SOVEREIGN MAN Confidential ALERT

SURVIVE AND THRIVE IN THE AGE OF TURMOIL

Our handpicked options for obtaining a second residency or passport

Recently, we released a 99-page tome for Sovereign Man: Confidential members analyzing dozens of banks around the world.

We spent the time and effort putting together that seminal review because 1) where you bank is extremely important for the safety of your assets, and, 2) opening a foreign bank account is an essential part of a sound Plan B Checklist.

Another essential step is obtaining a second residency, or (even better) a second passport.

A second residency means that no matter what happens, you'll always have another place that you're legally able to call home… a place where you're welcome to live, work, invest, and raise your children.

Think of it as an insurance policy.

It's one you might never actually need to use (though it's hard to imagine you'll be worse off with the legal right to come and go as you please from a place where you really enjoy spending time.)

But if the day ever came where you felt like you needed to leave your home country, you don't want to start the planning process while you're packing your bags.

More importantly, like any great insurance policy, a second residency can have a lot of great advantages.

You can potentially cut your taxes. You can establish new lines of business and investment opportunities.

You can ensure your children receive a very high quality university education at a fraction of the cost back home.

Of course perhaps the biggest benefit of a second residency is that it may lead to you becoming a citizen and **receiving a second passport.**

Now you'll have even MORE options to live, work, invest, and travel, and these benefits may even pass down to your children, and their children to come.

Bottom line, a second residency confers a treasure trove of unique new options… and more options means more freedom.

It just makes sense.

Now to the myths: Some people think it's not possible to hold multiple citizenships, or multiple residencies.

This is generally not true. Gaining a second passport or residency is allowed by most countries, including the US and Canada.

In some cases (like Germany), you need special permission from the government in order to obtain another nationality.

And I am not aware of a single country aside from North Korea that prevents its citizens from holding a second residence.

Another myth: a second residency is not solely for the rich and famous.

Yes, Steve Wozniak and Kim Dotcom both have nice escape hatches in Australia and New Zealand.

And yes, if you have money, better options open themselves up to you. (And we'll detail those in a moment.)

But no matter your financial status, nearly everyone can gain a second residency, and in time a second citizenship.

There are myriad ways of planting a flag elsewhere. Depending on the country, you could start a business there, prove you have a parent or grandparent from there, donate a chunk of money to a charity fund, or if you're flexible enough, marry a native.

Citizenship by Ancestry

We don't get to choose our parents or grandparents. But if you're lucky enough, the best and most rock solid way to secure a second citizenship is through ancestry.

Note that when I say ancestry, I'm not talking about doing a 23andme DNA test that will show you that you are 13.5% Northern European.

Ancestry in this case usually implies a direct, uninterrupted, documented chain of parentage from yourself to a relative (generally a parent, grandparent, or, in some cases, a great-grandparent) who was a bona fide citizen of the country in question.

So if your grandpappy hailed from County Clare, emigrated to Boston, and clutched a warm mug of Guinness until the day he died, then you might have a fine chance of claiming an Irish passport.

Same goes for many people who have Polish ancestry, or whose families came from Greece, Italy, Lithuania, Hungary, and other "blood tie" countries.

(We have written numerous ***SovereignMan: Confidential*** reports detailing each of these country's policies and application processes. SMC subscribers, feel free to log in to members only website to review them.)

We all come from somewhere, or a collection of somewheres, but unfortunately, not every country grants citizenship based on ancestry.

A few (Germany, Spain, etc.) will only do so if, say, a parent (not a grandparent) was a citizen, or if the ancestor in question fled during WWII.

So that leaves a lot of people with no ***jus sanguinis*** (blood tie) option.

Economic citizenship (and residency) programs

Which brings us to option number two, which is far less attractive but still effective: **citizenship-by-investment.**

As I wrote in a recent ***Notes from the Field*** piece, such an arrangement is exactly what it sounds like. You, the foreigner, invest a certain sum of money in a country in exchange for citizenship and a passport.

It's estimated that some $2 billion is spent annually by people around the world searching for greener grass via a second or even third passport.

It all sounds easy enough: Hand over money. Collect passport.

But there are a couple of problems with these economic residency/citizenship schemes. Big ones.

First of all, they're expensive. Depending on the country, the investment amount for full citizenship can vary from just over $100,000 (Dominica) to over $2.5 million (Cyprus).

And even if you have a million bucks in investable property available, writing a check for, say, $250,000 sends some 25% of your assets out the door.

That's a lot of money to spend on a passport. In some cases it might make sense—the tax savings alone could make the investment worth doing if you were planning to renounce your other citizenship.

But this needs to be an extremely calculated decision, and frankly one that doesn't make financial sense for most people.

Which brings us to the second issue with these programs: **There is usually little-to-no return on your investment**, other than your very pricey passport.

In pure donation-based schemes (Dominica, Saint Kitts, Malta, Cyprus among others) you're making just that .... a donation to a government fund.

In fact, **in these cases not only are you not getting any return on your investment; you're getting virtually no return of your investment.**

So even though the programs are called "citizenship-by-investment", it's really "citizenship-by-donation," because you're never going to see your money again.

(Note: My team and I are concluding a very unique deal with a government that already has a citizenship-by-investment program. Our arrangement fits in to their current legislation and provides a way to make a real investment with a solid risk-adjusted return AND receive a passport. It's the only arrangement in the world of its kind. More on this another time.)

Other residency options around the world

For most people, residency offers a much easier pathway to citizenship. Just about every country around the world has a number of legal ways for foreigners to obtain residency, whether it's through starting a business, depositing funds in a local bank, or some other means.

And once you obtain residency, you'll often be able to apply for citizenship after some number of years.

We've grouped a few residency options together for your review.

If you are a High Net Worth Individual (HNWI)

If you're a person of means looking for residency, then the following options may be worth considering:

Hungary is one option for HNWI because you'll receive European Union residency in exchange for a 5-year investment.

The advantage is that this program is quite easy: you invest €300,000 in a 5-year government bond, and within 30 days of applying you receive permanent (not temporary!) residency.

So does your family, which includes your spouse, dependent children… and dependent parents. That is unusual for a residency program.

Important point – additionally, there is a one-time €60,000 non-refundable administrative fee. So your total initial investment runs €360,000, but you get €300,000 back.

This is one of the cheapest and easiest residency offers in Europe right now. There is no requirement to own or maintain property, and the fact that the arrangement confers permanent residence is a very nice benefit.

Of course, once you have residency, you can freely travel among all Schengen countries without a visa. (The Schengen Area comprises 26 countries in Europe. Most are part of the EU. Others, including Switzerland, Norway and Iceland, are not. Currently, Ireland and the UK are not part of Schengen.)

Hungary is a lovely country. We recently wrote about a woman in her 60s who gained Hungarian residency. She lives by herself in Budapest and, after years of traveling and living outside her home country, finally feels at home.

Budapest is one of the most walkable and cultured cities in the world. It's also relatively affordable, especially in comparison to Western Europe. Internet is fast and reliable, restaurants are plentiful, and the art scene is thriving.

