

A Guide to Financial Planning for British Expatriates

Updated January 2008

Candour Consultancy Ltd



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About the Author

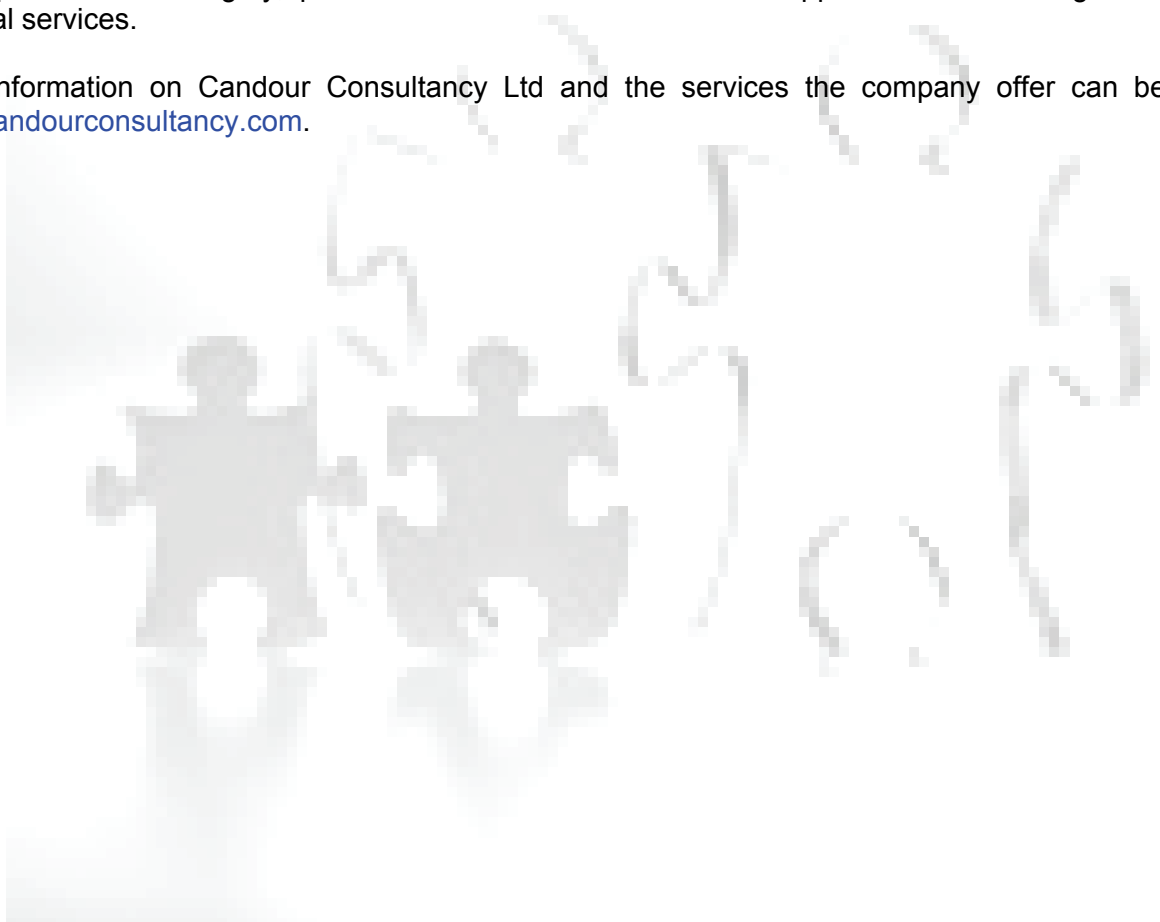
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Darren obtain a degree in Mathematics before working as an independent financial adviser in London where he obtain his full Certificate for Financial Advisors (CeFA) and Certificate for Mortgage Advice & Practice (CeMAP) from the UK Chartered Institute of Bankers.

In 2000, Darren moved to the UAE where he worked for one of Dubai's leading expatriate financial brokerages. During this time, Darren learnt how to apply his knowledge of financial planning to the expatriate marketplace. This gave Darren a profound understanding of both the UK 'onshore' and 'offshore' marketplaces.

In 2003, Darren founded Candour Consultancy Ltd which quickly developed a reputation for the quality of advice and high levels of service it provides. Today Candour Consultancy is renowned in the expatriate marketplace for its integrity, professionalism and the innovative approach it has brought to expatriate financial services.

More information on Candour Consultancy Ltd and the services the company offer can be found at www.candourconsultancy.com.



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Introduction

Thank you for purchasing this guide to the financial aspects of moving and living overseas. The guide is based on years of experience dealing with expatriate issues and we hope you find it an extremely useful tool during your time abroad.

Most of us become expatriates for two reasons: to enjoy a better lifestyle today and to create financial security for our futures. These ideals are perceived to be easier offshore as there is often a lower cost of living and a more favourable tax regime.

However, when you move offshore you usually lose state healthcare and free schooling, you may also lose your company pension and your life assurance could become invalid. Furthermore, you still have to be aware of your tax liabilities back home for when you repatriate or dispose of an asset. Consequently, it is not surprising that many never reach one or both of the goals they moved offshore for.

Some lose their way as soon as they step off the plane; stretching their budget to get that villa with the pool, or being lured by the toys of the expatriate lifestyle such as jet-skis and sports cars. Often these expatriates are back home within a year – usually broke.

Others are less dazzled by the trappings of an expatriate lifestyle but fail to plan and take some simple financial measures at key stages in their adventure - before they move offshore, once they get settled, and in the year before they return home or retire.

Whilst it is always recommended that you get sound, impartial advice on your individual circumstances, this guide will give you a basic understanding of what you will need to know at each stage of your time overseas; enabling you to make informed decisions on how to plan for your current needs and financial future.

Additionally, each section of the guide contains a number of peach and light blue boxes. The peach boxes provide bullet points of any action you will need to take at this time; the light blue boxes will explain how Candour Consultancy is able to assist you with the relevant area of financial planning.

Chapter 3: Moving Offshore

Moving is difficult and stressful enough for those staying in the UK. However, with the additional challenges of ensuring all the loose ends are tied-up and trying to organise a new life in another country (often with different languages, procedures and legal systems), moving overseas can become overwhelming. Consequently, sound planning is vital. In this chapter, we will look at the financial considerations involved in moving offshore.

Your Residential Status

The first step to a successful move is to understand how it will affect your residence and tax status in the UK.

To reduce your tax-liabilities in the UK, you must become non-resident in the eyes of Her Majesty's Revenue & Customs (HMRC). You will cease to be UK resident from the day after you leave the UK so long as you fulfil four criteria:

- You leave the UK
- You go abroad for at least a complete UK tax year (6 April to 5 April)
- Whilst abroad, you work in full time employment
- Your return visits to the UK total less than 183 days in any tax year, and average less than 91 days a tax year during your time abroad.

If you meet all the above conditions, you are treated as not resident and not ordinarily resident in the UK from the day after you leave the UK.

You should obtain and complete the form P85 ('Leaving the United Kingdom') or P85(S) ('Leaving the United Kingdom at the end of my assignment') and submit this to the tax office handling your employer's payroll together with your P45 - showing details of your pay and tax to date of departure.

Your Existing Property

If you own property in the UK, you will also need to consider how that property will best serve you whilst you are overseas. Generally, there are four options available, each of which raises its own issues and calls for its own course of action:

Sell the property

If you decide to sell the property, be sure to allow plenty of time for the sale to complete. If the sale has not completed before you need to move, you can give power of attorney to your solicitor, a family member or a close friend to complete the sale on your behalf.

Get the property valued by several estate agents. Do not necessarily choose the estate agent who recommends the highest sale price – look at the location of their offices, their marketing and the professionalism of their staff.

Appoint a solicitor or conveyancer to handle the legal aspects of the property transaction.

Appoint a power of attorney if it is unlikely the sale will complete before you move abroad.

Leave your family living in the property

If you are working in an unfavourable environment (for example on an oil refinery or in a hostile country) or your children are settled at school, your family may decide that it is best for them to stay in the UK. In this scenario, it is important to ensure that there are sufficient funds in the family bank account to cover the rent, bills, and other living expenses for at least a three month period. There is no way of telling when you will next be in a position to transfer money back to them so it is better to be safe than *very, very* sorry!

Rent the property out

Even though you will no longer be resident in the UK; you are still liable to UK taxation on UK originating income. As such, if you decide to rent your property out whilst you are living overseas, you should be aware that it will be subject to UK income tax.

However, as you remain a tax-payer you retain your income tax allowance (which is £5,435 for the tax year 2008/2009). Consequently, if the rental income (and any other UK originating income such as a UK pension) is less than the tax allowance, you may not have to complete a UK tax assessment or pay any income tax.

If the rental income (plus other UK originating incomes) is over the tax allowance, income tax will be due. The easiest way to pay this tax is to authorise the letting agent you use to rent the property to deduct the tax at source and pay this to the Revenue on your behalf. In this scenario, you will have to complete an annual self-assessment tax form. Please note, when calculating your taxable rental income, in most cases you can offset any mortgage interest against the gross income.

Deducting income tax is just one of the facilities the letting agent should be able to offer. Generally, the letting agent will offer you two management packages – letting & rent collection or letting & full property management.

With the letting & rent collection option, the letting agent will assess the rental value of the property, market the property, find and reference a tenant, draw up a tenancy contract and collect the rent. The letting & full management option provides all the above plus the agent performs property inspections during the tenancy, instructs and oversees all repairs and obtains estimates for any maintenance that is required. This is the option we would always recommend to those who reside overseas.

Speak to several local rental agents to get an overview of the rental market in the area and an idea of the rental income you would receive. Choose an ARLA registered agent who has the facility to deduct any income tax at source.

Inform your mortgage lender that you are going abroad and renting the property out whilst you are overseas; you will need their permission to rent the property if you have taken a residential mortgage. If not, you will need to re-mortgage the property to a lender that will facilitate the rental.

Contact the provider of your buildings and contents insurance to ensure that your policy remains valid if you are living overseas and/or the property is let.

