Expatriate Your Wallet

|| Source: GoldSeek.com

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If everything you own is held in your own name in your own country, then you are not merely exposed, you are vulnerable absolutely, to whatever decisions the government might make about how you should behave and who gets the wealth you've earned. Tomorrow's new government measure, which might land out of the blue, could be a law that affects everyone, or it could be a rule devised to deal with people like you. Or, it could be an administrative action aimed at you alone. In any case, with all your assets at home, you'd find out how the lobster feels when his trap is being hauled out of the water. Nothing he can do about it.

The only way to protect yourself against the risk of being boiled in a government pot is to keep some of your assets in another country. Depending on how you go about it, the specific benefits you might achieve are:

- Protection from currency exchange controls
- Protection from the confiscation of precious metals
- A lower profile as a lawsuit target
- Income tax planning advantages
- Estate planning advantages
- Easier access to investments in other countries
- A measure of financial privacy
- Practical readiness to move additional assets quickly
- Psychological readiness to think and act internationally when you need to

There are many ways to go about getting those benefits. None is right for everyone, and they all come with some element of cost or inconvenience. Here's the main menu.

Small bank account. A small account at a foreign bank gives you a ready and private landing spot if you ever decide you want to move a large amount of money in a hurry. If you're a U.S. person, the account is non-reportable, so long as the balance (together with any other foreign financial accounts you own) never reaches $10,000.

Large bank account. A large account at a foreign bank also provides a landing spot for anything you want to send later. If foreign exchange controls are ever imposed, the new rules may require you to repatriate the money – or they may not. Depending on the specifics of the new rules, your account may be grandfathered. In that case, the overseas funds would enable you to travel outside your own country while others are forced to stay at home.

A foreign bank account also slows things down if you're ever under attack. It's safe from an instant seizure by functionaries of your own government or by the unassisted order of a court in your own country.

The disadvantage of a large bank account vs. a small bank account is the loss of privacy. If you're a U.S. person, you are required to report your foreign financial accounts if their aggregate value reaches $10,000.

Physical gold. Gold stored in a safe deposit box in a foreign bank is not a foreign financial account, nor is physical gold in segregated storage with a non-bank safe-keeping facility. So a U.S. person can store an unlimited amount of metal that way without triggering any reporting requirements. Avoiding a need for annual reporting is a plus, but don't rely too heavily on the privacy you get with a safe deposit box, since the steps the gold takes to get there may create records of their own.

Foreign variable deferred annuity. As with an annuity issued by a U.S. insurance company, a variable annuity issued by a foreign company is tax-deferred for a U.S. investor until he withdraws the earnings. The annuity can be invested in major currencies or in portfolios of international stocks and bonds. If the annuity is big enough (a minimum of $1 million or more, depending on the insurance company), it can be invested in real estate, a private business, or just about anything else.

It's only conjecture, but if foreign exchange controls are imposed, they are unlikely to disturb any foreign annuity that's already in place, which is a big plus for an annuity vs. a foreign bank account.

A foreign variable deferred annuity isn't private for a U.S. investor. When you buy one, you generally must file an excise tax return and pay a 1% tax, and you must report the annuity as a foreign financial account.

Swiss immediate lifetime annuity. A Swiss annuity that begins paying you an annual income when you buy it isn't a foreign financial account, which may save you a reporting burden. And under a tax treaty with the U.S., Swiss annuities are exempt from the 1% excise tax. There's nothing private about it, however, since part of each annual payment you receive will be taxable income.

You can make it difficult for a creditor (such as someone who won a lawsuit against you) to get his hands on a Swiss immediate lifetime annuity by electing not to have the option to cash it in. A forced assignment to a creditor generally would not be valid under Swiss law.

Offshore mutual funds. The array of mutual funds available internationally is even broader and more varied than what's available in the U.S. And, like a foreign bank account, your share account with an offshore fund is safe from a lightning seizure by your own government. But for a U.S. investor, an investment in a foreign mutual fund comes with certain tax disadvantages. They are tolerable if you handle the investment properly or truly ugly if you don't. And your shareholder account would be a foreign financial account and so would be reportable.