Hungarian Parlament, Budapest

Our SMC alerts on Hungary list a few of our recommended contacts in the area; if you're an SMC member, then visit our library to explore this option more.

Canada is another attractive option to those in search of public healthcare, hockey and an 'America Lite' set of public policies. It has two immigrant investor programs.

The Quebec Immigrant Investor Program (QIIP), lets you stay in Quebec if you have assets worth at least $1.6 million (Canadian) and can also tout agricultural, commercial, management or industrial experience. Once you pass muster, you invest $800,000 into the program. (It's reimbursed after five years.)

The other program is tailored to entrepreneurs who invest at least $150,000 in a business in Prince Edward Island, Canada's smallest province. You have to control at least a full third of the business (which generally cannot be real estate-based) and can become a permanent resident so long as you park your business — and yourself — in the local economy.

Canada is starting to pull back on these programs, especially the Quebec one, because of all the Chinese nationals who invest, then move to Vancouver and drive up real estate prices.

Note that Canada is ***very*** strict about making sure you're actually spending much of your year physically there. They start the clock once you're approved and literally count the days you're in the country.

Montreal Skyline

Portugal is an option that gives you residency — and access to the EU — in exchange for a €500,000+ investment.

The nice thing is that unlike citizenship programs in the Caribbean, you can invest in any property, or in a number of properties that you combine. Joint buyers can pool investments into one property... and you can rent out your place and make some income.

Additionally, unlike similar residency programs in Europe (in Spain, Greece, Cyprus, etc), an applicant can qualify for a Portuguese citizenship after six years of residency WITHOUT the requirement of actually living there – one week per year is all it takes.

This is the main reason why Portuguese Golden Visa is by far the most popular of its kind in Europe, with more than 3,200 applicants approved since the program's inception in 2012.

The program becomes even more attractive if you're a dollar investor with a lot of paper currency that has historically been overvalued.

Investing some of those dollars into a real estate market that is undervalued makes sense, as Portugal is a case in which you might actually get some of your money back ... and even make some... while gaining your residency. (The Portuguese real-estate market, however, is not nearly as cheap as it was back in 2013.)

Lisbon

If you're an entrepreneur

Let's face the truth – governments don't like seeing newcomers taking local jobs away. Job creation, on the contrary, is welcome.

If you own your own business and want to expand, or if you just have a great idea (and some funds to make it a reality), then you have the ability to both invest in residency and make some money to boot.

The following programs (as with the Canadian one above) all dangle residency as a carrot in exchange for setting up a business there:

Belgium ticks off a lot of boxes for entrepreneurs. You can live, work and do business all over Europe. And once you qualify for naturalization, the passport is highly respected and useful.

To gain residency in Belgium, you set up a company and apply for the professional card. (Or you can hire yourself and apply for a work permit.)

Once you become a resident in Belgium, you can renew your status after two years, and then every five years, so long as you're meeting your business obligations (such as employing some locals).

The best part: You can either renew your residency indefinitely, or apply for full Belgian citizenship after five years. Once you're a citizen, if you're not physically residing in the country, you won't be taxed by the Belgian government.

Floral carpet in Brussels

If you're willing to pick up and move

As we said earlier, some countries will tally how much time you actually spend on the ground to see if you are eligible to apply for citizenship, so you'll truly need to be living there in order to maintain your residency and eventually become a citizen.

Some people are OK with this; my friends in New Zealand love spending time in an enormous ***Lord of the Rings*** backdrop.

Steve Wozniak, now a permanent Australian resident thanks to a business investment residency program there, likely doesn't suffer the time he spends there.

It's worth noting that New Zealand, Australia and Canada are all keen in attracting not only high-net-worth-individuals, but also professionals.

These countries have points systems in place that give preference based on higher levels of education, work experience, professional skills, etc.

Thanks to these programs, tens of thousands of professionals from all over the world call Canada and Australia (and to lesser extent New Zealand) their new home each year.

Chile is another country that tends to welcome foreigners - and especially professionals - with open arms. In fact, I'd call it the most welcoming by far among OECD nations.

At the same time, however, Chile offers few welfare benefits to newcomers. Peruvians and Colombians often move to Chile for a better life, but they don't go there for freebies (which is sometimes the case with immigrants to Europe); rather, they come to work hard and establish themselves as a part of the society.

Chile has a two tier residency system.

You first obtain Temporary Residency, and there are several ways to do this, including as an investor or entrepreneur.

But by far the easiest and most common way for foreigners to obtain residency in Chile is to prove that you are financially self-sufficient.

There is no exact magic number provided by the government, but our experience shows that if you have a stable monthly income of roughly $1,500 coming from within or outside of Chile (plus $500 for each additional family member), you should qualify for temporary residency under this regulation.

Most temporary residency visas in Chile expire after 1-2 years, but you are typically eligible to apply for permanent residency after the first year.

The law states that in order to qualify for Permanent Residency, you must have spent at least 185 days in the country during the previous year of temporary residency.

But… once you have acquired Permanent Residency, it's very simple to maintain. You just need to make sure you touch Chilean soil once every 365 days.

Note- that's not the same as 'one day per calendar year'. It means that, for example, if you leave Chile on October 1st, you need to be back in the country by September 30th in order to maintain your residency. Obviously we recommend you don't cut it that close.

However, there is an exception to that provision: You can go to your local Chilean embassy and file a form to request an extension for your Permanent Residency.

This form essentially waives your requirement to be in Chile for one year, and you can request this waiver up to four years in a row.

This essentially means that you can maintain permanent residency in Chile as long as you are in the country once every five years. That's pretty simple.

Torres del Paine, Chilean Patagonia

Whichever path you take, after five years of total residency (including Temporary Residency), you become eligible to apply for a Chilean passport – one of the best travel documents in the world.

Again, there are no strict written rules, but Chileans at this stage will likely want to see much more commitment from you than just spending one day per year here. Owning a property, starting a local business, giving birth to a child in the country, and/or spending significant time in Chile will all play in favor of your naturalization application.

Also note that if you and your spouse do give birth to a baby in Chile, your child will be a Chilean citizen from birth.

If you're on a budget and/or don't want to move

If you're unable to spend much time on the ground in your new country, then **Panama** is a no-brainer.

To be fair, Panama is a great place to live. There are excellent hospitals and hotels. There are modern shopping malls. There is a proper Internet infrastructure. The food is excellent, the country prosperous, and the taxes low.

But you don't need to live in Panama in order to become a resident; Panama's Friendly Nations Visa option has rolled out the red carpet for foreigners.

Nearly everybody qualifies for residency. You need to spend very little time in Panama to retain your status. And best of all, only a small investment is required.

There are actually 53 different residency options in Panama. But we like the Friendly Nations Visa the best. I haven't seen any other country create something like this (and wish they would).

If you're a citizen of one of 40+ countries with significant economic and cultural ties to Panama, all you need to do to qualify for residency is:

1) Set up a company there (which, despite the infamy of the Panama Papers, is completely legal)

2) open a local bank account (which ticks off a second box on our Plan B Checklist),

3) deposit about $5,000 (plus $2,000 or so per dependent) to show financial solvency, and,

4) fly to Panama and spend about 10 days there to finish the application process.

