



# **A Guide to Investing and Financial Planning for Americans Living Abroad**

- **The high cost of investing through foreign investment firms**
- **Tax and legal implications of investing in non-U.S. funds**
- **Managing currency risk**
- **Rules for proper portfolio management while living abroad**
- **How to benefit from tax advantaged retirement accounts while living abroad**
- **Implications of FATCA (Foreign Account Tax Compliance Act)**
- **Family matters: taxation strategies for cross-border families**
- **How to choose an advisor**

**2019**

## Introduction

### ***Problem: How to make years abroad as financially rewarding as possible***

Many Americans find that years spent abroad turn out to be the most financially rewarding of their lives. However, while careers advance and bank accounts grow, expats are often too busy to develop a winning long-term investment plan. The predicament is compounded by the complex tax, logistical, and strategic planning considerations faced by Americans living outside the United States. The good news is that these issues can be successfully managed and need not impede the implementation of a sound long-term wealth accumulation plan. While recognizing that each individual situation is unique and requires its own set of solutions, this report identifies key issues that confront almost all expatriate Americans when it comes to investing and managing their finances.

Topics addressed include:

- Where to maintain banking and investment accounts
- Currency exposure and global investing
- Implications of FATCA (Foreign Account Tax Compliance Act)
- Portfolio construction
- Retirement planning
- Cross-border families
- Finding the right investment advice

More in-depth treatment of these topics is provided in additional proprietary research available on [www.thunfinancial.com](http://www.thunfinancial.com).

### **DO AMERICANS NEED TO WORRY ABOUT CROSS-BORDER PLANNING IF THEY ARE NOT YET ABROAD?**

**Yes, absolutely.** Beginning planning before moving abroad is important, because prior knowledge can prevent many of the [“Top Ten Investment Mistakes Made by Americans Abroad”](#), can avoid the future closure of accounts, and can allow the soon to be expat to make changes in her American investments in preparation for the change in her situation. However, many Americans (often because of the stress of the move itself) lack time to do this research, and even if they do the requisite research, they cannot implement their plan. Given these challenges, many affluent Americans choose to establish a relationship with an advisor who can help them before they leave the country.

## Where to Bank and Invest

### ***Problem: Should Americans abroad keep their cash and investments in the U.S., country of residence or offshore?***

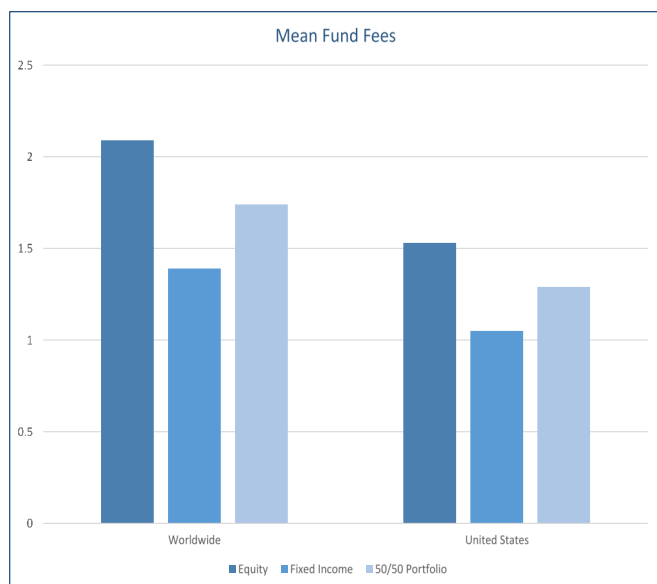
Americans abroad often end up investing through financial institutions in their place of residence or in popular financial centers such as London, Switzerland or Hong Kong. This is especially true when living abroad becomes a permanent or semi-permanent situation. However, when a full accounting is made of all factors that need to be considered, investing through non-U.S. financial institutions is almost always a costly mistake for Americans. **Why?**

