Our goal is to help non-US citizens and cross border families living and working in America implement effective investment strategies and take full advantage of the opportunities to create wealth offered to them in the United States.

BAOBAB WEALTH ABROAD

Covers financial topics specifically for **resident** and **non-resident aliens**.

FINANCIAL PLANNING FOR FOREIGN NATIONALS IN THE UNITED STATES

Moving overseas can be very exciting, and yet overwhelming. This guide will simplify financial issues and help you navigate the US financial and tax system.

JAMES MILLER
FOUNDER OF
BAOBAB WEALTH MANAGEMENT

Baobab Wealth Abroad is a fee-based financial advisory firm for expats that provides real value to clients, putting their interests first and offering complete transparency with fees, services, and philosophies.

www.BaobabWealthAbroad.com

INTRODUCTION

> Growing old is mandatory. Doing it well is optional.

As a non-US citizen living and working in the United States, you face many new challenges when it comes to learning and understanding a completely new financial and tax system. Pension plans, taxation of income (both here and abroad), and investments, along with retirement accounts and estate planning considerations can seem overwhelming. This often leads to inaction and mistakes.

You probably moved to the United States for a job, an adventure, and new experiences. Moving overseas can be very exciting, and yet overwhelming. This guide will simplify some issues and help you navigate the new financial and tax system in the United States. We want to make sure that you are able to take full advantage of your time in America, as well as avoid the most common mistakes that expats here make.

This guide will cover...

- The most common financial mistakes that expats in the US make.
- The tax system in the US and how it can/will affect you, globally.
- Investing in the US and how to take advantage of the opportunities you have.
- Utilizing your employer's retirement plans most effectively.
- Considerations of obtaining a Green Card or staying permanently in the US.
- Taking your money with you if/when you leave the US.

TAXES IN THE UNITED STATES

There are two categories in the United States that aliens (Foreign Nationals) fall into for tax purposes: resident or non-resident. If you are not a US Citizen, you are automatically considered a non-resident alien, unless you hold a green card or meet the substantial presence test.

Definition from the IRS (Internal Revenue Service) website...

> You will be considered a United States resident for tax purposes if you meet the substantial presence test for the calendar year. To meet this test, you must be physically present in the United States (U.S.) on at least:
>
> 1. 31 days during the current year, and
> 2. 183 days during the 3-year period that includes the current year and the 2 years immediately before that, counting:
>   - All the days you were present in the current year, and
>   - 1/3 of the days you were present in the first year before the current year, and
>   - 1/6 of the days you were present in the second year before the current year.

EXAMPLE:

You were physically present in the U.S. on 120 days in each of the years 2023, 2014, and 2025. To determine if you meet the substantial presence test for 2025, count the full 120 days of presence in 2025, 40 days in 2024 (1/3 of 120), and 20 days in 2023 (1/6 of 120). Since the total for the 3-year period is 180 days, you are not considered a resident under the substantial presence test for 2025.

Like most countries, you have to pay taxes in the United States if you are living and working within the United States. You also have to pay taxes on your worldwide income while living in the States. What is different about the US though, is that it has a citizen-based taxation system. This means that if you are a US citizen (or permanent resident, like a Green Card holder), you must pay taxes in America on worldwide income regardless of where you are living. This is discussed in more detail in the section on considerations of obtaining a Green Card or staying permanently in the US.

KEY POINT

If you are a US citizen (or permanent resident, like a Green Card holder), you must pay taxes in America on worldwide income regardless of where you are living.

COMMON MISTAKE

Not realizing you need to report and pay taxes on your bank accounts and investments in your home country (or anywhere in the world) while you are living and working in the United States.

This is the first and one of the biggest mistakes that expats in America make. This is also something that many people are not happy about while living and working in America. What do your bank accounts and/or investments back in your home country have to do with your work in America? Nothing to be honest, but that is not the way the system works here, unfortunately. This is an important issue to consider before deciding to accept a job in the United States and does stop some people from accepting a job or coming to live in America.

