



**AMERICAN CITIZENS ABROAD**  
EDUCATE, ADVOCATE AND INFORM



**ACA Town Hall Evening**  
Instituto Internacional de Madrid  
**Financial Planning Challenges and  
Opportunities for Americans in Spain**

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# Introduction

## Marina Hernandez

- Financial Planner & Investment Advisor
- Certified Financial Planner™
- Enrolled Agent – Admitted to represent taxpayers before the Internal Revenue Service
- Specialized in cross border financial planning, working with women and multinational families
- On the Web at: [www.white-lighthouse.com](http://www.white-lighthouse.com)
- Speaker on international tax issues affecting Americans abroad and foreign nationals in the US

# Greatest Financial Planning challenges for Americans Abroad

- Taxes and compliance
  - Compliance complexity and cost
  - Difficulty finding competent and affordable advice (ACA Tax Preparer Directory)
  - Fear of making mistakes – high penalties associated with foreign forms
  - Double taxation – Pay tax in the US and Spain?
  - Tax planning: smart use of the rules

# Greatest Financial Planning challenges for Americans Abroad

- **Banking difficulties**
  - Foreign banks not friendly to US citizens
  - FATCA and form W9 – “we will report to you the IRS”
  - Difficulty opening and maintaining US bank accounts
    - ACA – Federal State Department Credit Union

# Greatest Financial Planning challenges for Americans Abroad

- Investing challenges

- Foreign investing can be problematic
  - Non US tax compliant foreign funds
  - PFICs (punitive taxation and complex reporting)
- Common misconception: Americans abroad cannot invest in the US
- US Mutual Funds not available to foreign resident Americans – switch to ETF

# Greatest Financial Planning challenges for Americans Abroad

## • Saving for Retirement

- Most foreign retirement plans are not US compliant
  - Inability to save in a tax advantage way
  - FATCA reporting requirements
  - Rollovers are distributions – taxable event !
  - Potential foreign grantor trust issues
- US plans may be an alternative

# Greatest Financial Planning challenges for Americans Abroad

- **Running a foreign business**
  - Foreign corporation and partnership US reporting and taxation complexity
  - Risk of double taxation – tax at corporate level and dividend tax at distribution
  - FBAR reporting of corporate accounts – signature authority

# Greatest Financial Planning challenges for Americans Abroad

- **Gift, inheritance and estate issues**
  - Needing estate documents in more than one country
  - Choosing US law to apply over Spanish law
  - Non US person issues: foreign relatives
  - Double taxation potential
  - Understand estate tax treaties

# Greatest Financial Planning challenges for Americans Abroad

- **Expatriation – should I give it all up?**
  - Giving up citizenship or green card
  - Covered expatriate status
    - Exit tax
    - Taxation of gifts and estate of US heirs
  - Do it right: at the Embassy, be fully tax compliant, file all the right paperwork

# Financial Planning Recommendations for Americans Abroad

- **Do not ignore tax & FBAR compliance**
  - FATCA makes it harder to go undetected
  - Special programs available to come back into compliance, some of them with NO penalties (for those who qualify)
  - The time is now – programs winding down?
  - FAST ACT Passport provision – ACA advocacy
  - Once caught up, remain compliant

# Financial Planning Recommendations for Americans Abroad

- **Do not ignore US financial markets**
- US financial system available to foreign resident Americans
  - find the right broker/bank/advisor
  - Choice of investments and cost efficiency
  - Consider saving for retirement through an IRA or other US qualified plan
  - Remember Spanish reporting of US investments

# Financial Planning Recommendations for Americans Abroad

- **Seek competent professional advice**
  - Penny wise, pound foolish
  - Look for competence and fair price
  - Also with local advisors – local advice with no US considerations is generally wrong
  - Your advisors should communicate with each other

# Financial Planning Recommendations for Americans Abroad

- **Join the ACA**

- ACA is your voice in Washington

- Higher thresholds Form 8938

- Taxpayer Advocate Annual Report

- Streamlined Programs

- Passport provision

- Resources and educational events

- Strength in numbers

# Being a Smart Financial Consumer

1. Investment of your time – even if the subject is not interesting
2. Together with your spouse or partner
3. Educate yourself
4. Hiring a professional(s) where specialists are needed
5. You will need to pay for most good professional advice
6. Being a good client – Most good advisors choose you as much as you choose them. Be respectful, honest, timely.
  1. E.g. If you have had 5 new tax advisors in 5 years, the problem may not be the tax advisors
  2. The Swiss Expat community is small
7. Know your costs
8. Know your rights and obligations
9. Know what services you are looking for
10. Comparison shopping

