London & Capital

US Expat's essential guide to moving to the UK

A WEALTH MANAGEMENT GUIDE FOR HNW INTERNATIONAL FAMILIES

What's covered in this guide?

> The wealth management challenge faced by international Americans is unique. Only a handful of countries in the world insist that citizens remain so firmly connected to their home country when residing abroad and this presents international Americans and their families with a need for specific expertise. A successful approach involves demonstrating to our U.S. clients that it is necessary to create a singular wealth management strategy once they have embarked on their international journey.

ROBERT PAUL
Partner & Head of
US Family Office

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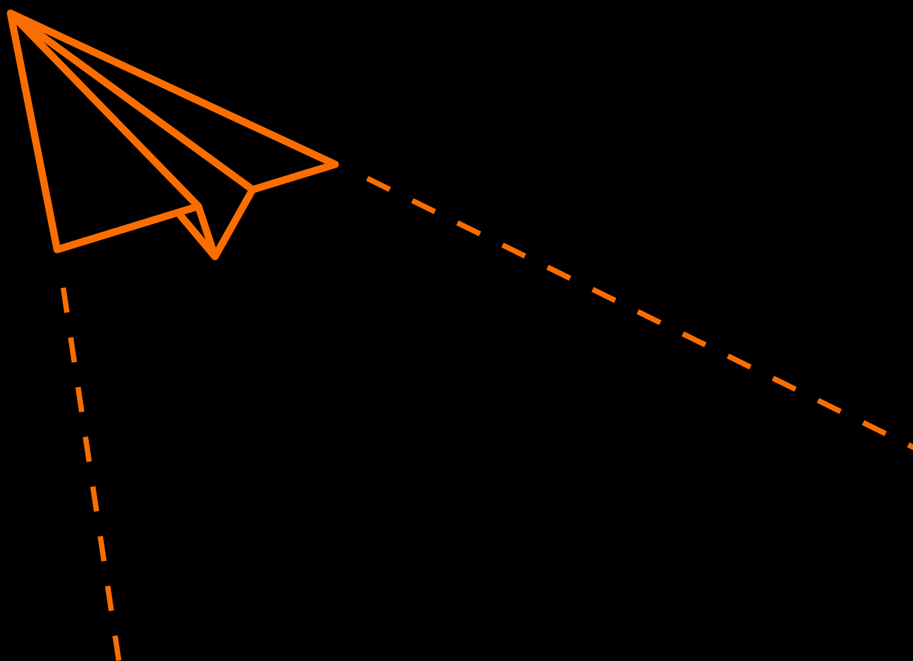
From visas to property, tax to estate planning...

London & Capital ensures a borderless approach that creates a seamless link between wealth held in the United States and wealth accumulated internationally.

CONTINUE READING THE FULL GUIDE



London &Capital

FOREWORD
by Robert Paul

ROBERT PAUL
Partner & Head of
US Family Office

The adoption of a singular strategy simply means that a client's wealth should be viewed collectively and not managed in silos. The goal of wealth management for international Americans should be to ensure a borderless approach that creates a seamless link between wealth held in the United States and wealth accumulated internationally.

This guide aims to introduce the main areas of consideration for international Americans either planning to move to the United Kingdom or already living in the country. It will also provide some additional advice to those looking to live and work in continental Europe and hopefully be useful to any international Americans living further afield and looking to understand their obligations and opportunities when residing abroad.

We start with the first requirement for international Americans when moving to the UK and consider the process of immigration. We review international tax requirements and look at how reassessing your investment portfolio is crucial when internationally mobile. We cover the UK property market before moving onto the importance of cashflow modelling and consolidated reporting in financial planning. The final sections of the guide will consider the importance of estate planning for international American families and provide some insight into living and working on the European mainland.

We hope this guide proves to be useful to all international Americans, both those travelling abroad with family and those travelling individually. The information provided is intended to act as a robust introduction to the main issues we typically tackle on behalf of our international American clients. If you would like to discuss the issues in greater detail, our specialist team at London & Capital will always be happy to help.

ARRANGE AN INTRODUCTION →

The goal of wealth management for international Americans should be to ensure a borderless approach that creates a seamless link between wealth held in the United States and wealth accumulated internationally.

THE LEAP ACROSS THE POND

International Americans have a variety of visa routes available to them when emigrating to the UK. Like most countries, the visa pathways into the UK tend to be linked to the specific reason a person is making the move.

