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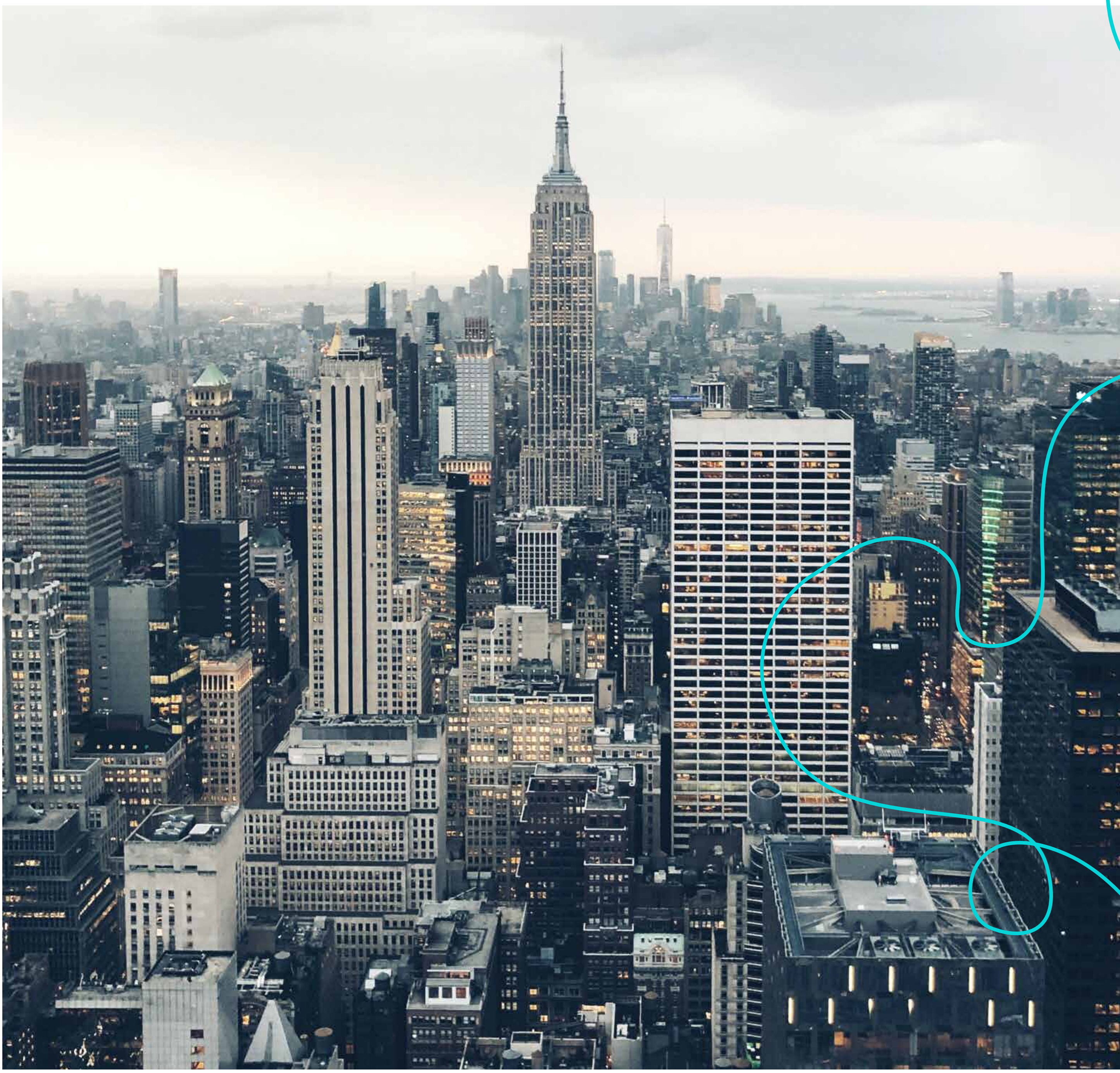
Moving home: A comprehensive guide for **Australians** living **in the US**



For expats moving back to Australia after living and working in the United States, the financial transition can be complex to navigate. There are several pitfalls, from currency exchange and tax implications to asset transfer and changing financial goals.

The expert Expat Financial Planners at Apt Wealth Partners regularly help Australians make a successful transition home, protecting and making your move a success.

Establish your timeline and to-do list

The first step to a successful move is establishing your timeframe and a financial to-do list. We've provided a comprehensive checklist below, and this guide will delve further into each step.

Moving personal items and pets can be expensive and you'll need time to work out the logistics. Ensure that you have the funds saved well in advance so that you aren't reliant on personal loans or accumulate credit card debts unnecessarily.