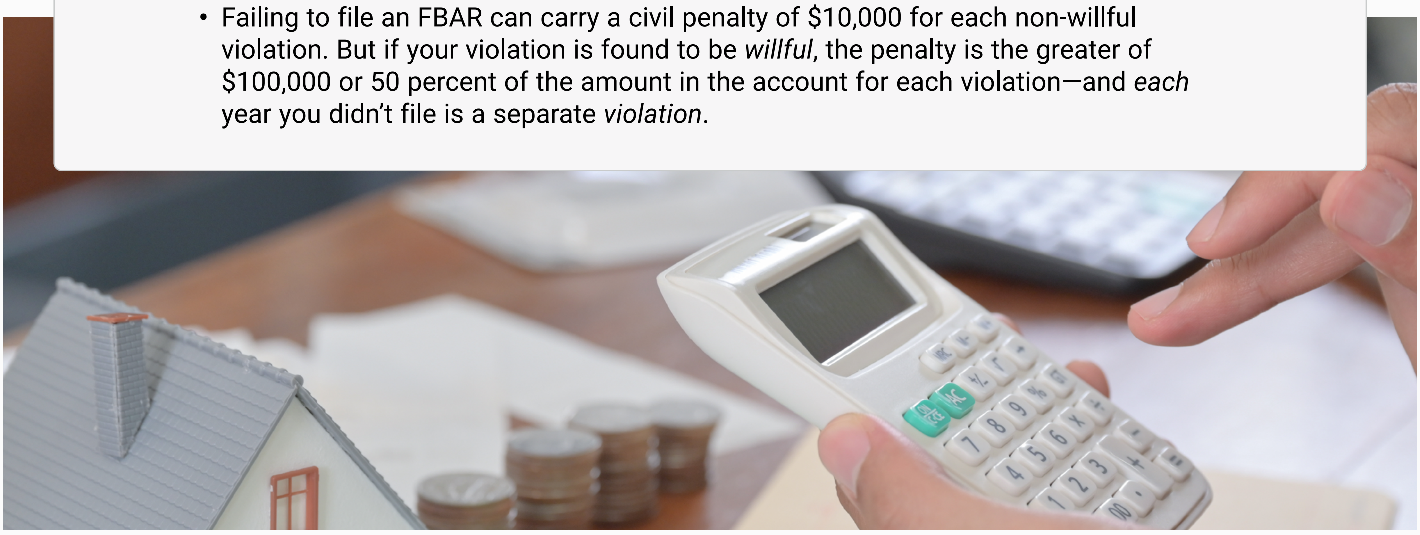
HERE'S HOW IT WORKS:

If you have bank and/or investment accounts totaling more than $10,000 USD (in aggregate), during any day of the year, anywhere in the world, you are required to report those bank and/or investment account(s) to the IRS using something called the FBAR (Foreign Bank Account Reporting). This is due to the IRS by April 15th of the following year (tax day).

Many people do not realize this requirement or choose not to report their accounts overseas. This is risky and can lead to very large penalties, and the chances of getting caught became much higher with the passage of new legislation called FATCA (The Foreign Account Tax Compliance Act) in 2010. This law requires that all non-US banks and financial institutions report your accounts to the IRS in America if they know you are a US person or subject to tax in the United States. Some people get away with not reporting their overseas assets, but as the world becomes more and more connected, getting away with this has become increasingly difficult.

The penalty for not reporting your overseas income, bank accounts, and/or investment accounts is…

- Failing to file an FBAR can carry a civil penalty of $10,000 for each non-willful violation. But if your violation is found to be *willful*, the penalty is the greater of $100,000 or 50 percent of the amount in the account for each violation—and *each* year you didn't file is a separate *violation*.



TAX TOXIC INVESTMENTS

Not all overseas investments are considered equal under the laws of the IRS in America. And just reporting your overseas investments on the FBAR doesn't satisfy all the requirements if you hold something called a PFIC (Passive Foreign Investment Company). These are pretty much any type of pooled investment vehicle that is registered outside of the United States and includes…

- Mutual Funds not registered in the US (even if the fund company is from the US).
- ETFs not registered in the US.
- Foreign pensions or retirement schemes.
- Tax Sheltered investments in tax-havens like Isle of Mann or Cyprus.
- Non-US cash value life insurance.
- Non-US Money markets

COMMON MISTAKE !

Not getting rid of tax toxic investments, like PFICs before coming to the United States.

NOTE FOR EUROPEANS

It is easy to find funds that appear identical in both Europe and the U.S., such as the Vanguard 500 index. However, it is NOT the same fund. It may be managed by the same company, but the US version and the European version are different funds legally. If you are a European living in America, and you own the European version of a Vanguard fund, you own a PFIC and have created a tax nightmare for yourself.