Submit the form IR140 to inform the taxman that you will be renting the property.

Leave the property empty

If you decide that you do not like the idea of another person living in your home; you may decide to leave the house empty whilst you're overseas. You may think that this would be the simplest option but there can be complications here too.

Many mortgage lenders are uncomfortable with a property being left empty for a prolonged period of time; indeed many mortgage offers stipulate that the property cannot be left empty for more than a month or so. Likewise, leaving the property unattended may invalidate your buildings and contents insurance. If so, this should be stated in your policy schedule.

It is also worth speaking to your local authority as leaving your property empty could change your council tax band.

Contact your mortgage lender to inform them that you are moving overseas and will be leaving the property empty. If they do not permit this, you may have to re-mortgage the property to a lender who does.

Speak with the provider of your buildings and contents insurance to confirm that your cover remains valid if the property is left unoccupied.

Speak to your local authority to enquire whether leaving the property unoccupied will affect your council tax liability.

Should your mortgage lender or insurer be unprepared to allow you rent your property or leave it unoccupied, Candour Consultancy advises on a wide range of mortgage lenders who offer expatriate home-loans and specialist insurance providers.

Your Existing Insurance

If you have life assurance, critical illness cover and/or income replacement protection, it is vital to ensure that these will remain valid when you move overseas. Most UK life assurance policies are underwritten on the risk factors and mortality rates associated with living in the UK; if the provider deems your risk liability to have increased due to your move abroad, they may increase your premium or invalidate your cover.

Additionally, many individuals decide to take out additional life assurance when they move overseas to provide their family with a lump sum of money should they die or suffer a critical illness. This should be sufficient to enable the family to return to the UK, set up home and cover day-to-day living expenses for a period of time.

As an expatriate, it is also unlikely you will receive free healthcare should you become ill. Whilst this may not be a huge issue should you catch a cold or get a stomach bug, treatment can rapidly become very expensive for anything more serious. As such, medical insurance is a necessity. Remember, you are moving abroad to save money, why risk it losing everything you save on medical care.

Calculate whether your existing life assurance arrangements are sufficient to cover loans, repatriate your family and provide for their living expenses should you die unexpectedly whilst overseas.

Contact your life assurance provider to confirm whether your policy will remain valid once you are non-resident.

If you have employment arranged, confirm your benefits package with the employer; do you receive medical insurance, death in service benefits? If not obtain quotations and benefits schedules for international medical insurance.

Use a financial advisor, to find the most suitable policy for your requirement, they have already done all the research for you and, contrary to belief, are no more expensive than going direct.

Candour Consultancy advises on a wide range of international life assurance and medical insurance policies designed specifically for the expatriate marketplace. We can recommend the most suitable policy to meet your requirements and provide you with quotations and application forms.

Register with the British Embassy

Lastly in this section, once you arrive in your new country, be sure to register with the British embassy/consulate in that country. This ensures the British government know where you are should there be unexpected unrest or an emergency in that country. It will also ensure you receive quick consular assistance should you fall into trouble and expedite the repatriation process should a family member die whilst abroad.

Chapter 4: Taxation

One of the main reasons many expatriates choose to move abroad is that there is often a more favourable tax regime in the country they are moving to.

This section provides you with an overview of the key principles of taxation and tax-efficient financial planning. However, the section is not exhaustive and it is always recommended you get sound financial advice before taking any action. Her Majesty's Revenue and Customs (HMRC) provide a wide range of fact-sheets and forms for UK citizens moving abroad.

Residency & Domicile

Before discussing your liabilities to individual taxes, it is important to have an understanding of your residential status and your domicile.

As far as HMRC is concerned, you are considered to non-resident for tax purposes from the day you leave the UK so long as you are away for more than one full tax year and outside of the country for at least 183 days per tax year. Days of arrival and departure are ignored. Additionally, if you go and work abroad for more than one year, you must not be back in the UK for more than 91 days, on average, in any 365 day period, for the duration of your time abroad.

Another concept HMRC uses is that of 'ordinarily resident'. This is the country that is your normal home, year on year, with no big foreign excursions.

As such, you can be 'ordinarily resident' but not 'resident'. This is where you move overseas (or just go on a very long holiday) for a short time period – a year or so. Even if you spend more than a tax year abroad, you can still be 'ordinarily resident' in the UK.

Like all rules governing taxation, the categories are never hard and fast; you can also be resident in more than one country at once, depending on how your time is split between them, and depending on what each country's Revenue rules are. Unless there is a double taxation agreement (see below) between the countries you are considered resident in, you could be caught twice for tax – so get some advice.

NB: HMRC makes exceptions to these rules if you have to return to the UK for 'compassionate reasons' in a tax year. That means the death or serious illness of a loved-one. They will not sting you if you just exceed the limit through no fault of your own.

Your domicile is even less easy to quantify. For a start, according to the HMRC's own guidelines, "It is not possible to list all the factors that affect your domicile". Basically, there are two 'domicile' concepts:

The first is where you have your permanent home (not the same as residency, since that is where you spend your time for tax purposes). Your permanent home is the country you call your home country – for most people this will be the country of their birth and citizenship.

The second is your 'domicile of origin', which is where your father's permanent home was. So, you could have been born in France, but if your father was English, your domicile of origin is Britain.

Domicile and residency usually go together, it's true. But for certain taxation purposes – the taxation of securities income, for instance, or for inheritance tax – your particular mix of residency, ordinary residency, domicile and domicile of origin will matter.

It is possible to change your domicile once you reach 16 but you have to convince HMRC that you really have left the UK for foreign shores permanently. Just living abroad for a long time will not be enough, you also have to show that you never intend to return to the UK and you have no allegiance to the country.

Income Tax

From the day you move abroad, you become non-resident and the UK taxman no longer has the right to tax you on the income you earn outside the UK. Indeed, if you move overseas part-way through a tax year, you may even be due a refund on the income tax you have paid year-to-date.

If you own UK based assets that are still generating an income whilst you are abroad (perhaps a rental income if you rent your home out), you will remain liable to UK income tax on this income – even once you are non-resident. As a UK taxpayer (regardless of where you are residence) you will then be entitled to the UK personal income tax allowance. For the tax year 2008/2009, the income tax allowance is £5,435.

When you have any form of UK income, it is always prudent to complete a self-assessment tax return. This will need to be completed and submitted each January.

When calculating UK income tax on rental income, a number of deductions can be made. These include the right to offset the interest (not capital repayments) you pay on your mortgage and any expenses you have relating to the letting of the property; boiler inspections and essential redecoration and repair costs are common examples.

At this point, it is important to note that, whilst the income you earn during your time overseas may not be liable to UK taxation, it may well be liable to tax in the country where you are resident. Breaking the tax rules of the country where you are living could lead to serious fines, expulsion or even imprisonment.

Check that you meet the rules for non-residence.

Before you leave the UK, submit the form P85 or P85s together with your P45 to the tax office handling your employer's payroll.

Complete and submit the form IR140 if you receive a rental income from a UK property.

Complete and submit a tax return each January declaring any income you have received that is generated in the UK and off-setting any related expenses.

Check your tax liabilities with the local office of your new employer. If you are to be self-employed, confirm your liabilities with a local tax adviser.

National Insurance Contributions

A consequence of not paying UK income tax is that you also stop making National Insurance (NI) contributions. Consequently, many expatriates have an incomplete contribution history and are not liable to the full UK State pension when they reach retirement age.

However, as an expatriate you can continue to make NI contributions by obtaining and completing the form NI38 'Social Security Abroad' from HMRC Centre for Non-Residents. The Centre for Non-Residents will also be able to help you calculate what level of contributions you should be making by providing you with the following information:

- A statement of NI contributions paid to date
- Whether you will have to pay any contributions for the period you have worked, or will work, outside the UK
- A forecast of State pension benefits (if you are within four months from retirement)

If you miss several years' contributions, it may not be possible to make up all of these. Under current regulation, you can make up a maximum of six years 'arrears' towards the required 44 years contributions for men or 39 years contributions for women.

Request a statement of the NI contributions you have paid to date from the Centre for Non-Residents. Ask them to advise on what contributions you will need to make whilst abroad.

Complete and submit the form NI38 to continue paying or make up missing NI contributions.

A more detailed guide to NI contributions can be found in the retirement planning section of this booklet.

Capital Gains Tax

Most expatriates need to be as aware, if not more so, of Capital Gains Tax (CGT) as income tax. As with UK income tax, the CGT liability is dependent on your residential status but the rules which govern when CGT is due are not as black and white as whether you are UK-resident or non-Resident.

If you are planning to be non-resident for less than five years, you will remain liable to CGT throughout your time offshore. The gain of any investment purchased before you became non-resident will remain liable to UK CGT regardless of where you are resident in the world. Assets purchased whilst offshore and disposed of in the tax-year before you return to the UK are not liable.

If you are selling your main residence, there is no CGT liability so long as you sell the property within three years of becoming non-resident.

Things are slightly simpler for those who have been, or will be, abroad for five complete tax years. Where an individual arriving in the UK has not been resident or ordinarily resident in the UK at any time during the five tax years immediately preceding the tax year in which they arrived in the UK, chargeable gains from disposals made before the date of arrival, are not charged to CGT.

In light of this, if an expatriate has a property that they do not intend to reside in upon repatriation, they should consider the tax benefits of selling the property before returning home. If the sale is completed in the tax year before they return home, there will be no CGT liability.

In contrast, any assets which have fallen in value whilst you have been overseas should be held onto until you regain UK residency. This will allow you to claim tax-relief on the losses incurred.

Decide whether you are looking to move offshore for less than or more than five years.

Keep a record of the date you left the UK, the date & value at which assets were brought & sold.

Consider selling investments that have gone up in value since they were purchased in the tax year before you return to the UK.

Consider keeping assets that have gone down in value until you become UK resident again to enable you to claim tax relief.

Seek professional advice the tax year before returning to the UK on what could and should be disposed of before your return.

Candour Consultancy is not a professional tax consultancy and we do not offer in-depth tax advice. However, we are able to put you in contact with a professional tax advisor who is experienced with dealing with expatriates and their unique circumstances.