- ☐ Understand changing tax obligations
- ☐ Update financial plans and goals
- ☐ Plan for asset transfer
- ☐ Understand the implications of returning to Australia with US taxes
- ☐ Review US citizenship/Green Card options
- ☐ Navigate property ownership
- ☐ Understand options for moving retirement funds
- ☐ Plan for currency transfer
- ☐ Manage the impact of life events
- ☐ Revisit insurance strategies to protect wealth
- ☐ Ensure your estate plans remain viable
- ☐ Seek advice from experts who understand both jurisdictions

Understand changing **tax obligations**

With a move home, your tax obligations will likely change and it's important to be aware of them. Some key areas to consider are:

- Overseas assets will become assessable for Australian tax purposes and are considered to have been acquired from the day you re-establish your Australian tax residency.*
- Australian shares are also typically seen as having been purchased on this date for Australian capital gains tax calculation purposes.*
- US citizens or Green Card holders will need to continue filing taxes in the US after the move home. This will need to be taken into consideration in your financial plans if you or your partner fit into this category.

*This assumes you were a non-resident for Australian taxes whilst overseas and that you deemed disposal of any shares held prior to leaving Australia.

Update your **financial plans** and **goals**

Moving back to Australia will have an impact on your financial plans and goals and it's important to update them ahead of your move. Some areas to consider include:

Cost of living and wages

- Will your wage differ once you are back in Australia? What impact will this have on your budget?
- Most major Australian cities are expensive, so depending on where you lived in the US, adjustments to your budget may be necessary, even if your wage will increase.

Housing and other big-ticket purchases

- Where will you live?
- Will you look to buy a home or move into an existing property?
- If buying, what is your time horizon, and do you have the deposit you need? If you have a 3–5 year horizon, you may look at investment strategies to grow your deposit.
- Will you need to purchase a car?

Family and education expenses

- Will you be starting a family? This may involve time out of work, so it's important to plan ahead.
- Where will your children go to school? How will you fund education costs?

Retirement planning

- If you are coming back to immediate retirement, how will you fund this and will you have immediate access to the funds you need?
- If you are using overseas investments as a source of funding, on top of market ups and downs, you will have to factor in the impact of currency movements.
- How will you access and move your US retirement funds?

Plan for **asset transfer**

When calculating taxes on foreign assets, timing and planning can be critical, as currency movement can significantly impact how much tax you will pay.

There is a common misconception that foreign bank accounts do not attract tax on transfer to Australia. However, this is not always the case. For Australian tax residents, a gain or loss from holding foreign currency can be assessable on an Australian tax return.

This is usually the case where foreign accounts are holding over the equivalent of AUD250K. Where there is a foreign currency debt, should the foreign currency loan be less (in Australian currency terms) at the time of repayment compared to when the loan was taken out (or first became assessable for Australian tax), then there may be tax applicable.

Capital Gains Tax (CGT) can come into play if you are moving assets. For those who are on a temporary US visa or are Green Card holders for less than 8 years, waiting until you come back to Australia and exiting the US tax system may eliminate US CGT obligations in certain circumstances. Typically, Australian capital gains for foreign assets is assessable for the period that you're an Australian tax resident. Therefore, timing of sale of any assets is vital and can drastically change the CGT for asset sales. Advice is important in this area.

Understand the implications of returning to Australia with US taxes

If you or your partner will remain a US citizen, US Green Card holder or continue to hold assets based in the US, it's critical to understand the implications and build a plan that allows you to continue building wealth.

Some key areas to consider are:

Non-US indirect investments

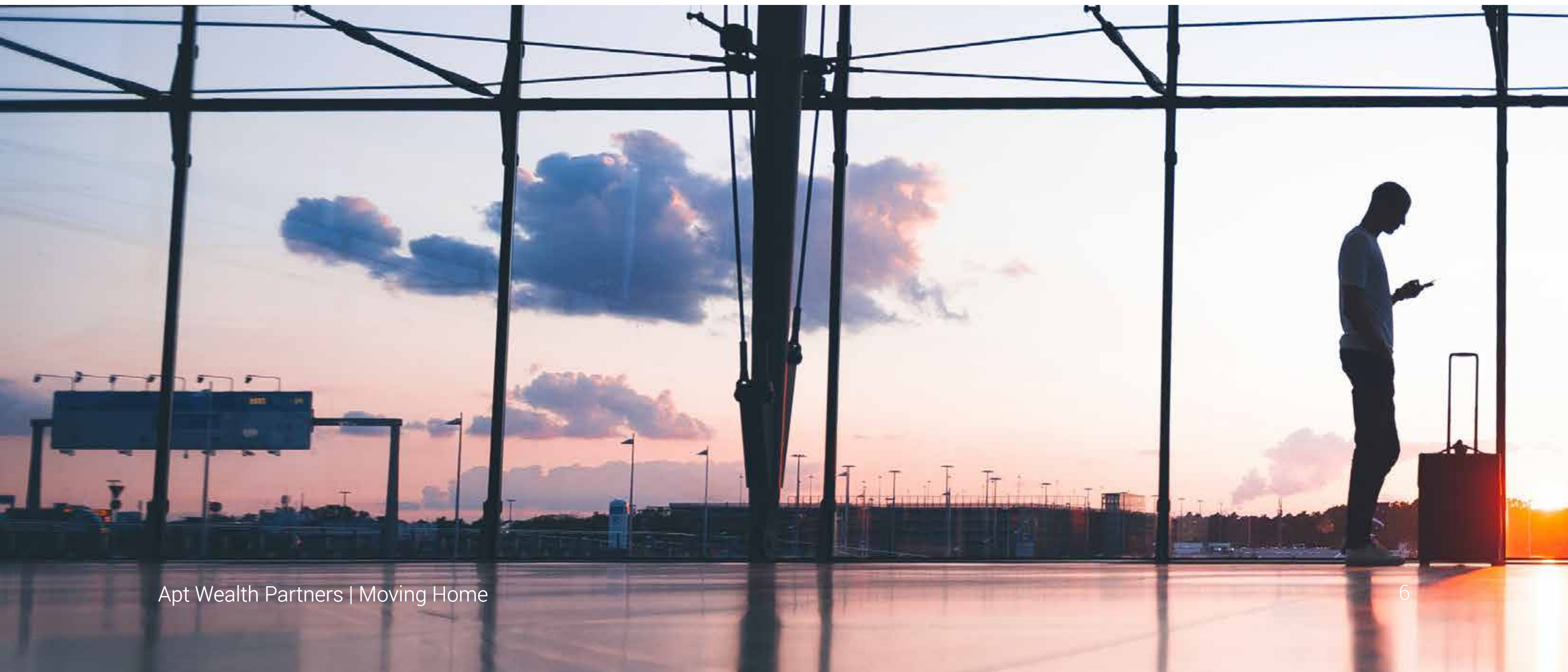
Non-US domiciled managed funds held by an individual with a US tax obligation can have harsh consequences on your US tax returns. These will be deemed 'Passive Foreign Investment Companies (PFICs)', potentially incurring penalty tax rates and onerous reporting requirements. The same treatment will likely apply to the following investments domiciled outside the US:

- Exchange Traded Funds (ETFs)
- Retail Property Trusts (such as AREITS)
- Listed Investment Companies (LICs)
- Stapled Securities

Certain direct share investments held outside the US can avoid PFIC treatment; however, care must be taken to ensure that you fully understand PFICs before undertaking a direct share strategy.

Your Primary Residence

The primary residence is typically a capital gains tax-free asset, so long as it is sold when you're a tax resident of Australia. However, this may not be the case for US taxpayers, even when the property is in Australia. Whilst you can exclude USD250K worth of capital gains per US taxpayer if you lived in the property two out of the previous five years prior to sale, capital gains taxes will apply for any gains above this threshold.



Paying down debt

Many people are unaware of the potential US tax implications of paying down or refinancing your Australian debt. For example, when making a lump sum repayment or refinancing your loan, if the US dollar value of your Australian loan is less than when you took it out, this will be perceived as a US dollar "gain", which may well be taxable on your US tax return.

For example, a US citizen living in Australia takes out a loan of AUD1M to buy a property when USD and AUD are at parity. They keep the loan as interest-only. Five years later, they receive an inheritance and decide to pay off the loan in full. At this point, the loan remains at AUD1M, but purely due to currency movements, the USD value is $800K.

There is a reduction of USD200K between when the loan was taken out and when the lump sum repayment was made, and this difference will likely be taxable on their US tax return.

Superannuation

Superannuation is a very complex area as US authorities have not made a clear determination on how it is to be treated for US taxes. Most US accountants will agree that the earnings within the fund will either be taxed each year as part of your US income tax return or when you draw down from your superannuation account in retirement. Personal contributions to super that exceed what your employer has contributed to the fund can be problematic and can change the treatment of your super fund.

Structures

US taxpayers that have interests in an Australian-domiciled family trust or run a business through a company structure may face tax complications and additional filing requirements.

Returning with a US taxpaying partner

If you are not a US citizen or Green Card holder when you return to Australia, it's likely you won't be required to file US taxes for your Australian assets or income. However, if your spouse is a US citizen or Green Card holder, they will.

