



# Financial Planning in the Age of FATCA

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Ann Marie Regal, CFP®  
Wealth Manager  
+65 9146 1862  
[amregal@globaleye.sg](mailto:amregal@globaleye.sg)

Aron Lanie  
Wealth Manager  
+84 (0) 938531784  
[alanie@globaleye.com](mailto:alanie@globaleye.com)



**GLOBALEYE**  
International Wealth Solutions



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- You are recommended to seek advice concerning the suitability of any investment from your investment or other professional adviser.
- Investors should remember that the value of investments can go down as well as up.



# Globaleye Pte Ltd

## Firm Overview

- Independently-owned firm of private wealth managers who provide unbiased solutions to corporations, individuals and families
- Established in Dubai in 1999
- Over 250 Employees throughout 10 offices in Asia, Middle East & Europe
- Over US\$750MM in AUM



# Globaleye Pte Ltd

Ann Marie Regal, CFP®

Wealth Manager

- American Citizen
- Certified Financial Planner designation, USA
- More than 18 years in the financial services industry
- Foreign Exchange & Private Wealth Management background
- Singapore PR and resident for over 8 years
- Licensed MAS Financial Advisor Representative
- US SEC Registered Investment Advisor Representative
- US Licensed Life Insurance Producer

# Globaleye Pte Ltd

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*Winner of the 2015*

*PlanPlus Global Financial Planning Awards, Asia*

<http://www.planplus.com/>



# Agenda

1. FATCA – Americans Abroad
2. FATCA – US Based Investments
3. Financial Planning
  1. Wealth Management
  2. Insurance Planning
  3. Estate Planning



# Americans Abroad

## Challenges facing US nationals abroad

- FATCA
- Dual Reporting
- Cross Border Taxation
- Investments- choices, PFIC, costs & fees, 529s, 401Ks, IRAs, etc..
- Insurance
- Estate Planning - trusts, wills

# FATCA

What is happening?



Source: <http://josephlea.com/wp-content/uploads/2014/01/USentrapment.jpg>



# FATCA

## Overview

The Foreign Account Tax Compliance Act (FATCA) is codified as Chapter 4 of the Internal Revenue Code. It represents the **Treasury Department's efforts to prevent U.S. taxpayers who hold financial assets in non-U.S. financial institutions (foreign financial institutions or FFIs) and other offshore vehicles from avoiding their U.S. tax obligations.**

The intent behind the law is for **foreign financial institutions (FFIs) to identify and report to the IRS U.S. persons holding assets abroad** and for certain non-financial foreign entities (NFFEs) to identify their substantial U.S. owners.

In order to comply with the rules, FFIs are required to enter into an FFI agreement with the U.S. Treasury or comply with intergovernmental agreements (IGAs) entered into by their local jurisdictions.

U.S. withholding agents (USWAs) must document all of their relationships with foreign entities in order to assist with the enforcement of the rules. Failure to enter into an agreement or provide required documentation will result in the imposition of a 30% withholding tax on certain payments made to such customers and counter-parties.

Failure to impose the requisite withholding under FATCA requirements could result in significant financial exposure.



# FATCA

## Who is a US Person?

- Passport holder
- Green card holder
- Permanent resident in the US
- Has passed the Substantial Presence test
- An accidental American
- NRA spouses who make a Sec 6013g election



# FATCA

## Tax Compliance

Foreign Account Tax Compliance Act (FATCA) – 2010

- Foreign Financial Assets - Form 8938
- Foreign mutual funds - Form 8621
- Foreign Entities - Form 5471
- Minimum penalty for omission is \$10K per form
- Extended audit period

A decorative graphic on the left side of the slide, featuring a stylized American flag. It includes a blue field with white stars and red and white stripes, rendered in a modern, geometric style.

# FATCA

## Tax Compliance

### Foreign Financial Assets - Form 8938

- Unmarried taxpayers - specified foreign financial assets more than \$200,000 on the last day of the tax year or more than \$300,000 at any time during the tax year.
- Married taxpayers filing a joint income tax return - specified foreign financial assets more than \$400,000 on the last day of the tax year or more than \$600,000 at any time during the tax year.
- Married taxpayers filing separate income tax returns - specified foreign financial assets are than \$200,000 on the last day of the tax year or more than \$300,000 at any time during the tax year.