Any fund in Europe that is also considered a UCITS fund (Undertakings for the Collective Investment in Transferable Securities) will be considered a PFIC for U.S. tax purposes as well. If you are living in the U.S. and subject to U.S. taxation, you should avoid UCITS and PFICs.

The requirements for reporting on, and paying taxes on these types of investments are extremely time-consuming and tax toxic. The IRS estimates that it takes about 22 hours of filing paperwork to report each PFIC owned by a US taxpayer. And the tax rates for PFICs can be over 50% as well. Here are the tax reporting requirements for PFICs if you would like to have a look.

These laws were not created to make your life difficult (although they can). They were created in an attempt to stop US citizens from attempting to hide money (and not pay taxes) overseas. Even so, they make life very difficult for expats living and working in the United States and should be handled very carefully. If you are unsure if your investments in your home country (or outside of America) are PFICs and need to be reported in the US, give us a call and we can help you determine this.

YOUR EMPLOYER'S RETIREMENT PLAN

> Most people don't plan to fail, they fail to plan.

401k, 403b, SEP, Pension, etc.

Almost all companies in America that hire foreign workers (expats), will offer some type of retirement savings plan that you may be able to participate in while you are working in the States. The most common form of retirement plan is called the 401k plan.

The 401k plan, in its simplest form, is just a savings account that you may elect to contribute some of your salary to each pay period. The plan will offer several different investments (usually mutual funds) that you can choose to invest in. The different investments will range from very conservative (or guaranteed interest investments), to very aggressive investment choices based on the stock market.

KEY POINT

You are always fully vested (you own the money 100%) in the contributions that you put into a 401k (or other retirement plans) in America.

On top of any money that you choose to put into the retirement plan at work, your employer will usually also put money into the plan for you, in order to help you save even more towards retirement. This can be a set dollar amount but is usually a percentage of your salary. You may have to work for a company for a certain period of time before you become 'vested' in this money and it actually becomes yours. If you are not 'vested' in some or all of the money your employer has contributed on your behalf when your employment ends, the employer gets to keep that portion of the account.

Traditional 401k or Roth 401k?

Most companies nowadays have two choices in their retirement plan where you can contribute your money, the Traditional plan, or the Roth plan.

This is a very important choice to make and can have huge implications for expats, especially those who plan to leave America at some point in time and would like to take their money with them.

COMMON MISTAKE !

Not understanding the difference between Traditional and Roth, and selecting the wrong choice based on your future goals.

Traditional Plan

This plan has been around the longest and is the most utilized plan in America. This doesn't mean it is automatically the best choice for you though! This plan allows you to put your money into the plan **before** you pay taxes on the money. Many people like this option because it offers them tax savings today (they pay fewer taxes today by putting money into the plan before paying taxes on that money).

Not only does your money go into this plan before you pay any taxes, once it is in the plan, it grows tax-deferred as well. This means that you don't pay any taxes on any of the interest or growth from your investments until retirement (or when you take the money out). The government in the United States has set the retirement age for these plans at 59.5 years old. That doesn't mean you have to retire at that age, it just means that you have to keep your money in the plan until that age to receive all the benefits of the tax deferral.

If you do take your money out of a Traditional plan before you turn 59.5 years old, you will have to pay taxes (like you earned the money at your job), plus a 10% penalty for early withdrawal. These rules generally make the Traditional plan the incorrect choice for expats in America who do not plan on becoming citizens at some point and remaining in the United States permanently. We see many expats who want to take their retirement money with them when they depart America lose almost 50% of their account balance to taxes and penalties — *ouch!*

Roth Plan

The Roth plan is a newer plan in America and allows you to invest some of your salary from work in the same plan, but after your money has been taxed. This means that you pay tax on your earnings and then save it in the plan. This does not give you the benefit of immediate tax savings, something most Americans are after, but it does have several benefits you should understand as an expat.

Because you put your money into the Roth plan after-taxes, the money grows tax-free. If you wait until that magical age of 59.5 years old set by the government, you are able to withdraw your money (all of your money, including any interest or growth from the investments) completely tax-free! This is a considerable benefit to people — both Americans and expats — that can delay the gratification of small tax savings today for no tax obligations later in life. This is also usually (99.9% of the time) the best option for expats…

This is because if you do decide to take your money when you leave America before you are 59.5 years old, you will only pay taxes and/or penalties on any interest or growth that the account has earned. You will never pay any further taxes or penalties on the money that you contributed to the plan while you were working. This can make a huge difference in the amount of money you are able to take with you when you are finished with your American adventure!

