THE WORST MISTAKES MADE BY EXPATS

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We are coming into the moving season now, when a lot of readers will be coming to Japan for the first time. Whether it be a medium or long-term assignment, be forewarned and take heed of others' mistakes.

Below is a list of some of the worst financial mistakes one can make as an expat:

MISTAKE 1: Underestimating the cost of Living

One of the biggest mistakes made in that first move abroad is to underestimate just how much it may cost to live in a new and unfamiliar country. The danger is that in their preparations, people tend to budget for food, utilities and other essentials on a like-for-like basis with their home domicile. Countries such as Japan, for example, can be horrendously more expensive than the UK and it is not until the bills start coming in that the differences become apparent. The solution is to assume you will need far more than planned for in your original budget.

MISTAKE 2: Underestimating Moving Costs

Putting together a budget for the move overseas is essential - but allow for the fact that between budgeting and moving, there may be external changes, such as foreign exchange rates and local cost of living increases. One area where people often can be caught out is in the numerous one-off and fixed costs, such as for legal services, expenses around property purchase or rental, local administration costs and peculiar taxes (more on this below), that can rapidly eat into the most carefully calculated budget.

MISTAKE 3: Living Beyond Your Means

One of the things that I have noticed is that when people first arrive in a new country, particularly if it is their first contract or posting abroad, the new and exciting surroundings often put them into "holiday mode." For the first three to six months, they want to absorb the culture and the bright lights of their new country of residence and they spend like they are on holiday. Hand in hand with this is ensuring sufficient emergency funds are put by, that will not be touched, unless there is an emergency.

MISTAKE 4: Not Factoring in Exchange Rates

Exchange rate fluctuations are an obvious factor but where people often come unstuck is when they have regular withdrawals for fixed payments in their home domicile, such as mortgage payments and other bills on any property retained in their home country. A strategy here is to look to see if a fixed rate of exchange can be obtained over a 6 to 12-month period, so budgets are not wildly affected.

MISTAKE 5: Being Caught Out By Local Taxes

Tax systems vary quite considerably from country to country (as do the legal systems). This can especially affect people moving to work abroad in Europe, where some countries have harsher tax systems: Income in the Netherlands is subject to payroll tax and personal income tax, while in countries like Spain, they have lower rates of income tax but far higher capital gains tax, for instance. And France has a fortune tax which levies 1% on all of an individual's worldwide assets.

MISTAKE 6: Inadequate Will Writing

While many expats will have written a will in their home country, once they move abroad this may not be recognized in their new country of domicile. For example, if a married man dies in a country ruled by Shariah Law, all his assets will normally be transferred to his nearest living male relative. Even if there is a UK will in place, there is no guarantee that the wife will receive anything. Setting up a Shariah compliant will is essential.

MISTAKE 7: Having an Overseas Bank Account

Make sure that you set up bank accounts in the country in which you want to make domestic payments (such as for utilities). Not to do so could see you paying excessive and unnecessary bank charges.

MISTAKE 8: Forgetting to Inform HMRC

This is common for UK expats, but could also apply for other nationalities. For example, expats forgetting to inform HMRC (UK Tax Office) of their non-UK status can easily lead to an individual being sought after for tax in both UK and their new country of residence. Form P85 is the one that needs to be completed. On another note, anyone taking gains within the first full tax year that an individual moves abroad will be taxed by HMRC. To benefit from any tax advantage from moving abroad, gains will have to be taken after the end of that tax year in April.

MISTAKE 9: Life Insurance Cover

Most written life insurance policies may provide limited or no cover at all outside of the home country. It is important that anyone working or living in a new country reviews any insurance policies they may have in place to ensure they properly cover them both for their new domicile as well as for their individual needs. Insurances to consider are: term assurance (life cover), serious accident, critical illness, private medical insurance and financial protection such as family income benefit.

MISTAKE 10: Pensions & National Insurance Contributions

If you have a pension in the UK, either ensure that you maintain contributions to it or set up an alternative scheme. This will depend on your individual circumstances. Likewise, if you are intending to return to the UK later in life and wish to draw a state pension, then maintaining national insurance contributions is essential. If you have no plans to return to the UK, then also a QROPS (Qualifying Recognised Overseas Pension Schemes) scheme could be beneficial.