surviving spouse, regardless of how long the marriage lasted, whether the survivor is a green card holder, or whether they have lived in Ohio for thirty years.

The reasoning is administrative rather than punitive: a non-citizen survivor could leave the country with the assets, beyond the reach of the estate tax at the second death. The effect on real families is the same either way.

Three numbers for 2026

Item	2026 amount
Estate and gift tax exemption, U.S. citizen or U.S.-domiciled individual	$15,000,000
Annual gift exclusion, per recipient	$19,000
Annual gift exclusion, gifts to a non-citizen spouse	$194,000
Estate tax exemption, non-domiciled decedent, U.S.-situs assets	$60,000

Two of those sit in a different universe from the others.



The two situations, kept separate

People conflate these constantly. They are different problems with different solutions.

Situation A: the U.S. spouse dies first, leaving assets to a non-citizen survivor.

The marital deduction is unavailable. The decedent's own $15 million exemption still shelters the estate, so for most households this is a filing and planning issue rather than a tax bill. For households above roughly $15 million, or for households that expect estate tax law to tighten, it is a live exposure.

The standard fix is a **QDOT** — a Qualified Domestic Trust under Section 2056A. Assets pass into a trust with at least one U.S. trustee (a U.S. bank must be a trustee above a certain size, or security must be posted). The marital deduction is allowed, and estate tax is deferred until principal is distributed or the surviving spouse dies. Income distributions to the survivor are not taxed for estate purposes; principal distributions generally are, with a hardship exception.

A QDOT can be created by the decedent's will or trust, or — and this is the part worth knowing — it can be established by the surviving spouse after death, with the election made on a timely filed estate tax return including extensions. That is a real second chance, and it has a hard deadline.

Situation B: the non-U.S. spouse dies owning U.S. assets.

A person who is neither a U.S. citizen nor U.S.-domiciled gets a U.S. estate tax exemption of **$60,000** on U.S.-situs assets. Not $15 million. Sixty thousand dollars, with a 40% rate above it, and there is **no U.S.–Mexico estate tax treaty** to soften it.

What counts as U.S.-situs: U.S. real estate, tangible property physically located in the U.S., and shares of U.S. corporations — including shares held through a U.S. brokerage account. What generally does not: U.S. bank deposits not connected with a U.S. business, and certain portfolio-interest debt.

So a Mexican national living in Hermosillo who owns a $900,000 condominium in San Diego and a $400,000 U.S. brokerage account has roughly $1.24 million of exposed U.S.-situs assets against a $60,000 exemption. That is a genuine, unplanned, seven-figure-adjacent estate tax problem, and the family typically discovers it during probate.

Domicile is not residence

Estate tax turns on **domicile** — physical presence plus intent to remain indefinitely — not on the income tax residency tests. A green card holder is generally treated as U.S.-domiciled, which means their worldwide estate, including everything in Mexico, is inside the U.S. estate tax system with the full $15 million exemption available. Someone on a TN or B-1/B-2 with a home in Mexico generally is not.

Domicile can be argued both ways, and the facts that decide it — where you vote, where your family lives, where you are buried, what your visa says about your intent — are facts you create over years without thinking about them.

Community property and titling traps

Mexican marriages under *sociedad conyugal* create shared ownership that does not map cleanly onto U.S. community property rules, and a couple who married in Mexico and moved to a common-law state has a characterization question that affects basis, gifting, and estate inclusion.

Joint tenancy with a non-citizen spouse carries its own trap: for a non-citizen, the general presumption is that the entire value is included in the first decedent's estate except to the extent the survivor can prove they contributed the consideration. Documentation of who paid for what, kept over decades, becomes the whole argument.

What to actually do

1. **Determine domicile for each spouse, deliberately, and write it down** with the facts supporting it.
2. **Inventory U.S.-situs assets** held by the non-citizen spouse. This is the fastest way to find out whether Situation B applies to you.
3. **Use the $194,000 annual spousal exclusion.** Systematic annual gifting to a non-citizen spouse, well documented, moves real money out of the exposed column over a decade.
4. **Get the estate documents drafted by someone who has done this before.** A standard "everything to my spouse" will can produce a QDOT failure that no one discovers until the estate tax return is due.
5. **Consider whether naturalization solves it.** If the non-citizen spouse becomes a U.S. citizen before the estate tax return is filed and has been a U.S. resident continuously since the death, the marital deduction can be available without a QDOT. For many couples this is the cleanest answer available, and it is a question no financial plan can decide for them.