# Choosing a Financial Advisor –

1. Do you need a financial advisor or planner? Why?
2. What is a financial advisor? Different titles...
3. Whose interests do they put first? Are they a fiduciary, employee, sales person?
4. What are you looking for and what do you think you need?
  - A financial plan?
  - Investment advice?
  - Retirement advice?
5. Get references from people you trust – Ask the one thing your reference does not like
6. What Licenses, Education, Registrations do they hold? CFA, CFP®, CHFC or PFS (for CPAs) are some of the most respected.
7. What Experience do they have? – Would you be a typical client?
8. How does the advisor get paid?
9. Is their advice objective? How do you know – Are they paid more to sell their company's products? Can they choose any type of investment for your account?
10. Will they consider or advise on assets not under their management?
11. Ask them if they can beat the market?
12. Have they or their firm been involved in any lawsuits consumer complaints or other disciplinary action?

# Choosing a Financial Advisor – 2

1. What kind of firm do they work for?
  1. Employee of a large firm
  2. Employee of an Independent Advisory firm
2. How was the first contact made: Did they call you first?
3. Are they “selling” a tax efficient or Offshore product?
4. Where are your assets held in Custody?
5. Who has the ability to remove assets from your account?
6. What is the firm’s cybersecurity policy?
7. Would you be a typical client of the firm?
8. Try this Quiz at the Wall Street Journal:  
<http://blogs.wsj.com/expat/2015/05/03/attention-u-s-expats-take-this-quiz-and-see-how-your-financial-adviser-scores/>

# Recommended questions for your Financial Advisor

1. What was your largest mistake in the past 10 years? – What did you learn from it?
2. Do your financial incentives always line up with my best interests?
3. How do you manage conflicts between your goals as an employee and what is best for your clients?
4. Would you change your strategy for managing my account based on changes in the macro-economy?
5. Who in your firm actually makes the decisions on my account?
6. How have your clients' portfolios performed over the past ten years?
7. If I wanted to buy a couple of broad based (lost cost) index funds or ETFs, which would you recommend?
8. May I speak with one of your former clients?
9. If you ask for a referral is more than one choice presented? And/Or an explanation of why a specific client name is given?
10. When was your last job change, and why?

# Questions for your Financial Advisor – continued

## - Do your research

11. Tell me about some of the outside professionals you work with: Do you pay or get paid for referrals? Do you disclose this to clients?
12. Ask about their regulators, auditors (when needed)
13. Is your advisor required to have continuing education?
14. Ask about Errors and Omissions Insurance
15. Where could you file a complaint if you could not resolve your differences with your advisor?
16. Is there any after sales “service”? In what way?

# Evaluating an SEC Registered Firm

1. For US Registered Advisors
  - i. Very easy for a company to Register with the SEC – It is all about disclosure
  - ii. Individual has to pass the Series 65 Exam (relatively easy 3 hour exam requiring 72% correct)
  - iii. Investment Advisor Search  
-[http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_Search.asp](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.asp)  
X
    - i. Check out the firm and the individuals
  - iv. They should offer a copy of their ADV 2 (Firm and Individual)
2. To verify CFP® certification - <http://www.cfp.net/> (not required for SEC Registration)

## 2. Investment Management Decisions

- Investing versus Savings
- Risk versus Return
- 3 Ways To Manage Money
  - Market Timing
  - Security Selection
  - Asset Allocation (Generally Passive)

# Current Market Volatility – Aug-Sept 2015, Jan-Feb 2016

- Are you concerned by current Market Events? China, Greece, EU, Schengen, Donald Trump, Refugees, Terrorism, War, Climate Change and how they affect your investments?

