


# **alexander beard**

(USA) Inc.



The only financial guide you need as a  
British expatriate living in the USA



## Introduction

Moving the great distance from the United Kingdom to the United States of America can be a daunting move even before you begin to consider the practicalities. Once the excitement dies down however, and you start to think about the detail, there is unfortunately a labyrinth of rules and regulations to get your head around, particularly when it comes to finance.

Not only will you have to think about practical everyday things, such as getting a bank account and organising mortgage or rental payments, there are also higher level financial planning considerations to contend with. The US taxation system, for example, which has always been famously complex, has recently added extra layers of complexity, which can really hurt expatriates in particular.

Alexander Beard Group is an international services organisation with offices in six countries, including the USA. We specialise in helping families and individuals with their financial planning needs when they move from country to country, easing the journey by providing advice both from our head office here in the UK and our locations around the world.

In this guide, we'll share our expertise with you, talking you through all of the considerations you'll need to be aware of when you make the move to the US, starting with the small things you'll want to get sorted immediately and moving on to bigger considerations such as your pension.

Whilst the later topics in this guide may seem daunting, they are real difference makers when it comes to your wealth. A poor decision regarding your pension, savings or investments could see you lose tens of thousands of pounds to taxation, penalty charges or poor exchange rates. We'll walk you through these elements in everyday language, explaining what may at first seem complicated concepts as we go.

We hope this guide helps you in your move to the United States or, for those who are already there, helps you to get a better hold of your financial affairs. If we can be of any more assistance, our contact details can be found towards the back of this publication: we'll be happy to hear from you and to point you in the right direction.

Best wishes for your new life in the USA,

**The Alexander Beard Group**



## Everyday finances; bank accounts, currency exchange and more

Before you start to deal with the really big and important questions about your wealth, it's likely that you will need to consider a few practical measures first.

### Bank accounts

A first financial step for your move to the States is likely to be to organise at least one bank account. Many movers abroad often start their journey with the idea of completing their new account set up when they arrive, but when it comes to the US in particular, and many other territories besides, there is really no need.

Many of the banks in the UK have a presence in the US, which can make it easier to get your account set up. The bank will be aware of your past banking in this country which negates any problems around credit history that might occur in the process. Depending on which bank you are with, some even offer an international account transfer service which can streamline the process even further. Do check carefully for any fees and less-than-optimum rates though, which can make these services cost more than they are worth.

If you do decide to wait until you get to the States to set up an account, or are already there without one, then try to pull together everything you can to give the bank the best chance of saying 'yes' to your account application!

You will need a Passport and potentially other forms of ID and some US banks may insist on a social security number. If you can print off your UK banking history and provide elements such as proof of funds or proof of income, this may also help your case. Do be aware that banks will often charge in the US, even for a relatively simple account, so shopping around for the best deal is vital.

### Exchanging cash

Taking the easy option when moving money into a foreign currency might only cost a few pounds when we go for a week away somewhere, but when it comes to transferring your cash assets, the difference a good exchange rate can make compared to a bad one can be huge.

You are likely to be taking your assets abroad and securing the best deal for the transfer of this money can make a big difference to your wealth, as the below case study shows.





## Everyday finances; bank accounts, currency exchange and more (continued)

### Case study

#### Preparing to move by transferring money into US Dollars: bank or specialist exchange?

Bank exchange rates and those of specialist exchange services can vary by quite a distance, but let's say for the purpose of this example that there is a \$0.05 difference between the convenient and visible bank and the specialist exchange service: the bank are offering \$1.53 to the pound, whilst the exchange service offer \$1.58 to the pound. This difference, of somewhere around 3%, is not unusual to see.

If the family were to opt for the bank's rate, for a £250,000 transfer, their return in dollars would be \$382,500, whereas opting for the improved rate of the specialist exchange would mean their return was \$395,000, a pretty staggering difference of \$12,500. That's not far from being four months salary, assuming you were paid the US 2014 average of \$40,560. Would you like to give away nearly four months salary to the bank? We're not sure we would either!



## Everyday finances; bank accounts, currency exchange and more (continued)

### Budgeting and health care

Before completing your move to the US, or soon after you get there, it is a good idea to complete a household budget and assess your likely costs. As with any move abroad, it is likely that you will incur some new charges which need to be planned for whilst also having the opportunity to make potential savings elsewhere.

