

Should you put your investment offshore?

In today's ever changing world it may be worth considering this!

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If everything you possess is held in your own name in your own country, then you are not merely exposed, you are completely vulnerable! Indeed you are open to whatever decisions the government might make about how you should behave and who gets the wealth you have earned.

A new government measure, which might land out of the blue, could be a law that affects everyone, or it could be a rule devised to deal with people like you. Or, it could be an administrative action aimed at you alone. With all your assets at home, you would be trapped and not able to do anything about it.

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

- Psychological readiness to think and act internationally not nationally.
- Protection from currency exchange controls
- Protection from the confiscation of precious metals (more on this latter)
- A lower profile as a lawsuit target
- Income tax planning advantages
- Estate planning advantages
- A degree of financial privacy
- Practical readiness to move additional assets quickly

There are many ways to go about getting these benefits. None is right for everyone, and they all come with some element of cost or inconvenience. Below are some attractive benefits and explanations.

Small bank account. A small account at a foreign bank gives you a ready and private landing area if you ever decide you want to move a large amount of money in a hurry, in today's ever changing world you may well need this. If you are a US citizen, the account is non- reportable, so long as the balance (together with any other foreign financial accounts you own) never reaches \$10,000.

Large bank account. A large account at a foreign bank also provides a source for anything you want to move later. That said it should be noted that if foreign exchange controls are ever imposed, the new rules may require you to repatriate the money - or they may not. Depending on the specifics of the new rules, your account may be "grandfathered". In that case it may be that the overseas funds would enable you to travel outside your own country while others are forced to stay at home.

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

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

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

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

A foreign variable deferred annuity is not private for a US investor. When you buy one, you generally must file an excise tax return and pay a 1% tax, and you must report the annuity as a foreign financial account.

Swiss immediate lifetime annuity. A Swiss annuity that begins paying an annual income when bought is not a foreign financial account, which may save a reporting burden. Under a tax treaty with the US, Swiss annuities are exempt from the 1% excise tax. There is nothing private about it, however, since part of each annual payment received will be taxable income. You can make it difficult for a creditor (such as someone who won a lawsuit against you) to get his hands on a Swiss immediate lifetime annuity by electing not to have the option to cash it in. However, the law which stipulates a forced assignment to a creditor generally would not be valid under Swiss law.

Offshore mutual funds such the ones offered by the RIO Club.

There is an array of mutual funds available internationally which are even broader and more varied than those available in the US. These offer the same advantages as a foreign bank account; your share account with an offshore fund is safe from a lightning seizure by the US government.

However, for a US investor, an investment in a foreign mutual fund comes with certain tax disadvantages. They are tolerable if you handle the investment properly or very difficult if you do not. RIO's funds can offer several benefits to members if administered correctly.

Foreign real estate. A direct investment in foreign real estate is free of any special US tax or reporting rules. And it is unlikely that any regime of foreign exchange controls would touch existing foreign real estate investments.

Foreign real estate can also pay a psychological dividend. Knowing there is a place to go, should there ever be a need, provides a sense of security, e g the apartment in Thailand or the acreage in New Zealand means you will never be trapped. The advantage of this has been set out in previous reports.

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

International IRA. For those who are US Citizens an IRA or a solo 401(k) anything is permitted other than life insurance and so-called "collectibles." **Anything.**

My research indicated that most IRAs and solo 401(k) plans with a domestic limited liability company can use this as a vehicle to buy and hold other investments. Such an offshore LLC or Ltd company could be used to do the real investing. As with direct ownership of an offshore LLC or Ltd company, this does nothing to reduce reporting duties. I would stress the opposite and stipulate that, in fact, it adds to them.

The advantage of such an arrangement, however, is that it allows you to internationalize your retirement plan. Anything international done with personal investments, can be done with IRA's investments. This is the ideal structure if you want to invest in offshore mutual funds such as RIO's

The IRA short-circuits the special tax rules that apply to investments in offshore funds, and the offshore LLC's and or Ltds.

Private international investment contract (we can advise on these)

RIO has provided this to a small number of its membership. However, I would advise that, depending on your circumstances, it is often possible to structure an investment contract between you and an international financial institution that is tax- deferred, non-reportable, and protected from future exchange controls or prohibitions on owning gold. This is custom work, so, of course, it is only practical for large chunks of capital.

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

An international asset protection trust is far and away the most powerful of all financial planning devices. If handled properly (we can provide this administrative action), it is virtually impenetrable to future creditors and is especially helpful in estate planning. This structure is also the most complex device, however, and hence the one most likely to be handled ineptly. It also comes with the heaviest reporting burden if held by a US citizen. Should the individual considering such options be on expatriate status is often better to establish a corporate entity such as an offshore company which offers a broad range of benefits to both estate and tax planning.

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

Over the years I have set up several of these for RIO club members. An offshore LLC or Ltd can be designed to be very unfriendly to your potential future lawsuit creditors, even more so than an LLC or Ltd formed in the USA or UK. An additional plus for US citizens may be the fact that, while many banks, mutual funds, insurance companies, and other financial institutions avoid business from individual Americans, many will welcome business from a non-US LLC even if it is American-owned.

The fact is an offshore LLC owned by a single US person (or by husband and wife) can elect to be treated as a disregarded entity for US income tax purposes, which makes it absolutely income-tax neutral. It should also be noted that it can elect to be treated as a partnership, which makes it almost income-tax neutral. The LLC also can be used for estate-planning, and I have set up several such entities for members over the years.

I stress, however, that should the LLC owns a large foreign bank account it will be required to report it. And do not forget that there will be annual reports for to be filed about the LLC itself.

More on offshore companies and their uses can be found on the club web-site www.therioclub.com titled “advantages and reasons for an offshore company” this report can be seen in the investment school section.

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