1) **Fees:** Whether one chooses to go with a large reputable investment bank headquartered in Switzerland or venture into the world of “offshore” banking, a large part of an investor’s potential gain will be consumed by the very high fees charged by non-U.S. financial institutions. These fees are high everywhere in the world, but they are still much lower in the U.S. than anywhere else. A recent study in the *Review of Financial Studies* of mutual fund fees by country found that among 18 developed Euro-

pean, American and Asian markets, fees in the U.S. were by far the lowest. For example, average expenses for mutual funds sold in Switzerland, the UK and Canada were 43%, 50% and 279% higher, respectively, than in the U.S. The numbers are especially striking for money market funds, where returns are very low to begin with: Swiss money market fund expenses average 1.14% while in the U.S. the average was 45% less.<sup>1</sup> If an investor goes further afield into the world of “offshore” investing (in places such as Lichtenstein, Cyprus and the Cayman Islands) fees, commissions and transaction costs will be even higher than already costly European investments.

2) **Investment access and liquidity:** U.S. financial markets provide greater global investment access and liquidity than any other market in the world. There is virtually no investment anywhere in the world that cannot be bought easily and inexpensively on U.S. markets. For example, almost every publicly traded company in the world lists its shares for trade on U.S. exchanges as well as in their home country. The vast and competitive U.S. fund industry makes virtually every global asset class open to efficient and low cost investment through U.S. accounts. Liquidity for investments such as ETFs (Exchange Traded Funds), global stocks, bonds and commodities is higher in the U.S. than other global financial centers. High liquidity reduces transaction costs and raises long-term rates of return on investments.

3) **Taxes:** Taxes are the next big reason that Americans should stay away from non-U.S. registered investments. Long-term investors in U.S. securities benefit from a low capital gains tax rate (15-20%). Additionally, taxes are paid on a deferred basis (only when the investment is sold). For U.S. taxable investors, neither of



Source: “[Mutual Fund Fees Around the World](#)”

these significant tax advantages apply to investments in mutual funds, hedge funds or other kinds of pooled investments not incorporated in the U.S. Rather, such non-U.S. securities are classified by the IRS as Passive Foreign Investment Companies (PFIC) and are subject to a special, highly punitive tax regime (see box, p. 6). PFIC rules can easily push tax rates on investment income to as high as 60-70%. Furthermore, the new FATCA legislation (see box, p. 9) dramatically increases the ability of the IRS to enforce compliance with these rules and ratchets up penalties for non-compliance.

- 4) **Reporting:** The complexity of the U.S. tax code makes year-end accounting statements provided by U.S. brokerages invaluable. U.S. brokerage firms like Schwab and Fidelity supply their clients with detailed activity reports in the required IRS format segregating dividends, qualified dividends, taxable and non-taxable interest income, and short and long-term capital gains, to name only the most important categories, each of which requires distinct tax treatment. Non-U.S. institutions generally do not provide this kind of detailed reporting.
- 5) **Compliance:** If cumulative assets held by an American citizen at financial institutions outside the U.S. at any time exceed \$10,000 they must be reported to the U.S. Treasury for that year. In addition, financial assets held at non-U.S. financial institutions exceeding \$50,000 (\$300,000 for U.S. taxpayers not resident in the U.S.) must now be on annual U.S. tax returns as a result of FATCA. Both the taxpayer and the non-U.S. financial institution must report on assets held by U.S. citizens. Filing the required documentation may increase the likelihood of an IRS audit. Penalties for not filing are severe and IRS resources being directed at enforcement have increased significantly in recent

years. (See the corresponding boxes on PFIC (p.6) and FATCA (p.9)).

- 6) **Safety:** Regulatory standards in global banking centers range from very high (Switzerland) to almost non-existent in some of the more exotic offshore banking locales. FDIC deposit and SIPC investment insurance automatically cover all U.S. accounts, but are unavailable for non-U.S. accounts.



***Recommendation: Keep investment accounts in the U.S. and bank accounts in country of residence***

For the reasons discussed above, we advise American citizens to maintain investment accounts in the U.S. In addition, Americans abroad should open local bank accounts in their country of residence. Local income and living expenses should be managed through this local account to avoid the expense of constantly converting between currencies. Money allotted for savings and investment, however, should be moved to the U.S. account and invested.