# FATCA

## Tax Compliance – Form 8938

### Specified Foreign Financial Asset

- Foreign trust
- Foreign pension plan
- Foreign deferred compensation
- Financial accounts maintained by a foreign financial institution (FFI)
- Financial assets held for investment and not held in an account maintained by a financial institution such as:
  - Stock or securities issued by someone that is not a U.S. person
  - Any interest in a foreign entity
  - A financial instrument or contract with an issuer or counterparty that is not a U.S. person

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# FATCA

## Americans Abroad – Passive Foreign Investment Corporation (PFIC)

Most investment products available outside of the US are PFICs

- Investments with life insurance component – monthly savings plans, lump sums
- Hedge funds
- Non-US pension plans
- Open architecture platforms – stocks, funds, bonds
- Typically products with lock-in periods, high surrender charges

**If you don't receive a 1099, it is not a US tax-compliant investment.**

- Accountants can make an offshore investment US tax compliant
  - Increased tax preparation costs
  - Punitive tax rates, up to 39.6%
  - No capital gains/loss harvesting

# FATCA

## Tax Compliance - FBAR

Bank Secrecy Act – 1970

- File your FBAR - <http://bsaefiling.fincen.treas.gov/NoRegFBARFiler.html>
- Penalty for non willful violation – up to \$10,000
- Penalty for willful violation – greater of \$100K or 50% of balance
- Schedule B Interest & Dividends correlation – consideration for willfulness

**7a** At any time during 2015, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions . . . . .

If “Yes,” are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements . . . . .

**b** If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ►

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>



# FATCA

## Americans Abroad

Many financial institutions abroad will no longer work with US persons.

- Banks
- Life Insurance Companies
- Asset Management Companies

Main Reasons:

- Cost of Compliance
- All accounts with suspected US connection need to be reported
- Penalties of non-compliance can be severe, up to 30% of US sourced income
- Fines – Credit Suisse 2.6B, UBS 1B, Wegelin & Co 74M, HSBC 1.92B



# FATCA

Americans Abroad

## Bloomberg

 [Print](#) [Back to s](#)

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### U.S. Millionaires Told Go Away as Tax Evasion Rule Looms

By Sanat Vallikappen - May 8, 2012

Go away, American millionaires.

That's what some of the world's largest wealth-management firms are saying ahead of Washington's implementation of the [Foreign Account](#)

#### MARKETS

### Expats Left Frustrated as Banks Cut Services Abroad

*Americans Overseas Struggle With Implications of Crackdown on Money Laundering and Tax Evasion*

By LAURA SAUNDERS

Sept. 11, 2014 3:53 p.m. ET

<http://online.wsj.com/articles/expats-left-frustrated-as-banks-cut-services-abroad-1410465182>