Some visa routes can lead to permanent residence in the UK and individuals may then go on to apply for British citizenship. If someone is a British citizen, they can bring their spouse and any children that are under the age of 18 to the country, provided they meet the necessary requirements. It is also possible for a British citizen to bring an unmarried partner to the country as long as they have been cohabiting for at least two years.

THE VISA ROUTES INTERNATIONAL AMERICANS ARE MOST LIKELY TO USE ARE:

SKILLED WORKER

Individuals can be sponsored in the UK by a company if it holds a Skilled Worker sponsor licence. Individuals must meet several requirements to be eligible to apply. The role must be genuine and the sponsor is required to meet a variety of compliance duties and obligations.

GLOBAL BUSINESS MOBILITY

The Global Business Mobility (GBM) route allows companies with offices outside of the UK to transfer workers to their UK-based offices. It is designed for workers undertaking temporary assignments in the UK. This visa was previously known as the Intra-Company Transfer route.

GLOBAL TALENT AND GLOBAL PROMISE

These routes are designed for those who are recognised leaders or future leaders shaping fields such as science, humanities, engineering, technology and the arts. This route requires an endorsement from one of six approved endorsing bodies. The Global Talent route is for those with an established track record as a leader in their field and the Global Promise route is for those at an earlier stage but with the potential to make a significant contribution to their chosen field.

START-UP OR INNOVATOR

The Start-Up route is for early-stage but high-potential entrepreneurs who are seeking to start a business in the UK for the first time. Individuals must want to set up an innovative business in the UK that differs from anything else on the market and has the potential for growth and job creation. The current limit is two years, but applicants can potentially switch to the Innovator visa category to extend their stay. The Innovator route is for experienced entrepreneurs seeking to establish a business in the UK.

TIER 1 (INVESTOR)

The controversial 'Golden Visa' route was closed by the Home Office early in 2022 for all new applicants. The Tier 1 (Investor) route was designed specifically for high-net-worth individuals (HNWIs) and required a £2 million investment into the UK economy. Those who already hold leave under the Tier 1 (Investor) route can extend their current immigration permission and/or apply for indefinite leave to remain in the UK.

THE AMERICAN TAXMAN IN LONDON

Tax is perhaps the financial planning issue that looms most prominently over the lives of international Americans, including those that choose to live and work in the UK. Any American living abroad will be familiar with how conversations around tax can swiftly dominate any social occasion. The complexity of the system that is in place and its perceived unfairness will always draw attention.

While the specific details around the tax landscape are predictably complicated and best dealt with by experts, there are some key factors that it is useful for international Americans to absorb and understand.

The U.S. operates what is known as citizenship-based taxation, which means citizens are taxed on their worldwide income wherever they happen to live. This means that unless they renounce their citizenship, international Americans will have to file a U.S. tax return and pay U.S. taxes whilst living abroad. International Americans cannot simply wave goodbye to U.S. tax obligations when leaving the country and will often be subject to two separate tax regimes when they are residing abroad. This revelation can initially be quite alarming to the newly international, but the U.S. government does have a series of treaties and provisions in place to help its citizens avoid the pitfall of double taxation.

It is important for international Americans in the UK to be aware of the different tax periods in the two countries. The UK tax year runs from the April 6 to the following April 5, whereas the U.S. follows the more straightforward calendar year. This essentially gives international Americans living in the UK two tax year-ends. These overlapping reporting periods can be particularly complex when it comes to foreign tax credits and it is advisable to discuss this issue with your wealth manager.

One of the key things for international Americans in the UK to establish is their residency status. The UK has what is known as the Statutory Residence Test (SRT) and the result of this lengthy test will have implications for how you pay tax. It is also important to know your domicile, which generally speaking is the place you consider your permanent home. Both domicile and residency can be fluid classifications for the internationally mobile and their implications for tax affairs should not be taken lightly. An international American may start out both non-domiciled and non-resident in the UK while still having tax obligations, move to being non-domiciled and resident then later be both domiciled and resident. The changeable nature of these areas demonstrates their importance.

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THE AMERICAN TAXMAN IN LONDON

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International Americans moving to the UK should familiarise themselves with the handful of commonly used tax allowances they will encounter in the country and how they compare to what is typically found at home.