Inheritance Tax

Many expatriates are under the impression that, because they are no longer resident in the UK, they will not be liable to UK Inheritance Tax (IHT). This is not true. Anyone who is British domiciled will be liable to UK IHT on their death regardless of how long they have been overseas or the nationality of their spouse – indeed the later could increase your IHT liability.

As mentioned above, to become non-UK domicile is exceptionally difficult. Not only must you have severed all links to the UK for several years, you must show that you have no allegiance to the country and no intent of ever returning. For most, this is very hard if not impossible.

Consequently, as expatriates we have to accept that on our deaths (whether we are resident in the UK or abroad) everything we own above the IHT allowance will be subject to 40% tax. The IHT allowance for 2008/2009 is just £312,000 which is approximately the value of the average expatriates' home.

The one exception to this is when assets are passed between UK domiciled spouses; then there is no IHT liability whatsoever. However, this only applies when both spouses are of British origin. If a husband (or wife) who is UK domiciled leaves their estate to a spouse who is non-UK domiciled, the estate is liable to IHT – and the total IHT allowance is an unfair £367,000 (£312,000 + an additional £55,000) as opposed to no liability for a UK domiciled spouse or £312,000 for any other UK domiciled benefactor!

As an example, Andy dies owning a property worth £300,000. He also has £112,000 which he has saved as an expatriate sitting in an offshore bank account, a further £75,000 in company shares which he was given as bonuses and a car worth £25,000. His wife has already died and he wishes to pass these assets (total value £512,000) to his daughter on his death.

Because our expatriate has an up-to-date Will that outlines his wishes, probate is quickly granted and the taxable estate is calculated at £200,000 (£512,000 minus the £312,000 inheritance tax allowance). This results in an IHT bill for the daughter of £80,000 (40% of £200,000). Luckily, in this scenario the IHT bill can be paid from the cash element of the estate.

In other scenarios, where the main asset(s) in the estate is property, the property is required to be sold by the solicitors to cover the tax bill before the estate is released. This can be very prolonged and painful experience for the beneficiary; especially when they require the inheritance to continue living as in the example of a non-UK domicile spouse.

Regularly review the value of all your assets. If these exceed the IHT allowance, speak to a professional tax adviser about how you can plan against the potential IHT charge.

Keep a valid Will in every country that you have assets. Ensure you update your Will whenever you have changes in your personal circumstances; i.e. you get married, buy a new house, have children, etc....

Candour Consultancy is not a professional tax consultancy and we do not offer in-depth tax advice. However, we are able to put you in contact with a professional tax advisor who is experienced with dealing with expatriates and their unique circumstances.

Candour Consultancy does offer a wide range of tax-planning vehicles and a *wealth management package* that can be used to implement the tax advisers' recommendations.

The Importance of a Valid Will

Put simply, a Will is an instrument to ensure your estate is passed on to those you wish to benefit from it after your death.

With the huge increase in property values just about everywhere, the Chancellor of the Exchequer has been celebrating the generosity of the UK taxpayer for some time now and, in particular, he has enjoyed what appears to be 'unbounded generosity' from those who have died during the past four or five years. His Inheritance Tax (IHT) receipts are climbing towards £3 billion a year, and almost two thirds of that figure is drawn from deceased homeowners. In recent years, a great deal of the Chancellor's energy has been expended on closing loopholes and tightening up the rules so far as tax avoidance schemes are concerned. However, a properly drawn Will provides a first line of defence against your beneficiaries losing 40% of what you were expecting them to survive on after you have left them to fend for themselves.

Because IHT rules keep changing (as do individual circumstances), it is essential to regularly review the plans that you made, to make sure that what you thought was going to happen with your money is what is actually going to happen. The process can be as simple or as complex as you wish to make it, but you should at least do something.

The need to deal with this becomes even more important once you are an expatriate, as not only do you have to consider your estate in the UK, you will also need to consider the disposal of your assets in the country where you are resident.

As an example, in countries that follow Sharia Law, the assets of an expatriate in that country could be passed to the nearest male relative (as opposed to the wife or daughter) should they die without leaving clear instructions to whom they wish to leave their villa, car, and money in their local bank account.

Because so many more of us now own properties in countries outside of the UK, this is another area of estate planning that needs to be taken into account when reviewing your Will. Whilst it is not essential to write a Will in every country where you hold property, if you do so, it will make the job for your executors a great deal simpler if they are given the power to implement and enforce your wishes in each jurisdiction.

Trying to sort out estates where assets are scattered around the globe is a very profitable exercise for probate lawyers; however, the fact that it literally takes years and denies closure to the bereaved, is a burden that no right minded individual would wish on those that they love. If the need is pressing (but too often ignored) for UK residents, that need is redoubled when one leaves the jurisdiction of the UK courts.

Regularly review the assets you own, their value and the countries they are situated in.

Decide who you wish to leave these assets to.

Seek advice on the inheritance laws in the country you are resident in.

Make and maintain valid Wills in the UK and the country you are resident in.
Consider making additional Wills in countries where you own property.

Candour Consultancy is not a legal practice and we do not create Wills ourselves. However, we are able to put you in contact with a solicitor who is experienced with dealing with expatriates and their unique circumstances.

Candour Consultancy does offer a wide range of IHT planning vehicles and a *wealth management package* that can be used to implement the solicitors' recommendations.

Chapter 5: Expatriate Banking

Most British expatriates split their money between two bank accounts: A local currency bank account in the country that they are resident in and a UK offshore bank account.

Often, the local currency bank account is where the expatriate's salary is deposited and their rent/mortgage, car loan, local utility bills and day-to-day living expenses are deducted from. When choosing this bank account, it is important to consider what you require from a current account; a debit card, a cheque book, the ability to set up recurring transfers, English speaking staff, convenient branches and ATM's are the most commonly required facilities. Internet banking, higher-interest accounts, loan and mortgage facilities may also be important to some.

Establish a local bank account in the country of your residence. Ensure this account has all the facilities you require for day to day living.

Transfer sufficient funds into this account to provide for at least three months living expenses. This 'emergency fund' should be sufficient to cover any unforeseen expenses.

Offshore Banking

The offshore bank account is where many expatriates choose to leave the remainder of their savings and spare capital. This is generally for one of two reasons; they may be living in a country where their local bank account is taxed or in a country where they do not wish to leave larger sums of cash due to poor regulation, political instability or unclear/unfavourable inheritance laws.

The offshore account may also be used to pay utility bills and mortgage repayments back home.

When choosing an offshore bank account, the first consideration should be the jurisdiction in which you hold the account. It is vital that you place your money in a jurisdiction that offers political stability and sound financial regulation.

For British expatriates, this usually means the Isle of Man, Jersey or Guernsey. Not only do these jurisdictions offer investor protection and comprehensive regulation, but banks that are well known from the UK high street and English speaking staff.

Once you have chosen a jurisdiction, the next step is to select a bank that offers all the services you require. This is not as easy as one might think.

The choice of accounts on offer expands each year, with new products regularly entering the market. Some products attached to accounts will look very inviting and turn out to be absolutely essential, while others may appear to be little more than a perfunctory extra. And there will inevitably be a few facilities which, just because of how things turn out for you, will never need to be called upon. But to base a decision as to whether to go with Bank A on the strength of its multi-currency account or to opt for Bank B because of its new investment fund facility, is the wrong approach.

An initial survey of offshore banking facilities by all new expatriates should be made on the basis of a secure understanding of what your money management needs are right now. And while not ruling out the prospects of a bright year hence, focus on what you need today rather than what you aspire to tomorrow. Don't be swayed by a dazzling showcase of extra flavours if what really suits you is plain vanilla. Having said that, there will be many expatriates whose banking and investment projections will already be mapped out securely enough to sign up to a more sophisticated package of banking facilities, and, if this is your circumstance, on no terms accept the plain vanilla account.

For many expatriates the issue which concerns them most is security. But offshore bankers across the board maintain that in reality the threat of hackers accessing banks security system and breaking into its customers' personal fields is very low. Banks are every bit as keen as account holders to maintain fire-walls and security screens which are impenetrable to those who shouldn't be trying to pass through. Internet banking these days employs what's called 128 bit encryption that is virtually impossible for hackers to break.

Consider from the outset what you need from your offshore bank account. Is this just a place to park some cash? Will it be the home of your only savings? Do you need an account that can pay any remaining UK bills? Or are you looking for a bank which can also handle surplus monies for channelling into appropriate investments?

Equally important is the ability to access and manage the account; these days this means internet banking.

Once you've understood your needs, take your time to discover as much as you can about whether the jurisdiction and bank you are considering offers accounts and services which truly support your requirements.

Expatriates whose real need centres on savings should check out the best interest rate paying accounts as monitored by an independent source.

Set up Euro & Dollar sub-accounts to enable you to benefit from major changes in exchange or interest rates.

Use a currency exchange house to transfer larger sums of money into another currency. They will usually be able to provide you with much better rates than your bank.

The EU Savings Directive

Traditionally, British expatriates have used offshore bank accounts based in the British offshore market; the Isle of Man, Guernsey & Jersey. Whilst bank accounts in these jurisdictions remain a tax efficient option for those who are resident outside the European Union, since July 2005 they are no longer as tax-efficient for those who are resident in an EU Member State; or a dependency of an EU Member State.

In July 2005, the European Savings Directive (EUSD) was rolled out across the European Union. The Directive is an agreement between the EU Member States to automatically exchange information with each other about customers who earn interest in one EU Member State but reside in another. This means that, for example, where a resident of France holds a bank account in the UK, the British bank will provide the French Tax Authorities with details of interest payments on that account. The French Tax Authorities will then in turn provide that information to the UK Tax Authorities.

This is known as “*automatic exchange of information*” and enables the French Tax Authorities to compare the amount of income declared by that individual on his or her own French personal tax return with the information provided under the EUSD.