# FATCA

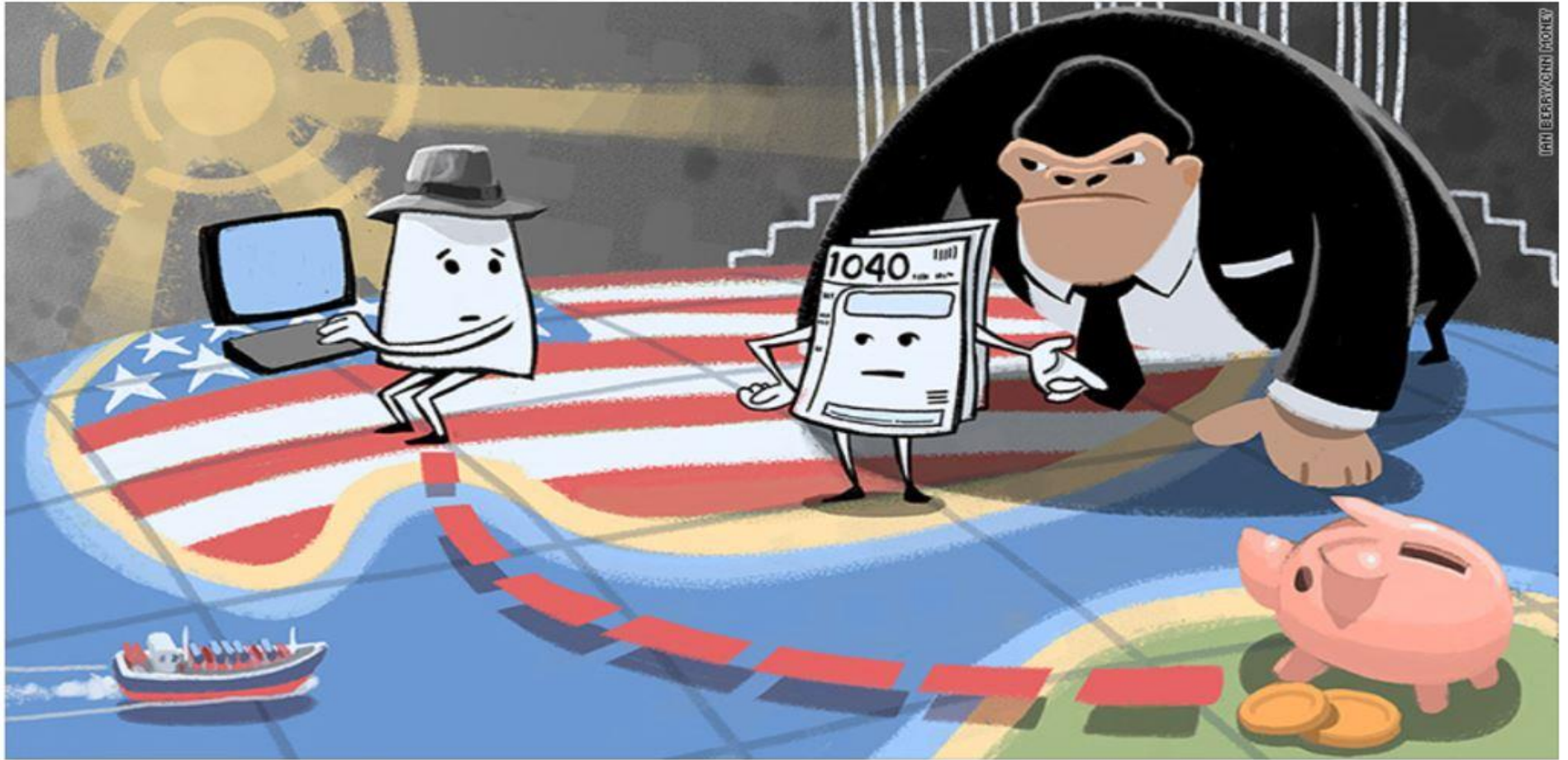
## Americans Abroad

Foreign Financial Institutions that accept US persons have a US National Declaration form that may state any of the following:

- declare your US status by giving your social security number
- ‘...you understand the US tax consequences of your investment...’
- ‘...you will not hold XYZ company liable for any adverse US tax consequences as a result of your investment....’
- ‘... you will pay any state or federal taxes which may be due... or you permit XYZ company to pay the tax liability from the assets linked to the product.’

# FATCA

Americans in the US



Taxpayers living in the United States may be hit with steep penalties if they've had a bank or investment account in another country that they never reported to the IRS.



# FATCA

US Based Investments



# FATCA

US Based Investments

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## THE WALL STREET JOURNAL.

MARKETS

### Fidelity Bans U.S. Investors Overseas From Buying Mutual Funds

*Prohibition Applies to Both Fidelity and Non-Fidelity Mutual Funds*

By LAURA SAUNDERS

Updated July 1, 2014 7:07 p.m. ET



# FATCA

## US Based Investments

Reasons given to not support accounts with overseas addresses:

- Continually evolving global regulatory environment
- Anti-Money Laundering & Know Your Customer Policies
- Cost of compliance for a handful of accounts
- Registration of mutual funds



# FATCA

## US Based Investments

Most US registered mutual funds are offered for investment by residents living in the US.

- Vanguard – “Each investment product and service referred to on this Site is intended to be made available only to U.S. residents.”
- Fidelity – “The Fidelity Sites are intended to be made available only to individuals in the United States, and the information on the Fidelity Sites is only for such persons.”
- Pimco – “This Site is published in the United States for residents of the United States.”
- T. Rowe Price – “The mutual funds referred to in this website are offered and sold only to persons residing in the United States.”

Investing in retail U.S. mutual funds by non-US residents has been prohibited for years, but it was never really an issue until FATCA.

A decorative graphic on the left side of the slide, featuring a stylized American flag with red and white stripes and white stars on a blue background.

# FATCA

## US Based Investments

Possible solutions:

- Use US addresses – estate tax & legal issues may arise
- Invest in ETFs, stocks & bonds
- Never accept International User agreements at log-in page
- Do not transfer funds into an investment account from overseas
- Always check US accounts using a VPN (Virtual Private Network)
- Hire a US Registered Investment Advisor/US Financial Planner



# Financial Planning



# Financial Planning

## Overview

CFP Board defines financial planning as “the process of determining whether and how an individual can meet life goals through the proper management of financial resources.