Chapter 8 — Retirement across the border: IMSS, Afore, and Social Security

Three systems, two countries, and a great deal of confidently wrong information circulating in Spanish-language media. This chapter corrects two widespread beliefs — one of them is now obsolete, and one of them was never true.

The good news: WEP and GPO are gone

For decades, the **Windfall Elimination Provision** reduced Social Security benefits for people who also received a pension from work not covered by Social Security — including a foreign pension such as IMSS. The **Government Pension Offset** did something similar to spousal and survivor benefits.

The **Social Security Fairness Act**, signed on January 5, 2025, repealed both, effective for benefits payable after December 2023. The Social Security Administration paid retroactive amounts and adjusted ongoing benefits during 2025.

The practical meaning: **an IMSS pension no longer reduces your U.S. Social Security benefit.** A large amount of Spanish-language content still describes WEP as current law, including material published well after the repeal. If you were told years ago that claiming your IMSS pension would cut your Social Security check, that advice is out of date, and if your benefit was reduced under WEP or GPO in the past, confirm with SSA that your record was corrected.

The bad news: you cannot combine your credits

The United States has totalization agreements with roughly thirty countries. These agreements let you combine coverage periods across two systems to qualify for a benefit in either.

Mexico is not one of them. A totalization agreement between the two countries was signed in 2004. It never entered into force — it requires steps on both sides that were never completed — and Mexico does not appear on the Social Security Administration's list of agreements in effect.

The consequence is concrete and disappointing. Your **semanas cotizadas** with IMSS cannot be added to your U.S. Social Security credits, and your U.S. quarters cannot be added to your IMSS weeks. You must qualify separately in each system: 40 U.S. quarters (10 years) for Social Security, and the applicable weeks requirement for an IMSS pension under whichever regime — Ley 73 or Ley 97 — governs you.

Anyone telling you otherwise is repeating something that was proposed twenty years ago and never happened. Before making a decision that depends on it, verify the current status yourself at ssa.gov, because this is exactly the kind of thing that could change without much fanfare.

> **Planning consequence:** if you are at 34 quarters, the value of four more years of U.S.-covered work — even part-time, even self-employed — is not a marginal increase in benefit. It is the

> difference between a lifetime benefit and nothing. We have seen people retire two years short without knowing it.

Collecting Social Security while living in Mexico

You can. Mexico is not among the countries where SSA is prohibited from sending payments, and benefits can be direct-deposited to a Mexican bank account or to a U.S. account you draw on from Mexico.

Taxation of those benefits is governed by the U.S.–Mexico income tax treaty, which addresses social security payments specifically. The general result under most U.S. treaties is that social security is taxable only in the country paying it — but confirm the current article and its application to your situation with your preparer rather than relying on a general statement.

Medicare does not travel. This is the single most consequential retirement fact for U.S. citizens living in Mexico. Medicare generally does not pay for care received outside the United States. Retirees in Mexico typically use some combination of private Mexican insurance, IMSS voluntary enrollment (*incorporación voluntaria*, which has waiting periods and pre-existing condition exclusions), out-of-pocket payment at Mexican private hospitals, and a decision about whether to keep paying Part B premiums for coverage they cannot use where they live. Dropping Part B and re-enrolling later carries permanent late-enrollment penalties, so the decision is not easily reversed.

The Afore, and why we are careful about it

Your **Afore** is the account; the **Siefore** is the investment fund inside it. Contributions came from your employer, from you, and from the government, and the balance may be substantial by the time you approach retirement.