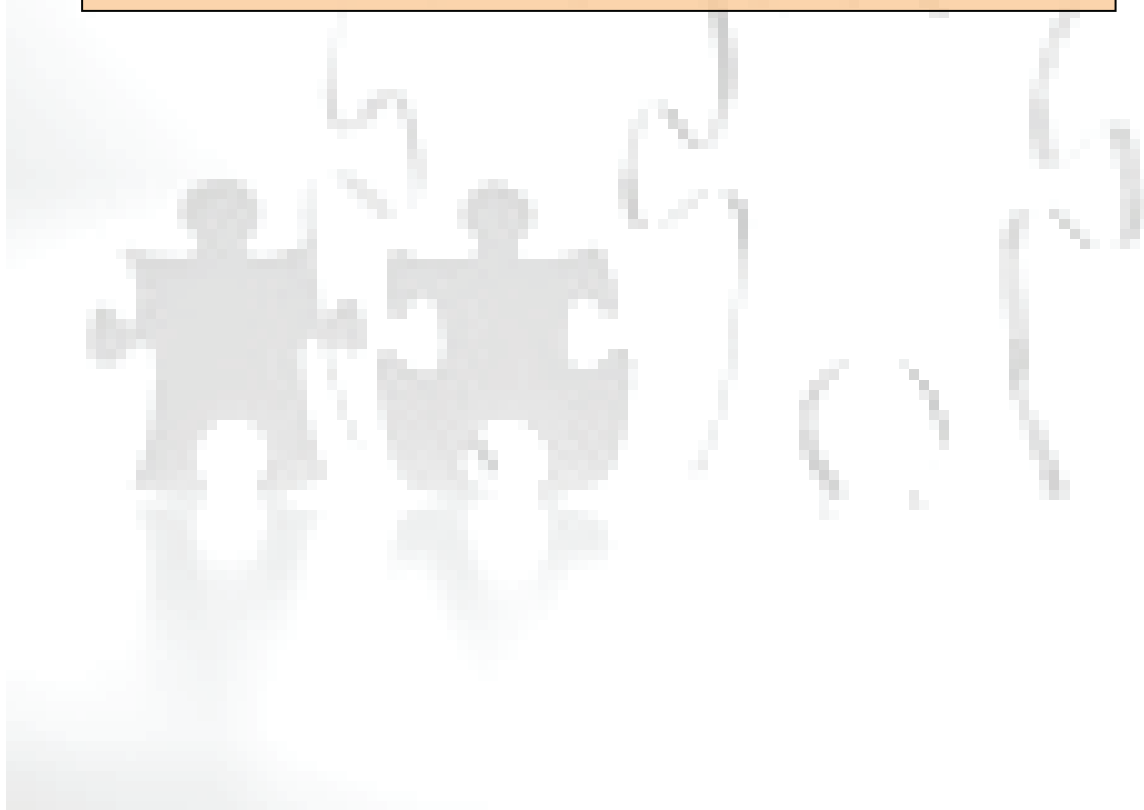
If you are an individual resident in an EU Member State (e.g. the UK, France or Spain) and you earn bank interest on an account held with a bank located in any other EU jurisdiction (whether onshore or offshore), then you will be affected by the EUSD. If you are to hold larger sums in an offshore account, you may wish to consider using an Offshore Investment Bond as a tax-efficient alternative (see Offshore Investment section).

If you are resident outside the EU but hold a passport issued by an EU Member State then you should fall outside the scope of the EUSD. However, you may be asked to provide proof that you are resident outside the EU to your bank. Your bank will use its normal “know your customer” information to determine where you are resident for the purposes of the EUSD.

Learn the basics about the EU Savings Directive.

Keep details of where and when you are resident outside the EU. Ensure your utility bills have your full name and address on to act as a proof of address.

If you are going to live in or retire to an EU Member State, consider alternative savings vehicles to hold larger sums of money.



Chapter 6: International Medical Insurance

More often than not, when you move overseas you will lose State healthcare. Whilst this may not be a huge issue should you catch a cold or get a stomach bug, treatment can rapidly become very expensive for anything more serious so medical insurance is a necessity. Remember, you are moving abroad to save money, why risk it losing everything you save on medical care.

If you are moving abroad to work, it is possible your employer will provide you with some cover; however, this may only cover you whilst you are at work or the region you are resident in. For example, most corporate medical insurance policies in the Middle East only cover members for treatment in the Gulf region and Indian Subcontinent. What happens if you fall ill or have an accident whilst you are on holiday outside the region?

Additionally, an expatriate lifestyle is often a transient lifestyle; what happens if you have to make a claim for a major condition whilst covered a regional insurance policy and then you move outside that region? – no medical insurer will cover you, or if they do they will load the premium substantially and excluded any treatment relating to that condition. Consequently, it is vital you have an international medical insurance policy.

Whilst having international medical insurance while you're abroad is essential, it is not going to be much good if there are conditions that are not covered under your plan. Most private medical insurance providers now operate on such a large, global scale that there are few glaring exclusions that could trip you up. However, a little time spent going over a company's terms and conditions will bring to your attention some omissions in plans that you may want to know about before you sign.

The most important thing that might be missing from your plan is cover for chronic conditions. Obviously, a provider won't automatically cover you for any pre-existing conditions - that would be like insuring a house that is already burning down - but should you develop asthma or diabetes after signing the plan, you will want to know that you are covered for this.

Some providers will only cover you in severe cases of any chronic condition that has arisen, such as a diabetic coma. This means that some insurers, particularly ones that offer basic-level or 'regional' plans, will cover you in an emergency or in the short term, but not for the routine, ongoing treatment that you need. From an insurer's point of view you can understand why they may do this as illnesses like asthma and diabetes are spreading in today's world and costs could spiral out of control if they insured everyone. Yet there are plans out there that will cover you for everyday treatment of such illnesses, so it's up to you whether you want to pay the costs or be covered for them, (albeit sometimes with restrictions on the amount you can claim), under your plan.

There are also other features that are worth checking to see if you are covered. One of the greatest omissions on many PMI plans is cover for congenital defects. It is worth checking to see if there are any restrictions in their plans when, for instance, they have a baby with a birth abnormality that needs treatment. There are restrictions to this with some providers. Often people buy healthcare when they reach a certain age, when they are more conscious of protecting their family - for this reason people should check what is included under pregnancy cover.

It must be also borne in mind that pregnancy cover is usually only available after you have had your plan for one year. This is pretty standard, but will make you plan that bit further in advance, especially if you are set to have a baby in a country where healthcare is expensive, like the US or the Caribbean. You may well want to check the amount you can claim for a normal pregnancy, too, as the average cost, can be as much as £5,000.

A recent addition to some plans has been infertility treatment. Some insurers now cover investigations into infertility up to the point of diagnosis. Others may also cover IVF treatment (often up to a limit of £2,000 a year) with four attempts allowed in a lifetime.

The treatment of routine dental conditions is another area that will need your consideration. Whilst most insurers provide cover for emergency dental treatment (i.e. if you smash your teeth in a car crash), the treatment of other dental conditions (such as routine check-ups, toothache or an impacted wisdom tooth) is usually only included in an insurers premium package or as a 'bolt-on' extra. Consequently, including cover for dental treatment can increase the cost of insurance by up to 30%. However, given the cost and frequency of dental treatment (especially for children), many people elect to pay the additional premium for peace of mind.

Only by doing the boring work of checking an insurer's terms and conditions (or speaking with an independent financial advisor who has already done this work) can you figure out exactly what you will be protected against and begin to compare plans.

Use an independent financial advisor to help find the most suitable policy – this is no more expensive and could save you valuable time and money.

Only consider international medical insurance policies – these may be more expensive but they will ensure you are covered both today and as long as you require cover, wherever that may be.

Check carefully what is covered and what is not.

As well as illnesses, consider what activities or sports you may participate in. Many insurers provide cover for all sports; others will have restrictions on what they would like you to do.

Consider the excess, choose a policy with a set excess rather than a percentage of the claim. A standard excess is usually around £30 (US\$ 50) per medical condition.

Candour Consultancy advises on the international medical insurance policies from all the major providers.

Our consultants can help you identify the type of policy you require, source the most competitive policy, provide you with all the paperwork and assist you with the application.

Chapter 7: Tax-Efficient Savings

We all have our own reasons for saving – enjoying our retirement, fulfilling a long-held ambition or providing for a specific event such as a child's wedding or university fees. For those with foresight, the comfort of knowing you have effectively planned your finances is often reason enough to ensure your money is working as hard as it can for you.

Whatever your reason, there's no magic formula for success. Only by committing to forego some of your spending power now, can you expect to fulfil your ambitions and achieve financial security in the future. Once you've made this commitment, you need to decide whether a high-interest offshore bank account or a flexible and tax-efficient regular contribution savings plan will best suit your requirements and risk profile.

An offshore bank account will protect your capital and provide predictable returns; however the prospect for growth is limited and the returns are unlikely to exceed 4.5% to 6% per annum. A regular contribution offshore savings plan can provide substantially higher growth potential but, as the underlying assets are generally linked to the equity markets, there is no guaranteed return and the potential for some capital loss.

Either way, most important is not to commit to making regular contributions until you are sure you are settled in your new country, you know what disposable income you have and you have decided how much of this you feel comfortable committing to savings.

Wait until you are confident of your regular income and expenditure before you commit to saving regularly.

Calculate how much you can afford to save each month without causing yourself hardship.

Decide on what, if any, level of risk you are prepared to take: are you willing to take some risk in order to outperform a bank account? Are you looking to maximise returns regardless of risk?

Have a definitive goal in mind and set your savings term to meet this goal; i.e. until the age of 60 if it is your retirement you are saving towards.

High Interest Offshore Bank Accounts

If you decide that you are more comfortable with the no risk but limited return route, the first consideration has to be the jurisdiction in which the account is held. For most expatriates, this decision will have been made when they chose their current account.

The next consideration is how much access you will require to your savings. Most 'higher interest' accounts require you to lock your money away for some period of time. You may have to give 7 days, 30 days, 90 days or 180 days notice to access your money in some accounts whereas others will only pay you the interest once your money has been with them for a fixed term – usually 1, 2 or 3 years. As a rule of thumb, the longer you lock your money away, the higher the interest rate you will receive.