A large proportion of international Americans in the UK are likely to be resident and non-domiciled, which means there are two ways in which they may be taxed. The first is on the arising (worldwide) basis, meaning worldwide income and gains will be subject to tax in the UK. The other method of tax, available only to non-domiciled individuals, is the remittance basis. Taxation on the remittance basis means you are liable for UK tax in the normal way on your UK source income and gains, but you are only liable to UK tax on foreign income and gains that you remit to the UK. For U.S. taxpayers, filing on the remittance basis can create savings, but requires careful account management and future planning. There may be a cost to this depending on your years of UK residency.

International Americans moving to the UK should familiarise themselves with the handful of commonly used tax allowances they will encounter in the country and how they compare to what is typically found at home.

The most common U.S. pensions are 401(k)s and traditional individual retirement accounts (IRAs). Both are tax efficient, but a 401(k) is an employer-provided account and an IRA is arranged individually. A 401(k) plan can be rolled into a traditional IRA tax free, with the usual rationale being that IRAs have a larger universe of investment opportunities. Neither of these qualify as UK pensions, which means you cannot claim any UK tax relief on contributions. However, the UK will not tax any income and/or gains arising on funds held within a 401(k)/IRA account.

Pensions in the UK act in a similar fashion to a traditional IRA. Untaxed money is put into an account and grows free of any tax. Currently, each person has an annual allowance of £60,000 subject to earnings. And they may have the ability to carry forward any unused allowance from the previous three UK tax years. At age 55, rising to 57 in 2028, you can access 25% of pension funds tax free, with the remainder treated as earnings.

Anyone who spends a large amount of time in the UK will at some point hear about an Individual Savings Account (ISA). They are publicised widely and are a well-known financial product amongst the general population. ISAs are essentially a tax-free savings account with a £20,000 annual deposit limit. The ISA wrapper is seen as 'see through' by the Internal Revenue Service (IRS), which means they will treat an ISA like a regular brokerage account.

Anyone looking to move to the UK from the U.S. should be aware of the differences in capital gains tax regimes. In the US, gains on assets held over one year are taxed at 20%, whereas gains held less than one year are taxed at ordinary income rates. In the UK, capital gains are taxed at between 10-20% depending on an individual's other income, with the exception of residential property and carried interest, which are taxed at 18-28%.

Finally, it is beneficial to maintain an awareness of how currency fluctuations can impact your tax affairs. The IRS determines the functional currency of each U.S. taxpayer to be USD. This means foreign exchange movements can create an unexpected tax liability for those living overseas.

INVESTING
FROM WALL STREET TO THE CITY

Relocating to a new country should always prompt an investor to take a fresh look at the strategy underpinning their portfolio. International Americans moving to the UK should factor in important financial considerations such as required cashflow, tax liability, currency exposure and general risk appetite. New perspectives can lead to important changes in portfolio composition.

Currency risk is a factor that any international citizen, including international Americans moving to the UK, will need to consider carefully.

A reassessment of risk appetite can inform your approach to some vital aspects of your investment portfolio. Making the move to the UK, with family or maybe alone, will no doubt count as a significant life event. This change in circumstances may lead to a change in your appetite for risk. The move may mean you have more disposable income or it could result in some necessary belt tightening. It may mean you have new financial commitments such as school fees or a large property purchase. Relocation may result in you favouring a more predictable return from your portfolio through increasing your exposure to an asset class like bonds, or alternatively, you may prefer more exposure to equities, which can have less predictable but potentially more lucrative returns. There are a multitude of factors that come with an international move that could impact your appetite for risk and therefore the composition of your investment portfolio. Ensuring you have an early discussion with a wealth manager on this topic will ensure your portfolio is matched to your priorities.

Currency risk is a factor that any international citizen, including international Americans moving to the UK, will need to consider carefully. The hazards of exchange rate risk will be familiar to any international American living in the UK, but robust planning and a clear-sighted view of the future can mitigate the danger. Wealth managers will often introduce international clients to the concept of a 'reference currency' which establishes a primary currency to build a financial plan around. The definition of a reference currency is essentially the currency you require most both now and in the future. The value of this choice becomes obvious when considering the need to plan future cashflow.