This presents financial and tax planning opportunities, where assets that may cause US tax issues can be held in your name instead of your spouse's. You can, for example, consider purchasing the primary residence in the non-US taxpayer's name to avoid capital gains tax implications on the eventual sale.

Review your **US citizenship options** and their **implications**

If you are a Green Card holder, you know how hard they are to come by, so it's essential to understand whether you should keep or relinquish yours.

The first question to ask yourself is whether you intend to return to the US in the future. If you are content that you are leaving for good with no plans to reside in the US later on, relinquishing your Green Card may make the most sense; however, there can be financial implications, and you need to plan ahead.

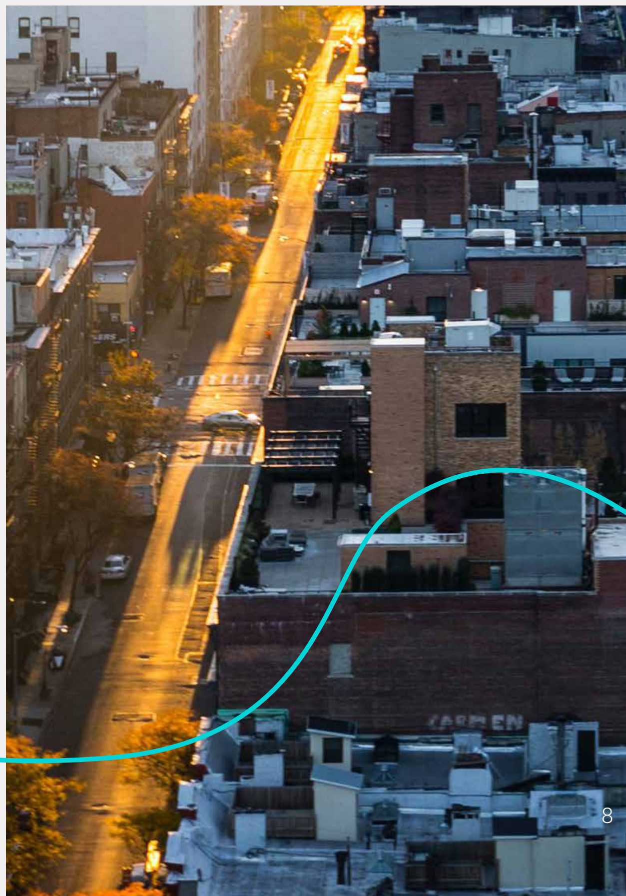
Retaining your Green Card

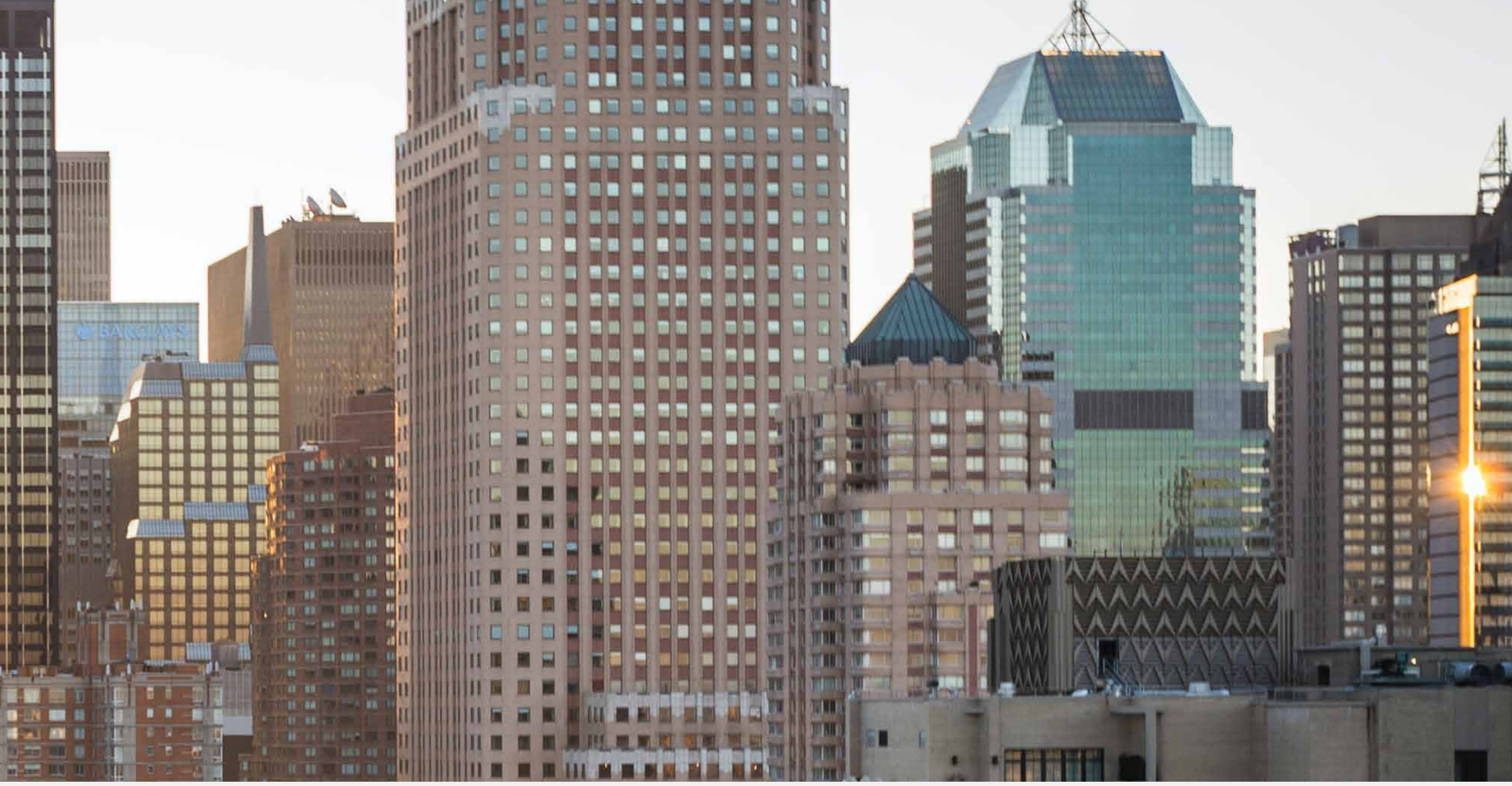
As a US Lawful Permanent Resident (or Green Card holder), you remain under the US tax system regardless of location. **This means you must file US tax returns on worldwide assets and income even if you no longer live in the US**.