Another option at this point may be a savings bond that some of the offshore banks offer from time to time. Such bonds generally require the investor to lock their money away for either a 2 year, 3 year or 5 year period. In return for this the bank guarantees the return of the initial deposit plus either a fixed rate of interest throughout the term or a minimum investment return (with the potential for a higher return).

Once you have decided how long you can live without access to your savings, you will then need to decide the currency in which you hold the savings. This should be dependent on two factors: the currency exchange rates at the time and the interest rate available in that currency. For example, if the Dollar is weak against Sterling but offers a slightly better interest rate, it would be in your favour to convert your savings into Dollars as you will benefit from both a higher interest rate and receiving a high number of Dollars for each Pound Sterling invested – hopefully the currencies will have returned towards their longer term average by the time you withdraw the money and you can buy Sterling back at a profit; boosting your investment further.

In contrast, it could prove foolish to transfer from Dollars (or a currency pegged to the Dollar) to Sterling in this scenario as you are likely to lose out on both interest earned and currency exchange rates.

Choose the jurisdiction in which you wish to hold the savings account.
Research the rates of interest and 'lock-in' period available.
Enquire whether any savings bonds are on offer at that time.
Have a definitive goal in mind and set your savings term to meet this goal; i.e. until the age of 60 if it is your retirement you are saving towards.
Consider the benefits of a multi-currency account.

Candour Consultancy works closely with many of the major savings banks in the UK offshore market.
Our consultants are aware of the best accounts in the marketplace and can help you identify the savings plan most suitable to your requirements.

Regular Contribution Offshore Savings Plans

For those who are prepared to take some risk to obtain higher returns than a bank account, the offshore financial institutions also offer a range of regular contribution savings plans.

These savings plans allow you to invest small amounts on a regular basis (usually monthly, quarterly or annually) into a range of cash, bond, equity, hedge and property funds that are usually only available to investors with large sums of money. Together with your financial adviser, you decide which funds you wish to be invested in. The funds range from low risk to high risk and the higher the risk of the funds you choose, the greater the potential for return. As most expatriates do not have either the time or the inclination to choose and monitor a basket of funds; the better financial brokerages offer risk based portfolios (usually low, medium and higher risk) which they select and monitor for you; giving you regular updates on their performance.

The savings term can be anywhere from 5 to 30 years and different products have different degrees of flexibility regarding contributions and withdrawals. As such, regular contribution investments have a wide variety of uses range from saving for a deposit for a house, building capital to cover a child's future university costs, repaying a mortgage or saving for retirement.

When choosing a savings plan, there are a couple of areas you need to be wary of. Firstly, find out what the penalties will be if you need to stop contributions or access to your money before the end of the term. An expatriate's lifestyle is often transient and most expatriates need to pause or stop contributions at some point. As such, most expatriates should avoid policies that have additional charges if you stop or reduce contributions for a period of time – even if these savings plans seem lower charging or purport to offer higher returns than all their competitors.

Secondly, be sure your adviser has explained (and you understand) every aspect of the charging structure. For example, if the adviser did not tell you about initial units or mirror funds but they are mentioned in the policy brochure, stay clear of the adviser. Mirror funds are explained in more detail in the *Investing Offshore* section of this guide.

Decide how much you can comfortably afford to save each month.

Decide on what, if any, level of risk you are prepared to take: medium risk funds should average returns in the region of 7.5% per annum over the medium term. Higher risk funds could average 10% plus.

Decide on the term you wish to save for. Have a definitive goal in mind and set your savings term to meet this goal; i.e. until the age of 60 if it is your retirement you are saving towards.

Examine the charges of the policy including hidden costs such as those related to mirror funds.

Consider the flexibility of the policy; can you stop or reduce contributions if circumstances dictate? Can you withdraw money early if required? If so, is there a penalty for these actions?

Candour Consultancy advises on a wide range of tax-efficient offshore savings plans. We are authorised introducers to the major offshore financial institutions in both the UK and Singapore offshore markets.

Our consultants can help you identify the savings plan most suitable to your requirements and provide you with projected returns together with a policy brochure.

Chapter 8: Investing Offshore

Many of us move abroad to create financial security for our futures so, when we have built up a sum of money, this needs to be invested wisely to achieve this goal.

Becoming an expatriate opens up a whole new world of offshore financial planning tools and the wise expatriate will look to this market when investing their surplus capital. Investing in an offshore jurisdiction is tax-favourable and, in the case of the Isle of Man and British Channels Isles, as well regulated as the UK 'onshore' market.

When investing money, you will effectively be locking it away for the medium- to long-term (at least 5 years). As such, it is vital to retain a contingency reserve, perhaps in an accessible high interest offshore bank account, as an emergency fund to meet any unexpected short term expenditures.

The Risks of Investing...

There are two important concepts in investment - risk and diversification. All investments carry different degrees of risk; even some of the safest have the risk of their 'real value' being eroded by inflation. Invariably there is a trade-off between risk and the potential return - higher potential reward means accepting higher volatility and risk of capital losses.

When choosing a financial advisor to help you identify the correct investment vehicle for your needs, it is important to find an advisor who can match the level of risk with which you feel comfortable to the risk profile of the investments. If you are investing over the longer-term, it is likely your risk requirements will change over the term. In the early years you may be willing to risk some capital security to achieve higher returns. Then, in the later years, the emphasis may change to capital protection and consolidating the gains made earlier in the investment term.

Diversification reduces risk further by spreading it between several funds or asset classes. This meets one of the fundamental principles of investing: don't keep too many investment eggs in too few baskets. Products such as offshore investment bonds and unit trusts diversify your investment across a number of underlying holdings in a way that few private investors can match. Moreover, constructing a personal portfolio of investments can achieve further diversification with the portfolio being tailored to your needs.

The decision of what product to invest in will also relate directly to when you will require access to the money. You may need access to the capital to purchase a property when you repatriate in which case you will need penalty free access to the whole investment when you return home. Others may use the capital to supplement their pension when they retire and will need an investment product that can either be used to purchase an annuity or produce an income at their preferred retirement date.

Taxation of Offshore Investments

Whatever the circumstances, it is vital to consider the future tax implications when choosing the investment term; it is always prudent to ensure that you will have penalty free access to the investment in the tax-year before you require the capital to ensure the benefits will be free of capital gains tax.

Further information on capital gains tax and the measures you can legally take to minimise your liability to this can be found in the taxation section of this booklet.

Generally, expatriates will choose to invest in one of two ways; either directly into an offshore investment fund or into a diversified range of assets through an offshore investment bond. There are too many products to discuss individually so we will provide a generic overview of the main types of offshore investments here:

Offshore Unit Trusts

A unit trust is essentially a fund where the money of many investors is pooled together to efficiently purchase a diversified range of assets and employ an investment professional to actively manage these assets. This allows the average investor access to a portfolio of funds that would otherwise be available to only the super-rich.

Offshore unit trusts are domiciled in jurisdictions where there is little, if any, tax liability on fund growth and dividends. This means the fund will remain a tax-efficient investment whilst the money remains in the fund.

Usually the unit trust is themed with popular themes include fixed income funds, bond funds, hedge funds, index tracking funds, managed equity funds (often specific to a geographical area or asset class) and commercial property funds.

The unit trust will also have a risk profile depending on the nature of the assets held within the fund; i.e. a unit trust that invests purely in new companies in an emerging market will be riskier than a fund that invests in capital protected assets or government bonds. However, even a unit trust that invests purely in capital protected assets could go down in value if the cost of managing the fund is higher than return the assets are producing. Consequently, there is no such thing as a capital guaranteed unit trust.

Capital Protected Offshore Investments

Most capital protected offshore investments are structured in a similar way; they guarantee the return of your initial investment plus any capital growth achieved at the end of the investment term – usually either 5, 10 or 12 years.

A percentage of your capital is used to purchase a 'zero-coupon bond' that will guarantee the return of your initial investment. A zero-coupon bond is a product where your money is lent to a government or stable blue-chip company today on the agreement that they will return a guaranteed amount on a fixed date in the future.

The percentage of your investment that is used to purchase the zero coupon bond is dependent on the investment term; the longer the term of the investment, the less of your capital is required to purchase the zero coupon bond. The remainder of your capital is then invested (often fairly aggressively) with the aim of producing the capital growth. Usually, this investment element will be allocated to a range of unit trusts.

Whilst there is no risk to your capital if you keep the investment for the entire term; you would lose the capital guaranteed if you need to cash-in the investment before the end of the term. There may also be additional redemption penalties in the early years. Additionally, whilst you will get your investment back at the end of the term, there is usually no guarantee of capital growth or that the capital growth will exceed inflation or the return from a bank account.

Offshore Investment Bonds

Offshore investment bonds are tax efficient products that can be used to generate growth or income.

One of the greatest advantages of offshore investment bonds is that they offer access to a wide selection of investment options such as cash, with-profits funds, unit trusts and individual stocks & shares that usually are only available to high net-worth and corporate investors. Often, assets can be purchased at 'net asset value' or at institutional rates through the bond which can make it cheaper to purchase them through the bond than directly or via other investment vehicles.

The interest or dividend produced by the assets held within the bond is 'rolled up' internally which mitigates any potential income- or withholding-tax liability. Likewise, no capital gains liability arises when selling an asset because the transaction is deemed to be a transfer of asset classes within the bond; i.e. if you sell shares, it is deemed to be a transfer from shares to cash which creates no CGT liability so long as the growth remains within the bond. Since the introduction of the EU Savings Directive, this feature makes offshore investment bonds more tax-efficient than offshore bank accounts for those resident in (or shortly returning to) Europe.

An additional benefit for those returning to the UK is that (if the bond is structured correctly) an income of up to 5% of the bonds original value can be drawn from the bond each year, with the tax deferred, for up to twenty years. The income does not have to be declared on your Self-Assessment Tax Return and the tax is only due when you surrender the bond. This can substantially enhance your net income and help simplify your tax affairs.

In conjunction with appropriate tax advice and a valid Will, offshore investment bonds can also play a very useful role in inheritance tax planning.

