



Alexander Peter
Wealth Management

Savings and Investment Reviews for Expats in the USA

Compliant investment solutions
for US tax residents



www.alexanderpeter.com

Introduction

**Maximise the gains
on your investments
by minimising the
taxes by using US
compliant solutions**

This guide is aimed at:

- 1 Expats who are living in the US
- 2 Green card holders
- 3 Non UK citizens including returning Americans who have built up savings/investments outside of the United States

Now that you are US tax resident it is important to ensure any investments you hold are US tax compliant.

Whilst structures such as ISA's in the UK provide tax advantage in the UK, they provide no such advantage in the U.S. and in most circumstances will provide a tax disadvantage.

This guide is intended to give generic information on how to maximise the gains on your investments by minimising the taxes using US compliant solutions.



PFIC's

What exactly is a PFIC?

PFIC stands for "Passive Foreign Investment Company". For all intents and purposes PFICs are non-U.S. investment funds, such as: mutual funds, hedge funds and exchange traded funds (ETFs for short)

In the UK tax sheltered wrappers such as ISA's, PEP's etc would be classified as PFICs

Like many expats you are probably asking yourself, why do I need to know this? The answer is because:

PFICs are subject to draconian taxation by the IRS that often wipes out any profits they generate; and you have to file a report to the IRS for each PFIC on form 8621.

Time estimated to complete form 8621 by the IRS is as follows:

- Recordkeeping
13 hrs, 37 min
- Learning about the law or the form
8hrs, 38 min
- Preparing and sending the forms to the IRS
9 hrs, 14 min
- Grand total
31 hours, 29 min



What are the implications of holding a PFIC?

The tax treatment of PFICs is extremely punitive compared to the tax treatment of similar investments that are incorporated in the U.S.

A PFIC owned by a U.S. Citizen or Green Card Holder is subject to the following rules of United States taxation, which can easily add up to a tax rate of over 50%:

- All distributions are taxed as regular income at the highest possible federal tax rate of nearly 40%
- Capital gains are not eligible to be taxed at preferential long-term capital gains rates; they are viewed as regular income and are subject to the highest current federal tax rate- despite the marginal tax rate for which your income level qualifies.
- If an individual elects to have deferred gains in their PFIC, they will be assessed with a non-deductible penalty interest charge that is compounded regularly for the duration of their deferral period; so by the time they finally realize the gains, they will have accumulated an obscene amount of interest.
- Capital losses cannot be carried forward or used to offset other capital gains

Higher taxation rates are not the only disadvantage of PFICs for US connected persons. Another factor is the onerous task of complying with IRS reporting rules for PFICs. As a result of FATCA, a form 8621 must be filed every year for each separate PFIC (each fund in an ISA would be a separate PFIC).

Given that the complexity of US tax filings requires most individuals to employ the services of a specialist tax accountant, it is easy to see how these requirements can easily run up a sizeable accountancy bill which, when added to the tax bill could easily negate any gains that the investment may have made.



U.S. Compliant Solutions

These compliant solutions are taxed as capital gains which could result in 49-100% less tax

US compliant investments resolves punitive PFIC taxation at highest marginal income tax rates and possible penalties. These compliant solutions are taxed as capital gains which could result in 49-100% less tax.

Our solutions use a US custodian and are run by SEC licenced parties. This means that at the end of each year we will automatically send you a statement with profit and loss for your 1099, 1039, etc.

The international nature of our business means that our solutions can be run in almost any currency not just USD. So if you have a ISA portfolio and don't want to run your investment in USD due to the low exchange rate we can run a US compliant solution in GBP. Likewise we can also run portfolios in AUD, CAD, CHF, EUR, HKD, JPY and NZD.



Case Study



Client background

- Brit living in New York for 7 years. He has £200,000 in various mutual funds held within an ISA
- ISA has grown 20% over last 4 years.
- Has always declared gains
- Original goal was to have money working in diversified portfolio