## Currency Management and Global Investing

***Problem: How can Americans abroad best manage the impact of big currency swings and diversify investments globally?***

While Americans have to be aware of the pitfalls of taking their money out of U.S. institutions, this does not mean that they should not be invested globally. On the contrary, Americans abroad who expect to remain outside the U.S. for an extended or indefinite period of time need to manage their long-term currency risk by matching the currency denomination of their investments with the currency in which they expect to incur the bulk of their future expenses (such as home mortgage payments, college costs and retirement expenditures). For example, an American who is a long-term resident of Europe and who expects to raise and educate children and possibly retire there should have a large share of their investments in European stocks and bonds. Matching the currency of likely future expenses to assets in this manner limits the risk that large currency swings will upend long-term planning goals. For Americans who expect to return to the U.S. after only a few years abroad, a more dollar focused investment strategy is warranted: U.S. stocks and bonds should constitute the largest part of the portfolio and smaller allocations should be made to international securities to maintain diversification.

***Recommendation: Invest in a diversified, multi-currency portfolio of global assets***

We recommend that Americans abroad pay particular attention to the importance of maintaining global diversification and avoid a common bias towards U.S. investments. Many expatriate Americans are not sure where their careers and lifestyles will take them. For these investors, a very

broadly diversified multi-currency portfolio therefore makes the most sense. For Americans planning long-term residence in Europe, a portfolio with a large component of European stocks and bonds makes the most sense. Buying foreign stocks and bonds does not require working with a foreign broker. A diversified portfolio of European stocks, for example, can usually be bought more cheaply through a discount U.S. broker than through a European broker.

## Portfolio Management

***Problem: What special considerations apply to building an investment portfolio while living abroad?***

Fundamental principles of portfolio management apply equally no matter where in the world the investor lives; however, asset allocation changes. Local currency and economic conditions need to be factored into the investment portfolio to get the right mix of exposures. Currency and global diversification are the most salient of these factors. To be successful in the long run, investors need to focus on four issues when making investment choices:

- 1) **Currency and geographic diversification:** Currency management strategy is a complement to, but not a substitute for, proper investment portfolio diversification. All investors, wherever they live, need to invest in a broad array of assets, including U.S. stocks, international stocks, bonds, emerging markets, real estate and commodities. Proper diversification can substantially mitigate losses incurred during a severe market downturn. This, in turn, helps sustain portfolio stability and reduces the risk that the investor will sell out near a market bottom as a result of either need or

emotion. Decades of academic research and real world investor outcomes confirm that diversification is the only way to maximize returns for a given level of risk.

2) **Risk:** Within a broadly diversified portfolio, the relative weight of higher return/higher risk investments (stocks, commodities) versus lower risk/lower return investments (bonds) needs to match the risk profile of the investor. Generally, as retirement approaches, investors should reduce exposure to a large market downturn by steadily increasing the weight of

bonds in their portfolio. Many other factors—job security, near-term spending plans, or expected college expenses for example—also impact this calculation. Building in the right amount of risk is critical to providing the returns necessary to meet planning goals without being overwhelmed by the impact of market volatility.

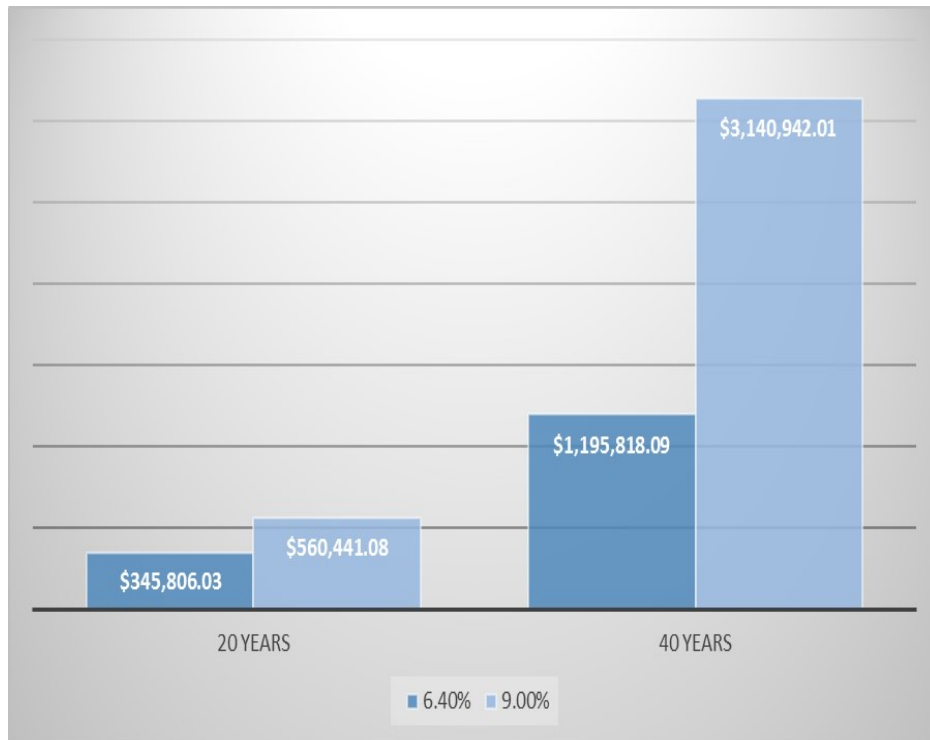
3) **Expenses:** The ability of professional stock pickers and strategists to “beat the market” has repeatedly been shown to be exceedingly rare. A study of the performance of all U.S. Large

