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Retirement In Paradise Is Not Without Financial Headaches

Moving abroad can complicate your taxes, banking, medical bills and even estate planning.

Retiring abroad requires a lot of planning and often a good certified public accountant. When people dream of jetting off to Europe or a tropical paradise to begin a new chapter in retirement, tax and banking policies do not usually feature prominently in the fantasy. But pulling off a move overseas in retirement requires navigating financial rules in both the United States and one's new home. Mistakes are easy to make and costly.

Some Americans living abroad inadvertently run afoul of the Internal Revenue Service and get hit with penalties and interest. Others are cut off by their U.S. banks and brokerage firms. Retirees also can run into trouble accessing or paying for healthcare.

Looking for a relaxing retirement? Expatriates have to be motivated and persistent problem solvers. Banking, immigration, and tax policies can change frequently so you must double check everything you hear.

Americans who retire abroad should generally keep most of their money in the U.S. That way they can continue to take advantage of Individual Retirement Accounts and 401(k)s which offer tax advantages. Some U.S. banks and brokerage firms drop customers with foreign addresses.

When opening a bank account in the country you are relocating to, compare fees for wire transfers and ATM transactions.

Before leaving the U.S., shop for credit cards without foreign transaction fees, which can amount to 2% of a transaction's value. Make sure you are getting competitive currency-conversion rates.

As a U.S. citizen, your income is subject to U.S. income tax regardless where you live. If you don't file a U.S. tax return, you could face penalties and interest and even criminal prosecution. Expats may owe tax to both the U.S. and the country they live in. Tax treaties the U.S. has with more than 60 countries might not completely protect expats from taxes that arise as a result of differences between their new home country's tax system and that of the U.S.; for example, some treaties protect the tax-free status of Roth retirement accounts while other treaties do not.

Most expats also have to submit a report of Foreign Bank Financial Accounts, or FBAR, to the Treasury Department. This is required in years in which the cumulative balances of your foreign financial accounts exceed $10,000 at any time during the year. The penalties for willfully failing to do so can be the greater of $100,000 or *half* of the account value for *every* year you failed to file. Individuals with more than $200,000 and couples with more than $400,000 in foreign financial assets on the last day of the year or with more than a respective $300,000 or $600,000 at any time during the year must report them to the IRS with Form 8938.

To owe *no state income tax*, you must "break your domicile" which means showing you have no intention to return to that state, i.e. selling your home and cancelling drivers' licenses and voter registrations.

Consider rewriting your will and estate plan to conform to the laws of your new home. Under U.S. tax laws, U.S. citizens with an estate that exceeds $12.92 million are liable for U.S. estate tax above that threshold, even if one lives in another country. But most other countries impose an inheritance tax instead, often at far lower levels. In France, for example, each child can receive from a parent about $108,000 tax free. Above that, they pay an inheritance tax of up to 45%, depending upon the amount. Inheritance tax is due even if your money is held in U.S. based accounts and your heirs live in the U.S. Many European countries do not recognize U.S. trusts.

Medicare doesn't generally cover services outside the U.S., so those moving abroad must secure health insurance elsewhere. Many countries with public healthcare systems let expatriates join after a waiting period for little to no cost.

Some countries with public healthcare systems also have private hospitals. You might need an international health insurance policy.

Those 65 and older may want to pay premiums for Medicare, also. Otherwise, they may get hit with hefty penalties and face months long coverage gaps if they return to the U.S. and want to enroll. *Wall Street Journal 5/23/23 p. A.11.*

As always, if you have any questions about these or any other matters, do not hesitate to call us.