Remaining a US resident for tax purposes after returning to Australia can have several implications when earning income and buying assets here on home soil. Therefore, it's essential to be aware of the potential pitfalls when making long and short-term financial decisions. We'll cover those in detail later in this guide.

Relinquishing your Green Card

You can choose to relinquish your Green Card upon exiting, but it's important to note that exit taxes may apply if you are deemed a long-term permanent resident for US tax purposes.





Am I a long-term permanent resident?

For US tax purposes, a long-term permanent resident is a Green Card holder who has held the legal right to reside in the US for at least eight of the past 15 years. This doesn't necessarily mean you lived in the States for the entire period, simply that you had the legal right to do so.

How the eight years is calculated isn't simple either, as holding a Green Card for any part of the year will be considered a full year.

So, for example, you reached the eight-year threshold if you received your Green Card on 15 December 2015 and left the US on 10 January 2021 because the 16 days in 2015 and 10 days in 2021, respectively, are each counted as one year.

Do exit taxes apply to me?

If you are a long-term permanent resident, you may be deemed a 'covered expatriate', in which case exit taxes may apply.

These taxes are typically calculated as a percentage of your assets above the threshold for a given tax year and can be quite significant. In addition, retirement savings and pension funds may also be included in the value and can add complexity.

Typically, exit taxes would apply to long-term residents who meet any of the following criteria:

- Average annual income tax of USD178K or more for the past five years (applicable to those who relinquish residency in 2022 and indexed each year). It's important to note that this figure pertains to average tax liability, not income earned.
- An individual net worth of USD2M as of the date the Green Card is relinquished
- Failure to confirm that you have complied with US federal tax filing obligations for the past five years, confirmed by a specific filing to the IRS

More information is available on the ***IRS website***. However, it is a complex area, and getting expert legal, financial and accounting advice is recommended before making any decisions.

Navigate **property** ownership

Keeping a property in the US

If you decide to keep a property in the US on your return to Australia, you will continue to have US filing requirements on earnings and capital gains on eventual sale, even if you are not a citizen or Green Card holder. However, these taxes can typically be offset against Australian taxes.

If you are intending to return to the US to live or will spend significant time there in the future, it may make sense to retain US-based property; however, from a pure investment perspective, there are some considerations.

The goal of investing is usually to build wealth to achieve a future goal (e.g. retirement). If that is going to take place in Australia, you will need Australian dollars, so it is always best to build the funds where you will need them. Holding overseas assets introduces currency risks. Even if the asset has increased in value in the foreign currency, your eventual return will be impacted by currency movements and the value of the Australian dollar at the time of sale.

Getting a mortgage in Australia

Gaining an Australian mortgage while you reside overseas or earn the bulk of your income from a source outside Australia can be complex.