Maintaining residency requires minimal time on the ground. And after five years, it's possible to qualify for naturalization and citizenship under this visa.

Panama City

Taking action

When structured smartly there should be zero downside to having a second residency or passport.

But there is tremendous upside: You have the ability to expand your business, diversify your assets, and give your children options for their own future.

If you become a resident of a country that's part of a larger jurisdiction (such as the EU), you can expand the number of places where you can live and work, visa-free.

A second residency can also help you financially: Often, you can more easily establish a foreign bank account if you're already a resident of that country. In some jurisdictions, you might save on living expenses should you decide to move to your new residence.

We know people who end up paying far less for medication - or even university - than in their home countries.

And often, there are tax advantages to living elsewhere.

Yet even if you have no intention of moving abroad, simply having a second residency option is a sensible and cost-effective insurance policy.

It ensures that, no matter what happens next, you'll always have a place to go where you're welcomed with open arms.

And if you can easily qualify for naturalization and citizenship in a few years time, the small investment you make in your second residency today is one that your family will be able to enjoy for generations to come.

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Case Study: Applying for the Portuguese Golden Visa

At Sovereign Man we are constantly talking about powerful solutions that make sense no matter what, solutions that will affect not only you, but also your children and their descendants.

And although I'm not a fan of most economic residency/citizenship programs, the Portuguese Golden Visa, in my opinion, is an outlier, and one of the best of its kind.

(As you'll see, the price of that solution is not trivial; if it does seem too high for you, there are many other, cheaper ones that you can read about on the **members-only website**.)

The subject of today's case study is a famous American entrepreneur, a long-time Sovereign Man subscriber and world traveler. To protect his and his family's privacy, we will call him Steve.

Steve left the US a few years ago and has been living in various countries since. He first learned about Portugal's program when we published our original alert on the **Portuguese Golden Visa** back in 2014.

Steve was intrigued, especially by the idea of passing on options to his future children. And indeed, life upped the stakes for Steve when he learned he and his wife were expecting a baby. The couple decided they wanted their child to have a European passport; this would open up the entire continent… whether for schooling, work, or simply as an escape hatch.

At first, they vacillated between the Portuguese Golden Visa program and the Spanish one. On the surface, the two seemed pretty similar.

But then Steve discovered that Spain requires applicants to give up their current citizenship, so the couple settled on Portugal, which does not have any such requirements.

Dock in Porto, Portugal

Current Portuguese Golden Visa program requirements

Before detailing Steve's experience, let's review the latest requirements for obtaining Portuguese Golden Visa:

Investment
An investment of at least €500,000 into real estate in Portugal is required. And yes, the property (residential or commercial) can be rented for income. You are not limited to a single purchase; any number of properties can be combined to reach the €500,000 total.

The property can be mortgaged for amounts over the first €500,000. And a lower investment amount of €350,000 is possible for properties that will be renovated; however, this may be impractical.

Expect additional government and legal fees in the range of €20,000-€30,000, depending on a family size.

Applying for Golden Visa
The applicant needs to complete the investment prior to applying for the visa. Completing the visa application then takes another several months.

Requirements
You will have an obligation to spend seven days per year in Portugal in order to maintain your visa; however, due to borderless nature of the Schengen area, the government will have hard time knowing whether you are in Portugal, France or Germany.

You will be required to maintain your investment for at least five years – just enough time to apply for your permanent residency.

Obtaining citizenship and passport
After a total of six years of residency (which includes the five years of temporary residency and one year of permanent residency), you may apply for citizenship. Basic knowledge of the Portuguese language will be required.

There is no additional requirement to be present in Portugal to qualify for citizenship, other than the initial requirements (over the course of the temporary residency) of seven days per year.

For Steve, who has never visited Portugal before and had no legal contacts or friends there, it was very important to have a reliable legal contact on the ground.

Following our recommendation, Steve reached out to Raquel Cuba Martins at SRS Advogados, the law firm in Lisbon. Steve mentioned that he has worked with a couple of different people at SRS, and they've all been world-class, top-notch: professional, efficient, friendly, and thorough.

The visa application process also requires the applicant to open a bank account in Portugal, and Steve's own research pointed towards **Novo Banco**, which has an English-speaking program set up especially for Golden Visa applicants.

He likes Novo Banco's online banking platform and was happy to find that they automatically provide customers with both Visa and American Express credit cards. (European cards can be useful for making airline and other purchases in the EU.) Although Steve had applied numerous times for a credit card with his previous European bank, ING in Belgium, and although he maintained high account balances, ING never would issue him a credit card.

Raquel from SRS noted that her foreign clients found Novo Banco to be the most convenient bank to use, considering that the SRS office is just one block away from a Novo Banco branch, and that SRS works with the bank on a daily basis.

Palácio da Pena, Portugal

How safe is Novo Banco?

"Novo Banco" literally means "New Bank" in Portuguese, and the bank is indeed very new. It was established on August 4, 2014 by the Bank of Portugal to rescue assets and liabilities of Banco Espírito Santo (BES). BES was the second largest private financial institution in Portugal in terms of assets, as well as one of the oldest and most respected Portuguese banks.

In 2014, BES's CEO, Ricardo Salgado, resigned from his post on the heels of a rancorous audit by the Bank of Portugal, which questioned the bank's transparency and stability. The bank itself came under tremendous pressure in the ensuing investigation into whether Salgado laundered money and/or evaded taxes.

As a result, BES was split into a "good bank", renamed Novo Banco, and a "bad bank", which will house BES's exposures to the troubled Espirito Santo business (headed by Salgado).

As a result of this reorganization, Novo Banco may have become the most well capitalized bank in Portugal today, with a capitalization ratio of 10.3%.

However, following some worst trends of the modern western banking, Novo Banco does not have much cash (total liquidity of 3.1%), and has even less control over it. (Its conservative liquidity is 2.2%).

(For more information on how to analyze your bank, refer to **our latest Black Paper on worldwide banking**).

Despite the low liquidity of the bank, we believe that the Portuguese government will be committed to keeping its own creation alive, in case it runs into liquidity problems.

However, it's worth noting that Portugal, as a country with a 129% debt to GDP ratio, is a basket case in and of itself, and may not be in a position to bail out any major banks during the next crisis.

In fact, to facilitate the process for Steve, SRS and Novo Banco worked together to prepare all the necessary paperwork in advance of his first visit to Portugal.

When he got to Lisbon, he just had to spend a few hours signing documents.

SRS also made an appointment for Steve with the immigration office. An SRS representative accompanied Steve there to help translate for him and make the process go more smoothly.

Steve commented that he got some funny looks after announcing he was there for the Golden Visa.

More than 80% of the nearly 3,000 such visas have gone to Chinese nationals, so within Portugal (and the Immigration Office, apparently), it's known as a "Chinese thing", and American applicants are rare.

Steve also discovered that **it takes six years of total residency to qualify for Portuguese citizenship through this program.** (The timeframe wasn't crystal clear back in 2014 when we published our initial Alert on Portuguese Golden Visa.)

The best part is that the Portuguese government does not require Golden Visa holders to actually live in the country in order to qualify for naturalization. All they ask is that you are present in Portugal a mere seven days a year.