#### Health care

One such area in the US in particular is likely to be healthcare. Where the UK has the National Health Service, there is currently no nationalised plan in place in the US, meaning private medical care is the way forward for many.

#### Visas

A 'forgotten cost' of moving to many areas of the world, a Visa may seem inexpensive compared to the other costs of emigrating to the US, but can lead into thousands if including lawyer costs which is an inconvenient cost to bear; particularly if it comes during a period where much of your money is being transferred into a different currency! Research carefully which, if any, US Visa you will need and then don't forget to factor in the cost when the time comes.



## Taxation

The US taxation system differs from the UK system in that you will need to pay tax at both a national (federal) level and at a state level. The federal level is set nationally by income and other familiar tax methodologies, but the state level differs on a state-by-state basis.

If you were to retire in Florida, for example, there is no retirement state income tax. However, if you were to retire in California, then your pension income will be taxed Federally and by the state.

Bearing the above differences in mind when emigrating is important, but even more important is to get proper and formal advice from a registered US tax specialist with appropriate cross-border permissions. Whilst a financial planner will be able to give you advice on arranging your investments, we would always recommend also employing a tax specialist to make sure you are fully prepared for the US taxation system.

### FATCA

Though fairly complicated in its application, FATCA is actually very simple to understand and the main point is this: the new FATCA system, which is now 'live' in the US, is particularly onerous for British expats living in America. FATCA needs to be carefully planned for, to decide if you have any liability. Following this, the correct forms need to be submitted to the IRS.

#### What is FATCA?

FATCA stands for the Foreign Account Tax Compliance Act. The Act was created by the US government in response to the huge amount of tax dollars it misses out on each year thanks to the money being kept offshore and either deliberately not reported by its owners, or legitimately forgotten about on US tax returns. The US estimates that it loses \$100 billion annually in unpaid tax from monies kept offshore, so it's easy to see why they are so keen to claim some of the money back!

#### How does it work?

This is where it gets slightly complicated but, to keep things simple, FATCA, rather than being an out-and-out tax itself, is basically a mandate compelling foreign institutions to report money they are holding on behalf of US taxpayers. These institutions include banks, which will clearly often hold funds on behalf of US owners.

The other half of the equation also compels taxpayers to reveal any offshore monies that do not currently fall into US taxation, via a new IRS submission.

If the US judges a taxpayer not to have revealed foreign-held assets, which it is more likely to do because of the first part of FATCA, then the IRS can issue steadily escalating fines, which even at the early stages can be significant. Non-filing can also be penalised via a fine.

#### Why are UK expats affected?

Expats in the USA are particularly likely to be affected by FATCA because they are far more likely than the average US citizen to have overseas funds, normally in their original country of origin. With an unfamiliar IRS tax return to fill in as it is, correctly accounting for any funds that need to be reported may not be simple for expatriates, potentially leading to FATCA fines and further action.

Though not specifically designed to target expats living in the USA, FATCA is certainly likely to have an effect and is something you will need to plan for thoroughly before your move.



## Taxation (continued)

### UK Assets

Because of FATCA, extra care will be needed when it comes to leaving assets in the UK. The UK banks are part of the FATCA arrangement and are obligated to report on assets held for those resident in the US.

Aside from FATCA, the US and the UK have a robust double taxation agreement, which should mean that tax is paid in only one country. Usually this will mean that you will be taxed at source in the UK, although there is an option to apply for a UK NT (No Tax) code that allows income to be paid without UK tax and then taxed in the US.

As with all taxation and investment affairs when moving to the US, it is imperative to take professional financial advice. The cross-border movement of assets is a complicated area, as is UK and US tax and a mistake in these areas can have the potential to seriously damage your wealth.

### UK and offshore investments

**If you are considering leaving investments behind in the UK, care needs to be taken to ensure they are IRS compliant.**

Common investment solutions such as investment ISAs (not cash ISAs), onshore and offshore capital investment bonds, unit trusts and collective investment trusts are all considered a Passive Foreign Investment Company (PFIC). The provider of these investments have an obligation through FATCA to report information to the Internal Revenue Service and should they be deemed a PFIC, a 30% withholding tax is charged. This makes your UK and offshore investments very tax inefficient.