Its U.S. treatment is not settled, and we would rather say so than give you a clean answer we cannot support. The open questions:

- **Is it reportable on FBAR?** Practitioners differ. Many file, on the view that the conservative position costs nothing.
- **Is it reportable on Form 8938?** More likely yes than no, as an interest in a foreign financial asset, depending on characterization.
- **Is the Siefore a PFIC?** Its economics are those of a fund. Whether the PFIC rules reach it depends on how the overall arrangement is characterized for U.S. purposes.
- **Is the internal growth currently taxable, or does it defer?** There is no U.S.–Mexico treaty provision that clearly gives an Afore the deferral a 401(k) receives. This is the question with the most money attached.
- **Does relief for tax-favored foreign retirement arrangements apply?** The IRS has provided an exemption from certain foreign trust reporting for qualifying tax-favored foreign retirement trusts. Whether an Afore qualifies is a live question.

What we do in practice: identify the position being taken, document why, apply it consistently year over year, and coordinate directly with the client's CPA rather than letting each professional assume the other handled it. What we do not do is tell a client the question is resolved.

Withdrawal decisions carry the same uncertainty. Taking a lump sum from an Afore has Mexican tax consequences and U.S. consequences that may not be symmetric, and the year you take it interacts with everything else on your U.S. return. This is a decision to model before executing, not after.

Putting the three together

For a household with U.S. Social Security, an IMSS pension, an Afore balance, and U.S. retirement accounts, the planning work is sequencing:

- **Which income starts when.** Social Security claiming age, IMSS pension start, Afore withdrawal, and IRA distributions all interact, and only some of them are flexible.
- **Where the low-tax years are.** The gap between retirement and required minimum distributions is often the only window for Roth conversions at a low rate — and if part of that window is spent as a Mexican tax resident, the calculation changes.
- **Which currency the expenses are in.** A retiree in San Miguel spends pesos and earns dollars. That is a real exposure, and Chapter 11 addresses it.
- **What happens to the survivor.** Especially where one spouse's benefits are U.S. and the other's are Mexican, and especially where Chapter 7 applies.

Chapter 9 — If you have not been filing

Some readers reached this guide because a chapter above described something they have never reported. A Banorte account open since 2009. Four years of rental income from a condo in Vallarta. An inheritance from 2019 with no Form 3520 behind it.

Read this chapter carefully and then stop reading and call a professional. This is the one area of the guide where acting on general information is genuinely risky, because the correct path depends on a determination — willful or non-willful — that carries criminal consequences on one side and none on the other.

First, the reassuring part

Most people in this position are not tax evaders. The typical case is somebody who did not know, whose CPA never asked whether they had foreign accounts, and who assumed that an account holding money already taxed in Mexico could not possibly be a U.S. issue. The IRS has procedures built specifically for that person, and they work.

Second, the part that is not reassuring

Do not file amended returns quietly and hope for the best. "Quiet disclosure" — sending in corrected returns and FBARs outside a formal program — is a documented approach that the IRS has stated it may examine and penalize. It also forfeits the penalty protection of the formal procedures. It looks worse, not better.

And do not wait. Every one of these programs requires that the IRS has not already contacted you and has not already received your information from a third party. Mexican banks report to the IRS. The window is defined by their timeline, not yours.

The procedures, as they currently exist

These programs have been modified before and could be modified again — the offshore voluntary disclosure program that preceded them was closed in 2018. Confirm current terms before relying on any description, including this one.

Streamlined Foreign Offshore Procedures. For U.S. persons who meet a non-residency requirement — broadly, physically outside the United States for at least 330 full days in one of the last three years. Requires three years of amended or delinquent returns, six years of FBARs, and a certification of non-willful conduct signed under penalty of perjury. **The miscellaneous offshore penalty is zero.** For a U.S. citizen who has been living in Mexico, this is a remarkably favorable outcome.

Streamlined Domestic Offshore Procedures. For U.S. persons who do not meet the non-residency test — most readers who live in the United States. Same three years of returns and six years of FBARs, same non-willfulness certification, plus a **5% penalty** on the highest year-end aggregate value of the unreported foreign financial assets across the covered period. One penalty, not one per year.