HERE'S AN EXAMPLE OF TWO EXPATS...

Expat A and **Expat B** both came to America to work at the same company three years ago. They both started on the same day and went through the same orientation. Expat A chooses to put 10% of his salary into the Traditional 401k plan the company offered. Expat B chooses to put the same 10% of her salary into the Roth plan. Both make exactly the same salary ($100K a year) and put in the same amount of money. *Let's see how it works out for them...*

A Tale of Two Expats

Our story begins with two expats, each contributing 10% of their $100K per year salary to a retirement plan for 3 years. The company also contributes 5% each year as a match.

EXPAT A

Chooses to invest savings into the Traditional 401(k) plan the company offers.

Contributions from salary	$30,000
5% of his salary matched by the company over 3 years	$15,000
Earns 5% interest on the investments	$4,651
Amount in **Traditional Plan** the end of year 3	**$49,652**
Tax savings over 3 years	$6,600

EXPAT B

Chooses to invest savings into the Roth plan.

Contributions from salary	$30,000
5% of her salary matched by the company over 3 years	$15,000
Earns 5% interest on the investments	$4,651
Amount in **Roth Plan** at end of year 3	**$49,652**
Tax savings over 3 years	$0

Time to Leave America and Take the Money Home

What happens when they withdraw their entire balance before they reach **59.5 years old**?

Expat A

Initial Withdrawal	$49,652
Tax owed on the balance. (Income puts expat into the **24% tax bracket**)	$11,916
10% penalty owed for being under 59.5 years old	$4,965
Amount **IRS takes** when he leaves	$16,881
+$6,600 received in tax savings over the 3 years working in America (which he didn't save as it was just a bit more in each paycheck every month).	
How much money actually goes home	**$32,771**

Expat B

Initial Withdrawal	$49,652
Tax owed on the balance. (Only owed on the **$4,651 of interest**)	$1,023
10% penalty owed (Only owed on the **$4,651 of interest**)	$465
Amount **IRS takes** when she leaves	$1,488
No tax savings on paycheck each month	
How much money actually goes home	**$48,164**

KEY POINT

The Roth Plan at your employer is almost always the better choice for expats working in America!

Social Security

Probably similar to the country you moved from, there is a government run old-age pension scheme in America. It is called Social Security. This provides a monthly pension to retirees in America that starts between the ages of 62 (reduced amount) and age 70 (maximum amount).

You, and everyone working in America, will contribute 6.2% of your salary to this pension scheme. This is a mandatory tax in America and cannot be opted out of. You will also pay an additional 1.45% of your salary in Medicare tax for the old age government health care insurance. This is also mandatory.

Unfortunately, you cannot apply to get any of this tax money back when/if you decide to leave the United States. Unless you plan to stay and work for more than 10 years (the minimum amount of time you have to pay into this system to be eligible for a benefit), you won't receive any benefit from paying these taxes in America.

If you do end up staying long term in America, this benefit can become very valuable to you. The United States also has treaty agreements with many other countries, called totalization agreements, which allow you to receive or transfer your benefit in America to your home counties' retirement pension scheme if you have paid into the system for a long enough time. Please contact us if you would like more information on this subject and how it may affect you.

> The first step to wealth is clarity.

INVESTING WHILE IN THE US

The United States has income tax treaties with a number of foreign countries (65 in 2025). Under these treaties, residents (not necessarily citizens) of foreign countries (both in America and abroad) may be eligible to be taxed at a reduced rate or exempt from U.S. income taxes on certain items of income they receive from sources within the United States. These reduced rates and exemptions vary among countries and specific items of income.

It is important to understand if your home country has a tax treaty or totalization agreement with the United States and how this could be an advantage to you. Many treaties between the U.S. and EU countries allow for very tax-advantaged investing for European Union Citizens in the United States. Germans, for example, pay no tax on capital gains from stock investments and income from many debt instruments, like bonds, are also tax-free in the United States for Europeans.

COMMON MISTAKE !

