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Estate Planning
Special Needs Planning

Newsletter



August 5, 2009

Retiring Overseas

Some people look forward to retirement as an opportunity to live overseas. It may be a chance to spend some time relaxing on a tropical island in the Caribbean. Perhaps it is time to open a boutique or restaurant in an exotic location. Or maybe, retirement is a chance to give back to the community, by performing a service, such as medical care, at low-cost or no charge to people of an impoverished nation.

Whatever the reason, retiring to live overseas may raise a number of legal and financial questions. Will living overseas affect Social Security benefits? What about working overseas? Are there tax issues to consider?

For U.S. citizens, the good news is that for the most part, living overseas will not affect your ability to collect Social Security retirement benefits. Such benefits are contingent on your working for 40 qualifying quarters. So long as you have those 40

quarters of earnings, and reach the right age, you can collect Social Security retirement benefits. The payment of benefits to U.S. citizens does not depend on U.S. residency. You can choose to have those benefits deposited in the United States or to another country, with the exception of Cuba and North Korea.

For non-U.S. citizens, otherwise eligible for Social Security benefits, the issue is a little more complicated. Currently, citizens of Austria, Belgium, Canada, Chile, Czech Republic, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom will continue to

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- estate planning (wills and trusts)
- estate administration
- the application for public benefits such as Medicaid
- advance medical directives
- the creation of powers of attorney
- guardianship
- conservatorship,
- disability planning
- long-term care planning.

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- The District of Columbia
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receive Social Security payments no matter how long they live outside of the United States. In some other countries, a citizen may not receive U.S. Social Security benefits if those benefits are based on being a dependent or survivor of the wage earner. Finally, some countries only permit Social Security payments for the first six months of living outside the United States. However, if you return to live in the United States for an entire calendar month, payments will resume for another six months when you return to the foreign country. A complete explanation of these rules can be found on the Social Security website, <http://www.socialsecurity.gov/pubs/10137.html> (“Your Payments While You Are Outside The United States”).

What about working when you live overseas? Will that affect benefits in any way? The answer depends on when you retire. Depending on when you were born, you have a target retirement age when you are eligible for full Social Security benefits. The target retirement age begins at 65, and gradually increases to 67, based on your year of birth. However, you can retire as early as 62, and still collect Social Security benefits, although, the amount of your benefits is reduced.

But that is not all. If you choose to collect benefits before your full retirement age, there are limits on your ability to work. In 2009, you are permitted to make up to \$14,160 in earned income without having your benefits reduced. If you earn more than \$14,160, your benefits will be reduced by \$1 for every \$2 you earn. If you have reached full retirement age, your benefits will not be reduced, even if you continue working.

Will working while living overseas otherwise affect your benefits? That depends. The Social Security Administration will base your earnings on a calculation of an average of your 35 highest years of earnings. If you move overseas before reaching full retirement age, continue to work and pay taxes, but do not collect benefits, those additional years may count toward the level of your benefits.

This brings us to the topic of taxation. First of all, Social Security benefits are income, and as such are subject to the Federal income tax.

In addition, the United States is somewhat unique in its income tax policy. Most countries will only impose an income tax on income earned within their borders. The United States, however, taxes all U.S. citizens on their worldwide income.

There are a few provisions of U.S. income tax law that will provide some assistance to U.S. citizens living and working overseas. First, up to \$87,600 of foreign-earned income can be excluded from U.S. income tax. Second, certain housing expenses of U.S. citizens who live overseas can be excluded. Finally, if you pay foreign tax on income over \$87,600 of your foreign-earned income, you can either deduct or take a credit for your foreign taxes.

Retiring and working overseas, therefore, creates some issues with respect to your Social Security benefits. Before making the decision to retire, you should consult with your financial advisor and your lawyer to see just what impact living and working overseas will have on you and your income. ■

This newsletter is for informational purposes only, and not meant to constitute legal advice. Quality legal advice requires a thorough look at the facts and circumstances surrounding your situation.