Delinquent FBAR Submission Procedures. If you reported all your income properly and simply never filed FBARs, you may be able to e-file the late reports with a statement of the reason, with no penalty, provided you are not under examination.

Delinquent International Information Return Procedures. A parallel path for missing Forms 3520, 8938, 8621, and similar, based on reasonable cause.

Voluntary Disclosure Practice. For conduct that may have been willful. This is criminal-exposure territory, and the first call is to a tax attorney, not to a CPA and not to us. Communications with an attorney carry a privilege that communications with an accountant generally do not — which is precisely why the sequence of who you call first matters so much.

The word that decides everything

Non-willful means conduct due to negligence, inadvertence, mistake, or a good-faith misunderstanding of the law. **Willful** includes not only intent to evade but "willful blindness" — deliberately not asking a question whose answer you suspected.

You do not get to decide which one you are in the way you might hope. If you checked "no" on the Schedule B foreign account question while knowing you had a Mexican account, that is a fact that has to be dealt with, not narrated around. Getting the characterization right is what the attorney is for, and it is not a step to skip because it is uncomfortable.

Practical sequence

1. **Do not file anything yet.**
2. **Assemble the record**: statements for every foreign account for the last six to eight years, and every year's tax return.
3. **Engage a tax attorney experienced in offshore compliance** if there is any chance the conduct was willful, or if the amounts are large, or if you are unsure. If clearly non-willful and modest, an experienced CPA may be enough — but make the non-willfulness assessment consciously rather than by default.
4. **Then** file, through the right procedure, completely, all at once.
5. **Then** fix the underlying structure — Chapters 2, 3, and 11 — so it does not recur.

> **Our role.** AIO Financial is an investment advisor. We do not prepare returns, represent clients before the IRS, or practice law. What we do is recognize the problem, tell you plainly that it is a problem, help you assemble the account history, and coordinate with the tax professional who handles it. We would rather send you to a lawyer in month one than manage a portfolio around an unresolved exposure for a decade.

Chapter 10 — Moving money, and living with two currencies

The mechanical layer. Less dramatic than the previous chapter and, over a lifetime, worth about as much.

The remittance excise tax

Effective January 1, 2026, a **1% federal excise tax** applies to remittance transfers sent from the United States when the sender funds the transfer with **cash, a money order, a cashier's check, or a similar physical instrument**. The provider collects it at the time of transfer.

Transfers funded from a U.S. bank account, or with a U.S.-issued debit or credit card, are **exempt**.

This has an obvious implication and an easy fix. A household sending $1,000 a month in cash at a *casa de cambio* pays $120 a year in tax that a household sending the same $1,000 from a checking account does not. The tax is small in percentage terms and entirely avoidable in most cases; guidance in this area has been developing since the rule took effect, so confirm the current treatment of your particular transfer method.

The spread is bigger than the fee

Most people compare wire fees. The fee is rarely where the money goes.

A retail bank converting dollars to pesos typically takes 2–4% in the exchange rate itself, quoted as though it were the market rate. On $200,000 of property proceeds, the difference between a 3% spread and a 0.4% spread is $5,200 — for a decision that takes one phone call.

For meaningful amounts, use a specialist FX provider or an institutional platform rather than a branch counter, ask for the rate as a spread over the interbank mid-rate rather than as a quoted number, and get a quote from a second provider before executing. This is one of the highest-return hours available to anyone moving money across the border.

Which currency should you hold?

The general principle is unglamorous and correct: **match the currency of your assets to the currency of the liabilities and expenses they will fund.**

- If you live in the U.S. and plan to stay, dollars. Peso holdings are a currency bet, not diversification.
- If you have retired in Mexico and spend pesos, some peso balance is prudent — enough to cover a year or two of living expenses so that a currency move does not force you to sell investments at a bad moment. Beyond that, holding a long-term portfolio in pesos means accepting Mexican inflation risk and, more importantly, exposing yourself to the PFIC problem if that money gets invested locally.

- If you own property in Mexico and expect to sell it eventually, you already have very large peso exposure. Recognize it as part of your allocation rather than treating the house as though it sat outside the portfolio.