It is a grey area. Some lenders will not lend funds to those who reside overseas or will shade off a hefty percentage of income earned overseas when calculating your borrowing power. If your partner is not an Australian citizen, their income may be shaded or entirely ignored, meaning your borrowing power could be significantly reduced.

In addition, you may not be able to access Lender's Mortgage Insurance (LMI), which typically kicks in if you don't have the minimum 20% deposit. Without access to LMI, you will not be able to borrow without the full deposit.

To add to the challenges, the appetite for lending to expats or non-citizens can change regularly, so it can be difficult to know where you stand. If you need to borrow funds to purchase property in Australia, it's best to speak with an ***Australian mortgage broker*** who understands the expat landscape as soon as possible to set yourself up for success.

Understand options for moving retirement funds

When leaving the US, you will need to decide what you will do with your 401K or IRA account. You can opt to leave the funds in the US within the retirement accounts or withdraw the funds and bring them back to Australia.

Keeping the funds in a US retirement account

This option means that the funds will remain invested and continue to grow for retirement. *(Note: Not all fund managers in the US will maintain accounts for overseas residents, so it's important to check whether this is an option with your specific fund.)*

You will be able to draw on the funds as an income stream from age 59.5. Any drawdown will typically be taxed on the component that represents fund earnings (even those earnings that were accumulated while you were outside Australia). You typically won't be taxed on the component that was contributed by you or your employer.

If you take this approach, it may be advantageous to wait until your other assessable income sources are low, therefore reducing the taxes you will owe.

It's also important to seek advice on the fund and investment mix options in your US retirement account from a US-qualified adviser, particularly if you have sizeable funds within them. If you need a recommendation, Apt has a network of US professional partners who specialise in US asset management and advice and can provide an appropriate referral.

Withdraw the funds and bring them back to Australia

Withdrawing your US retirement account funds before the US retirement age of 59.5 is also an option. Typically, withdrawal of funds from IRAs and 401K before this age will attract US taxes of 10% plus your marginal tax rate. Roth IRAs withdrawn five or more years after commencements may be tax-free in the US.

However, it's important to note that lump sum withdrawals from US retirement funds once you are in the Australian tax system are typically taxable. The portion of the fund that represents fund earnings is taxed as assessable income, even if the earnings were accumulated during your time in the US.

If you opt to release the funds and bring them back to Australia, you can leave the funds in your personal bank account or move into a superannuation fund. (Note: There is no option to transfer US retirement accounts straight to super. You would need to contribute under the normal super contribution rules.)

Those with ongoing US tax obligations need to take care with any lump sum super contributions. Refer to the ***Returning to Australia with US taxes*** section for more information.

Plan ahead for **currency transfer**

Not just when but how

Currency markets are incredibly volatile. Many factors are at play, and speculating on the future direction can be both difficult and dangerous.

While you want to get the timing right, it can be challenging to predict, so it's essential to consider when and how you transfer your assets.

Rather than trying to time the market, focus on a strategy to transfer smaller amounts over a more extended period. This way, you'll get a reasonably steady exchange rate over time and avoid putting yourself in a position where you need to make a lump-sum transfer within a small window, leaving your return at the mercy of currency markets.

Compare the costs of transfer

There are typically three main costs when you make a currency exchange transaction. These are summarised below and can vary wildly between providers, so it's essential to do your research and understand all the costs involved.

The Transfer Cost refers to the fee a provider charges to facilitate the transaction. While these may be a small percentage, they can build up over time, particularly if you transfer smaller amounts regularly.

The Exchange Rate is usually the most important rate to consider. Often, people will see a foreign exchange rate advertised and think that this is the rate they will get. However, this is merely the wholesale rate, and foreign exchange providers will then build their margin on top of this, which will vary between providers. Therefore, it is worth shopping around for the most competitive exchange rate, as this can make a significant difference to the outcome of your transfer.

The Receiving Bank Fee is an amount the bank often charges to receive your foreign exchange transfer. Whilst this fee is usually small, it is still an additional cost that can add up over time. Ask your bank what fees they charge to receive a foreign exchange transfer and consider an alternative provider if these fees are not competitive.

Manage the impact of life events

If a life event, such as divorce, is also occurring, you need specific advice and support to make the most of your financial situation.

When it comes to divorce, there is an additional layer of complexity, particularly if your ex-spouse is, and intends to remain, a US citizen.

Of course, the first thing to do is get legal advice from a divorce attorney who understands the divorce laws in the country in which you reside. This is critical in helping to ensure you receive a fair financial settlement.

