



What you should know about pre-immigration wealth planning

Emigration or moving abroad has become the talk of the town recently. If you are planning to emigrate, how would you make plans for your wealth?

Here are some of the tax-related questions that you may want to consider before making the move.

Income tax

Income tax rates in the West are different. The table below shows some basic information about personal income tax rates among Western countries that Hong Kong people are more familiar with. For more details, please refer to the website below.

Written and data source: The Money Coach, Mr. Alvin Lam

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Country	Headline Personal Income Tax Rate (%)
Australia	45%
Canada	Federal: 33% Provincial or territorial range from 11.5% to 21%
Germany	45%, plus surcharges
New Zealand	39%
United Kingdom	45%
United States	37%

Source: PwC Worldwide Tax Summaries, <https://taxsummaries.pwc.com/quick-charts/personal-income-tax-pit-rates>

People who work in Hong Kong pay income tax at a progressive rate, with 17% being the maximum. That is a big difference compared with the countries mentioned above, so people planning to emigrate will need to be prepared to take out one-third to even half of their income as tax.

Moreover, since different countries need different talents in their workforce, high-paying professions in Hong Kong may not be as sought after elsewhere, and the income will therefore be lower. You may have seen media reports on lorry drivers in the UK earning more than doctors and lawyers. Therefore, unless the person can earn a much higher income after emigration, their disposable income may fall.

Expenses

Expenses vary among individuals. According to the “Cost of Living Index” by www.numbeo.com, Hong Kong is ranked 12th in the world. Here are the countries and special administrative regions within the top 30 in the list that most of us are more familiar with:

Rank	Country/ Special Administrative Region
1	Bermuda
2	Switzerland
3	Norway
4	Iceland
8	Denmark
10	Singapore
12	Hong Kong

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13	Luxembourg
14	Australia
15	Japan
16	Ireland
17	Netherlands
18	New Zealand
19	France
20	South Korea
21	Finland
22	Belgium
23	Sweden
24	Austria
25	Canada
26	United States
27	United Kingdom
30	Macau

Source: <https://www.numbeo.com>

Therefore, the cost of living after moving abroad may be higher or lower compared to living in Hong Kong, depending on individual needs and lifestyle. Nevertheless, some of the tax expenses may be much higher than in Hong Kong.

Capital gains tax

If your target is to create stable income for the future, you should now invest more in assets such as annuity or savings insurance plans, taking advantage of time to accumulate wealth for future needs. If you can withstand relatively higher risks, you may consider some of the more aggressive asset classes, such as equities or equity funds.

If you wish to capture investment opportunities in a volatile market, remember to keep more deposits in order to strengthen your emergency cash fund while being able to buy more aggressive assets when the market is down. In an uncertain investment environment, you should maintain emergency cash equivalent to one year's worth of expenses. The remaining liquidity can be invested in various wealth management products according

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to your risk appetite and when the fund is needed.

Meanwhile, many people considering emigration are also concerned about capital gains tax, which is the tax on investment returns or gains.

Country	Headline individual capital gains tax rate (%)
Australia	Subject to the normal personal income tax rate
Canada	Half of a capital gain constitutes a taxable capital gain, which is included in the individual's income and taxed at ordinary rates.
Germany	25%, plus solidarity surcharge
New Zealand	No comprehensive capital gains tax
United Kingdom	20% or 28%, depending on the type of assets (<i>please refer to GOV.UK for details</i>)
United States	20%

Source: PwC Worldwide Tax Summaries

In contrast to countries and territories that levy a capital gains tax, there is no personal capital gains tax in Hong Kong. Judging from the tax rates above, if an asset is sold overseas, 20% or more of the gains should be set aside as tax. In recent years, people have been asking whether they should sell their assets in Hong Kong before they emigrate, in order to avoid paying high capital gains tax should they sell the assets when they are abroad in the future. Indeed, if the value of an asset has gone up a lot, selling it before moving abroad does help alleviate concerns of paying a hefty tax.

If you have taken out a life insurance plan with savings element with an aim of covering future needs, there is no need to rush into withdrawing it, whether the plan started recently or years ago. If the plan was purchased only a few years ago, the accumulated value should be just as much as the premium paid, so the tax expenses should not be a concern. If you have held the plan for years, it should already be in the stage of steady growth. Even if it is taxable, the income after tax will still be higher than what you would get from starting a new insurance plan. It is therefore necessary to seek expert advice to look into individual circumstances before making a decision.

For insurance plans that focus on protection, such as life, medical and critical illness insurance, they can only be purchased, or purchased without an extra premium, when the insured person is healthy. If you plan to cancel an existing coverage and start a new one after emigration, there is a chance that you might not be able

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to obtain full coverage because of health conditions or differences in products among countries.

I have recently given financial planning consultation to a 60-year-old lady, who has lived in the United States with her husband for over 20 years. The couple have recently moved back to Hong Kong to retire here. She wanted to take out a medical insurance, but was worried that her health status and age would affect the scope of coverage and insurance premium. Therefore, a protective insurance product is a must, whether you are emigrating or not. The question should instead be whether the protection is suitable and sufficient.

Inheritance/ estate tax

For those who plan to retire and stay in the country they are emigrating to, they should note that inheritance tax is common among many countries. Still, it is hard to accept the fact that close to half of your assets accumulated over your lifetime will eventually be spent on tax.

Country	Headline inheritance/estate tax rate (%)
Germany	50%
United Kingdom	40%
United States	40%

Source: PwC Worldwide Tax Summaries

Some people would consider ways to avoid incurring inheritance tax, for example through holding assets in a trust. These arrangements all have their own costs, although they should be lower than inheritance tax if the asset is sizeable. You should seek advice from legal or taxation experts if you would like to find out more.

Nevertheless, estate planning involves a very long-term view. The longer the planning process spans, the more likely that laws will change over time along with market developments. For example, in the United States, the President is now driving tax reform, which suggests introducing more taxes that target high-net-worth individuals. To reduce chances of having to pay more tax due to changes in government policies, which are outside our control, protection-focused life insurance can be used to counter potential inheritance tax. The insurance plan can be set up such that the insured amount is equivalent to the estimated amount of the future inheritance tax. If the arrangement can be made today, then the premium expenses can be locked in, alleviating concerns over changes in the future.

Conclusion

In any case, anyone planning to emigrate should now start thinking about how to make effective use of their

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savings and the time available to create wealth for a stable quality of life in the future. Before making any decision, be clear about your motivation, and consider your own unique circumstances carefully. Any plan should help reduce worries about the future and help preserve your wealth, so that you can bring more and better choices for yourself and your loved ones.

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