

Navigating international waters for HNW expat clients

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The tax and retirement needs of high-net-worth clients differ from the average investor. And when they're also living in a foreign country, advisors face a whole new set of challenges.

Indeed, expats make up 11.4% of the global HNW population, according to GlobalData, a research and consulting firm. Moreover, there are a total of nine million U.S. expats living and working across the globe, according to Greenback Expat Services, a firm specializing in helping expats with tax issues.

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When it comes to taxes, many expats don't want to be hit twice while living abroad. Fully two-thirds (66.8%) said they feel they should not be required to pay U.S. taxes when living in another country, according to a Greenback survey.

One client from Nicaragua is deeply mistrustful ... and doesn't believe in mutual funds or 401(k)s. "She thinks it's all a scam."

And in some cases, it's not a requirement. In Japan, for instance, there is a tax treaty with the U.S. that shields clients from being double taxed, says advisor Ann Reilley Gugle of Alpha Financial Advisors. She and her husband John Gugle focus on HNW expats in Japan, where they lived for seven years.

Clients in Japan can even get tax credits for any excess tax they may have paid there greater than what would have been paid in the U.S.

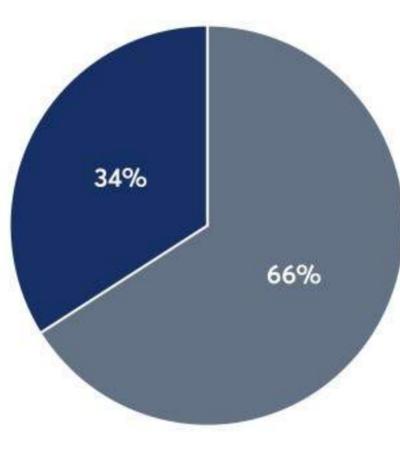
But things get more complicated quickly and clients can run into trouble if they aren't well versed in the tax code of their new, adopted home. In Japan, there's a local tax that's similar to a state tax in the U.S., Ann Gugle says. But there's a twist.

"It's the type of thing where if you live there on December 31, you're taxed for the whole year," she explains. "But if you were to leave a day or two early you can avoid it. So it's that type of nuance in the tax code that you need to understand."

Americans abroad object to paying U.S. taxes

● Expats object, 66%

● Expats don't object, 34%



Source: Greenback Expat Services

To be sure, taxes aren't the only concern for clients living in foreign countries. There are also cultural and lifestyle hurdles they need to clear.

"Culture shock is kind of a catchphrase, but it's a real phenomenon so we try to prepare clients for that emotionally when they go overseas," says advisor Rob DeHollander of DeHollander & Janse Financial Group. "Most really do plan on coming back to the States so it's really a matter of, 'OK, now that I'm outside of the U.S., how do I continue funding my personal goals?'"

One pitfall clients can get snagged into is living beyond their means and they can end up missing a "golden opportunity" to save, the Gugles say.

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It's important for the client to adapt culturally and "learn how to live like a local," Ann Gugle says. There may be grocery stores and restaurants that cater to Americans and other expats, but they are going to be more expensive than a local market.

"You get lulled into thinking 'Well I'm making so much more now, I'm living overseas, they're paying maybe a cost-of-living adjustment, I've got some of my housing subsidized' and there is a tendency to go hog wild," John Gugle says. "I've had some [clients] who, their biggest regret when they left [was over spending]."

EXPAT CHALLENGES ARE TWO-WAY STREET

Cultural adaptation isn't just an issue for U.S. clients living abroad. It can be felt strongly by expats from other nations coming to live, work and invest in the U.S.

Indeed, some clients coming into the U.S. are distrustful of governments and certain programs that are traditional investment tools for Americans.

"I have a [client] who married a woman from Nicaragua and she's seen issues where the country has come in and seized property and she's deeply mistrustful of the government and doesn't believe in mutual funds or 401(k)s. She thinks it's all a scam," DeHollander says. "So we really have to work hard to overcome her bias of her personal experience."

Even with the potential opportunities, some advisors aren't eager to jump into this segment.

"I think one of the things that a lot of financial advisors shy away from is the enhanced due diligence and the complexity of going after these high-net-worth clients," says Earl Carr, managing director wealth management, international client services at Momentum Advisors. "For a person that is living in a different international jurisdiction, there is so much more red tape in terms of due diligence [and] knowing your customer that it makes doing business a lot more complicated."



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