Mirror Funds

If you are looking to purchase unit trusts through either an offshore investment bond or offshore savings plan; it is important to be aware of all the charges – both in the savings/investment policy itself and the unit trusts you can hold in the policy.

Some of the larger offshore financial institutions (for example, Aviva, Generali International & Scottish Life International) offer direct access into the funds you chose. However, others establish their own version of the fund to facilitate greater 'liquidity' – these funds are known as mirror funds.

A mirror fund invests exclusively in the underlying fund (i.e. the Invesco UK Equity Fund) but, rather than investing your capital directly into that fund, the financial institution creates a fully licensed and regulated mirror version of the fund. As well as the additional administration costs of running a mirror version of a fund, the fund has to meet financial regulation in its own right and therefore also incurs compliance expenses.

Where the mirror fund is managed by an external fund manager, there may also be an additional annual management charge levied by the fund managers to cover their fees similar to the charges in a 'fund of funds' product.

The mirror fund may also hold a proportion of its value in cash to further aid liquidity; which is an important function of fund administration. This often results in the performance of the mirror fund differing from the performance of the underlying fund as the cash element in the mirror fund places a drag on the growth of the fund.

The effect of the additional administrative charge on the fund and the cash element is that, whilst the performance of the mirror fund price will rise and fall broadly in line with the performance of the underlying fund, the returns will be lower than those obtained via direct investment.

Whilst mirror funds certainly have their benefits when it comes to getting your money invested and withdrawn very quickly, it is important to understand that they effectively add another layer of cost to your investment and this should be taken into consideration when comparing charging structures and choosing one product over another.

Only invest surplus capital that you are relatively sure you will not need access to in the foreseeable future.

Decide on what, if any, level of risk you are prepared to take: would you prefer a capital protected investment? Are you willing to take some risk in order to consistently outperform a bank account? Are you looking to maximise returns regardless of risk?

Consider when you will need access to the money; if you are 54 and require the money aged 60 (when you retire), there is little point having a capital guaranteed investment where the guarantee does not mature until the 10th anniversary.

Examine the charges of the investment including hidden costs such as those related to mirror funds.

Candour Consultancy advises on a wide range of offshore funds, capital protected investments and offshore bonds. We are authorised introducers to the major offshore financial institutions both in the UK offshore market and Singapore.

Our consultants can help you identify the type of investment most suitable to your current & future requirements, provide you a prospectus and assist you with the actual investment.

Candour Consultancy do not handle your savings; the capital you wish to invest is transferred directly from yourself to the financial institution you choose to invest with.

Chapter 9: Retirement Planning for Expatriates

Most people look forward to a retirement where they can devote more time to the pastimes they enjoy. However, when it comes to retirement planning and pensions, a veil of confusion tends to cloud their perspective. For expatriates, who often have a more transient lifestyle, things can be even more bewildering.

The essential fact about retirement planning is that it is simply making provisions out of your current income and investing for the time when you come to retire. Though most States provide some retirement income, at the end of the day it is up to the individual to make provision. In this way, providing for retirement is no different than setting aside money for any other future purpose such as a new car, a house deposit or holiday.

The significant difference between retirement planning and other investment objectives is one of magnitude. In retirement, we expect a continuation of, at the very least, our current standard of living. Given that we spend an increasing proportion of our lives in retirement and State benefits are reducing, the need for early, effective retirement planning has never been greater.

UK Pensions

Since the 1st April 2006, British expatriates have been able to contribute to a UK approved personal pension scheme. The key benefit to UK pensions has always been that contributions are subject to a tax rebate of up to 40%; however, if you are not paying any tax, you will not receive a rebate.

Given that most expatriates will not qualify for a tax rebate on their contributions to a UK pension scheme and the other main benefit (tax-efficient growth) is available to expatriates through any offshore savings plan, the restrictions of UK pension schemes have to be looked at to consider whether they are worth expatriates contributing too.

The first restriction is that UK pension schemes have to be contributed to in Sterling. If you are paid in another major currency, converting money back to Sterling to make your pension contributions may not be in your favour due to exchange rates or hefty bank charges.

Secondly, you can only take 25% of a UK pension as a tax-free lump sum. It is compulsory to purchase an annuity with the remaining 75% regardless of how poor annuity rates are at that time. Additionally, this annuity income will be taxed in the UK at the highest applicable rate – even if you are not resident there!

Thirdly, on your death the residual value of a UK pension is (unfairly) passed to the State rather than your heirs. Why should the UK government receive this when you have contributed to it throughout your life from your savings?

Lastly, you are restricted to when you take your retirement benefits. Many expatriates require access to their retirement savings before State retirement age. Others may not need an income until after they turn 70.

Offshore Pension Schemes

The financial institutions in the British offshore market provide a number of alternatives for the British expatriate looking to save for their retirement.

Like UK 'onshore' pensions, you can save on a monthly basis into a policy that grows tax-efficiently. Like a UK 'onshore' pension scheme, an offshore pension provides access to a wide range of unit trusts to allow you access to the bond, equity, property and commodity markets. Like UK 'onshore' pension schemes, offshore pensions are provided by the major financial institutions such as Aviva and Friends Provident. However, unlike 'onshore' pensions, offshore pensions are very flexible as to how and when you take the benefits.

There is no age range stipulated for when you can take the benefits. There is no compulsion to buy an annuity when the policy matures so, if you desire, you can take 100% of the pension value as cash. There is no restriction to the maximum contribution you can make. On your death, the full value of the pension is passed to your estate to be distributed as per your Will.

If you decide to retire overseas, you will only pay local taxes (if any) on the income you draw from the pension. If you retire in the UK, you can draw up to 5% of the total contributions made to the policy each year, for up to 20 years, with the income tax deferred until you totally surrender the pension plan. This can substantially increase a pensioner's net income.

The only draw back is, if you die before you retire, the bond becomes part of your estate and could therefore be subject to inheritance tax. If you die before pensionable age with a UK pension, the full sum would be passed on to your heirs without being subject to inheritance tax. However, none of us plan for our retirement with the view that we are going to die before we reach it.

If you decide an offshore pension is more suitable for you, look for a policy where you can alter contribution levels without penalty, or even take a contribution holiday if required. Additionally, when studying the charging structures of the different pension schemes take all the costs into consideration not just the policy charges – see Mirror Funds in previous section.

Offshore Investment Bonds for Retirement Planning

Retirement planning does not have to mean taking out a traditional pension scheme. Although pension schemes are an essential element of retirement planning, they are not always the most suitable solution.

There are many individuals for whom traditional pension planning is too restrictive and something more is needed. Such individuals may include a self employed expatriate who cannot commit to saving small amounts every month but can contribute larger sums on an ad-hoc basis, someone near retirement age looking to consolidate their various life-long savings and investments in one place, or an expatriate employee whose company contributes to a UK pension on their behalf but they wish to contribute extra to a more flexible alternative.

In these scenarios, an offshore bond can be a useful retirement planning vehicle, supplementing, or even replacing, existing pension arrangements.

An offshore bond is as tax-efficient as a UK pension scheme. However, unlike a pension scheme the initial contribution can be made as a one-off lump sum and additional contributions can be made on an ad-hoc basis if and when desired.

When used for retirement planning, the offshore bond will have the same benefits as the offshore pension schemes (mentioned above) over a UK 'onshore pension'. As such, if you decide to retire outside the UK, you will only pay local taxes (if any) on your retirement income. For those planning to return to the UK, the availability of top-slicing relief and time apportionment relief could significantly reduce the tax on any chargeable event and the availability of 5% tax-deferred withdrawals compares favourably with current (taxed) annuity rates.

Existing UK Pensions

Qualifying Recognised Overseas Pension Schemes

Whilst many schemes have claimed to be able to move a UK based pension offshore, until recently it has not been possible to do this legally and with the permission of the UK tax authorities. This has been primarily because, in return for the tax-relief an individual receives on their pension contributions, the Revenue is expecting to tax the income they receive when the compulsory annuity is purchased; and then take any residual value on their death!

However, in April 2007, it was announced that British expatriates could move their pension benefits to a Qualifying Recognised Overseas Pension Scheme (QROPS) with the Revenue's approval. The final details of this have only recently become clear.

The rules of the scheme must be broadly equivalent in terms of treatment, to a UK registered pension scheme and the QROPS trustee must provide Her Majesty's Revenue & Customs (HMRC) with information on certain "events". The key difference is that a QROPS can be transferred to an onshore pension scheme in a more favourable jurisdiction once the individual has been offshore for 5 years. If structured in this way, transferring pension benefits via a QROPS can have huge benefits:

Firstly, if the pension is transferred to certain jurisdictions, the individual can take 100% of their pension's value as a tax-free lump sum at any time after the age of 50 (this increases to 55 for any transfers which have not been completed by April 2009). This is without the compulsion of purchasing an annuity. Annuities are extremely unpopular in the UK with both pensioners and the press because they are extremely poor value and (except in very few circumstances) never return what the pension has had to invest. On top of this, the income is taxed in the UK even if the individual is not resident there.

As there is no compulsion to purchase an annuity, the individual is free to do whatever they want with the released benefits. Some may choose to hold the money in a high interest offshore bank account which returns more than an annuity and is tax-free whilst they are resident outside Europe. Others many choose to invest the money in an offshore bond or capital protected offshore investment with the view of getting even better returns. Others may use the money to purchase a property with the rental income returning more than an annuity would and, hopefully there would be some capital gain as a bonus! Then, on the individuals' death, the value of the bank account/investment/property passes to their loved ones rather than the Chancellor.

Transferring Frozen Benefits

For those who are likely to return to the UK before the age of 50, it is also possible to transfer your frozen pension benefits to a lower charging, actively managed scheme. For many expatriates this can have several benefits:

- It allows you to consolidate several smaller pensions into one, easy-to-administer scheme
- It allows you to bring down the age when you can receive the pension to earliest age – currently 50
- It 'unfreezes' the pension and allows the funds to be actively managed again to ensure maximum growth
- In some circumstances, it allows you to increase your tax-free allowance to the maximum – 25% of the funds value
- It allows you to transfer your pension funds into a policy with lower fees and charges – again increasing net growth
- It moves your pension funds away from a old employer – UK corporate schemes are getting a lot of adverse publicity at present

A pension transfer analysis is performed to calculate whether it is in your favour to transfer your pension. If so the new pension plan often allows you the option to choose from a selection of cash, bond, equity and property funds and these funds can be monitored and switched in line with prevailing market conditions.

