

United States Essentials Kit

A Guide for Australian Expats moving to the
United States (US)



As an Australian Expat living in the United States (US), you must familiarise yourself with its unique tax and financial rules. Failure to do so may result in significant tax consequences, possibly negating the financial reasons you decided to venture overseas.

This Fact Sheet provides a starter kit of the essentials to understand your tax and financial standing as an Australian Expat living in the US. The items canvassed below are complex and you should seek professional advice.

US Tax Residency & The Substantial Presence Test

Australian Expats are generally considered tax residents if they have a Green Card visa or satisfy the Substantial Presence Test.

The Substantial Presence Test

You will meet the Substantial Presence Test if you are physically present in the US on at least:

- 1.31 days during the current year; and
- 2.183 days calculated over the course of the current year and the 2 years immediately prior.

As a US tax resident, you are taxed on your worldwide income.

US Filing Requirements

Australian Expats who are US tax residents must file a tax return (Form 1040) if their income exceeds certain thresholds, which vary depending on filing status. The tax year in the US runs from 1 January to 31 December (in contrast with the Australian tax year of 1 July to 30 June).

US tax residents with foreign financial assets in Australia exceeding thresholds must file additional forms such as Form 8938 as part of their tax return. If you have a foreign bank account with an aggregate value exceeding \$10,000 at any time during the year, you must also file the Foreign Bank Account Report (FBAR) using FinCEN Form 114.

Tax returns may be required at both a Federal and State level. The taxes payable in each State will vary from State to State depending on where you reside. You should check the requirements for your State and consult with a tax professional.

Check your Australian Investments - Passive Foreign Investment Companies (PFICs)

The PFIC rules under s1297 of the Internal Revenue Code apply to Australian investments commonly held by Expats. These may include

Australian managed funds, Exchange Traded funds (ETFs), Listed Investment Companies (LICs), or Stapled Securities listed on the ASX. Australian Expats must pay tax to the Internal Revenue Service (IRS) on distributions and capital gains from investments deemed a PFIC at punitive tax rates, including the possibility of additional interest charges.

Onerous and costly reporting is required on Form 8621 with your annual tax return which will require the assistance of a US Tax Accountant. A US Tax Accountant may charge between USD300- USD500 per PFIC to file.

The PFIC rules are complex and can lead to substantial tax liabilities if not properly managed. As a general rule, Australian Expats in the US should avoid investing in PFICs where possible and seek investment advice from an Expat Financial Adviser on more tax-effective investment options.

Managing your Australian Superannuation whilst in the US

As an Australian Expat, your superannuation fund in Australia will be reported as part of your US tax return as either a US “employee benefits trust” or a “foreign grantor trust”.



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Determining which category your Australian super account falls into is related to your level of control of the fund and contributions made.

Contributions made to your Australian super account as a US tax resident are generally taxed as income in the US. This diminishes any tax advantages you may be gaining in Australia by contributing. Therefore, careful consideration should be given as to whether or not you should continue to contribute to your super account while living in the US.

Self Managed Super Funds (SMSF) are generally reportable as a “foreign grantor trust” with the IRS due to the level of control they afford members. As a result, they are taxed punitively on unrealised gains in the fund each year and are subject to onerous reporting obligations. For this reason, having an SMSF is not encouraged while you live in the US.

Employer 401(k) Retirement Accounts

A 401(k) plan is a tax-advantaged retirement savings account in the US that allows employees to save for retirement. Australian Expats can contribute a portion of their salary to their 401(k) on

a pre-tax basis, which reduces their taxable income for the year. As contributions and earnings grow, they receive tax deferred treatment until withdrawn (which is typically at retirement).

Many employers offer a matching scheme as an incentive. For example, an employer might match your contributions up to a certain percentage of your salary.

Australian Expats should determine if their employer offers a 401(k) plan, particularly if employer matching is available. Careful consideration should be taken when looking to withdraw the funds when you return to Australia as there could be tax implications with the Australian Tax Office (ATO).

US Exit Taxes

Australian Expats may be subject to an “exit tax” as part of the HEART Act 2008 upon repatriating. This can apply to Australian Expats who have held a Green Card visa for several tax years or have applied for US citizenship while abroad and subsequently renounced it later. The exit tax is effectively a Capital Gains Tax (CGT) event on your worldwide assets payable to the IRS. Australian Expats should familiarise themselves with these rules (especially if they have any intentions of returning home) so that they can adequately plan for any future tax liabilities.

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Do you have further questions? Please send us an enquiry to speak with a Financial Adviser.

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