That's another stark difference with the other Golden Visa option from the Iberian Peninsula Spain. If you want a Spanish passport you will have to 1) wait at least 10 years, and, 2) spend more than six months per year in the country.

Rua Augusta Arch, Downtown Lisbon

Portuguese Golden Visa statistics:

Since the program's inception in 2012, and until July 2016, the breakdown of approved applicants' nationalities looks like this:

1) China – 2743 (85%)
2) Brazil – 180 (6%)
3) Russia – 120 (4%)
4) South Africa – 109 (3%)
5) Lebanon – 58 (2%)

More than €2.2 billion has been invested in the country over the course of this program's existence, which is a significant contribution to a relatively small nation of Portugal.

Almost all of the money (€2 billion to be exact) invested by foreigners went into real estate market. (There are also other ways to qualify for the Golden Visa besides real estate, but they are more cumbersome, and, as you see, much less popular.)

That €2 billions have helped real estate market tremendously. A free-falling housing index made a turnaround in late 2013, partly due to improving recovery, but also due to fresh capital inflow from Golden Visa investments. Real estate prices in Portugal today are therefore no longer a bargain anymore, and are climbing back towards where they were before the crash.

The Property Purchase

To qualify for Portugal's Golden Visa, Steve decided to buy property.

A couple of Steve's friends (Lisbon natives) referred him to realtors they knew and trusted – one at
Century 21, and another one at RE/MAX.

At first, Steve contemplated buying a condo in Lisbon. But upon realizing how little time they would spend there — no more than a few weeks a year — and how little profit they'd make renting it out, he and his wife decided against that option.

The fact that applicants can rent out their property at a profit appealed to Steve. Unlike with most such programs, applicants don't need to pretend that they are actually living in the property, or even in the country. A mere one-week annual visit to Portugal is enough to satisfy the governmental requirement.

As a result, both realtors recommended that Steve looked not at residential, but at commercial property, namely office space. They showed him a few listings in the €600,000 range, currently tenanted, each one yielding about a 5-7% annual return.

Since Steve was not familiar with the Portuguese property market, he did not feel comfortable and asked Raquel at SRS for a recommendation of an independent property consultant.

She recommended **Prime Yield Company**, based in Lisbon.

Prime Yield charges €550 to evaluate any given property. They visit it in person, look at the tenants' contracts, evaluate the property's history, check out similar comps (recent sales) in the area, and make their independent valuation recommendation. Steve couldn't be happier about his decision to work with them.

After analyzing the above-mentioned office properties in detail, specialists from Prime Yield strongly advised against investing in them. According to Prime Yield, these properties were actually worth around €300k, not the €600k-€700k the realtors were asking for.

So how did they explain the 5-7% annual return?

Vilamoura, Algarve Region

The independent consultant told Steve that those rental contracts were brand new, and likely crafted specifically to impress potential buyers. The documents even contained a special clause allowing tenants to exit their contracts easily once the rent amount went up with the new owner.

This would have forced Steve to find new tenants; they most likely would have ended up paying only about a half of what was originally "promised."

The consultant from Prime Yield said this kind of practice was a common scam in Portugal, aimed specifically at Golden Visa applicants.

So no office properties. Steve then asked what Prime Yield would recommend he invested in instead.

Steve felt comfortable asking for their input because they were not realtors and not in business of selling and making commissions; they therefore had little reason to push some vulture's scam.

Prime Yield advised Steve to look into the **Algarve** region of Portugal, a perennially popular vacation destination. Properties did drop in value by about 30% a few years ago, but they are starting to come back up.

Specifically, Steve was advised to check out a town called **Vilamoura**. And that's exactly what he did.

While in Vilamoura, he met with a few realtors who showed him several beach resorts that sell condos (essentially hotel suites). Such properties give a higher-than-average return because they're being rented out short-term, just like a hotel room.

And in the end, the owner of the unit gets to split the profits with the resort.

After a long search, and after evaluating various options, Steve finally chose a Sheraton resort called **Pine Cliffs**. They made the final cut because they were the only resort that actually *guaranteed* a 5% annual return on investment.

Backed by the Sheraton corporation, the guarantee means the annual return will be boosted to 5% (based on the purchase price) even in the case of a slow tourist season. This could turn out to be a useful clause for Steve, considering potential Brexit consequences on tourism, or Europe's next economic slowdown.

But based on the current tourist activity in the area, Steve estimates his return will hover between 6% and 7% before taxes.

Steve can also use his unit for up to 12 weeks per year, which is more than enough for a decent vacation.
To complete the purchase, Steve also used the SRS Advogados as his legal aide in the process.

The Application

With the property purchase completed, and the Golden residency visa application filed, Steve and his family are about four months into the application process and awaiting the final approval.

It could take a while, unfortunately.

There's a backlog; only about two approvals a day were being issued at the end of 2015. (A number of corruption scandals associated with the program nearly brought it to a halt.)

We're now nearing the close of 2016. The good news is that more visas were issued in the first half of this year than in all of 2015. And a few months ago, the Portuguese government introduced a new fast track process that aims to shorten the total processing time to just under three months.

In the meantime, Steve should be making a tidy return on his investment.

SRS is handling it from here for Steve. He and his family have met their personal presence obligation and don't need to stay in Portugal for the time being.

They will, of course, be required to go back to Portugal once a year around residency renewal time and stay in the country for a week. Each time, an SRS representative will join them on their visit to the immigration office to renew their residency status.

Steve said that during their next trip to Portugal, they plan to explore more of the country.

Steve definitely sounded excited about the prospect of him and his family gaining Portuguese citizenship after six years without having to actually live in the country. And he promised to report back to Sovereign Man in 2022 and let us know about his experience on that front, too.

Is Portuguese passport really worth the €500k+?

In parting, we'd would like to offer our take on the quality of the Portuguese passport and the benefits that it brings (largely thanks to Portugal's membership in the European Union).

A Singaporean passport, for example, is an amazing document to have, as it allows visa-free travel to much of the world and gives its holder the right to live and work in Singapore.

However, it does not give its holder the full right to live and work in, say, neighboring Malaysia, Indonesia, Japan or Philippines...

As you probably know, being a citizen of Portugal is currently pretty much the same thing as being a citizen of any other European Union member country – Germany, Belgium, Malta...

A Portuguese citizen has a right to study, work and generally spend as much time as he wants in any other EU member country.

Paying a little over €500k for such a right surely seems like a reasonable deal.

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Why the United States, of all places, might be one of the best jurisdictions for foreign investors

Part I in a series on foreigners using the US financial system

If I said that there's a jurisdiction on the globe that still offers robust privacy, asset protection, tax advantages and real estate gains for foreign investors, where would you venture it was?

Switzerland?

The BVI?

Hong Kong?

No.

Try Delaware. Or Wyoming. Or even Florida.

It might be a stretch to consider the United States an "offshore" destination, but it is, in fact, one of the biggest and most popular ones in the world.

Why? Because for people who are *neither residents nor citizens* of the US, America arguably represents one of the most attractive tax havens around.