## PASSIVE FOREIGN INVESTMENT COMPANIES: WHAT AMERICANS ABROAD NEED TO KNOW

**Passive Foreign Investment Company (PFIC)** rules are one of the least understood aspects of the U.S. tax code that impacts cross-border investors. These rules are designed to discourage Americans from moving money outside of the United States to avoid taxes. Any non-U.S. incorporated investment fund that derives 75% of its income from passive activities is by definition a PFIC. This includes virtually all hedge funds and mutual funds incorporated outside the United States. The details of the PFIC rules are complex but boil down to a default taxation formula whereby all capital gains are taxed at the highest current marginal tax rate (currently 37%). Unlike U.S. funds, there is no favorable long-term capital gains treatment. To make matters worse, the IRS assumes that all gains were made ratably over the entire holding period, and then assesses interest on the gains that were deferred during the holding period. This formula often results in total taxation rates above 50%. Owners of PFICs can elect an alternative taxation method called “mark-to-market,” but only if the election is made in the initial year of reporting the asset. This method requires taxes to be paid annually on increases in market value at the highest marginal tax rate (currently 37%). Unlike mutual funds, then, there is no tax deferral until sale and no lower capital gains rate. Additionally, losses cannot be used to offset other capital gains. Finally, these expenses don’t include the significant costs for tax preparation.

Ultimately, PFIC taxation is so punitive that non-U.S. investment funds are unlikely to provide returns that compensate for these negative tax consequences. Nevertheless, many tax preparers are either unfamiliar with the rules or simply unaware of the registration of their clients’ investments. Previously, this rarely created a problem because the IRS didn’t have the tools to enforce the PFIC rules. However, FATCA legislation (designed to stop U.S. taxable persons from using non-U.S. accounts to avoid taxes.) imposes new reporting rules on all non-U.S. financial institutions, requiring those institutions to provide detailed reporting on accounts owned by Americans. Thus, the IRS can determine easily whether investments in those accounts are PFICs.

*THIS IS AN OVERVIEW OF PFICs. FOR A DETAILED REPORT PLEASE SEE THUN’S [RESEARCH REPORT ON PFICs](#)*



*The difference in total return on a \$100,000 investment at 9.0% and at 6.4% (average equity index return and average equity mutual fund return respectively) over 20 and 40 years.<sup>2</sup>*

Company mutual funds over 20 years found that the average fund underperformed the S&P 500 stock index by 2.6% per annum.<sup>2</sup> A European study looking at the period 1975-2006 found that a mere 0.6% of all fund managers succeeded in consistently picking more winners than losers.<sup>3</sup> The biggest reason for this dismal record lies in the high fees charged by fund management companies and brokerage firms. With long-run, annual stock market returns averaging around 9%, sacrificing 2.6% of an investment to annual fees and expenses will reduce the total return on an investment by 39% over 20 years. Over 40 years the investment return will be reduced by 62%. This is why investors must pay close attention to the cost of investing their money.