Offshore LLC. You can use a limited liability company formed outside your home country as an international holding company. It, not you personally, would buy and hold the overseas investments you want.

An offshore LLC can be designed to be very unfriendly to your potential future lawsuit creditors, even more so than an LLC formed in the U.S. An additional plus is that while many banks, mutual funds, insurance companies, and other financial institutions shun business from individual Americans, many of the shunners will welcome business from a non-U.S. LLC even if it is American-owned.

An offshore LLC owned by a single U.S. person (or by husband and wife) can elect to be treated as a disregarded entity for U.S. income tax purposes, which makes it absolutely income-tax neutral. Or it can elect to be treated as a partnership, which makes it almost income-tax neutral. The LLC also can be used for estate-planning in the same way as a U.S. LLC.

By the ratio of benefits to cost and complexity, an offshore LLC rates especially high. But it does not eliminate your reporting burden. If the LLC owns a large foreign bank account, you will be required to report it. And there will be annual reports for you to file about the LLC itself.

Foreign real estate. A direct investment in foreign real estate is free of any special U.S. tax or reporting rules. It's just like buying a farm in Kansas. It would also present added difficulties for a lawsuit creditor looking for ways to collect. And it is unlikely that any regime of foreign exchange controls would touch existing foreign real estate investments.

Foreign real estate can also pay you a psychological dividend. Knowing you have a place to go to, should you ever want or need to go, provides a sense of security. That apartment in Buenos Aires or the acreage in New Zealand means you'll never be a lobster.

Foreign real estate partnership. By investing in a private foreign partnership or LLC that owns foreign real estate, you can achieve all the advantages of a direct investment. In addition, you increase your protection against foreign exchange controls and lawsuit creditors because there is no ready resale market for your partnership interest.

International IRA. An IRA or a solo 401(k) is permitted to own anything other than life insurance and so-called "collectibles." Anything.

Some IRAs and solo 401(k) plans own a domestic limited liability company and use it as a vehicle to buy and hold other investments. Such an LLC can own an offshore LLC that does the real investing. As with your direct ownership of an offshore LLC, this does nothing to reduce your reporting duties; in fact, it adds to them.

The advantage of such an arrangement is that it allows you to internationalize your retirement plan. Anything international you might do with your personal investments, you can do with your IRA's investments. And it's the ideal structure if you want to invest in offshore mutual funds. The IRA short-circuits the special tax rules that apply to investments in offshore funds, and the offshore LLC's shareholder account application is likely to get a warmer reception from the fund than would your own American hand knocking on the door.

Private international investment contract. Depending on your circumstances, it may be possible to structure an investment contract between you and an international financial institution that is tax-deferred, non-reportable, and protected from future exchange controls or prohibitions on owning gold. This is custom work, so, of course, it's only practical for large chunks of capital.

International asset protection trust. A properly structured international asset protection trust provides the maximum level of protection from anything that happens in your own country. It does so by leaving you with a measure of influence, but not control, over the trustee. The trustee is outside of your home country and thus is not subject to its laws. And you don't possess the authority to compel the trustee to invest or distribute the trust fund in any particular way. Thus there is no direct means for your own government to impose any regime of exchange controls or investment restrictions on the trust fund.

An international asset protection trust is far and away the most powerful of all financial planning devices. Handled properly, it is virtually impenetrable to future creditors and is especially helpful in estate planning. It is also the most complex device and hence the one most likely to be handled ineptly. And of all the tools mentioned in this article, it comes with the heaviest reporting burden if it is funded by a U.S. person.

Of course, this is the briefest of overviews of a complex topic. For specific guidance on each of the menu items listed, and pros and cons related to your own circumstances, you'll need to seek qualified counsel.

With an ever-growing number of regulations and financial restrictions that gradually choke your ability to build and maintain wealth, protecting your assets by getting them out of the country should be a critical part of every investor's strategy. We recommend you get started before it's too late.

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