Peso interest rates have generally exceeded dollar rates by a wide margin. That is not free money. Over long periods, higher nominal rates in a higher-inflation currency tend to be offset by currency depreciation — sometimes not, sometimes for years, which is exactly what makes the bet feel like a strategy.

Accounts, practically

Keep a small Mexican bank account if you have Mexican obligations. Paying *predial*, the *fideicomiso* fee, maintenance, and a caretaker from a local account is dramatically simpler than wiring each time. Keep the balance modest and remember it is an FBAR account.

Be cautious about opening a casa de bolsa account. It is the single most common route into a PFIC. If the reason for the account is Mexican market exposure, that exposure is available in U.S.-domiciled ETFs without the tax regime.

If you move to Mexico, deal with your U.S. brokerage before you go. Many U.S. brokerages restrict or close accounts registered to a foreign address, or block new purchases in them. Discovering this after the move, with an account frozen and a Mexican address on file, is a genuinely bad month. Some custodians — including Schwab — have international account structures for U.S. persons living abroad. Handle it in advance.

Keep U.S. banking alive. A U.S. checking account, a U.S. credit card, and a U.S. mailing address make everything from Social Security deposits to tax refunds to identity verification work normally.

Documents, and where they go

Cross-border records are needed years or decades after they are created, usually by someone who was not there. Keep, in one place, backed up, and known to your spouse and your executor:

- Every *escritura* and *contrato de fideicomiso*
- *Facturas* for every improvement to Mexican property
- Purchase-date and improvement-date exchange rates
- Annual statements for every Mexican account, and the highest balance each year
- *Constancias de retención* for every Mexican tax withheld
- The *avalúo* and *acta de defunción* for anything inherited
- Copies of every FBAR, Form 8938, Form 3520, and Form 8621 filed

Chapter 11 — Building a portfolio that works in two countries

Everything to this point has been about not stepping on landmines. This chapter is about the portfolio itself — the part that actually compounds.

Rule one: keep pooled investments U.S.-domiciled

This follows from Chapter 3 and it is the highest-value structural rule in the guide. Every asset class you want is available in a U.S.-domiciled mutual fund or ETF: U.S. equity, international developed, emerging markets, Mexican equity specifically, U.S. Treasuries, corporate credit, inflation-protected bonds, and, if you want it, peso exposure. Own the exposure through the U.S. wrapper.

The reverse also holds for the other direction: a non-U.S. person should generally *not* hold U.S.-domiciled funds without considering U.S. estate tax situs, which is Chapter 7's problem in reverse. A mixed-status household needs both rules applied at once, to different accounts.

Rule two: count the real estate

Mexican property is frequently the largest asset a cross-border household owns, and it is almost never included in the asset allocation. A family with $600,000 in a diversified portfolio and a $700,000 condo in Los Cabos does not have a balanced portfolio. They have a leveraged bet on Mexican coastal real estate with a securities portfolio attached.

The property may be a fine holding. It is illiquid, undiversified, exposed to a single local market, denominated in pesos, and carrying maintenance, insurance, and currency risk. Put it on the balance sheet at a realistic value and let it inform what the liquid portfolio is doing, rather than treating it as a separate world.

Rule three: locate assets by tax character, across both systems

Standard asset location says put tax-inefficient assets in tax-deferred accounts. Cross-border households have additional levers:

- **Foreign tax credits** are generated by foreign dividends held in *taxable* accounts. The same funds in an IRA generate no creditable tax — the foreign withholding is simply lost. Placement matters more here than for a domestic investor.
- **Municipal bonds** are attractive to a U.S.-resident household in a high bracket and considerably less so for someone whose income is largely sheltered by the foreign earned income exclusion or foreign tax credits.
- **Qualified dividend treatment** depends in part on the payer's country having a qualifying treaty with the United States. Mexico does. Many other places do not.

Rule four: use the low-income years

The years between the last paycheck and the first required minimum distribution are the only period most people have real control over their marginal rate. Roth conversions, capital gain harvesting at the 0% rate, and realizing PFIC dispositions all belong in that window.