**SHOCKS TO THE SYSTEM: Market Declines and Recoveries Since WWII**

Market Shock Events	Closing Levels			Bottom			Days to Recover
	Prior Day	Next Day	% Chg.	Level	Days	% Chg.	
Taper Tantrum: 5/22/13	1669.16	1655.35	(0.8)	1573.09	33	(5.8)	17
U.S. Debt Downgrade: 8/5/11	1199.38	1119.46	(6.7)	1099.33	90	(8.3)	144
Japanese Tsunami: 3/11/11	1304.28	1296.39	(0.6)	1256.88	3	(3.6)	6
Flash Crash: 5/6/10	1165.87	1128.15	(3.2)	1110.88	1	(4.7)	4
Lehman Bankruptcy: 9/15/08	1251.70	1192.7	(4.7)	676.53	121	(46.0)	285
Madrid Bombing: 3/10/04	1140.58	1123.89	(1.5)	1093.95	10	(4.1)	18
U.S. Terrorist Attacks: 9/11/01	1092.54	1038.77	(4.9)	965.80	5	(11.6)	20
Collapse of LTCM: 9/23/98	1066.09	1042.72	(2.2)	959.44	11	(10.0)	9
Iraq's Invasion of Kuwait: 8/2/90	355.52	351.48	(1.1)	295.46	49	(16.9)	82
Crash of 1987: 10/19/87	282.70	224.84	(20.5)	223.92	33	(20.8)	223
Reagan Shooting: 3/30/81	136.30	134.7	(1.2)	134.70	1	(1.2)	4
OPEC Oil Embargo: 10/17/73	111.30	110.05	(1.1)	109.16	6	(1.9)	10
Kennedy Assassination: 11/22/63	71.62	69.61	(2.8)	69.61	1	(2.8)	2
Cuban Missile Crisis: 10/22/62	54.96	53.49	(2.7)	53.49	1	(2.7)	5
<b>Medians</b>			<b>(2.4)</b>		<b>8</b>	<b>(5.2)</b>	<b>14</b>

Source: S&P Capital IQ. Past performance is no guarantee of future results.

# Investment Management & Wealth Building Essentials

1. You have the biggest impact on your finances Earning and Spending
2. Asset Allocation – Primary Driver of Returns
3. Diversification is Critical – Only way to increase expected returns with out increasing risk
4. Only take stock market risk over long horizons
5. Don't try to Time the Stock Market
6. Dollar Cost Averaging
7. Save Regularly
8. Keep costs efficient & effective – spend where it makes sense

# Investment Management Considerations

- Investment Management & Trading is a commodity – It is Planning Services & Advice that generally have a much bigger Impact –
  - Though, many “advisors” are really just selling expensive products, not advice
- Understand what your “advisor’s” role and expertise is...and is not
- Consider Low Cost Index – ETFs – not leveraged
  - Diversified, Tax Efficient, Highly liquid, Low Cost
- Avoid PFICs –(non US based funds)
- Consider US Custody – Price, Execution / Liquidity
- Understand your “Real” Currency exposure
- Retirement Savings does not have to be in a “Retirement account” – After tax is often better
- Don’t necessarily make moves that are tax efficient in one country only; when subject to two country’s tax laws and it causes tax increases in the other

### 3. Top ten personal financial challenges for Americans in Spain and how to address them.

1. US Tax Compliance – Keeping up with ever more complex rules
2. US Tax Planning – Using the rules in your favor
3. Saving for Retirement
4. Estate Planning
5. Insurance – Especially Life Insurance
6. Investment Management Services
7. Finding Professional & Trustworthy Services – Also at a reasonable Price
8. Managing Currency Risk
9. Real Estate
10. Feeling Powerless to “Change the System” to be more fair

# Tips for American Expatriates

1. Get a regular copy of your free annual credit report. +1 877 322 8228
2. Consider Implementing a security freeze to prevent identity theft
3. Get a regular copy of your US Social Security Statement: <http://www.ssa.gov/>
4. File your Annual US Tax Returns – **It is now being checked upon passport renewal!**
5. Keep a US Credit Card, with a US address
6. Keep a US Address (For investing, credit cards & possible insurance.)
7. Get a US phone number (Skype, call 800 number for free)
8. Review Life Insurance and Long-Term Care Insurance in the US
9. Review your US based Will
10. Investigate what happens if you were to die while living overseas
11. If you plan to return to the US, work with advisors who are experienced with the US “system”: Financial, Tax, Legal etc.
12. Travel to the US only on your US passport
13. Vote in Presidential Elections (Federal ok, local elections not advised from overseas)
14. Check out previous residence: “Unclaimed Property”
15. If you are married to a non American, make sure you know the estate planning and gift tax implications! There are advantages and disadvantages...