### Basics of Financial Planning:

- Road map to help you achieve your life goals
- Organizes global assets & liabilities into one plan
- Encompasses
  - Wealth Management
  - Retirement Planning
  - Education Planning
  - Budgeting & Cash Flow Analysis
  - Insurance Planning
  - Estate Planning
  - Tax Planning



# Wealth Management



# Wealth Management

## US Platform

We offer:

- Offshore addresses
- Global investment strategy utilizing ETFs
- Qualified and non-qualified accounts (401K, IRA, Roth IRA, etc.)
- Transparent fees – no hidden costs or lockups
- 1099 tax reporting
- Online account access, monthly statements
- \$500K Securities Investor Protection Corporation insurance



# Wealth Management

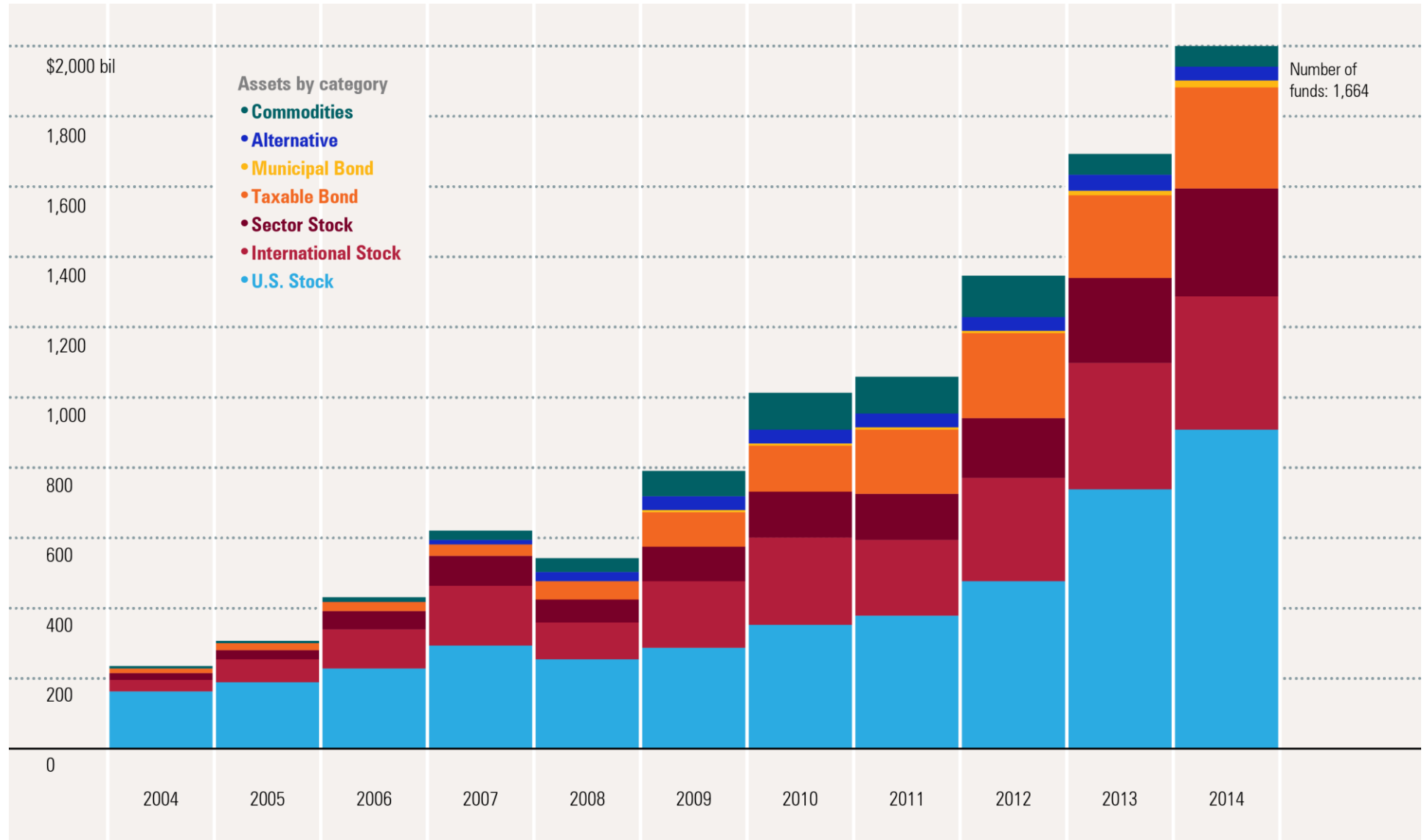
## Exchange Traded Funds – (ETFs)

An ETF, or exchange traded fund, is a marketable security that tracks an index, a commodity, bonds, equity sectors or a basket of assets like an index fund.

- Trades like a common stock on a stock exchange
- Experiences price changes throughout the day
- Typically higher daily liquidity & lower fees than mutual funds
- More tax efficient than mutual funds
- Very low expense ratios compared to actively managed mutual funds

# Wealth Management

## Exchange Traded Funds – (ETFs)





# Wealth Management

## Emotional Costs

“DALBAR, Inc. is the financial community's leading independent expert for evaluating, auditing and rating business practices, customer performance, product quality and service.