Not understanding (and taking advantage of) the tax treaty benefits that may be applicable to you when investing in the United States.

There is no financial market in the world that has the regulation, scale, liquidity, or low fee structure like America does. This makes utilizing the American financial markets for investing very attractive to both foreigners living in America, as well as those outside of America. Although fees have been coming down significantly all over the world, America is still the least expensive place to invest, the most highly regulated (safest from scams), and has the most liquidity.

Utilizing the financial markets in America does not mean investing only in America, or in American companies, although you can do that. Almost every major corporation worldwide that is publicly traded is available for purchase in the American financial markets. Companies realize that America has the biggest financial market in the world and issue shares and bonds in America.

COMMON MISTAKE !

Not understanding the increased safety, regulation, lower fees, and liquidity provided by investing in the United States.

This means that you can use the financial markets in America to build a completely European stock and bond portfolio if you wish. All while doing so with much lower fees, more liquidy, and safety than you could accomplish this in Europe for example.

For this reason, many expats working in America are actually choosing to bring the money they have invested in their home country (usually Europe) over to the United States. Once they understand how the financial markets work in America, as well as the tax treaty benefits, they realize they can be more tax and cost-efficient while building their wealth faster within the American financial system.

Many expats are also choosing to leave their investments in America, even after they have departed. This is due in part to the ease of managing investments online these days and also because it is more tax and cost-efficient to do so. Finding and building a relationship with a trusted expat specific financial advisor can also help, as many expats feel better about leaving their money in the American financial system when they leave if they are working with a trusted advisor who is overseeing everything.

OBTAINING YOUR GREEN CARD

Staying Long-term in the United States

For some, life in America is great and they would like to consider it as a permanent home. Usually, the first step on this journey is obtaining a Green Card and becoming a permanent resident. This does come with a lot of benefits, but it can also come with some potential pitfalls and the decision to obtain a Green Card should be carefully considered.

One of the most common reasons, or desires, to obtain a Green Card, is the ability to take any job in America and not be tied to the employer sponsoring your current work visa. Having a Green Card does offer more freedom and the right to work for any employer in America without the need for visa sponsorship. It also comes with some responsibilities and obligations as well.

The process of obtaining a Green Card is long, arduous, and expensive. Because of these reasons, people that have a Green Card are reluctant to give it up, even if they depart the United States. This can become problematic, as once you have your Green Card, you are obligated to pay US income taxes, no matter where in the world you are or where you are earning your income. This fact needs to be considered carefully when thinking about obtaining permanent residency in the US. There is also the possibility of becoming a covered expat, which may cause more problems should you ever change your mind and choose to leave America...

Becoming a Covered Expat

A one-time exit tax will be assessed for certain persons who expatriate that become designated "covered expatriates." A covered expat includes any expatriating citizen or long-term resident (8 years or longer) that meets **any** one of the following three criteria:

- High Net Worth: the applicant has a net worth of at least $2 million on the date of expatriation;
- High Taxable Income: the applicant had an average annual net income tax liability above $190,000 (2024) (adjusts with inflation) over the prior 5 tax years; OR
- Non-Compliant on Tax Returns: The applicant fails to certify, under penalty of perjury, that the taxpayer has fully and compliantly reported income taxes for the preceding five tax years; or the applicant fails to provide evidence of such compliance (i.e., file a complete and accurate Form 8854).

Exception for Certain Dual Nationals: A person who otherwise meets the covered expatriate criteria is nonetheless excluded if they meet **all** of the following three criteria:

- Individual obtained both U.S. citizenship and citizenship of another country solely by reason of birth;
- At the time of expatriation, the individual remains both a citizen and an income tax resident of the other country; AND
- The individual would not have met the U.S. residency test for substantial presence (which oddly only applies to noncitizens under regular income tax rules) for at least 10 years directly preceding expatriation.

As you can see, careful consideration must be taken when deciding whether to obtain a Green Card and/or Citizenship in the United States. No one is excited about paying an exit tax in order to leave a country.

GOING HOME & GETTING YOUR MONEY THERE

OR OFF TO YOUR NEXT ADVENTURE

At some point, most expats move back home or onto their next assignment and adventure. This is usually a bittersweet experience. It does raise the issue of taking your money home with you though.

