

Top Ten (Twelve) Investment Mistakes Made By Americans Abroad

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Thun Financial Advisors Research

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Editor's Note:

We realize that our "top ten" mistakes lists twelve mistakes. At the risk of excluding a mistake of which readers should be aware, we're leaving twelve top-ten worthy mistakes to avoid.

1) Buying foreign mutual funds. Foreign mutual funds may seem attractive to an American living abroad. However, in the view of the IRS, a foreign mutual fund is considered a Passive Foreign Investment Company (PFIC) and is a tax nightmare for U.S. tax filers. If you are a U.S. citizen or a U.S. permanent resident who has been living and working outside the U.S. and investing your savings through a non-U.S. financial institution, you need to understand PFICs quickly. PFICs are subject to special, highly punitive tax treatment by the U.S. tax code. Not only will the tax rate applied to these investments be much higher than the tax rate applied to a similar or identical U.S. registered investments, but the cost of required accounting/record-keeping for reporting PFIC investments on IRS Form 8621 can easily run into the thousands of dollars per investment each year.

2) Doing Nothing. Many American expats find themselves so overwhelmed by the complex rules and many horror stories they have heard about investing while living abroad that they are covered into taking no

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We maximize long-term wealth accumulation for our clients by combining an index allocation investment model with strategic tax, currency, retirement and estate planning. We guard our clients' wealth as though it was our own by emphasizing prudent diversification with a focus on wealth preservation and growth.



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ten, the tax preparer with little or no expertise in expat tax preparation will fail to do even the most basic research on special reporting requirements, relevant income tax treaties, the application of foreign tax credits, etc. We're not telling you that your existing tax preparer is purposefully misleading you, but we are certainly suggesting that finding out years from now that your tax preparer confidently continued to prepare your returns without considering the requirements of X, Y, and Z can be hazardous to your financial health.

12) Not understanding U.S. retirement account contribution rules when you have foreign earned income. Many Americans who move abroad incorrectly assume they can no longer contribute to U.S. retirement accounts such as IRAs, Roth IRAs, or 401ks. Others make the mistake of continuing to contribute without understanding the special rules that affect the eligibility of Americans abroad to continue to contribute. Finally, those eligible, often contribute without making a full analysis of the local tax implications of a contribution and unwittingly set themselves up to be double taxed on the income contributed because they did not fully understand the complex interaction of their local tax obligations and their U.S. tax obligations.

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Thun Financial Advisors Research is the leading provider of financial planning research for cross-border and American expatriate investors. Based in Madison, Wisconsin, David Kuenzi and Thun Financial Advisors' Research have been featured in the *Wall Street Journal*, *Emerging Money*, *Investment News*, *International Advisor*, *Financial Planning Magazine* and *Wealth Management* among other publications.



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