4) **Tax Management:** A less obvious but still very serious impediment to long-term investment success is poor investment tax management.

Portfolios with high turnover not only incur high commission and trading expenses, but also trigger taxation of capital gains earlier and at higher rates. A stable, low turnover portfolio that defers taxation and benefits from the low long-term capital gains rate will generate dramatically better after-tax returns than a fund that performs equally well on a pre-tax basis but which has high turnover.

***Recommendation:*** Use modern investment tools such as exchange traded funds to build a stable, diversified portfolio with the right amount of risk; manage investments to maximize returns on an after-tax, after-fee basis

These recommendations are especially relevant to Americans abroad because of the unfortunate tendency of many expats to change investment strategies as frequently as they change countries and to pay unnecessarily high investment fees (which are

## DOUBLE TAXATION AND BILATERAL INCOME TAX TREATIES – KEY POINTS

- The United States maintains income tax treaties with approximately 70 foreign countries (see [Appendix A](#)). These treaties are designed to reduce the incidence of double taxation.
- Tax treaties generally do not reduce the U.S. tax burden of Americans abroad, but may reduce double taxation.
- Some (but not all) bilateral tax treaties provide mutual recognition of tax preferences for retirement plan accounts such as IRAs, 401ks company pension plans and their non-U.S. equivalents. They may also provide special provisions for the taxation of public pension plan benefits such as Social Security.
- The U.S. has estate tax treaties with ten European countries as well as with Australia, Canada, Japan, Switzerland and South Africa. These treaties are critical in arbitrating the complex interaction of U.S. estate tax rules (applied on the basis of citizenship and residency) and foreign estate and inheritance tax rules. Cross-border families with significant assets need to work with qualified estate lawyers familiar with cross-border estate planning and the role played by these estate tax treaties.
- “Totalization Agreements” are designed to coordinate the benefits of the U.S. Social Security system and the other treaty country’s national pension system. They allow U.S. citizens to get “credit” in the U.S. Social Security system for contributions made to a foreign pension system, or credit in the other country for contributions made to U.S. Social Security.
- Totalization agreements can be especially important for self-employed U.S. taxable persons abroad, because they can reduce or eliminate the need to pay the U.S. 15.3% self-employment tax.

often times hidden in complex derivative structures and nontransparent investment funds). These mistakes are easily avoidable. Modern investment tools such as index mutual funds and exchange traded funds give investors all the tools needed to build a globally diversified portfolio of assets. No matter where they live, American investors working on their own or with the assistance of an advisor can (with some exceptions) open an account at one of the large U.S. discount brokerage firms and successfully employ these principles to build a winning long-term investment portfolio.

### Retirement Planning for Americans Abroad

***Problem: Benefiting from the significant tax advantages of qualified retirement accounts is difficult because of their complexity, especially when the special tax implications of living abroad are factored in.***

Understanding how to properly employ tax advantaged retirement accounts is particularly vexing for Americans abroad because they often do not have the easy option of simply enrolling in their company’s 401k plan. Rather, Americans abroad must proactively learn how to employ IRAs, Roths and SEPs, and country of residence retirement ac-



counts to fill the gap. Over a lifetime of saving and investing, these accounts can provide enormous benefits not only in terms of tax savings, but also in terms of asset protection in litigation situations and estate planning. But investors need to very carefully navigate the complex rules governing these accounts to avoid mistakes that might trigger unnecessary taxation or even the loss of tax deferred status. Furthermore, optimizing the tax advantage of these accounts also requires careful calculation of how stock and bond investments are allocated between taxable and tax-deferred or tax exempt accounts. For the self-employed, proper use of retirement savings accounts is particularly important because of the onerous tax regime imposed by the U.S. on Americans with self-employment income derived from non-U.S. sources. Generally, Americans employed abroad by non-U.S. employers can escape the self-employment tax altogether. But any American living abroad with self-employment (Schedule C) income must pay the full 15.3% tax (unless exempted by a bilateral “totalization agreement”). The burden is compounded by the fact that the U.S. tax rules limit deductions when calculating the amount of non-U.S. sourced self-employment income subject to the tax. However, these disadvantages can be offset by the unique ability of self-employed individuals to shield large amounts of income from the federal income tax through the recent innovation of the “individual 401k.” A simplified version of the cumbersome company 401k, the “individual 401k” offers self-employed entrepreneurs a chance to defer up to \$55,000 a year of self-employment income.