The most efficient way that we have found to move money internationally is by using a global brokerage company, like Schwab. Having a brokerage (investment) account in the United States with a global company like Pershing allows you to convert your money between currencies at SPOT rates without mark-up or commissions. It also allows you to transfer the money (in any currency) to foreign bank accounts for a one time fee of $25 USD (regardless of the amount transferred). This is the most cost-effective solution we have found for transferring money to another country.

COMMON MISTAKE

Paying high fees and commissions to convert your money between currencies and transfer the money internationally.

This also works well for moving money in a foreign currency (ie. Euros) to US Dollars and transferring it to the United States. This may be so it can be invested in the American financial system or used for some other purpose (living expenses or purchasing real estate for example). Pershing maintains a bank account in most countries of the world and transferring your money into your Pershing account, in almost any currency, is very easy.

CONCLUSION

Being an expat in America, or any country can be an extremely rewarding experience. It is also an opportunity for many people to really get ahead in life financially. It is important to learn the basics of the new financial system you will be living in and make sure that you take full advantage of the opportunities you have in your new home.

Cross-border planning and investing can be complicated and overwhelming, but it doesn't have to be. Don't let the complexity lead you to inaction or mistakes. Building a relationship with a trusted financial advisor that specializes in working with expats is a good first step to learning what you should be taking advantage of as well as making sure that you are avoiding any pitfalls or mistakes that could hurt you financially and take away from your expat experience.

HOW TO CHOOSE AN ADVISOR

As you can see, finances for expats are complicated. There are so many additional factors that expats need to be aware of and coordinate, and mistakes can have major consequences. It's even hard to find professional help. Brokers and advisors outside of the U.S. don't understand the U.S. taxation system and are not held to the same high standards as their US colleagues. Most American brokers and advisors also don't understand all the issues that expats in America face once they are living in the US, or when they are ready to leave the US either.

For these reasons, it is important to find a financial advisor that specializes in working with expats. The complexity and sheer amount of special issues that expats face make it impossible for someone to become well versed in without the regular, ongoing practice that comes from specializing in this area and serving clients with these needs regularly.

It is also important for your financial advisor to be a fiduciary. A fiduciary just means that they are legally obligated to act in your best interest and put your needs ahead of their own. Surprisingly, brokers are not fiduciaries and are not subject to those standards. A broker is legally seen as working for his company, not for his client. To find a fiduciary advisor, you will need to work with a Registered Investment Advisor (RIA). RIAs are the only ones who are legally bound to act as fiduciaries and put their clients' needs above their own.

There are a lot of different kinds of financial advisors out there and a lot of them do not represent RIAs. It can be dangerous to take financial advice from advisors that are stockbrokers or insurance agents because of the way that they are compensated. They are paid commissions or through fee-sharing agreements for selling specific products. You never know if they are recommending something because it pays them the largest commission or because it is truly in your best interest.

You should also beware of investments registered in "offshore" locations. There is a lot of fraud in operations such as these, and even the legitimate ones don't have the same investor protections that you have inside the United States. Most "offshore" investments that are registered in "tax havens" like Malta, Cyprus, or the Isle of Mann usually come with very high fees and lock your money up for extended periods of time (I have seen penalties for withdrawing your money out to 20 years!).

If you are an expat in the United States that would like professional help navigating the complicated world of your finances and investing here in the United States, consider partnering with Baobab Wealth Abroad.

We are legal fiduciaries that specialize in helping cross-border families and expats both inside and outside the USA. You can learn more about us and how we can help you by visiting our website at www.BaobabWealthAbroad.com. You can also schedule a free introductory consultation today.

ABOUT JIMMY

James Miller “Jimmy” is the founder of Baobab Wealth Abroad and offers advisory services through Baobab Wealth Management, an Florida registered investment advisor. With 20 years of experience, Jimmy works with individuals and families to create financial plans that address their individual situations. Jimmy has spent over half his life as an expat himself and understands your issues firsthand.

He has a bachelor’s degree in business administration and holds both the CRPC (Chartered Retirement Planning Counselor) and the CMFC (Chartered Mutual Fund Counselor) designations from the College for Financial Planning. When not working on a financial plan, you will usually find Jimmy with his wife, Sonja, and his son, Hendrik, or his clients enjoying the great outdoors! Jimmy is an avid fisherman, scuba diver, mountain climber, sailor, and world traveler!

Learn more about Jimmy by connecting with him on LinkedIn.

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