To understand how the US fits in this context, it's essential to recognize just how important it and its currency are to the world.

Despite Uncle Sam's financial blunders, the US dollar continues to dominate. It remains the most traded and most trusted of its peers. It is undoubtedly the reserve currency of the world. Its position is unique and still currently unrivaled.

However, such position will be changing in the future. Empires (and its currencies) rise and fall. Nothing stays on top forever.

Pressure from China and the rest of the world may someday result in the yuan replacing the dollar.

Today, however, that process is still in its infancy. And these days, when there's a financial scare, the American dollar inevitably ends up as the beneficiary.

Just look at the crisis erupting in Brazil. Or the slowdown in China. Or the chaos in Europe. All are reinforcing to foreign investors that the US is a — and even *the* — safe haven for their money.

Here's another reason why the US is attractive to foreign investment: privacy.

Oh, I know. That sounds ludicrous to US nationals. If you're a US citizen trying to make foreign investments, you know that Uncle Sam has made a habit, via FATCA and other measures, to routinely bully foreign banks and governments into disclosing information about you.

But here's the thing: Uncle Sam won't reciprocate. Dozens of countries around the world have pledged to join something called the Common Reporting Standard, which is an OECD analogue of FATCA.

The US won't join.

So if you're a foreigner, then entering the US financial system is actually a reasonable choice in terms of asset protection.

Thirdly, we cannot discount that American economy is still the largest (in absolute terms), as well as the most important, in the world. And it (still) has strong property rights.

And on top of that, the US remains reasonably welcoming towards foreign investors:

- In courts and disputes, foreign investors have the same rights as locals.
- Rules regarding taxation are very often convoluted, but they rarely change drastically. (Try investing in Venezuela!) It's therefore possible to plan for them with a proper legal advice.
- The US generally levies NO tax on capital gains, with real estate as an exception. And that's a big deal for many professionals, such as stock traders.
- Foreigners also get preferential treatment when it comes to interest earned in the United States. Interest on bonds, term deposits, etc... generally is not taxed. For others, dividends received from US corporations are normally taxed at a flat 30% although that may be reduced for investors from countries with which the US has a tax treaty with.

Do you qualify to take advantage of the US as an offshore jurisdiction?

First, let's determine if the topic of today's alert applies to you at all. In order to be able to enjoy many of the benefits we'll discuss in this piece, you need to be a **non-resident alien** for tax purposes in the US.

Alien describes any person who is NOT a US citizen.

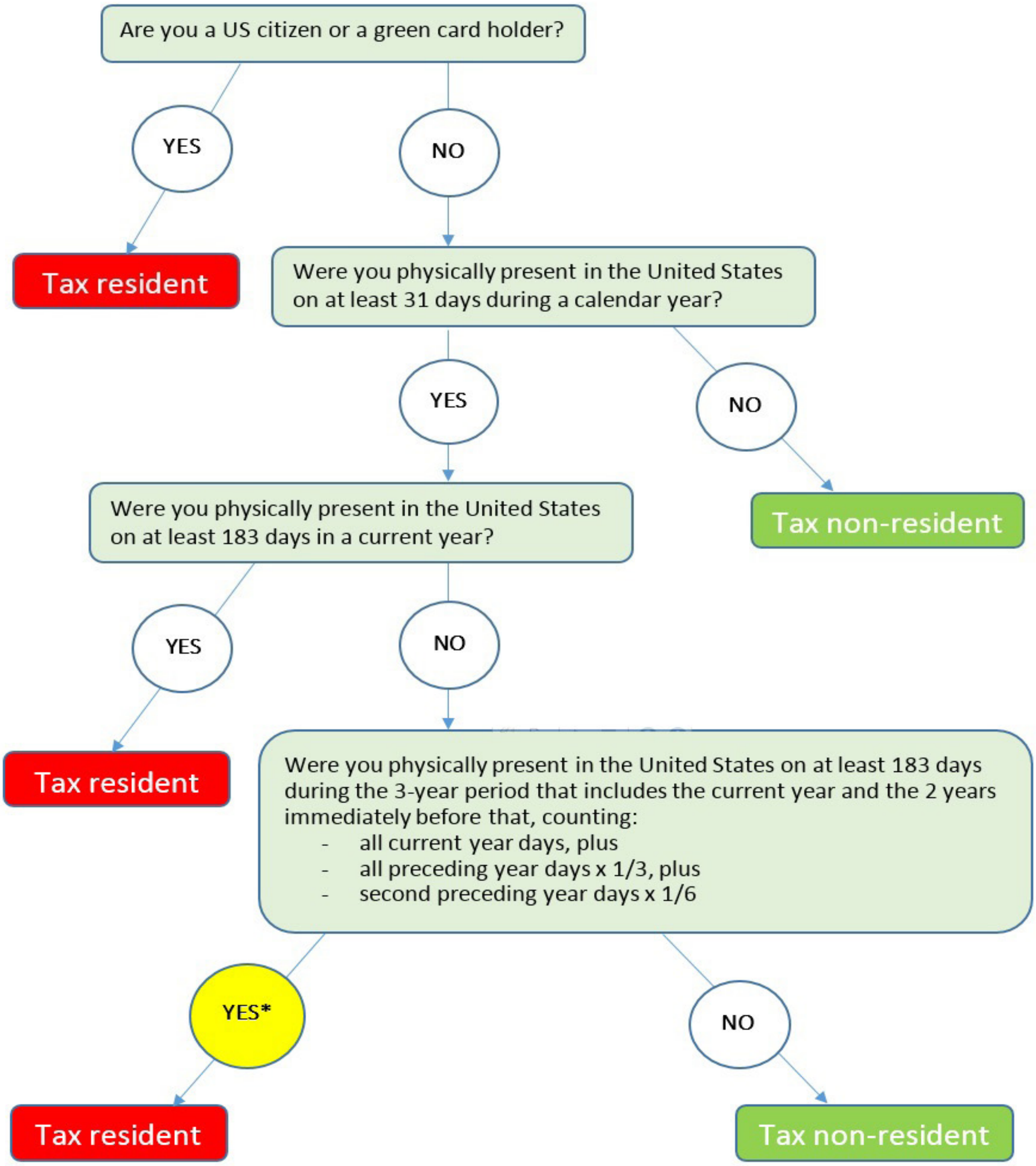
A **resident alien** for tax purposes in the US is a person who is either:

a) a permanent resident of the US (green card holder), or
b) a person who meets a substantial presence test.

Information in this alert does not apply to resident aliens. They, just like any US citizen, are taxed on their worldwide income and do not enjoy any preferential tax treatment.

Non-resident aliens (NRA) for tax purposes are all other people willing to invest in America. The information in this alert applies to them.

The US government is not famous for creating easily decipherable rules, so use this chart to determine what category you may fall under.



* Please note that even if you meet a substantial presence test of 183 days in the last three years according to the chart above, **you may still qualify as a non-resident** if you can prove closer ties to a foreign country according to rules as **outlined on the IRS's website**.