Finally, before contributing to any U.S. qualified retirement account, Americans abroad must make sure they understand country of residence tax treatment of such accounts. Bilateral tax treaties between the U.S. and some countries recognize the

special tax status of these accounts in the country of residence. But other countries treat U.S. retirement accounts as if it were any normal taxable investment account (see box, p. 8).

### ***Recommendation: Learn how to make full use of tax advantaged retirement accounts***

Investors have zero ability to affect the performance of stock and bond markets. However, taxpayers have the power to pay more or less in taxes depending on how well they manage the tax impact of our investment strategies. Proper tax management can add as much as 3% of total annual return to a stock portfolio.<sup>4</sup> At that rate, an investor can add an additional 100% of total return to your investment account in 24 years, simply by making good strategic tax choices.

Proper employment of tax deferred or tax exempt investment accounts is a critical element of long-term investment success. Americans abroad should take full advantage of these opportunities; the trick is to understand how they work.

Understanding these details requires a lot of homework or the advice of a well-qualified international advisor. Investors should avoid non-U.S. retirement accounts (unless recognized as U.S. qualified by a bilateral tax treaty). These structures have no special tax status as far as the IRS is concerned and often will incur the highly punitive wrath of the PFIC taxation regime. Finally, expats should make sure to understand how country of residence tax law treats U.S. retirement accounts.

## WHAT IS A CROSS BORDER FAMILY?

Thun Financial uses the term “cross-border” broadly to refer to any investment planning circumstance that involves families of mixed nationality and/or whose financial affairs extend across borders. Cross-border families include Americans living abroad, U.S. residents of foreign origin, and non-U.S. residents who are investing within the United States. Such families commonly have a mix of citizenships and/or immigration statuses. Cross-border families typically hold a range of financial assets and business interests that are subject to taxation in more than one national jurisdiction.

### Cross-Border Families

***Problem: Many Americans who live abroad end up marrying non-Americans. From an investment and financial planning point of view, this can create opportunities as well as dilemmas***

***Recommendation: Use the tax code to keep as much money as legally possible away from U.S. taxation***

The planning strategy should be to keep as much income as possible out of the taxation jurisdiction of the IRS. There are a variety of ways to do this in mixed marriages. For example, if the non-U.S. spouse is earning significant income then “married filing separately” is the appropriate election when it comes to U.S. taxes. This election limits deductions and credits, but prevents the IRS from taxing the non-citizen spouse’s income.

Husbands and wives also need to plan carefully around estate and gift tax issues. At death, there is no limit to the size of the estate that can be transferred tax free to a surviving U.S. citizen spouse. However, if the spouse is not a U.S. citizen, estate taxes will be immediately imposed at a rate of 40% on the entire taxable estate amount.

The estate tax exemption amount is \$11.4 million (2019). This means that assets only in excess of this amount will be subject to the estate tax. However, for a wealthy U.S. citizen with a non-Resident

Alien spouse, it is important to recognize that this exemption amount applies to assets left to the non-Resident Alien spouse without benefit of the unlimited exemption amount that prevails when both spouses are U.S. citizens. In certain circumstances, trusts can also be used to address this problem.

Spouses can also transfer up to \$155,000 a year (2019) to their non-citizen spouse gift tax free. This provision can provide a very useful planning device for Americans with spouses who have residence in a lower tax regime country. By making an annual spousal gift, the money can be permanently removed from the tax purview of the U.S. government, both in terms of capital gains and dividend income taxes, and estate taxes.