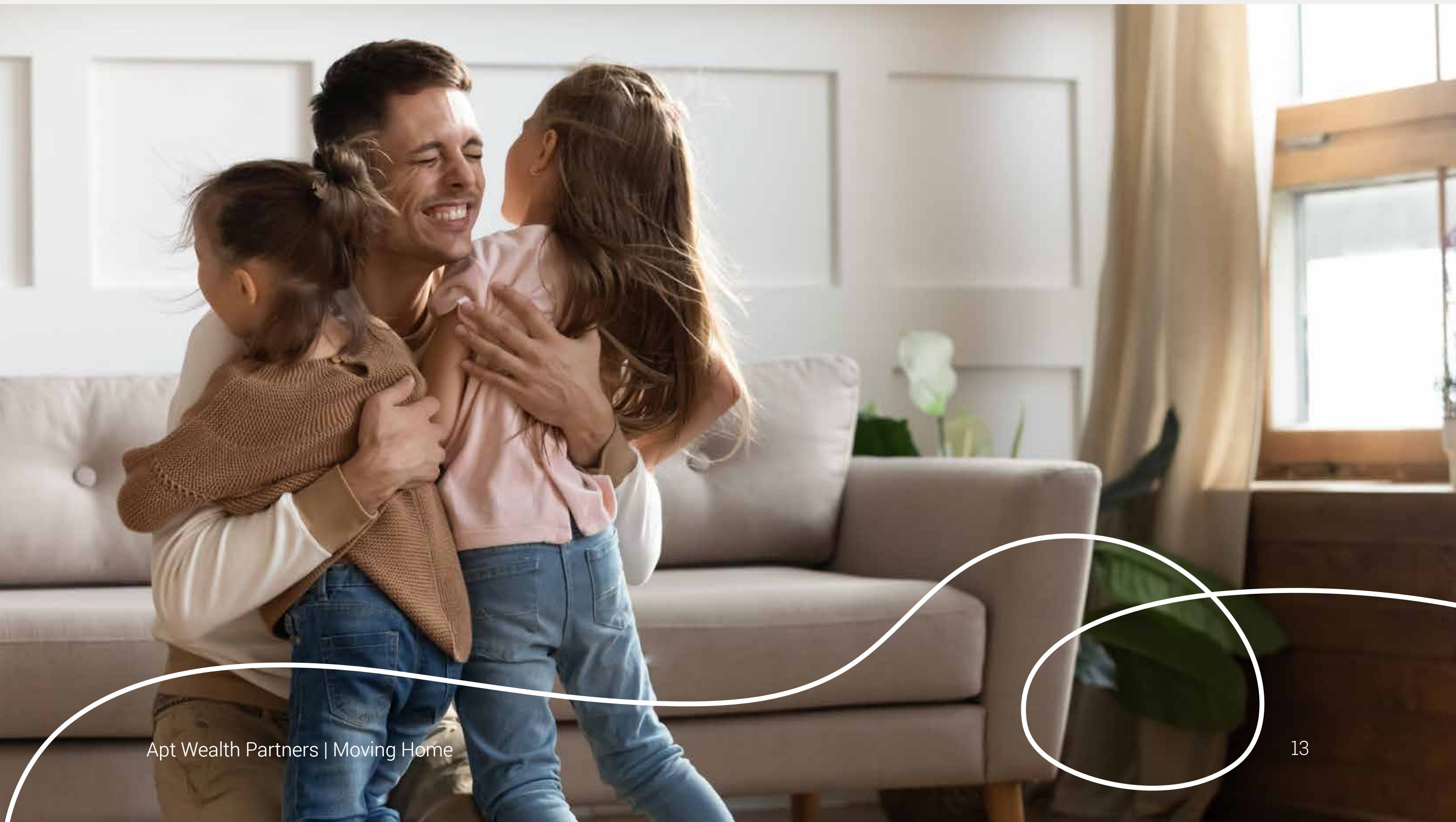
In addition, if you and your spouse now reside in different countries, it's essential to understand the requirements in both jurisdictions. There may be the possibility of arranging divorce proceedings in a jurisdiction that may provide a more favourable outcome.

Revisiting your life and financial goals is also crucial before reaching a settlement.

In most cases, we set financial and life goals with our spouses believing the relationship will continue, so if it ends, it's vital to revisit and reset these for changing circumstances.

Speaking to a financial adviser is critical. The right adviser can help you understand your new financial position and set appropriate goals to keep your finances on track. The divorce settlement will likely involve an asset split, and it's essential to understand how different outcomes will impact your financial position, lifestyle and goals.

Doing this before a settlement is agreed upon can help you equalise the settlement to best suit your plans and goals. For instance, maintaining foreign pensions or assets may become complicated on your return to Australia, so you may look to negotiate an asset settlement that betters fits your new life and future goals.