Example:

You were physically present in the US for 150 days in each of the years 2014, 2015, and 2016. To determine if you meet the substantial presence test for calendar year 2016, count the full 150 days of presence in 2016, 50 days in 2015 (1/3 of 150), and 25 days in 2012 (1/6 of 150). The total for the 3-year period is 225 (150+50+25) days.

Since that is more than the 183-day threshold, **you are considered a resident under the substantial presence test** for 2016.

But hold on, you may still be treated as a non-resident IF you can prove stronger ties to a foreign country under the IRS rules.

However, if you cannot prove stronger ties, you will be treated as a resident for tax purposes this year and the benefits discussed in this alert will not apply to you.

I strongly encourage you **to visit IRS's resource** library in order to learn more about the nuances of the above tests.

Other things to glean from it are your status in the US during your first and last year of residence (if you become a resident there), and on what days you are considered to be present in the US (an especially important topic for Canadian and Mexican commuters).

Now let's have a look at different asset classes that you may wish to hold in the United States as a foreigner.

Bank deposits in a US bank

It might surprise you to learn that the United States today is considered to be a MUCH bigger tax haven (for non-residents) and offshore destination than Switzerland, Singapore or Hong Kong.

And there are reasons for that.

As noted in the intro, the US Dollar remains by far the most traded currency in the world, as well as the world's reserve currency. The US dollar is the main reason why American banks are so important to the world's economy.

It's a popular 'offshore' destination (especially states such as Delaware and Nevada) because of the privacy around asset protection. Remember that USA rejects the European-sponsored CRS. It doesn't even comply with a reverse version of FATCA, which requires every financial institution of every country of the world to report deposits by US persons to the American government. FATCA is a completely one-way street for America.

Still, the US financial system is far from an ideal place to store large sums of cash long-term, something we'll discuss further in this report. (For even more information about banking in the US, you're welcome to review our comprehensive 99-page Banking Black Paper.)

But even though the US banking system is rickety, there are benefits to foreign clients: Interest accrued on term deposits, checking and savings accounts held at US banks are not subject to withholding tax for nonresident aliens.

(Note – we are planning to issue a separate alert on how a foreigner can open a bank account and get a valuable credit card in the US. Stay tuned.)

Taxes and reporting requirements:

Interest on your US-based savings account and CDs are not subject to US withholding tax.

That interest, however, may indeed be taxed in your country of tax residence, depending on taxation rules of that country. (We will discuss that in more detail below.)

There is no tax return filing requirement.

Estate and gift tax

All you need to know right now is that bank deposits are NOT subject to an estate tax but ARE subject to a gift tax. If you move your money from your account and into a safe deposit box, it suddenly becomes subject to an estate tax. (Don't look for logic here.) Please note that if you simply transfer money to someone else's account or withdraw it, such a tax would not apply. We will discuss the gift tax on bank deposits in more detail in upcoming alerts.

Property type	Subject to Estate Tax	Subject to Gift Tax
Cash Deposits in a U.S. Bank	No	Yes
Cash in US Safe Deposit Box	Yes	Yes

US estate and gift tax

Absence of a tax on interest does not mean that a foreign depositor is off the hook completely. There are two more tax types that Uncle Sam may use to bite into your assets – estate and gift tax.

Most foreigners investing in the US are not even aware of them. But they should be.

The estate tax comes to play when the owner of US-based assets passes away (hence its popular nickname, the "death tax"). A gift tax, as the name suggests, can be triggered when a gift is made.

Next month we will be releasing an alert dedicated solely to estate and gift taxes in the US; we'll detail all the rules applicable to both Americans and foreign investors.

For now, be aware that tax rates on both estate and gift taxes can hurtle all the way up to 40%.

Uncle Sam wants a part of every gift a foreign investor makes of "US situs property" that is over $14,000 of value per beneficiary per year... and upon a foreign investor's death, the US will grab a chunk of any estate with over $60,000 in US situs property.

A US-based brokerage account

Despite the great strides that various Asian markets have made over the past couple of decades, the American stock market remains by far the largest and the most liquid in the world.

As of the beginning of 2016, the ten largest publicly traded corporations were all located in the US.

Of course, a foreign investor can access US stocks from anywhere in the world. You don't necessarily have to use a US-based broker for this, but having a US-based brokerage account may be beneficial in several other ways:

- US brokers' commissions are among the most competitive in the world
- Many US brokers offer access not only to the US markets, but to many other world markets
- SIPC (Securities Investor Protection Corporation, a governmental body in charge of cash and securities' protection) guarantees any investor, including non-resident foreigners, coverage of up to $500,000 per account, including $250,000 in cash. To be clear – we are talking about the broker's insolvency here, and not about trading losses.
- A foreign investor pays no tax in the US on gains from trading in stocks or bonds.

Trading stocks

As we mentioned already, non-resident aliens are **subject to no US capital gains tax** when trading stocks, and the brokerage firm will withhold no money when a stock or bond is sold.

This does not mean, however, that a foreign investor will pay no capital gains at all. That person likely will need to pay capital gains tax in the country of his or her tax residence, unless the residence is a tax haven or a country with territorial taxation (no taxation on worldwide income), such as Panama or Singapore.

Non-resident aliens face a flat withholding tax rate of 30% on dividends paid out by US companies.

This 30% rate can be lowered if there is a tax treaty (if available) between your home country and the US. You can claim treaty benefits by giving the US withholding agent a Form W-8BEN.

Again, depending on your country of residence, you may be liable for paying additional taxes on your gains there.

Trading bonds

A foreign non-resident investor generally won't be subject to US tax from owning or trading **US government and corporate bonds**.

Municipal bonds are treated a little differently. While capital gains are not taxable, interest may be. The rule is simple, though – if a US taxpayer needs to pay taxes on interest on a particular municipal bond, a foreign investor will need to pay a flat tax of 30% (unless lowered by a treaty). If a US person is not liable to pay tax on interest on such a bond, then you are off the hook, too.

Tax summary and reporting requirements:

Stocks – no capital gains tax, 30% flat dividend withholding tax (unless lowered by a tax treaty)

Bonds – no capital gains tax, interest on certain municipal bonds may be taxable at 30% (unless lowered by treaty). Interest on government and corporate bonds is not taxed.

Since we are talking about no tax obligation at all, or a flat tax rate of 30% (or lower flat rate, depending on a treaty), and since that flat tax will be withheld from the dividend payment automatically, you will not be required to file a US tax return.

Estate and gift tax:

Property type	Subject to Estate Tax	Subject to Gift Tax
US stocks held with US-based broker	Yes	No
Cash balance held with US-based broker	Yes	Yes
Non-US stocks held with US-based broker	No	No
U.S. Government and Corporate Bonds	No	No
U.S. States/Muni Bonds	Yes	No

Example

A non-resident investor owns 100 shares of stock in a US company. The shares are held in an account with a US-based broker.

The investor's tax residence is in Panama, which taxes its residents only on Panama-sourced income and not on worldwide income.

The US company pays a cash dividend of one dollar per share. Under the tax rules applicable to non-US residents, the broker automatically will withhold 30% of the cash dividend and deposit it with the U.S. government.

And because there is no income tax treaty between the US and Panama, the investor will not be able to lower his/her dividends tax.