The U.S. tax code provides a plethora of tax advantaged ways to save for your children’s education. Coverdell accounts and 529s are usually the best options. Americans abroad are often surprised to find that many universities outside the United States are “qualified” institutions: this means that tax-free distributions from these accounts can be used to pay tuition and expenses at these non-U.S. schools. Furthermore, because of the large amounts of money that can be sheltered from taxation through 529s, these accounts have great value as long-term estate planning tools in the right circumstances

## How to Choose an Advisor

**Problem:** *Brokers and advisors outside the United States do not understand how U.S. taxation works, and most brokers and advisors in the U.S. do not understand the special issues of Americans abroad. How can I choose a proper advisor?*

**Recommendation:** *Seek out the advice of a “fee-only” Registered Investment Advisor with experience working with expats.*

Fee-only advisors are compensated only by their clients. By not taking commissions or maintaining fee splitting agreements with fund companies and brokerages, the potential for conflict of interest

between the client and advisor is reduced.

**Why Registered Investment Advisors (RIAs)?** RIAs are legally bound to act as fiduciaries to their clients. That is, they have a legal obligation to put the clients’ interests ahead of their own. Brokers are not RIAs and do not have a fiduciary obligation to their clients.

**What to avoid?** Avoid relying on investment advice from advisors such as stock brokers or insurance agents, who are compensated by selling products through commissions and fee sharing agreements with the issuers. In these situations, the advisor is likely to recommend investments based on the size of their potential compensation rather than the quality of the investment and strategy. Additionally, investors should be especially careful when considering investments registered in “off-shore” locations. There is a high incidence of fraud among these operations. Even legitimate investment schemes in these regions typically lack investor safe-guards that exist in the U.S. Finally, understand the tax rules regarding investments outside the United States.

### NOTES

<sup>1</sup> Khorana, A., Servaes, H., and Tufano, P., “Mutual Fund Fees Around the World,” *The Review of Financial Studies* v 22 no 3, 2008.

<sup>2</sup> Arnott, R., Berkin, A., and Ye, J., “How Well Have Taxable Investors Been Served in the 1980s and 1990s?,” *Journal of Portfolio Management*, Summer 2000

<sup>3</sup> Barras, L., Scaillet, O. and Wermers, R., “False Discoveries in Mutual Fund Performance,” *Swiss Finance Institute*, no. 08-18, 2008.

<sup>4</sup> Jeffrey, R.H. and R.D. Arnott. “Is your Alpha Big Enough to cover its Taxes?” *Journal of Portfolio Management*, Spring, 1993.

### MANAGING ONE’S OWN INVESTMENTS

Modern information technology and the internet have made “do it yourself” a serious option for those expats who are prepared to make a substantial and ongoing time commitment to learning the applicable taxation issues and the theory and practice of sound portfolio management. Accounts can be established at a discount broker in the U.S. and securely managed over the internet from anywhere in the world.

If going it alone, expat investors should focus on simplicity:

- Mimic a “lazy portfolio” like the one offered by David Swenson, the head of the Yale University Endowment in his book *Unconventional Success*
- Be sufficiently diversified
- Avoid investing in funds that supposedly “only go up” like Bernie Madoff
- Pay attention to the tax consequences of investment decisions

## 2010 FATCA Legislation Changes the Playing Field for Americans Abroad

The Foreign Account Tax Compliance Tax Act (FATCA) became law in 2010. FATCA is designed to increase compliance by U.S. taxpayers with reporting requirements for foreign financial accounts. The legislation is expansive and affects both taxpayers and foreign financial institutions that provide financial services to U.S. persons (U.S. citizens and U.S. permanent residents). Key elements of the law include more onerous reporting requirements and higher penalties. Most significantly, however, are the reporting demands placed on global financial institutions that will result in a high degree of transparency for the IRS to see non-U.S. assets and transactions of Americans. Note these specifics:

- In addition to the current FBAR reporting requirement whereby American citizens are required to report to the U.S. Treasury any foreign financial assets worth more than \$10,000, FATCA requires Americans to separately report foreign holdings exceeding certain thresholds to the IRS on Form 8938 (the reporting threshold is \$300,000 for U.S. taxable person not resident in the U.S.). Both reporting requirements are triggered if assets exceed these amounts at any point in the year. The new IRS reporting requirements include detailed information about account holdings and transactions. Penalties for failure to file the FBAR or form 8938 start at \$10,000 but can go much higher depending on account size and circumstances.
- All non-U.S. financial institutions will be required to make detailed reports to the IRS on accounts owned by U.S. persons, or be subject to a 30% withholding on all U.S. sourced payments. The implication of this provision is that non-U.S. financial institutions will either refuse to service U.S. citizens or they will comply with the strict mandatory IRS reporting requirements.
- Any U.S. Person who owns PFICs (see box, p.7) must now report the onerous form 8621 on each separate PFIC investment every year (previously required only in years when distributions were made).
- The statute of limitations for IRS audit is extended from 3 years to 6 years in cases where more than \$5,000 is omitted from gross income and the sum is attributable to foreign assets.