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Exchange rates are capable of having a big impact on your wealth and should be considered carefully, particularly when it comes to managing an investment portfolio. For American investors currently living and planning to stay in the UK, an investment portfolio of only dollar assets introduces a mismatch between the currency their wealth is growing in and the currency they plan to spend those funds in. This mismatch makes the investor vulnerable to currency movements. When the dollar is performing well against sterling, the portfolio profits on the mismatch and is worth more to the sterling investor. However, the opposite is also true; when the dollar is falling against sterling, the sterling investor is losing value in their portfolio.

Liquidity, or how easily you can access your funds, is a further factor to consider when reassessing your investment portfolio. Some investments require you to lock up your funds for a certain amount of time, while others make your funds immediately available. While your life in the U.S. may have allowed you to lock away funds for a longer period of time, your new life in the UK may mean you now have financial demands that require more flexible access to your money.

Tax is always front of mind for international Americans and it will have to be carefully considered when thinking about the management of your investment portfolio. Tax does not dictate asset allocation in a portfolio, but smart tax-based decisions can always be made in this area, particularly around capital gains and income tax. Utilising tax-free and tax-deferred account structures is a key point in the set-up stage. Assets can then be organised into different accounts to minimise tax. As an example, income tax is typically higher for an investor than capital gains tax so assets that are more income yielding should be organised into the more tax efficient accounts such as IRAs, whereas lower income and more capital appreciation type securities could be placed in taxable accounts such as brokerage accounts.

Tax implications are central to the ongoing management of the portfolio. When assets are sold and a capital gain, which is subject to tax, is generated it is important to understand the tax consequences. Higher tax implications of short-term gains in the U.S. means that realised short-term gains are avoided altogether if possible. For other gains, an exercise called 'tax loss harvesting' is implemented, if necessary, which sells assets with losses that can offset already realised gains to reduce the total capital gains tax bill before the end of a tax year.

HOME AWAY FROM HOME

The UK prime property market is a captivating prospect for wealthy overseas buyers and international Americans are enthusiastic purchasers of prestigious properties in both urban and rural destinations. London's upmarket neighbourhoods provide a variety of options for those looking to reside in the UK's vibrant capital city, while the surrounding counties present the opportunity for a quieter pace of life. And for those keen on exploring even further afield, the rest of the UK, beyond London and its commuter belt, provides a world of choice for the adventurous overseas prime buyer.

International Americans getting involved in the UK property market should pay close attention to several key considerations. While buying and selling property of any kind will always have a certain level of complexity, there are some specific factors that Americans in the UK should be aware of and discuss with an adviser.

When selling a property in the UK, individuals enjoy the benefit of Principal Private Residence Relief (PRR). PRR allows individuals to sell their main home and pay no capital gains tax. Unfortunately for international Americans, the IRS has a worldwide reach on U.S. citizens' tax affairs so the gain made on the sale of the main home is potentially subject to U.S. capital gains tax. Currently, the first $250,000 of an individual's gain is exempt, but the excess is taxable. The IRS has some specific requirements on who qualifies, based on occupation. And assuming all the rules are met, a couple could benefit from a $500,000 exemption in total. However, capital gains tax has been the subject of heated political discussion in Congress and keeping an eye on the progress of proposed increases is wise.

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PROPERTY
HOME AWAY FROM HOME

Anyone that has lived abroad will be familiar with the mental dexterity required to continuously think in more than one currency. Americans living in the UK may have already started thinking about the purchase and sale of property in sterling, but it is wise to remember the IRS will always view it in the dollar equivalent.

The pitfall known as the 'phantom mortgage gain' is something international Americans in the UK should do their best to avoid. If a mortgage is held, you might assume that the debt is deducted from the asset value to reduce the potential gain. However, the mortgage is in fact considered a separate asset to the property. Furthermore, paying off the mortgage can bring negative U.S. tax consequences as the mortgage amounts on purchase and sale also need to be converted to dollars. If the debt being paid off on sale is lower than was originally taken out, this may be considered a 'phantom mortgage gain' which is taxable on the U.S. side.

International Americans should keep several other issues in mind when buying and selling property in the UK. It is typical for a couple to own property jointly, however, if one spouse is a U.S. citizen, it may be more tax efficient for the property to be owned solely by the non-U.S. citizen spouse. If the property is solely owned by the U.S. citizen, there may be an option to transfer ownership.