The foreign investor will receive $70 of the $100 paid by the US corporation to his account.

The foreign investor will have no obligations to file the US tax return in the US, and will have no obligations to pay additional taxes in Panama.

Choosing your US broker

Just like anywhere else, it is important that you choose your American broker wisely. And unfortunately, although US-based brokers often excel at customer service and offer access to many world stock exchanges, many of them do not work with non-resident clients.

However, some indeed do.

In the past, we have been comfortable recommending **Interactive Brokers (IB).** In many ways, they are not only one of the best brokerage houses in the US, but in the world.

Their latest annual report states they have more than 330,000 clients from 195 different countries; IB is a truly global trading platform, and they have plenty of experience working with non-Americans.

There is an account-opening minimum balance of $10,000, plus a $10 monthly fee that counts towards your trading commissions for that month.

Considering IB's VERY low trade commissions, and despite their monthly fee, IB is a cost-efficient option for even a moderately active trader.

Other details about Interactive Brokers to keep in mind:

- You can choose among 19 different base currencies in which to denominate cash not tied to investments.
- Exchanges in 20 different countries around the world are available for trading.
- Apart from the SIPC's insurance of $500,000, IB carries additional insurance through Lloyd's of London for up to $30 million per account.
- One big drawback: IB's customer service is known to be among the least efficient in the industry, especially by phone.

You will need to fill a form called **W-8BEN** (among many other forms) when applying for an account. There you state that you are a foreigner and not a US person, and state whether you may claim a tax treaty benefit if applicable.

Investing in the American P2P lending platforms

This section was a promising one, but unfortunately, none of the major US peer-to-peer lending platforms currently deals with non-resident foreigners. (We called Lending Club, SoFi, Prosper and Upstart.)

And that is unfortunate, because typical returns with these platforms can rise well above 5%. (Lending Club, for example, **reports a 5-8% average return**). Compare that to the decimals of one percent in term deposits in an American bank.

Nonetheless, the situation may be changing in the near future.

During our conversation, the Lending Club representative mentioned that the company is currently working on enhancing their global compliance processes, and "hopes to offer investment opportunities to non-US investors in the near future."

We hope so, too.

Investing in US real estate

The American real estate market has a lot to offer to a foreign investor.

With no restriction on foreign buying, (still) strong property rights, and a wide range of both geography and rental yields, a foreign investor can find the perfect property to invest in for personal use or for rental income.

Individual investors from Latin America traditionally choose Florida and Texas, while Asian investors tend to prefer California. New York, the largest magnet of foreign capital, is universally popular.

Foreign institutional investors have been very active as well. Over the last several years, they increased investments in US real estate from about $5 billion in 2009 to a record $90 billion in 2015.

China's economic slowdown, Brazil's recession and Europe's immigration crisis have convinced international investors that the US, with its strongly rising property prices, might be a safe haven today.

Let's look at taxation issues when investing in American real estate.

Capital gains on the sale or other disposition of US real estate by a non-resident alien are considered US-source income and therefore are subject to US income tax.

In this case, the standard US **capital gains tax rates apply**. As of 2016, long-term capital tax rates (which apply when an asset is held for more than twelve months) range from 0% to 20%. A 15% tax rate covers the widest range of price appreciation, so that is the tax rate you most likely will be paying.

(Real estate is an exception to the rule here, because, generally speaking, capital gains on the sale or disposition of *other* US property by an NRA are not subject to US income tax.)

A non-resident is also subject to tax on rents received from a US property.

There are two different approaches to taxing rental income for non-residents:

1) **GROSS rental income is taxable at the 30% flat rate**

In this case, the US government considers that you are not engaged in a US trade or business.

And indeed, it is considered a passive investment if a professional management company does all the work for you – renting the property, maintaining the property, paying for property taxes, operating expenses, repairs, insurance premiums, etc.

Such passive rental income is subject to a flat 30% withholding tax (unless reduced by an income tax treaty). That 30% should be withheld and transferred to the IRS by your property management company.

(Note – most U.S. treaties give no discounted rates of taxation when income is derived from real estate property.)

Dot all your i's and cross all your t's and make sure that those property taxes, operating expenses and the like are all deducted if you're going to already be paying 30% on the rent you receive.

If you don't have a professional manager, and if you take care of your property – paying property taxes, insurance premiums and so on - then it make more sense to use the second method of taxation.

2) If the foreign investor is engaged in a U.S. trade or business, then he/she may elect to have their **NET rental income** from the property **taxed at regular progressive US tax rates.**

This method of taxation does not differ much from how a regular US resident would be taxed. The net income is being taxed after deducting all the expenses related to property and its financing.

(Just to be clear, that does NOT mean that foreign investor's worldwide income also becomes subject to US taxation.)

In this case, as well as deducting all the property-related expenses, an investor also will be able to deduct the property's depreciation. (This is an annual allowance for the assumed wear and tear, deterioration, or obsolescence of the property).

The US income tax rate starts at 10%, which is already better than the flat 30%. And adding depreciation works in the investor's favor, so you decrease your taxable income even further.

As a result, investors often end up paying no tax on rent at all.

The downside? You will have to **file an annual tax return 1040NR** (NR stands for non-resident) with the IRS.

A special withholding regime known as **FIRPTA** applies when a foreign person sells US real estate. The purchaser generally needs to withhold 15% of the sales price to cover the potential tax liability on any gain. The seller can file for a refund of the amount by which the amount withheld exceeds the actual tax due.

Rental income tax summary and reporting requirements:

Each of the two options carries different reporting requirements when it comes to your rental income:

a) The **30% flat tax rate on gross** rental income

In this case, the payor (the property manager) will have to file forms 1042 and 1042-S by March 15 every year to report all details to the IRS.

This reporting option will work only if you are dealing with a professional property manager who is used to dealing with non-resident investors.

b**) Paying regular US tax rates on net** rental income

You, the investor, need to submit form 1040NR to the IRS by June 15 of every year.

Filing your 1040NR tax return

If you are a "do it yourself" person, you may just want to download the **1040NR form** and, after reading through its whopping **74 pages of instructions,** file it yourself. You will need to file some additional forms and schedules that apply to real estate investing as well.

At the minimum, you might want to use an inexpensive automated service like **Taxact**. The system will guide you through the entire process and will prepare a ready-to-mail tax return.

You will have to physically mail your tax return to the IRS's headquarters in Austin, TX, as e-filing is not available for a non-resident tax return.

Alternatively, you may want to talk to a US tax professional who specializes in working with non-residents. In that case, feel free to reach out to us at **clients@sovereignman.com** and we will put you in contact with such a person.

Estate and gift tax:

Property type	**Subject to Estate Tax**	**Subject to Gift Tax**
US Real Estate	Yes	Yes
Non-US Real Estate	No	No

Income tax treaties

The United States has comprehensive income tax treaties in place with more than 50 countries around the world including most of the major European and Asian jurisdictions. Unfortunately, the treaty network with Latin America is quite limited.

While such tax treaties typically cover a lot of ground – from personal income to how copyrights and pension distributions are taxed in the US and partner country, in this section we are mostly interested in the rules concerning the taxation of dividends.