As of 2018, all parts of FATCA are being enforced. Foreign financial institutions began mandatory reporting in 2014. In addition to the measures relating to the implementation of the FATCA law, the IRS has significantly expanded its enforcement activity with respect to assets held by U.S. taxable persons outside of the United States. The FATCA compliance and reporting environment fundamentally changes the investment and financial planning game for Americans abroad. Americans with financial assets outside the U.S. must assume the IRS has full transparency to see these assets. Many of the special rules that apply to foreign assets that for decades could be conveniently ignored must now be given full attention. Failure to understand and comply with these rules may result in very substantial penalties, back taxes, interests and attorney's fees.

## Appendix A: List of U.S. Bilateral Tax Treaties

- Armenia
- Australia\*
- Austria\*
- Azerbaijan
- Bangladesh
- Barbados
- Belarus
- Belgium
- Bulgaria
- Canada\*
- China
- Cyprus
- Czech Republic
- Denmark\*
- Egypt
- Estonia
- Finland\*
- France\*
- Georgia
- Germany\*
- Greece\*
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- Pakistan
- Philippines
- Poland
- Portugal
- Romania
- Russia
- Slovak Republic
- Slovenia
- South Africa\*
- Spain
- Sri Lanka
- Sweden
- Switzerland\*
- Tajikistan
- Thailand
- Trinidad
- Tunisia
- Turkey
- Turkmenistan
- Ukraine
- Union of Soviet Socialist Republics (USSR)
- United Kingdom\*
- Uzbekistan
- Venezuela

*\*Indicates a bilateral estate and/or gift tax treaty or protocol*

As of the 2018 edition of this report, this was the most current information available on the [irs.gov](https://www.irs.gov) website. Visit the IRS's website for the most current and up-to-date official information available.

**For further reading from Thun Research, please consult:**

[“American Expats’ Tax Nightmare”](#) by [David Kuenzi](#) in *Wall Street Journal*

[“FATCA: What US Expats Need to Know”](#) by [David Kuenzi](#) at *Thun Financial Advisors Research*

**Cross-border investment strategies:**

[“Top Ten Mistakes Made by Americans Abroad”](#) by *Thun Financial Advisors Research*

**Tax and Legal implications of investing in non-US funds**

[“PFICS”](#) by [David Kuenzi](#) at *Thun Financial Advisors Research*

**Benefitting from Tax Advantaged Retirement Accounts While Abroad**

[“IRAs, Roth IRAs and the Conversion Decision for Americans Living Abroad”](#) by [David Kuenzi](#) at *Thun Financial Advisors Research*

**Retirement Abroad for Americans**

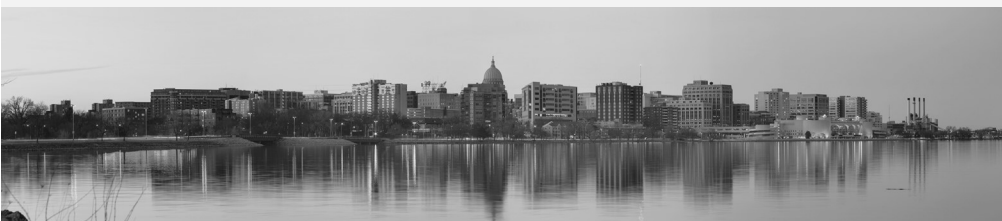
[“Social Security for American Expats and Retirement Abroad”](#) by *Thun Financial Advisors Research*

**Estate Planning for cross-border families:**

[“International Estate Planning for Cross-Border Families”](#) By [R. Stanton Farmer](#) in *Thun Financial Advisors Research*

*We also frequently host [webinars](#). View archived webinars [here](#).*

**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’s 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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