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An international view brings complexity to financial planning

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With today's global markets, life can get complicated when it comes to wealth management. As individuals and families extend their reach, whether through travel, property investments, education or business interests, international connections can often come with a host of financial planning challenges.

A growing number of high-net-worth individuals are becoming more global in their interests, says Prashant Patel, vice-president, RBC Wealth Management Services. "A lot are buying foreign properties or sending their children to foreign schools. Others have extended family or business ties abroad."

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The challenge for many is understanding the implications of these connections. There are a wide array of issues to consider, ranging from tax and estate planning to currency fluctuations and residency status. "If you are spending winters outside Canada, there's a checklist of wealth planning considerations. If you want to buy foreign assets, there's a checklist of tips and traps. Get proper advice first," Patel says.

Lucila Branco, regional vicepresident, international private banking for RBC Wealth Management notes that the diversity of Canada's population means that many carry dual citizenship, which can come into play in financial planning. It's important in those cases to be aware of the tax obligations in terms of where and how wealth is generated and transfer of assets between generations or jurisdictions.

"You need to pay attention to both inbound and outbound financial planning as a lack of awareness and planning can create problems down the road."

One of the major considerations requiring guidance and expertise is foreign real estate. The tax implications of buying to rent or buying for personal use, for example, are vastly different, says Gabrielle Loren, CGA at Loren, Nancke & Company in Vancouver. "It can be quite onerous when it comes to multi-jurisdictional tax rules; not to mention issues around who will manage the property for you in your absence."

Currency fluctuations and property taxes are some of the many factors to consider in planning, she adds. "Foreign exchange gains or losses are all part of the cost. For non-income properties, complexities can arise when there's a capital gain. If it's an income-generating property and you are collecting rent, you may need to file U.S. and Canadian tax returns. A lot of people simply don't realize some of those rules."

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She strongly advises investors to ask questions first. "It amazes me how many jump into something without realizing what the rules are for that other country. Yes we have all these treaties, but sometimes you may still be doing things that could mess you up on your Canadian taxes.

It's important to find a [foreign investment] professional who really knows what is going on in those jurisdictions."

This expertise becomes especially critical when considering estate planning and disposal of assets. For example, a foreign jurisdiction may recognize a Canadian will, but it should be reviewed. If you have a will drafted in more than one country, they must be drafted with special care. "You have to be careful that they don't conflict with each other," Patel says.

The same diligence should be made regarding power of attorney designation. If a person resides in Florida for part of the year, they should get advice whether their Ontario document is valid or a Florida document should be drafted. Alternatively, you could own foreign assets in a trust and appoint a trustee.

Ensuring personal health coverage while abroad is yet another item to attend to, as is liability insurance for those who own out-of-country property. Another potential safeguard is life insurance as a simple means to fund foreign estate taxes at death. "That could help avoid a fire sale of illiquid assets and preserve your estate," Patel says.

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Unfortunately, financial planning on an international scale has become increasingly onerous as governments continue to add complexities to the mix, says Kevyn Nightingale, international tax partner with MNP LLP in Toronto. "There has been a huge increase in the amount of paperwork they want people to do, whether they have business interests, property investments or simply spending time in other countries. And it's not just tax complexity. There can also be banking and regulatory issues you need to sort out."

To that end, individuals need to make sure they are only investing outside their own country in ways that make financial sense, he adds. One way to reduce the risk for anyone expanding business interests, for example, is to partner with local experts who can work their way through the bureaucracy.

The best advice is to keep things as simple as possible, Nightingale says.

"People work with different institutions for different reasons and often keep investments in multiple locations. It's not necessarily an optimal approach. Not only does it increase costs, it takes up a lot of time and effort."

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