The **IRS's publication #901** is dedicated to various income tax treaties. Scroll to page 35 to see the table of all treaties and rates, and search for your country of residence and the rate at which dividends are taxed.

For most countries, the dividend tax rate stays at standard 30%, or goes down to 15% (Canada, UK, Australia, Ireland), or even 10% (Japan, China, Mexico…). Residents of these countries will be able to substantially lower their tax bill to Uncle Sam.

When opening a brokerage account with a US broker, you will be asked to fill out heaps of different forms. One of the forms you will be required to file is called W-8BEN. This form will ask you about the country of your tax residence.

In the Part II of that form, you will be claiming a tax treaty benefit between your country and the US. Leave it blank if the treaty does not exist.

I also encourage you to call your potential broker to double-check the details of the treaty (and confirm it exists at all). You will want to make sure your brokerage firm has experience working with foreigners and indeed accepts non-resident aliens as clients, as not all firms do that.

Ask to speak to a representative responsible for dealing with foreign customers, or at least with someone well informed about how the US tax system works.

Paying taxes in your country of residence

Paying less tax to the US government sure sounds like a great idea, but will the non-resident investor have to pay additional taxes in their country of residence?

It all depends.

- If you are from one of the traditional "tax havens", or from a country with territorial taxation, you will NOT have any additional tax obligations.

However, keep in mind that neither of these types of countries will have an income tax treaty with the US, meaning that the 30% withholding tax on dividends cannot be lowered. However, capital gains can be enjoyed 100% tax-free.

Countries with territorial taxation include most of Central America (Panama, Costa Rica, Nicaragua, etc.), Singapore, and Hong Kong among others.

The traditional tax havens in the Middle East (UAE, Qatar) or in Caribbean island-nations (the Bahamas, Cayman Islands, BVI, etc.)

- If you are a tax resident of a country with residential taxation (most of the counties on the planet), you will be taxed on your worldwide income.

As an example, let's look at a Canadian investor trading stocks in the US.

Canada has a comprehensive tax treaty with the US, according to which the Canadian investor gets a more favorable withholding tax rate on US dividends: Instead of 30%, he pays 15% to Uncle Sam.

And just like any other national, the Canadian trader does not pay any capital gains tax in the US when the stock is sold.

Does it mean that he will also get a break back home? Unfortunately, no.

Canada taxes its tax residents on their worldwide income, so our Canadian investor will have to pay to the hilt when he files his home tax return, just as he would if he were trading in Canada.

In fact, Canadians most likely will pay even more in total taxes when buying stock in US corporations because the country's government gives preferential tax rates when it comes to taxing dividends of Canadian companies.

Fortunately, there may be a way out for an active Canadian trader.

Canada is not the United States; it lets its citizens out of the tax spider web. By moving overseas and following the steps **covered in our previous alert**, Canadian citizens can avoid the Canadian tax system altogether.

If trading stocks is our Canadian subscriber's main source of income, then he has a good deal of incentive to move to a tax haven, or to a country with territorial taxation. By moving, to, say, Panama, he's absolved of paying those nosebleed rates in Canada.

But in this case, since his new tax residence will be Panama and not Canada, and due to the absence of the tax treaty between the US and Panama, his dividends will be taxed at standard 30% (which may STILL be less than his floating Canadian rate on dividends).

The risks of investing in the US financial system

As you probably know, at Sovereign Man we are not fans of the modern financial system. Western banking today is very different, and notably more reckless, than it was in our parents' and grandparents' time.

Instead of being risk-averse guardians of depositors' money and valuing their reputation for soundness above other things, banks today are known mostly for investing their clients' money in questionable instruments, or even for committing outright large-scale fraud. (Just recently, Wells Fargo was found to have deliberately deceived its customers in such a scandal.)

Additionally, the US government's financial position is in extremely poor shape. The country is the biggest debtor in the entire history of the world, and one day that house of cards will come crumbling down under its own weight.

What does government debt have to do with banking in the US?

A lot. When the banking sector experienced liquidity problems back in 2008-2009, it was the US government that stepped in and injected trillions of dollars of liquidity into the system, essentially bailing out the banks. Of course, the government also racked up trillions of dollars in new debt.

Having recklessly expanded both the money supply and the federal debt, and having dropped interest basically to zero, the US government has used up its ammunition. It likely will not have the means to rescue the system when the next crisis comes around and the banking sector crumbles again. Depending on the size and severity of the crisis, an insolvent government might not be in a position to offer another outsized bailout.

And large-scale bailout might indeed be required.

Behemoths such as Bank of America, JP Morgan Chase, Citigroup and others have become too large to manage. The same goes for large European banks, so add BNP Paribas and Deutsche Bank to the list.

The biggest concern? Nobody truly knows what is buried in their trillion-dollar balance sheets.

The fear, and likely the reality (just as it was back in 2008), is that the major banks have significant exposure to toxic derivative instruments. These tools are so complicated and interconnected that no one can really tell who is really responsible for what - until it all starts unraveling.

And what about brokerage firms? Are they safer than the banks?

Unfortunately, there are certain risks there as well.

While we are comfortable with the option that we recommend, Interactive Brokers, and believe in the firm's integrity, we do have a big problem with the system of stocks registration as it exists in the United States.

"Street Name Registration," for example, is a concept that exists in the US financial system.

This means that when you open a brokerage account and buy shares of, say, Apple, your broker registers those shares in THEIR name, not yours.

In other words, your broker officially owns the shares.

In their internal books, the broker claims a liability, maintaining that they owe you the shares. But this Apple stock isn't your asset. It's the broker's.

The brokers do this for convenience: It's easier for them to buy and sell stocks on your behalf if the shares are held in their name. It also makes it possible for them to lend out your shares or borrow against them, potentially with disastrous consequences as was the case with MF Global that lost over a billion dollars of its customers' hard-earned dollars. (Fortunately, most of that ended up being reimbursed.)

This makes no sense - financial securities should work like any other asset: when you buy it, it should be yours. Simple.

That's how it works in Australia, for example. They have a system of direct ownership; it's called the Clearing House Electronic Sub-Register System, or CHESS.

That's a fancy way of saying that, in Australia, when you buy or sell stocks, ownership of the shares passes to you directly.

The database is maintained electronically, and brokers have no control over these records.

It's such an easy and logical concept, owning the stocks that you buy. But that's not the way the financial system is set up in the US.

So these are the caveats of investing in the US. That said, there are risks everywhere, and you might find that the benefits in the US outweigh the risks.

Conclusion

Taxation issues play a significant role for foreign individuals involved in the US investments. The US income and estate/gift tax regimes are complex.

Furthermore, the rules may change if there is an applicable treaty with the country of your residence.

However, with proper planning in place, opportunities definitely exist in this market, and US investments should continue to be an attractive option for foreign individuals.

As we have mentioned before, the US is the largest offshore destination – by far – for non-Americans. Convenience, customer service quality, excellent banking products, and even relatively high levels of privacy (because the US doesn't play by the rules it imposes on the rest of the world) are all key elements of all the US financial system.

We'll be expanding on this topic in future alerts and, as always, we invite you to send your feedback.