Additionally, if the value of your pension is over £75,000 your pension benefits can transfer the funds into a Self Invested Personal Pension Plan (SIPP). SIPP's have all the advantages mentioned above plus:

- You can invest in asset approved by the Inland Revenue; this includes equity funds, capital protected investments, property funds and individual stocks & shares
- On your demise, your estate receives the remaining fund value – not HMRC as with a regular pension
- In certain professions, you can take the tax-free lump sum before the age of 50 – with Inland Revenue approval

The UK State Pension

If you decide to retire overseas, you are still entitled to your UK State pension – though this may not be the full State pension if you have missed National Insurance contributions (see Taxation section).

To have your State pension paid to you whilst you live overseas, you will have to inform your local Department for Work and Pensions office in the UK. They should also be able to answer any other queries you have regarding your State pension.

Regardless of where you decide to retire, the State pension you receive will be taxable in the UK. If you live in a country that taxes income but does not have a double taxation treaty with the UK, you may find that you will have to pay tax on your State pension in that country too. Where there is a double taxation treaty in place, the tax is normally payable in the country where you are resident rather than the UK.

If the State pension is to be your only (or primary) source of income when you retire, you should take this into consideration when choosing where to retire. As a general rule, if you are living outside the Commonwealth, your UK State pension will increase each year in line with the Retail Price Index.

However, the State pensions of those retiring in a Commonwealth will be frozen at the original level. To put this into perspective, British expatriates who retired to Australia, Canada or New Zealand in the 60's are receiving a State pension of less than £3 today!

Consider whether it is worth you continuing to contribute to the UK State pension. If so, obtain and complete the form NI38 'Social Security Abroad' from HMRC.

Establish an offshore pension plan which you can contribute to wherever you decide to reside in the world.

Only save what you feel comfortable contributing every month.

If you are self employed or receive regular commissions/bonuses, consider using an offshore investment bond as your offshore pension policy.

Regularly review your existing 'frozen' pension benefits; are these performing as you would wish? Is your pension safe and secure with your old employer?

Candour Consultancy advises on a wide range of tax-efficient international pension plans and offshore bonds. We are authorised introducers to the major offshore financial institutions both in the UK offshore market and Singapore.

Our consultants can help you identify the pension most suitable to your current & future requirements, provide you a policy brochure and assist you with the establishment of the pension.



Chapter 10: Property & Mortgages

An Englishman's home is his castle. Whether it is a home for our families, an investment property in the UK or a holiday home overseas, property makes up a large part of the estates of many British expatriates. However, given that it is almost genetically imprinted in Brits to purchase property, it is amazing how many expatriates get it wrong.

The main reason for this is because we follow our instincts, rather than researching the market first and then making an educated decision. Whilst there is not space in this section to guide you through the property buying process in every country you may consider, we can offer some generic guidelines that could save you a lot of time, money and heartache.

Buying Property in the UK as an Expatriate

Purchasing a property in the UK whilst living overseas follows exactly the same process as when you are UK resident. However, the logistics of the whole transaction are normally more complicated. Whilst you may have the time to return home and find a suitable property, most do not have the opportunity to keep returning to chase up estate agents, find a solicitor, arrange finance, sign contracts, and complete.

If you are purchasing the property as an investment, you may also need to find a suitable letting agent, arrange for a gas inspection and then purchase and install fixtures and fittings. You will also need to arrange to have the rental income paid to you net of taxation (see Moving Offshore section)

Consequently, it is vital to employ a solicitor, get an indication of likely rental returns and instruct a letting agent on the same visit as you place an offer on the property. It is also recommended that you appoint the solicitor, a family member or close friend as a power of attorney to sign documents relating to the purchase and subsequent rental on your behalf.

The 'high street' mortgages that are available to UK residents are often available to expatriates too; though the maximum loan is normally limited to 80% of the property's value. Whilst the loans are offered by UK high-street banks, it is unlikely the average mortgage broker in the bank or the estate agents will have experience dealing with expatriates and, whilst they often believe they can help you, they often become unstuck when you can only provide an overseas residential address, salary details in a foreign currency and are unable to provide tax documents. Consequently, it is always advisable to use a mortgage broker who specialises in arranging home finance for expatriates (see below).

Once the purchase has completed, your new property will require building and contents insurance; contents only if the property is leasehold. Most mainstream lenders do not like insuring expatriates or rental properties (certainly not both) so it is likely you will require cover from an insurer who specialises in expatriate cover.

If you are unable to get back to the UK regularly, employ a solicitor and rental agent at the same time as you find the property. Ideally appoint a power of attorney too.

Inform all parties that you live overseas and who the first point of contact should be.

If the property is to be let, appoint an ARLA registered agent and complete form IR40 to inform the Revenue that the property will be let. The rental agent should be able to arrange gas checks, etc... on your behalf.

If you require finance, speak to a mortgage broker who has experience of dealing with the expatriate marketplace rather than shopping on the high street yourself.

You are likely to require specialist insurance as an expatriate, your financial adviser or mortgage broker should be able to point you in the right direction.

Candour Consultancy works closely with the leading providers of UK mortgages for expatriates. We can also advise on specialist insurance providers, mortgage protection policies and have links to some of the UK's finest property location companies.

Buying Property Overseas as an Expatriate

As with buying in the UK, many of the problems you may encounter when purchasing property in a country other than that in which you are resident are likely to be logistical. Whilst it is likely that you will be able to take time off to find a property in your country of choice (and maybe even visit a couple of times a year), for most this will be all. This is where designated international property agents come into their own.

For example, in Spain, the completion of a mortgage must take place in front of an appointed notary, and all parties to the purchase including the vendor, lawyers, the buyer, and a representative of the lender. However, if you are unable to be there due to previous commitments (or simply geography!) an international agent should be able to help you obtain a power of attorney, allowing someone else to sign on your behalf.

Renting your property out when you are constantly on the move can be a bit of a headache, but hiring a letting agent qualified in dealing with international clients could take the pressure off. They can help you find suitable tenants, prepare a letting agreement, take the security deposit, deal with utilities bills, collect the rent, visit the property on a regular basis, check empty properties, and undertake property maintenance during a tenancy.

Ignoring taxation (which we will deal with in more detail below), and quite apart from the cost of the mortgage itself, there are other expenses to bear in mind when arranging a mortgage for your investment property, and these vary considerably from country to country. For example, in France, the fee level can be affected by the age of the property (as newer properties attract lower charges), the number of people involved, and how many outside agencies (e.g. estate agents, lawyers, brokers, letting agencies) are involved.

The Tax Implications of International Property Investment

Capital acquisitions tax, capital gains tax, inheritance tax, gift tax, property transfer tax, VAT, stamp duty, tax on rental income, share transfer tax, land tax...

The tax implications of your foreign real estate investment will vary in complexity and impact according to where it is located, and to a certain extent, what you intend to do with the property when you have purchased it. As a general rule, in the majority of countries if the tax authorities believe that the purchase was made as a 'commercial' investment (i.e. if you habitually buy, renovate, and sell on, or if you have bought undeveloped land with a view to building a housing complex or leisure facility), they will view you as a property dealer, and tax your investment accordingly at a higher rate.

Where taxes are levied on international property investment, they will usually fall into the following categories:

- 1) Taxes on the purchase, acquisition or transfer of the property or land, such as capital acquisitions tax, inheritance tax, stamp duty and property transfer tax.
- 2) Taxes on the ownership of and/or residence in the property, such as local and national property taxes, and land tax.
- 3) Taxes on rental income. (If you choose not to live in the property, be aware that there may be additional taxes imposed on non-resident or foreign landlords. Not necessarily devastating, but still a factor to be considered if buying to let overseas.)
- 4) Taxes on disposal of the property, such as capital gains tax, gift taxes, and death duties.

As previously stated, property taxation regimes vary widely from country to country, and you may feel that low, or no-tax jurisdictions are the ideal choice for you. However, in some (although not all), due to limited resources and space, property investment opportunities are limited only to the very wealthy, who must be willing to contribute substantially to the local economy, and purchase luxury real estate. Other jurisdictions limit the number of foreign nationals permitted residence or work permits in order to maintain the standards of living, and protect the employment chances of existing residents.

Governments in non-tax haven countries tend to impose fewer restrictions on property purchase for investment or residential purposes by foreign nationals. However, in such countries, the likelihood is that you will face more taxes on your investment. Some property investors choose to purchase international property via an offshore company or trust in order to bypass some of the taxes levied in high tax countries, and although this can be a valid option, it is not suitable in all circumstances; such as when you require a mortgage to complete the purchase.

Where you decide to purchase property is, in the final analysis, a personal choice, and will need to be based on your circumstances, resources, and eventual goals. If you have your heart set on retiring to a beachfront house in the Bahamas, you are unlikely to be satisfied with a one-bedroom apartment in Cyprus. If, however, you are looking to subsidise your income by providing affordable housing to expatriates and other professionals, the latter would be ideal. It all depends...

Although tax shouldn't necessarily be the most important consideration when choosing a property, there is no denying that it certainly has to be a consideration for most people.

Expatriate & International Mortgages

One of the primary considerations, when purchasing property either domestically, or on an international level, is raising the necessary amount of money. Unless you happen to have enough ready cash just lying around, chances are you will need to take out a mortgage. There are several options:

Decide whether you wish to repay the interest on the loan only or both the capital borrowed and the interest.

Decide whether you would prefer a fixed interest rate or a rate that rises and falls with the bank base rate.

Use a mortgage broker who has experience of dealing with the expatriate marketplace rather than shopping on the high street yourself.

Candour Consultancy works closely with the leading providers of UK and overseas mortgages for expatriates. Candour also advises on specialist mortgage protection policies.