Some of the complications discussed above could be addressed through the outright purchase of a property. While some advisers recommend this route, there is no one-size-fits-all approach and it is best to discuss a strategy like this in detail beforehand. A final aspect to consider is whether a property falls into the value of an estate for inheritance tax purposes. In the UK, the amount that is exempt from inheritance tax is very low compared with the more generous U.S. estate tax exemptions.

A client approaches us with £1,000,000 to invest. They are living in the UK and require a GBP income.

If this immediately FX'ed into USD, they would have a portfolio valued at $1,210,000 based on the rate as of 17th August 2022 of 1.21.

Fast forward 5 years let us say the GBP strengthens against the dollar to 1.50.

Assuming the portfolio is still in the same position after 5 years, it will be worth $1,210,000, but drastically decreased to £806,666 due to the FX rate changes.

Americans living in the UK may have already started thinking about the purchase and sale of property in sterling, but it is wise to remember the IRS will always view it in the dollar equivalent.

CASHFLOW MODELLING & CONSOLIDATED REPORTING

WHAT AM I WORTH AND WHAT CAN I AFFORD?

By understanding your overall asset base, you can pinpoint the best way to take an income or possibly a one-off payment.

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The financial complexity faced by international Americans creates a pressing need for thorough financial planning. Living and working abroad can feel like a temporary break from domestic obligations for citizens of most countries, but for international Americans, it adds a layer of complication that needs to be managed efficiently and thoughtfully.

Cashflow modelling and consolidated reporting are two useful tools for families and individuals looking to assess their wealth and plan out their financial future. Cashflow models examine your assets and debt along with income and expenditure. Projections can then be created on future finances. Consolidated reporting provides a full picture of someone's wealth by creating a financial statement that brings everything together. This approach gives you an umbrella view of your financial situation and makes managing your assets simpler.

The complexity of cashflow modelling can increase for anyone living and working abroad, but international Americans complying with the demands of more than one tax authority typically face a tougher challenge. The nuances of inflation, differing tax rates, exchange rates, investment portfolio growth expectations and a variety of other factors all need to be appreciated to ensure a useful model. Consolidated reporting also has its challenges for international Americans. Keeping this important financial statement current becomes more of a challenge when dealing with multiple jurisdictions.

Using these tools to map out your finances means you can work together with your wealth manager to start making more informed decisions. By understanding your overall asset base, you can pinpoint the best way to take an income or possibly a one-off payment. You may have several brokerage or retirement accounts and smart financial planning can inform which of these you take payments from and which you leave to grow over time.

Gaining a clearer picture of your financial situation could lead to reassessing decisions in a variety of areas. You may start to question your assumptions around your property portfolio or inheritance plans. Some individuals or families may suddenly realise they will need to trim their expenditure, or alternatively, they may have more disposable income than previously thought and decide to boost their investments.

The benefits of these financial planning tools to international Americans are wide-ranging and an experienced wealth manager will always encourage you to take advantage of them.

ESTATE PLANNING
DUSTING OFF THE BEST LAID PLANS

Skilled estate planning always starts with mapping out a detailed picture of your current situation. Internationally mobile individuals and families can quickly lose track of the cornerstones of estate planning so establishing the basics will always be a useful exercise. International Americans in the UK are likely to have assets spread across a minimum of two countries and this can create jurisdictional complications. Making use of tools such as consolidated reporting will always be a good starting point.

Establishing your domicile is crucial when it comes to estate planning because this determines your exposure to various forms of estate tax. The main complication is that domicile can be defined differently in different countries. International Americans should keep in mind that domicile is determined differently in the U.S. than it is in the UK and your domicile can change throughout your life.

A properly drafted Will could become very useful when you are internationally mobile. Your estate could have become more complicated due to travelling and living internationally so you may want to ensure that your Will is crafted carefully and reflects your true wishes. The establishment of domicile takes on more importance when it comes to Wills as different family members may have different domiciles and this can affect the ability to execute the document.

Powers of Attorney are another key detail you may want to stay on top of if you are an international American in the UK. Powers of Attorney do not travel well so if you have assets in the U.S. and the UK, you may need separate powers appointing attorneys in each country. It is best to consult your wealth manager to make sure you are getting these essential details right.

International Americans with links to the UK should familiarise themselves with the difference between estate tax and inheritance tax. Estate tax is levied on the estate itself and inheritance tax is paid by the beneficiary. The UK government operates a system of inheritance tax and the U.S. government taxes estates directly, although a handful of U.S. states do have an inheritance tax system.