Quite often, people leave these types of investments behind as they believe they retain their tax efficiency as a US resident. They also want to take advantage of potentially better GBP / US\$ exchanges rates in the future therefore would prefer to retain GBP outside of the USA.

### FATCA Friendly GBP denominated investment solutions

At Alexander Beard, we can offer GBP denominated investment solutions so you can still have your money invested but in a compliant manner. At a time of your choosing you can either disinvest without penalty, and transfer funds to the US or retain the investment outside of the US but denominated in US\$. These solutions will really help you to control how your money is invested, without risk of PFIC withholding charges, as well as making it much easier to manage your foreign currency requirements.

## Pensions

When it comes to your pension, some thought will be needed regarding when and how you would like to receive your pension income, if you would like to continue paying into your pension and in which country you will reside when all of this happens.

This can be a complicated equation to work out, as the below sections will show, but chief amongst the logistics must be your personal requirements. Settling on how, when and where you plan to retire can mean your pension can be optimised for those eventualities, invested in the right way, at the right time and place.

As with most of the complicated elements of emigrating abroad, we would strongly recommend that you take independent financial advice, to ensure that your pension is organised exactly how you need it to be.

### QROPS

QROPS is an established way to transfer your pension savings from your UK pension scheme into a scheme in another country. You can then continue to save into your scheme in that country, under your new schemes' rules, or begin to take your pension income in your new country of residence, when the time comes.

QROPS stands for Qualifying Recognised Overseas Pension Scheme and only certain pension schemes outside of the UK are granted the QROPS' 'stamp of approval'. To be classed as QROPS, the foreign pension scheme must satisfy HMRC that it both meets certain conditions and that it will keep HMRC updated if its approach to these conditions changes.

### QROPS transfers to the USA

Whilst the legislation will permit a transfer from a UK registered pension scheme to a QROPS in the USA, and there are some US pension schemes on HMRC's official QROPS list, our understanding is that transfers to the USA are not currently allowed under US Internal Revenue rules because they will only permit 'rollovers' (pension transfers) from other US schemes.

The fact that any overseas scheme that meets the prescribed conditions could be registered with HMRC as a QROPS does not, therefore, in itself mean that the scheme concerned will actually be permitted to accept the transfer.

The traditional way around this for many people moving to the US has been to move their UK pension to a QROPS scheme in a third country, which the US will allow access to. Malta has always been one of those destinations, as well as the Channel Islands and the Isle of Man.

In our opinion and the majority of cross border tax specialists we work with, a transfer to a QROPS whilst the individual is US resident is a taxable event. FATCA reporting will show the Internal Revenue Service that a QROPS transfer has been made and therefore the individual is at risk of getting a significant tax bill. The problem is further compounded by the types of investments that are commonly used in QROPS not being FATCA compliant and treated as a Passive Foreign Investment Company (PFIC). These types of investments incur an additional 30% withholding tax.

As you can see, pension transfers as a US tax resident are still highly complicated and it is vital to get proper advice before you commit to moving your pension via one method or another.





## Pensions (continued)

### AMVEST

AMVEST is a new Alexander Beard Group product which presents a solution to the UK-to-USA pension movement problem. We believe it is well worthwhile for all UK expats to investigate AMVEST as a solution to the above difficulties that can arise from other approaches.

AMVEST works by keeping your pension under UK rules, but investing your pension funds in US\$ at a time of your choosing, using one of America's leading fund managers. You have access to financial advice from a US-based investment adviser, rather than having to deal with someone in Malta or the Channel Islands, and you can access your account online 24/7. Because the account is under UK rules, you can still take a UK tax-free lump sum from age 55. All benefits, including your lump sum can be paid in US\$ or GB£.

As AMVEST is a UK based pension it is automatically excluded from FATCA reporting therefore for a US resident it is a much more attractive prospect than a QROPS. A transfer to a QROPS could potentially be a taxable event to the IRS.

## Further help

As recommended at several points during this guide, professional advice is highly recommended on several levels and can make a huge amount of difference to your wealth. A mistake in taxation could leave your pension seriously diminished, for example, or your other assets at risk.

To talk to one of Alexander Beard Group's Financial advisers in the USA, simply contact us using the details below:

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