Revisit your **insurance needs** to protect your wealth

On your return to Australia, it is also vital that you revisit your personal insurance needs to ensure you are protecting yourself, your finances and your family.

Having the right personal insurances is critical. However, many Australians rely on the default cover provided within their superannuation without understanding whether this cover suits their circumstances. It's important to note that these insurance policies aren't free – you are paying for them out of your super.

Working with a financial adviser can help you determine your policy needs and ensure you have appropriate cover. The right cover may cost you a similar amount yet offer more appropriate protection. In some cases, it may even be less. You may also have the option to pay for your chosen premium from your super, and we can help you understand the best scenario for you.

Ensure your estate plans **remain viable**

Estate planning is an integral part of any financial plan, but it can be a little more complex when assets are spread across multiple countries.

Consider concurrent wills to avoid misinterpretation

When it comes to the division of your assets held in more than one country, you typically have two options for your will. You can choose to have an international will, made in line with a convention to which Australia is a signatory, or concurrent wills – separate wills for different jurisdictions in which your assets are held.

In many cases, having separate wills is the best solution. While an international will should be recognised in both the US and Australia, they are open to different legal interpretations in both jurisdictions and can take significantly longer to execute.

When making concurrent wills, it's critical to let your legal and financial professionals know to ensure alignment across the documents, so that your estate plans will be executed according to your wishes.

Understand US estate tax exemptions

Currently, the US applies a lifetime estate and gift tax to citizens and Green Card holders, which can tax worldwide assets at up to 40%.

As it stands, there is an exemption of up to USD12.06M per individual, so this is not a concern for most people. However, there has long been speculation that this threshold will be significantly reduced at some point in the future. President Biden has previously proposed restoring the exemption limit to USD3.5M, meaning many more estates could be taxed.

Gifts you give during your lifetime can reduce this exemption. Each year US citizens or Green Card holders can give the following gifts without impacting the threshold:

- Up to USD16K to any individual they like
- Unlimited amounts to a spouse who is a US citizen
- Up to USD164K to a spouse who is not a US citizen

While estates that pass to a US citizen spouse are exempt from US estate taxes, this is not the case if the beneficiary is a non-US citizen spouse.

Understand the Australian estate tax landscape

Although Australia has not had an official estate tax for many years, one area of your estate that may be taxed is your superannuation. When your superannuation is passed to a spouse, children under 18 or a financial dependent, it is tax-free. However, if it goes to someone else (including adult children), the portion of your superannuation benefits that were received through employer contributions and salary sacrifice (and any associated earnings) may be taxed at 17%.

When an Australian resident inherits an asset, for example, property or shares, they will not pay Australian tax on this inheritance. However, taxes will be applicable on eventual sale. If the asset was originally purchased after 20 September 1985, then the capital gains tax on eventual sale will be calculated using the original purchase value. Typically, your family home is exempt from Australian taxes if sold within two years of your passing.

If you are an Australian resident, there may be capital gains taxes applicable to your estate should certain assets (excluding Australian property) pass to a beneficiary living outside Australia. You can manage this by carefully planning which of your assets should go to foreign beneficiaries.

Seek advice from **experts who understand** both jurisdictions

Navigating your finances as you plan and execute return to Australia can be complex, but it doesn't have to be. It is critical to seek advice from tax, financial planning, and in some cases, legal experts who understand both US and Australian requirements as early as possible.

Apt Wealth Partners specialise in financial planning for expats, helping you live your best life, wherever it takes you. We work closely with your other professionals, whether from our network or yours, to ensure you are making the best possible moves at every step.

About the **Authors**

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John is an experienced financial planner with extensive expertise in helping expats protect and grow their finances to reach their goals. He uses this wealth of knowledge to support Australian expats, those migrating to Australia, and US citizens living on our shores.

He is known amongst expat communities for his deep knowledge of wealth building and protection in multiple jurisdictions, helping people live their best lives wherever they reside.

Emily Lanciana

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Emily is an experienced financial planner with a passion for helping people define and reach their goals to live their best lives.

She is a Senior Financial Adviser at Apt Wealth Partners, the 2021 FPA Professional Practice of the Year. At the firm since 2018, Emily has developed specialist expertise in Expat Financial Planning, supporting Australians living abroad to navigate their finances.

Matthew Baker

Personal Mortgage Adviser

Matthew is an experienced Personal Mortgage Adviser with over a decade of experience in personal and business banking. As an adviser at Apt Wealth Home Loans, Matthew helps a diverse portfolio of clients, from first home buyers to investors and those looking to refinance.

With deep industry expertise and a customer-first approach, he is well-placed to help expats navigate an often complex mortgage landscape.

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