For cross-border households there is a wrinkle: if some of those years are spent as a Mexican tax resident, or with income sheltered by foreign tax credits, the U.S. marginal rate in a given year may be much lower — or the conversion may generate Mexican tax that offsets the benefit. Model it before executing.

Rule five: plan the retirement location, because it changes the plan

Whether you retire in Tucson or in Mérida changes the healthcare plan, the currency plan, the estate documents, the custodian, and the tax residency analysis. It is not a lifestyle decision that gets bolted onto a finished financial plan. It is an input.

If the answer is genuinely uncertain — and for many of our clients it is, for years — the right response is to build a plan that stays viable under both, which usually means maintaining U.S. banking and custody, keeping the estate documents valid in both jurisdictions, and avoiding structures that are expensive to unwind.

What a good cross-border plan actually contains

- A single balance sheet with **every** asset on it, both countries, in dollars, with the peso ones marked as such
- An explicit PFIC review of every non-U.S. holding
- An asset allocation that includes the real estate
- A reporting calendar with every form and every deadline
- A retirement income sequence covering Social Security, IMSS, Afore, and U.S. accounts
- Estate documents that work in both jurisdictions, with Chapter 7 addressed if it applies
- A named CPA and, where needed, a named attorney, with the advisor coordinating rather than each professional assuming the other has it

Chapter 12 — Choosing someone to work with

Cross-border planning is a small specialty, and the gap between an advisor who does it and one who says they do it is wide. Here is how to tell.

Fee-only, fee-based, and commission

These three terms sound similar and describe different businesses.

Fee-only means the advisor is paid only by clients. No commissions, no revenue sharing, no payments from fund companies, no insurance overrides. The only person paying them is you.

Fee-based — the term is deliberately confusing — means the advisor charges a fee *and* can earn commissions. It is a hybrid.

Commission-based means the advisor is compensated by product sales.

Fee-only does not make an advisor good, and plenty of commissioned advisors serve clients honorably. What it does is remove a specific category of conflict, and in cross-border work that category is unusually dangerous: the products most often sold on commission to internationally mobile families — offshore insurance wrappers, foreign investment bonds, portfolio bonds sold to expatriates — are frequently the exact products that create PFIC problems, foreign trust reporting, and lock-in periods measured in years.

Fiduciary, and when it applies

A registered investment advisor owes a fiduciary duty to clients: to act in their best interest, disclose material conflicts, and put the client's interest ahead of the firm's. Ask directly whether the advisor is a fiduciary **at all times, in every capacity**, or only when providing specific advice.

Then verify it yourself. Every U.S. investment advisor files a Form ADV, and Part 2A describes services, fees, and conflicts in plain language. Form CRS is a two-page summary. Both are free and public at adviserinfo.sec.gov. Read the disciplinary section.

Nine questions worth asking

1. Are you fee-only, and how exactly are you paid?
2. Are you a fiduciary at all times, and will you confirm that in writing?
3. How many current clients have assets in Mexico?
4. What is a PFIC, and how would you handle a client holding three Mexican mutual funds?
5. Will you read my Mexican account statements, or will you ask me to summarize them?
6. How do you coordinate with my CPA — and do you talk to them directly?
7. What happens to my accounts if I move to Mexico?
8. Does my spouse's citizenship affect our estate plan? *(If the answer does not mention the marital deduction or a QDOT, that is your answer.)*

9. What do you not do, and who do you send me to for it?

Question four is the fastest screen in the list. An advisor who has done this work answers it immediately and unprompted mentions Form 8621. An advisor who has not will reframe the question.

What AIO Financial does

We are a fee-only registered investment advisor. We have acted as a fiduciary since 2012, we hold the CFP® designation, client assets are custodied at Charles Schwab, and we manage approximately $200 million for clients. We are paid by our clients and by no one else — no commissions, no product revenue, no referral fees from anyone whose products might end up in your portfolio.

Our cross-border work covers what this guide covers: identifying and unwinding PFIC exposure, structuring portfolios that work whether you live in Phoenix or Puerto Vallarta, coordinating retirement income across Social Security, IMSS, and Afore, addressing the non-citizen spouse issue before it becomes an estate tax bill, and coordinating with your CPA and attorney so that no one is assuming somebody else handled it. We work in English and Spanish, and we have advisors who live the cross-border life our clients do.