For the past 30 years, DALBAR has been collecting data on investors' cumulative decisions about when to buy, sell and exchange mutual funds. The firm has been issuing annual reports on this data since 1994.

Every year the conclusion is the same: On average, investors earn less than mutual fund performance figures imply. Sometimes they earn much less.”

### **Why? Emotions**

# Wealth Management

Emotional costs - quantified

	Investor Returns <sup>1</sup>				Inflation	S&P 500	Barclays Aggregate Bond Index
	Equity Funds	Asset Allocation Funds	Fixed Income Funds	Composite Fund Investor			
30 Year	3.79	1.76	0.72	2.47	2.70	11.06	7.36
20 Year	5.19	2.47	0.80	3.34	2.28	9.85	6.20
10 Year	5.26	2.25	0.69	3.51	2.13	7.67	4.71
5 Year	10.19	5.09	1.21	6.84	1.69	15.45	4.45
3 Year	14.82	7.15	0.72	9.57	1.34	20.41	2.66
12 Months	5.50	2.24	1.16	3.98	0.75	13.69	5.97

<sup>1</sup>. Returns are for the period ending December 31, 2014. Average equity investor, average bond investor and average asset allocation investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions and exchanges for each period.



# Wealth Management

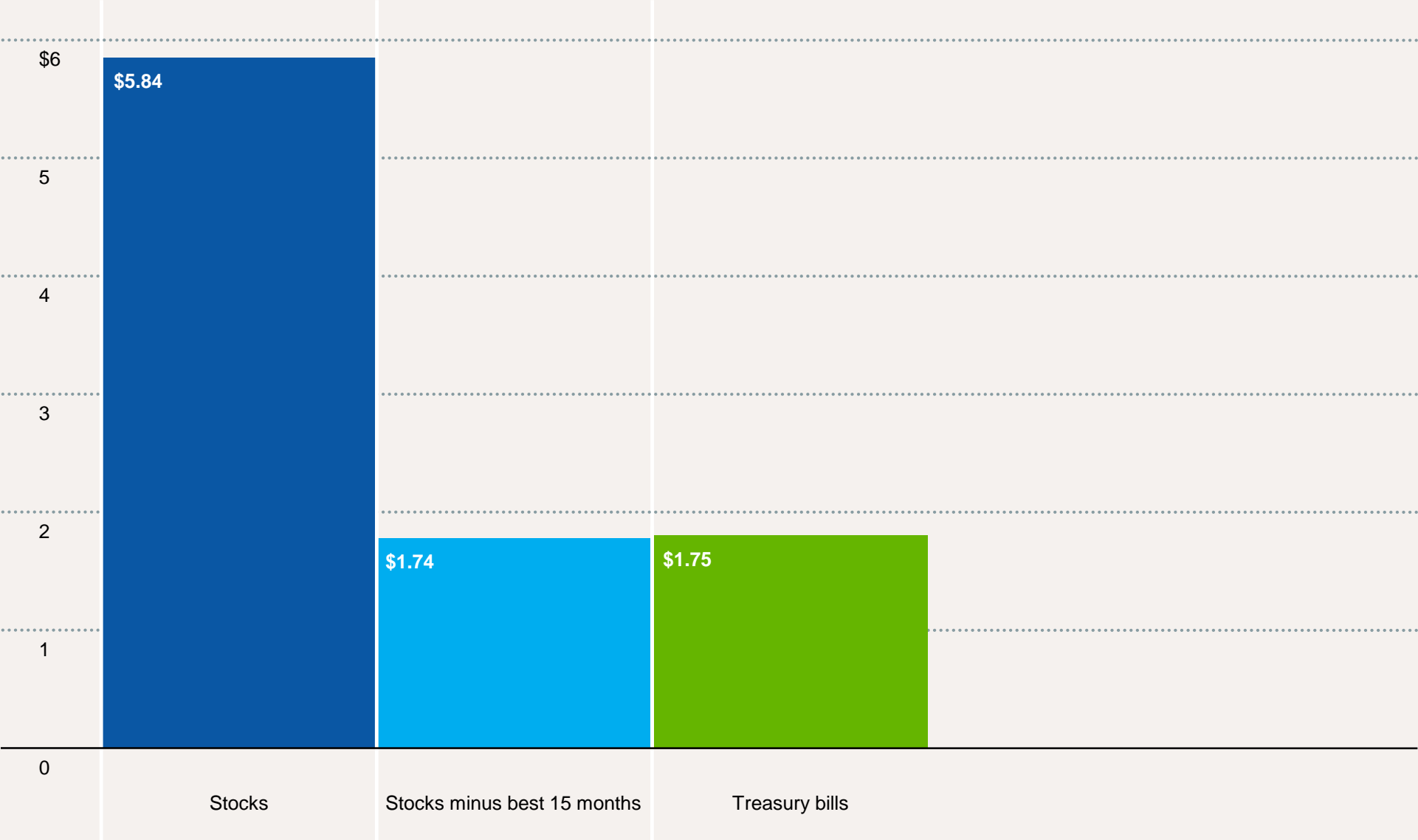
## Emotional Costs

By working with an investment professional, you can remove Emotions related to investing such as:

- Market timing
- Using or misusing information
- Herd mentality
- Over confidence
- Familiarity, biases
- Fear of loss
- Inertia
- Lack of time

# Dangers of Market Timing

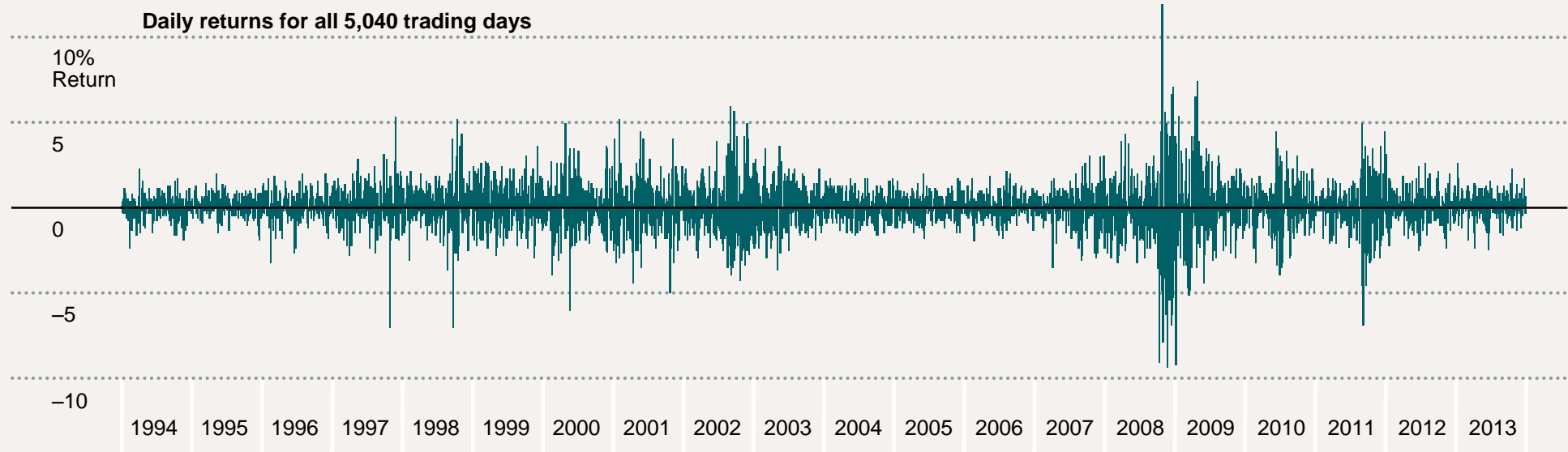
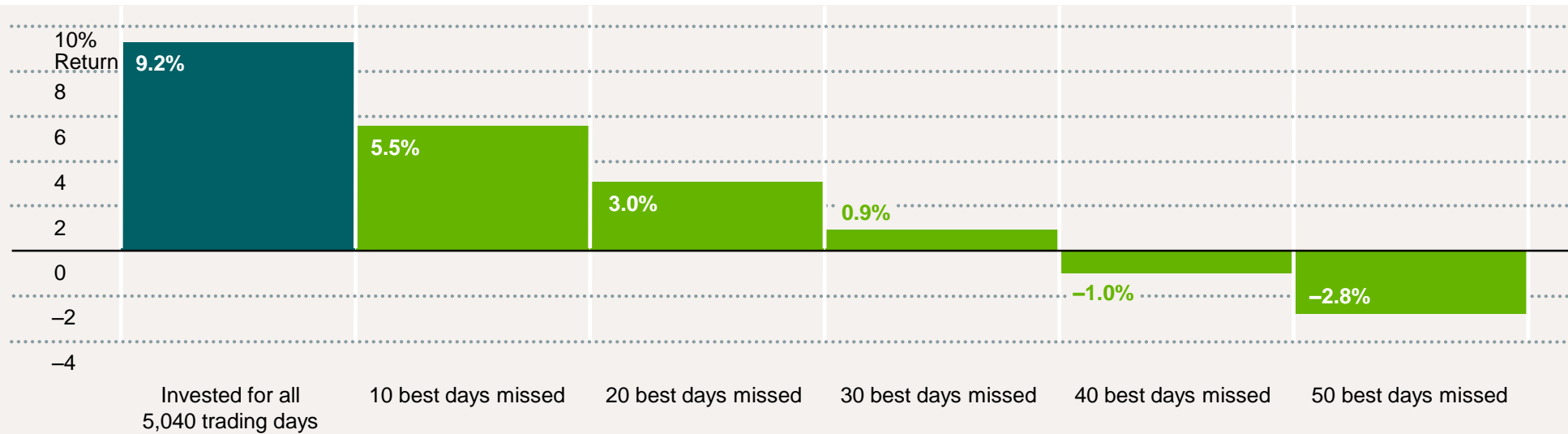
Hypothetical value of \$1 invested from 1994–2013



