

US expats face hurdles in saving up for a nest egg

Saving for retirement while working overseas can be a trying experience for your expats from the United States, unless they do it right. Hollister H Hovey of Career Journal Europe reports.



In many cases, retirement plans overseas don't come with the tax shelters that 401(k) plans and individual retirement accounts have in the US. And many US citizens working abroad forget that they owe federal income taxes no matter where they live.



Financial planning is paramount.

"As long as you're a US citizen holding a US passport, you're subject to income taxes on world-wide income and estate taxes on your world-wide assets," said Bill Barbeosch, head of US Trust & Estate at Citigroup Private Bank. "Your taxes are based on citizenship, not residency."

That means that you probably will have to pay taxes on your retirement savings, a foreign concept to Americans.

Pay as you go

The best approach is to pay those taxes as you go, or else you will be stuck paying them in one lump sum, and at a higher rate because of the higher tax bracket associated with accrued savings.

"It's best to pick up [the tax] on an annual basis. Typically the income will be reduced because of the earned-income exclusion," said Jason Felton, a tax expert who was a partner with Ernst & Young in Hong Kong and led the expatriate tax practice from 1986 through 2002. "And it's important to note that foreign plans typically can't be rolled into an IRA because they're generally not qualified under the US tax law."

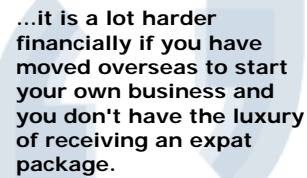
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Still, there are benefits: Expats are allowed more deductions than are domestic employees, so the tax hit isn't as great as it otherwise might be. The US government allows US citizens working overseas to deduct as much as USD 80,000 of their annual salary, mainly because their companies may be forking over a lot of their living or educational expenses, which would be taxed otherwise.

Expats also can deduct as much as USD 12,000 of their annual housing expenses, Felton said.

Besides the allure of a foreign land, many companies offer expats highly lucrative packages to make their time overseas as financially stress-free as possible. With those packages, "saving power is a lot higher," said Travis Washko, founder and managing director at TA & Associates Asia Ltd. TA & Associates is an independent financial-advisory firm based in Shanghai that provides financial consulting and offshore investment services to expats and holders of foreign passports. "If you're able to come with an expat package, you could be saving 70 percent to 80 percent of your entire salary and that's paying all your taxes and being totally legal."



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Of course, it is a lot harder financially if you have moved overseas to start your own business and you don't have the luxury of receiving an expat package.

'Lost in the wind'

Kurt Davis left school in 1999 and went to Japan to teach English. After a year there, he moved to Hong Kong to work for a venture-capital fund, where local hires qualified for retirement-savings programs, but he didn't. Then, while getting his overseas master's degree in business, he started his own company in China.

Davis finally set up a US-based Individual Retirement Account account three years ago.

"I think there are a lot of [expats] who've been in similar situations where they weren't backed by a certain company," Davis said. "There are a lot of people who don't realise what you should be doing. I think it's neglected. There needs to be something done here as far as financial planning goes."

While expats in top executive jobs often are provided for by their companies, "the rest of us are kind of lost in the wind," he said.

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