We do not prepare tax returns and we do not practice law. We work alongside the people who do.

Our services generally suit households with at least $400,000 in investable assets. That is not a judgment about anyone below it; it reflects the level at which this kind of work pays for itself.

> **If you have read this far, you have a cross-border situation.** The most useful next step is a conversation about which parts of this guide actually apply to you — usually two or three of them, not all twelve. There is no cost for that conversation and no obligation attached to it.
>
> **aiofinancial.com** · Bill Holliday, CFP®

Appendix A — 2026 numbers at a glance

Verify each figure for the year you are filing. Amounts change annually.

Item	2026
FBAR filing threshold (aggregate, highest balance)	$10,000
Form 8938 — single, in U.S.	$50,000 year end / $75,000 peak
Form 8938 — married joint, in U.S.	$100,000 / $150,000
Form 8938 — single, abroad	$200,000 / $300,000
Form 8938 — married joint, abroad	$400,000 / $600,000
Form 3520 — gift from foreign individual or estate	Over $100,000
Form 3520 — gift from foreign corporation or partnership	Over $20,573
Form 8621 filing exception — aggregate PFIC value	$25,000 ($50,000 married joint)
Estate and gift tax exemption	$15,000,000
Annual gift exclusion, per recipient	$19,000
Annual gift exclusion, non-citizen spouse	$194,000
Estate tax exemption, non-domiciled decedent (U.S.-situs)	$60,000
Foreign earned income exclusion	$132,900
Standard deduction, married filing jointly	$32,200
Standard deduction, single	$16,100
Section 121 home sale exclusion	$250,000 / $500,000
Remittance excise tax, cash-funded transfers	1%
Substantial presence test	31 days current year; 183 weighted over 3 years

Sources: Rev. Proc. 2025-32 and IRS published thresholds, current as of publication.

Appendix B — The annual calendar

Date	What is due
January	Gather prior-year statements for every foreign account; record the highest balance in each
February	Request *constancias de retención* for any Mexican tax withheld during the prior year
March	Provide your CPA the full foreign account list, PFIC holdings, and any foreign gifts or inheritances received
April 15	Form 1040 (with Forms 8938 and 8621 attached); Form 3520 (separate filing); Form 709 if gifts exceeded the annual exclusion; FBAR due — automatic extension to October 15
June 15	Automatic filing deadline for U.S. persons living abroad (interest still accrues from April 15)
October 15	Extended Form 1040 and FBAR final deadline
December	Roth conversion and capital gain decisions; confirm annual gifting was completed; review whether tier or complexity has changed

Mexican deadlines run on their own calendar — the *declaración anual* for individuals is generally due in April — and coordinating the two is easier when your CPA knows both are happening.

Appendix C — What to gather before your first meeting

You do not need all of this to have a useful conversation. Bring what you have.

Identity and status

- Citizenship or immigration status for each spouse, and the date of any green card
- Approximate days spent in the United States in each of the last three years, if you live in Mexico

United States

- Last two years of tax returns, including all international forms
- Statements for all investment, retirement, and bank accounts
- Copies of any FBARs filed

Mexico

- Statements for every Mexican bank and brokerage account, with the highest balance each year
- A list of every Mexican fund held, with purchase dates and cost
- Afore statement, and IMSS *semanas cotizadas* record if available
- *Escrituras* and any *contrato de fideicomiso*
- *Facturas* for improvements to Mexican property
- Documents for any inheritance in progress or completed: *acta de defunción*, *avalúo*, succession paperwork
- Details of any Mexican insurance policy with a cash value, including *seguro dotal*

Plans

- Where you intend to live in retirement, and how confident you are about it
- Whether Mexican property is likely to be sold, kept, or inherited
- Any transaction expected in the next twenty-four months

Disclosures

AIO Financial is an investment advisor registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. A copy of our Form ADV Part 2A and Form CRS is available on request and at adviserinfo.sec.gov.

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