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International Americans in the UK are likely to have assets spread across a minimum of two countries and this can create jurisdictional complications. Making use of tools such as consolidated reporting will always be a good starting point.

Familiarising yourself with the basics of gifting is also useful. The two main types of gifts are outright gifts and trusts. Outright gifts are simply where you gift away the asset and have no entitlement to use or benefit from it, while trusts are a structure for passing wealth to future generations tax efficiently. It can make sense to use a trust, but it should be carefully considered because the administrative burdens and costs can be substantial. It is also important to consider the location of beneficiaries.

EUROPE

A MOVEABLE FEAST AND SO MUCH MORE

While Europe is often viewed by the rest of the world as one unit, it does in fact contain a wide variety of individual tax regimes and international Americans travelling around the continent should prioritise tax efficiency.

The UK is an attractive destination for international Americans. The historical connections and a common language make the country a comfortable gateway to the European continent. But there will always be those that move on from the UK or bypass it altogether and head straight to mainland Europe.

London & Capital's view that a client's wealth should always be viewed seamlessly and collectively means the general principles of wealth management are applicable in all locations. Financial planning tools such as cashflow modelling and consolidated reporting will be useful to international Americans, whether they are based in London, Paris, Madrid or Prague. And the principles of good investing remain consistent across borders.

But while some tools and principles of wealth management can be applied in any country, it is important to remain mindful of what could change when making the move to Europe.

While Europe is often viewed by the rest of the world as one unit, it does in fact contain a wide variety of individual tax regimes and international Americans travelling around the continent should prioritise tax efficiency. This applies as much to estate planning as to managing your investment portfolio.

The choice to move to Europe should be as seamless as possible, so it is important to be aware of the distinctive aspects of each destination, including visa requirements. There is no one single long-term visa for working across Europe and individual countries have their own unique processes. Europe does cater to short-term work trips through its well-known Schengen visa system, but this route is unlikely to be suitable for those thinking about a more permanent move.

Property is a key consideration for any international American moving to Europe. Most wealthy individuals have assets in the prime property market and moving abroad could mean adjusting your property portfolio by either disposing of an unwanted property or buying a new one. This could involve costs such as capital gains tax or paying some form of stamp duty. It could also mean navigating regulations on owning multiple homes, which some European countries target at foreign buyers.

Overall, a move to Europe is an exciting step and promises an individual or family a rich cultural experience and a new and exciting life. And our experts at London & Capital in both the UK and mainland Europe can assist in ensuring that a move is as seamless as possible for everyone involved.

IN SUMMARY

Moving to London as an international American is a wonderful opportunity to start a new life in one of the world's most exciting capital cities. At London & Capital, we take a huge amount of pleasure in meeting new expatriates from across the Atlantic and sharing our expertise on how best they can manage their wealth in their new home.

We often advise clients the quicker they turn their attention to important matters such as cashflow and estate planning, immigration, tax, investing and property, the easier their transition from the U.S. to the UK will be. Getting ahead of these matters early can lead to an altogether smoother move across the Atlantic.

We regularly hold events for international Americans where the newly arrived can compare notes with wise and experienced London hands. Meeting people who are also navigating the challenges you face is a useful way of preparing yourself for what lies ahead. We believe the social bonds created at these events are a useful addition to the advice provided to international Americans by London & Capital's experts.

If you would like to discuss any of the issues covered in this guide, we would be delighted to hear from you and you can contact us here:

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WE WORK WITH HNW AND UHNW INDIVIDUALS TO PROVIDE AN INTEGRATED WEALTH MANAGEMENT SOLUTION WHICH INCLUDES FINANCIAL PLANNING, TAILORED INVESTMENT MANAGEMENT AND MULTI-CURRENCY REPORTING.

WITH OFFICES IN LONDON AND BARCELONA, AND A DEDICATED TEAM WHO SPECIALISE IN EXPAT AMERICAN FAMILIES, LONDON AND CAPITAL IS PERFECTLY POSITIONED TO PROVIDE TRULY BORDERLESS WEALTH MANAGEMENT. WE ARE REGULATED BY THE FCA (UK), THE SEC (US) AND CNMV (SPAIN) ENSURING THAT OUR CLIENTS' GLOBAL INVESTMENTS FOLLOW A COHERENT AND EFFICIENT STRATEGY WHEREVER THEY ARE BASED.

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