

TheNational



Uncle Sam always gets his fair share

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Kathy Hyde has not filed her taxes for last year, and has found it difficult to locate local tax preparers who are familiar with the US system. **Pawan Singh / The National**

With its taxation of overseas income, its pension payment requirement for expatriate workers and its levies on global investment gains, the US isn't the best place to hail from if you are living abroad. It is, in fact, one of the worst.

As if the fact that Americans have to pay taxes and pension contributions wasn't enough, they also must grapple with figuring out how much they owe, which forms to file and where to send them. When Americans go abroad, the American bureaucracy follows them.

Shoueb Rifai, a 26-year-old American of Syrian descent who works in the financial industry, found out the hard way how confounding the American tax system can be.

He moved to the UAE last year, and like many Americans living the tax-free life in Dubai he assumed he didn't need to keep up with the Internal Revenue Service. He has yet to pay his taxes for last year, which were due in June, because he didn't think he had to yet. "I've been filing taxes since 2004, but someone at an embassy reception said you have until October to do it."

Americans do qualify for a foreign income tax exclusion, but it only goes up to US\$87,600 (Dh321,763) in earned income (\$91,200 for the tax year 2009). And even if Americans don't make that much money overseas, they still have to tell the IRS that they are claiming the exemption by filing Form 2555.

And, of course, they still have to pay into the US government-sponsored pension system, which goes by the official name of Social Security.

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Kathy Hyde, 40, an American who moved to the UAE 12 years ago with her husband, 42, is another expat who has not filed her taxes for last year.

She said it is difficult to find good tax preparers in the UAE who are familiar with the US system, leaving most people to do them on their own. The tax issue can even make it harder for Americans to get jobs overseas, especially with multinational companies that would have to report to the IRS and pay pension and medical taxes on behalf of their employees.

Solving their tax problems

Shoueb Rifai,
Marketing Manager

His challenges:

- His finances are a mess. He does not keep track of spending, and has only a vague sense of where his money goes.
- He has grown used to a free-spending lifestyle, but he is getting married soon and wants to establish financial discipline.
- He hasn't filed his taxes for last year.

He should:

- Get organised by keeping receipts and tracking spending for a few weeks. This will help Mr Rifai develop a better sense of where he is financially.
- Track his spending, think about where he can cut back and start to save money every



Shoueb Rifai says his finances are a "mess", and that he lives a free-spending lifestyle. He plans to begin methodically organising his receipts and track his spending. Pawan Singh / The National

"It makes us extremely uncompetitive in the workforce here because we're taxed on our income," she said. "People from most other countries aren't."

For Mr Rifai, the US's confusing tax laws add a layer of complication to his already tangled financial picture. For most of his young life, he has not given much thought to his finances. And he hasn't needed to. With a comfortable salary and few debts or other major financial obligations to fret over, he hasn't felt an ounce of guilt about spending all the money he earns – not an uncommon scenario for expatriates in the UAE, whether they are from the US or elsewhere.

Yet over the years, things have spun out of control, and Mr Rifai said he has no clear idea of where he is spending his money or where he could cut back and save. He also plans to get married and start a family soon, which will require more financial discipline than he is accustomed to.

"Once the money started pouring in, I started losing track of it," he said. "When I got \$5,000 a month, it was \$5,000 a month. You start letting go. One thing leads to another, and then forget about it, you're spending your money."

With a long way to go before retirement, Mr Rifai and his wife-to-be have plenty of time to earn more money and start saving for the future. Nick Hodges, a financial planner at NCH Wealth Advisors in Florida, says Mr Rifai's most pressing goal at the moment should be to sort out where he and his fiancée are financially. Without a sense of what they have and how they spend, it will be impossible for them to make the practical moves their situation demands.

"For the next 60 days, they will each record all of their spending," said Mr Hodges, who took a detailed look at the couple's finances. "Each week during that time, they will share the details of their purchases with each other. I told them that this is not to be a time to judge each other, but a time to understand the habits and values of the other."

The goal, he said, is primarily a financial one – tracking spending will help them get their financial house in order. But the exercise should help them learn to work together on their finances, which can be a tricky arena for couples to navigate.

"This is an opportunity to have open conversations that will help them understand each other's point of view and to know how best to focus their spending in the future," Mr Hodges said.

Once they have figured out where they can cut back on, Mr Hodges advises that they start saving in earnest to build up an emergency fund – a staple of sound financial planning. The rainy-day fund, which Mr Hodges said should be stocked with around six months' worth of salary, is designed to protect the couple in case of dire financial circumstances – if one of them were to lose his or her job, for example.

At that point, building a strong financial foundation becomes all about discipline, Mr Hodges said. Since they're just starting out, he suggests that the young couple take to heart the "pay yourself first" motto, setting aside money for the future whenever they receive their salaries, before they can spend it. Once they have an emergency fund in place, they can start to think about the best places to invest and build wealth.

"I've been planting the roots of a career and finding a well-paying job, and the next step is building a family, and that doesn't work without budgeting and planning," Mr Rifai said.

Mrs Hyde and her husband, John, are a little further along in the planning process. The couple, who have two young children, have built up some savings over the years, but they have yet to make any major investments. Staying out of the markets helped them escape the worst part of the financial crisis virtually unscathed, but they realise they also must save and invest more if they are to be prepared for retirement. Since the UAE does not offer any state-sanctioned retirement benefits akin to the 401(k) or Individual Retirement Account in the US, Mr Hodges says planning for retirement is pretty much up to them.

month. This should help him build up an emergency fund stocked with six months' salary.

- Hire an accountant to do his taxes and get up to date with the IRS.

Kathy Hyde, Marketing Director

Her challenges:

- She and her husband, John, have not started investing for retirement.
- Despite having two young children – they are five and six years old – the couple don't have life insurance.
- They are behind on their taxes.

She should:

- Build up an emergency fund, and then start setting aside extra savings for retirement. Hire a financial planner to help decide where their savings should go.
- Purchase life insurance from a large international firm: a \$1 million, 15-year term policy for John and a \$350,000 term policy for Kathy.
- Get square with the IRS as soon as possible to avoid a large tax bill when they return home to the US.

“Since neither of their employers sponsor pension or retirement savings plans, it is very important for Kathy and John to start saving now for retirement,” he said.

The Hydés should also think about life insurance, Mr Hodges said. They have two young children whom they will need to provide for in the event that one of them dies. Mrs Hyde has a small amount of life insurance through her job at Green Crescent, a health insurance company, and Mr Hodges has none. They cannot take out a US-based policy, because American insurance companies typically do not cover expatriates.

But they can get life insurance through an international firm such as Zurich Life or Friends Provident, both of which operate in the UAE. Mr Hodges recommends a 15-year, \$1 million policy for John, plus a \$350,000 term policy for Kathy.

“This has come at a really good time because we’ve been procrastinating with the life insurance, saving for college and taxes” Mrs Hyde said. “Really, we’re in a perfect position to start making investments and decisions about the future. It was the kick in the rear we needed to get it going.”

Mr Rifai said he learned a lot from talking to Mr Hodges, though most of it was fairly obvious in hindsight. He has resolved to cut back on unnecessary expenses and avoid the “careless spending” that he got used to over the years. Sorting out finances and getting organised does not take tremendous effort, but it is a chore many people avoid like the plague because it can mean taking stock of uncomfortable financial realities.

“It’s simple things people don’t pay attention to,” he said. “It’s about monitoring things and thinking about the future.”

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