Retain More Profits from Offshore Stock Sales and Dividends

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Many investors diversify their portfolios by investing in different markets around the world. "By spreading your investments across all markets you maximize diversification, which is critical for reducing risk in your portfolio," says David Kuenzi, founding partner of Thun Financial Advisors, a Madison, Wis.-based firm that provides investment management and financial planning services to Americans living abroad.

International investing may reduce risk. However, it can also create new risk by subjecting one's investment earnings to additional taxes and fees - particularly for Americans who live and travel overseas.

"The United States taxes Americans on the basis of citizenship, whereas most of the world taxes on the basis of residency," Kuenzi explains. "That creates a whole set of compliance issues for Americans abroad."

> "You generally get a better rate and a lower fixed fee if you transfer more money less frequently."
>
> *— David Kuenzi, founding partner of Thun Financial Advisors*

Those compliance issues make it difficult for Americans to reduce their tax burdens on foreign investments. Still, the following four strategies could help investors net a greater profit.

1. Invest in Treaty Countries

When an individual is invested in a foreign country, it's common for that country to levy a withholding tax on dividends and interest. If the individual is a U.S. citizen and lives in the foreign country in which he or she is invested, he or she must pay both local and U.S. taxes, resulting in double taxation.

However, U.S. citizens often qualify for a tax credit on their U.S. return. "The United States will generally give you a credit against your U.S. tax bill for any taxes you've paid on the same income stream to a foreign country of which you're a resident," Kuenzi says.

Non-resident investors can typically avoid double taxation by investing in countries that have a tax treaty with the United States. Tax treaties "may allow residents of foreign countries to be taxed at a reduced rate, or to be exempt from U.S. income taxes on certain items of income they receive from sources within the United States," according to the IRS.

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2. Invest Using Taxable Accounts

Investors may want to avoid making offshore investments through a tax-advantaged account, such as an individual retirement account (IRA). This is because the U.S. does not grant foreign tax credits to accounts such as an IRA, and IRA withdrawals are considered regular income, which is generally taxed at higher rates than qualified dividend income.

"[Offshore] investing in an IRA is very inefficient because you're not getting any benefit for foreign taxes that are coming off the top," says Brent Lipschultz, a partner at New York-based tax and accounting firm EisnerAmper LLP, where he leads the firm's International Wealth Advisory Services Practice.

3. Put Earnings in a Foreign Account

Investors may be able to recover some profits by keeping income earned from international investments in a foreign bank account. "There are lots and lots of banks outside the United States where you can make 3 to 5 percent on cash deposits," says American expatriate Bobby Casey, managing director of offshore asset protection firm Global Wealth Protection. "A multi-currency bank account is another option. Let's say you have the cash equivalent of $100,000 U.S. dollars; if you split it four ways between [various currencies] it will devalue less."

4. Move More Money, Less Often

If an individual is planning to live off the income from foreign investments, he or she should consider keeping profits in their respective currencies until exchange rates become more favorable.

For example, a Canadian retiree living in Belgium may want to sign up for market-rate alerts via a trusted online foreign exchange service that offers relevant resources and expert advice. When the Canadian dollar's value strengthens relative to the euro, that retiree may want to convert four months' worth of living expenses - say $40,000 Canadian dollars, into euros. This would allow the retiree to make the most of a good exchange rate, and allow himself several months before another transaction is necessary.

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