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2014 Morningstar. All Rights Reserved.

# The Cost of Market Timing

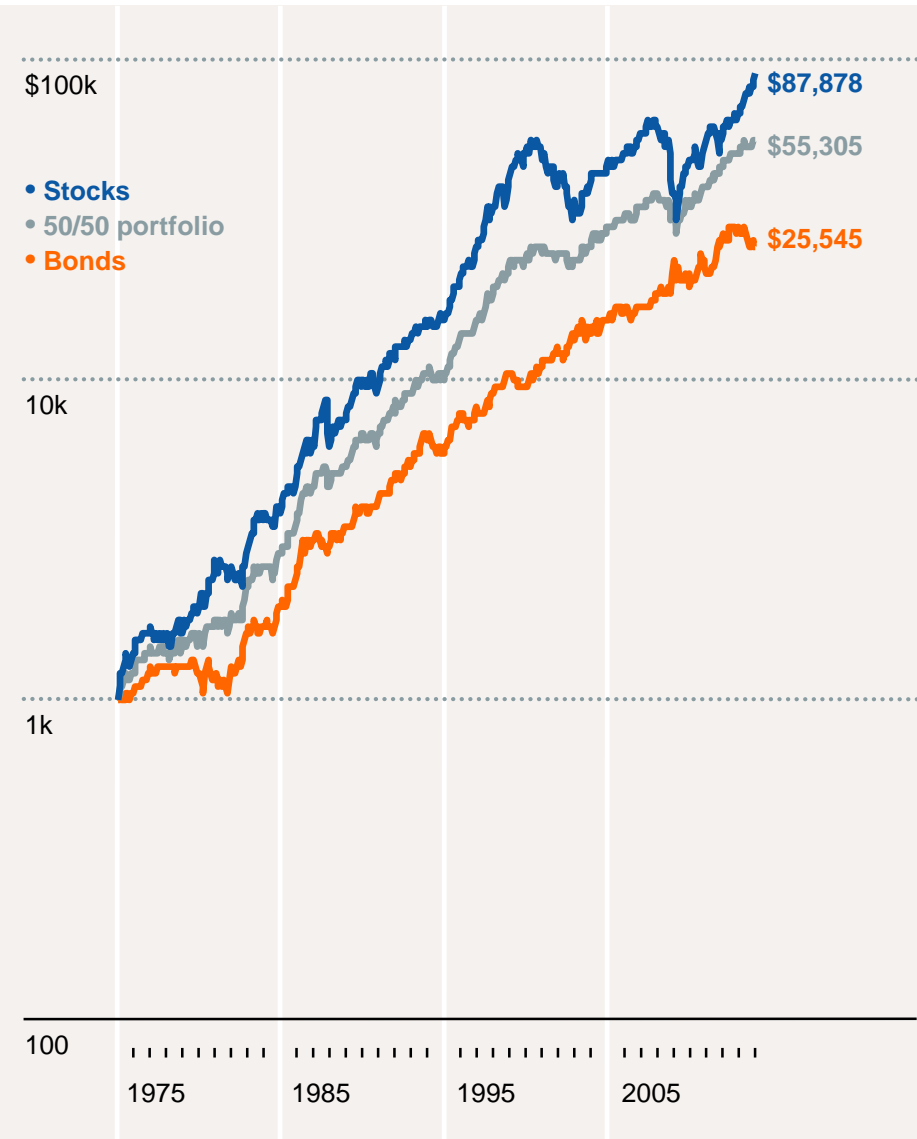
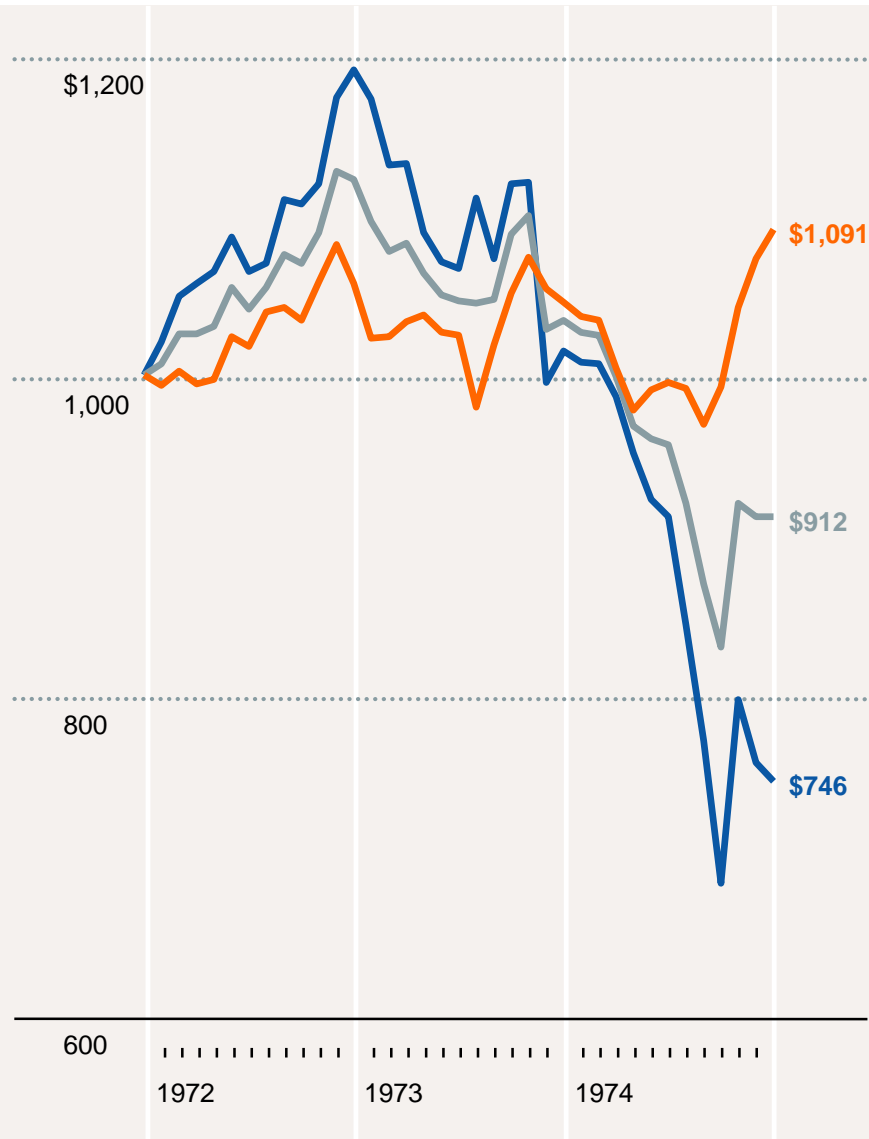
Risk of missing the best days in the market 1994–2013