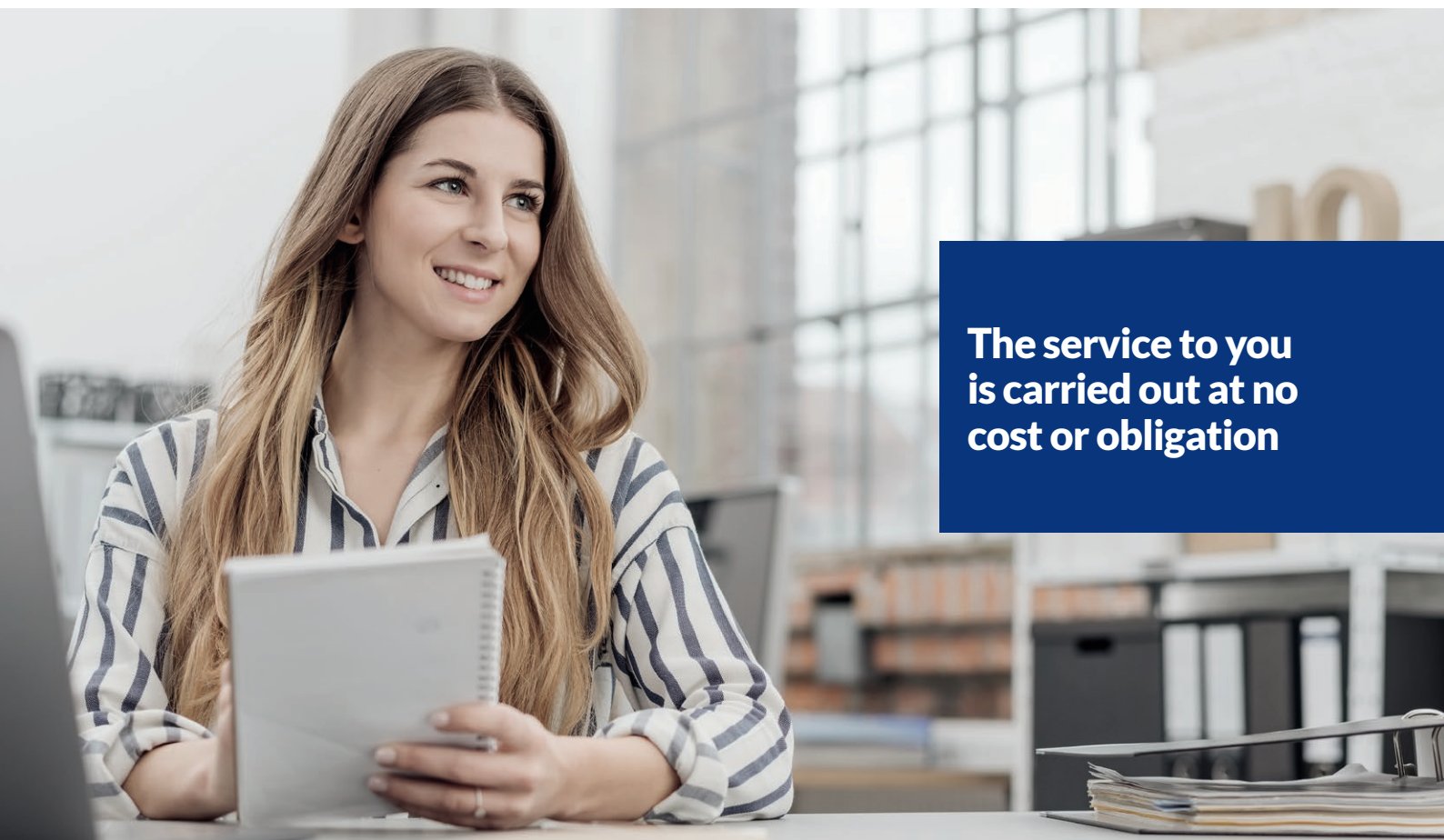
Client needs

- Wants to reduce taxes and complex reporting obligation by moving to US complaint solution
- Does not want to convert funds to USD due to low exchange rate
- Requires new risk profile analysis
- Requires online valuations and ability to download information for 1099

The advice process

Our process:

- 1 If you believe you may have a PFIC, APWM will perform a review of your portfolio at no cost or obligation.
- 2 Where needed we can introduce you to a CPA firm that has experience with PFICs and declarations.
- 3 Our team of licenced advisers will then perform a risk profile analysis to establish the level of investment risk that you are comfortable with and further understand the needs and objectives you have for these funds.
- 4 Our team will then deliver to you a personalised proposal for investment for you to review. Your adviser will then take you through the report and answer any questions you may have.
- 5 Once your account has been set up you will have online access via a secure portal to monitor performance and any portfolio changes.
- 6 Your adviser will be in contact on a regular basis as decided at outset, either quarterly, half yearly or annually to review your portfolio discuss any changes and to ensure your investment is on track with your financial objectives.



**The service to you
is carried out at no
cost or obligation**

Advisers



Our financial advisers pride themselves on offering customers the highest quality service

We always recommend to anyone considering US compliant solutions that they seek independent financial advice before making a final decision.

Your choice can greatly vary how much of your investment you keep so do as much research into the advantages and disadvantages before signing on the dotted line.

Your adviser will be available to answer any further questions you may have about your US compliant solution after reading this guide.

Simply call us on

+1 212 974 0705

+44 203 958 5440

or email

**enquiries@
alexanderpeter.com**

One of our financial advisers will contact you to discuss your options



Alexander Peter
Wealth Management

US Office

125 Park Ave,
25th FL,
New York, NY 10017

Tel US: +1 212 974 0705

Global Marketing Office

The Chislehurst Business Centre
1 Bromley Lane, Chislehurst,
Kent, BR7 6LH, UK

Tel UK: +44 203 958 5440

enquiries@alexanderpeter.com

www.alexanderpeter.com

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