- 1) Taking out a mortgage with a local bank. You may, however, find yourself constrained by exchange control rules (where they still exist). Even in jurisdictions where exchange controls have been lifted, such as Spain, you may find that domestic banks and building societies will charge non-resident foreign nationals higher rates of interest.
- 2) Taking out a mortgage or loan from a bank or building society in your country of origin. Often this will involve releasing equity from an existing property.
- 3) Taking out the mortgage offered by the developer. Sometimes, with new complexes, developers will offer their own mortgages in order to increase sales
- 4) Taking out a mortgage with an international institution.

Even if you are confident in your understanding of the processes involved in purchasing property in your country of choice, this last option is probably the most sensible option, for the simple reason there are likely to be issues involved in dealing with an expatriate client which a local provider may not have the expertise to cope with.

There are a growing number of international mortgage brokers and relocation specialists offering international products tailored to meet the needs of expatriate property investors, and although it is possible to go it alone, you may find that enlisting the services of a professional company experienced in dealing with international markets eases a purchase considerably, as they are likely to be well versed in the processes and legislation applicable to non-resident purchasers, and can often mediate between yourself and the local entities involved.

Types of mortgage

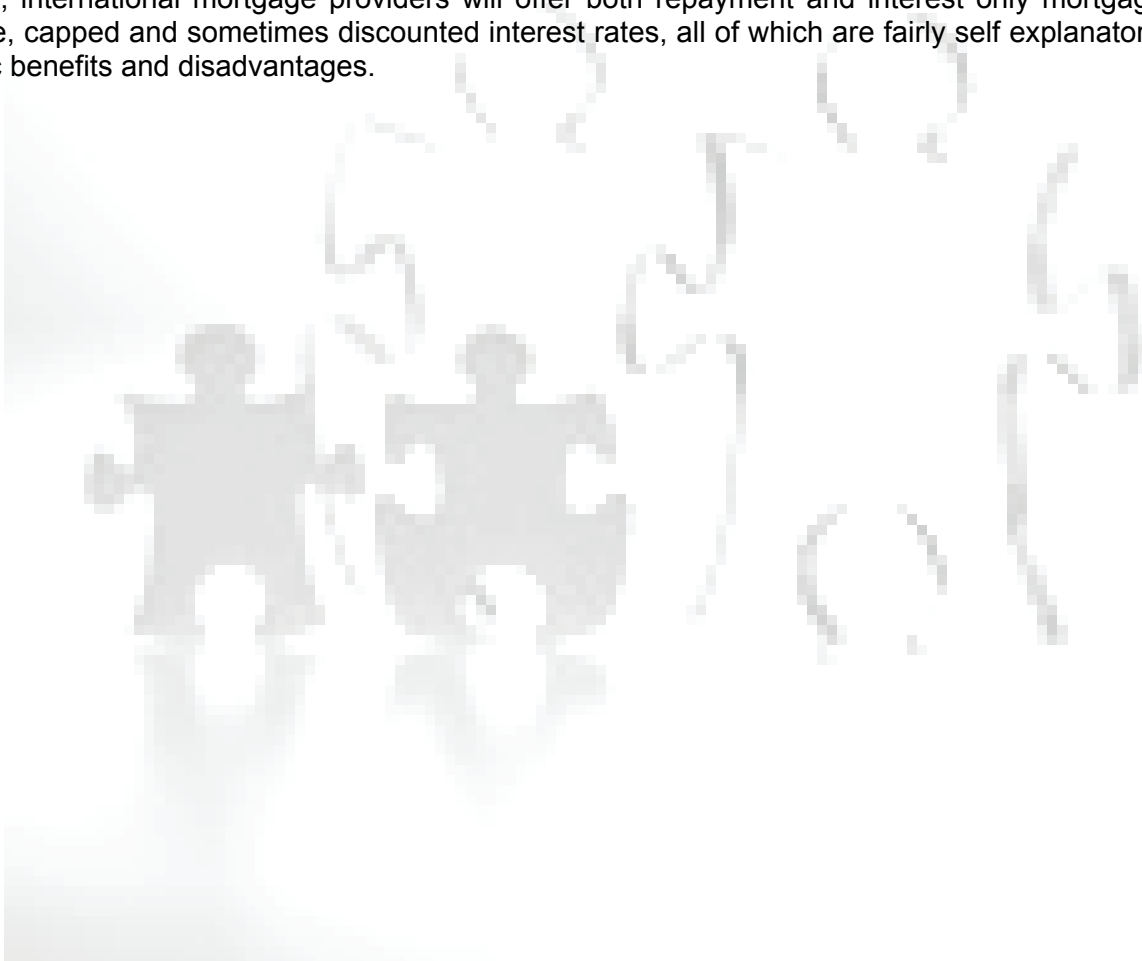
There are several different sorts of mortgages available, so you should really shop around to make sure that the international mortgage broker or IFA you choose to handle your affairs offers a wide range of products, from a varied group of international providers. Below is a basic rundown of the different types of mortgage available, although not necessarily all for your country of choice, so you need to check:

- 1) Repayment mortgages. With this type of mortgage, you pay a little of the interest and a little of the capital off each month, so that at the end of the term, the debt has been repaid completely, and the property is yours. Although in the early years, very little of the capital is repaid, as the amount of capital owed decreases, so does the amount of interest which accrues, so towards the end of the term there is a kind of 'snowballing effect' in terms of the amount of capital which can be paid off at a time. This is generally considered the safest bet in terms of mortgage loans, although it is usually more expensive than an interest only mortgage.

2) Interest only mortgages. With one of these, your payments to the lender simply pay off the interest on the loan, and the capital is paid off at the end of the term. Monthly payments are (obviously) lower than they would be for a repayment mortgage, and the idea is that you put the money you save on repayments each month into an investment fund, so that by the time the term ends, you will have accumulated enough to pay off the mortgage. Or that's the theory. If your investments do well, you could be in a position to repay the mortgage early, or have some money left over at the end of the term. However, in order for that to happen, your investment fund needs to bring you returns which are higher than the interest you are paying on you mortgage, otherwise there will be a shortfall at the end of the term.

3) Endowment mortgages. These used to be used quite a lot in conjunction with interest only mortgages. They are designed to guarantee that if you die before the end of the term, the mortgage will be repaid, and to provide a means of paying off the capital owed at the end of the term. However, there is no guarantee that an endowment will repay the loan in full at the end of the term, and as with many pensions and life assurance products, there are high 'front-end' costs. Where there is preferential tax treatment for life assurance premiums they may still be of some use, but as the majority of expatriates are excluded from the benefits of domestic pensions investment, they are rarely suitable.

Usually, international mortgage providers will offer both repayment and interest only mortgages at fixed, variable, capped and sometimes discounted interest rates, all of which are fairly self explanatory, and have specific benefits and disadvantages.



Chapter 11: Returning Home

For most expatriates, the final return home will mark the culmination of a successful time overseas and herald a time to enjoy the fruits of their labours. However, in order not to jeopardise a well-earned retirement, it is essential that pre-return planning begins well in advance.

Too often, expatriates return without proper financial preparation and the consequences can be devastating. Planning for return follows two broad themes. The first revolves around strategic planning and the second is all to do with tax.

It is a fact that we do not always know in advance where we will spend our retirement. For some, the idea of British winters is too much to contemplate and the sunshine of, say, Spain has real attractions. For others, there is never any doubt the UK is home and their eyes are firmly fixed on this target.

Either way, a frequently asked question is 'how much money will I need when I arrive home?' It may be very difficult to quantify financial requirements, at least for the first year or two. It is, therefore, important to adopt a more flexible and less volatile investment strategy as repatriation or retirement approaches.

This does not entail a wholesale disposal of one's equities but a gentle move towards a higher level of liquidity. Of course, every individual is different and an investment strategy must be tailored to fit each particular set of circumstances and requirements given prevailing market conditions. A heightened level of communication between an expatriate and their financial adviser immediately before, during and after their return home is essential.

Taxation

On your return to the UK, you should complete a form P86 ('Arrival in the United Kingdom'). The form contains questions about your residence and domicile. Your spouse and children do not need to register unless they are working in the UK.

Income & Withholding Tax

Once you become UK resident again, you will be liable to taxation on all your savings and investments regardless of where they are situated in the world. This means the interest on your offshore bank account and the growth on any offshore investment you have purchased whilst living overseas will instantly be cut by 20% to 40%.

This does not sit well with most people who have worked hard and made sacrifices to build these savings. Since the introduction of the EU Savings Directive, this also applies those resident in other EU member states such as France, Portugal and Spain who have assets held in an EU based offshore jurisdiction.

As holding savings and investments directly is no longer a tax-efficient option, those repatriating or retiring should seriously consider transferring their assets into an offshore bond. The offshore bond will allow any savings and investments held within it to continue to grow tax-efficiently and, if structured correctly, will allow UK residents to draw a tax-deferred income for up to 20 years. This is ideal for those looking to retire or supplement their income. More information on offshore bonds can be found in the *Offshore Investment* section of this guide.

Capital Gains Tax

In order to discourage people from spending an entire year out of the UK simply to avoid capital gains tax (CGT), legislation has been passed lengthening the qualification period people have to be out of the UK to fulfil this considerable advantage.

Start planning your repatriation a year in advance.

Dispose of assets that have made a large capital gain (or place them in an offshore bond) in the tax-year before you repatriate. Spouses can transfer ownership of assets to 'rebase' their value for CGT purposes.

Consider transferring savings and investments to an offshore bond to retain their tax-efficiency. The bond will also allow you to draw a tax-deferred income.

On your return, complete the HMRC form P86 ('Arrival in the United Kingdom')

Candour Consultancy can assist with the planning for your repatriation or retirement and, where applicable, can advise on suitable offshore bonds for your personal circumstances.

Fax Back Form

Should you have any feedback regarding this booklet, need some specific advice or require a recommendation on a suitable product for your personal circumstances, please complete this form and fax it back to Candour Consultancy at +971 (0)4 312 4411.

Alternatively, please feel free to email us at info@candourconsultancy.com.

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Comments:

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