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# Can You Stay on Track?



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# Insurance Planning



# Insurance Planning

## Overview

### Insurance Planning

- US Situs
  - Cheaper in most cases
  - Law of large numbers
  - Foreign Travel Supplement for expats
  - USD denominated, paid from US bank or with credit card
  - Term, Whole Life, Annuity, UL available
- Offshore Life Insurance
  - IRS Form 720 reporting required
  - Tends to be more expensive
  - Difficult to continue paying when returning to the US
  - Often sold in local currency



# Estate Planning

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# Estate Planning

## Overview

### Estate Planning

- Wills
- Choice of fiduciaries (executors, trustees, guardians)
- Durable Power of Attorney
- Medical Durable Power of Attorney (Health Care Proxy)
- Temporary guardianship instructions if you have minor children

# Final Words

Don't let FATCA ruin your life

Analysis & Opinion RSS

## **FATCA Ruining Lives of Hard-Working Middle-Class Americans Living Abroad**



FATCA requires Foreign Financial Institutions who hold accounts of Americans living abroad to report their clients' accounts to the Internal Revenue Service (IRS).

19:36 22/09/2014

© Flickr/ Tax Credits

<http://en.ria.ru/analysis/20140922/193176913/FATCA-Ruining-Lives-of-Hard-Working-Middle-Class-Americans.html>



# Thank you for attending!

Questions?

Ann Marie Regal, CFP®  
+65 9146 1862  
[amregal@globaleye.sg](mailto:amregal@globaleye.sg)



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