# UK Citizens Working Abroad -

how your tax liability is affected

*Expert knowledge means success*

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# Introduction

This publication deals with the most common issues that arise when leaving the UK to work overseas. It deals primarily with the UK position - advice should be sought from an advisor in the relevant overseas country for specific tax legislation and rates in the country where you work.

# Rules of Residence

You'll be considered "non-UK resident" from the date of your departure from the UK if you're sent overseas on a full time contract of employment for a period which is expected to and does in fact include at least a complete tax year (6 April to the following 5 April). Visits to the UK during your overseas assignment should not exceed 182 days in any UK tax year or an average of 90 days per year.

With a "non-UK resident" status, you'll no longer be subject to UK tax on worldwide income from the date you leave the UK and break residence until the day before you return at the end of your assignment. Your UK tax liability on income arising whilst you are non-resident is usually restricted to tax on UK source income, such as interest on UK bank accounts, UK dividends and UK rental income.

Income you receive from your UK employment for duties performed before you left the UK will still be liable to UK income tax even if it is paid after you have left the UK. An example of this would be a bonus paid after you leave the UK but which was wholly or partly earned before you left.

# UK Taxation

If your status is that of a UK citizen, you'll be entitled to a personal tax allowance. This can be used first to offset UK-source income that would otherwise be tax free, such as interest paid gross, and then to offset other income arising in the UK.

In the year you leave the UK, allowances will normally be fully utilised against earnings arising in the pre-departure period which will remain fully taxable. This may give rise to a refund if you normally have tax deducted through the PAYE system.

# Taxation

Once you become non-resident your personal income will be taxed as follows:

## Capital Gains

Non-resident individuals are not subject to capital gains tax other than on certain types of assets (mainly those used in a UK business). Special rules apply to the years when you leave and return to the UK, where relief is concessionary.

## Bank or Building Society Interest and UK Dividend Income

Lower rate tax will normally be deducted at source. The income from UK dividends and interest will be treated separately from other UK income sources such as rental income, and any personal allowances will be set against this income first, with any balance being set against your other UK income. Should your allowances wipe out your liability to tax you can as a non-resident reclaim all or part of the tax deducted at source, or apply to the bank or building society to have your interest paid gross.

## Rental Income

If you let your home or any other property that you own, the income is treated as a UK source of income possibly liable to UK tax. The rental "profit" is taxed after allowing for various expenses such as maintenance, repairs, insurance, management, water rates, council tax and loan/mortgage interest.

Whilst tax is usually deducted at source (by a letting agent or through the tenant) in respect of rents due to a non-resident landlord, it may be possible for the rent to be received without tax deduction, if:

- Your UK tax affairs are up-to-date, or
- You've never had any UK tax obligations, or
- You don't expect to be liable to UK tax

# Your NI Position

As you will no longer be an employee of a UK company, Class 1 National Insurance Contributions will not be required. It's possible to pay voluntary contributions. Whether this is advisable depends on your individual circumstances. Voluntary contributions will only protect entitlement to certain basic state benefits such as old age retirement pension. Thus you will need to

## NI Guidance

On 29 April 2010, HMRC announced that its National Insurance (NI) technical guidance has been updated with more about rules in the European Union. Special rules mean that people often have to pay National Insurance contributions when they work overseas. These rules can help them to remain in the UK's Social Security system when they go abroad. In many countries, where people continue in the UK scheme, they can be exempt from foreign Social Security contributions.

***Source:***
www.hmrc.gov.uk/nic/work/abroad-index.htm

explore what entitlement you already have to this. See previous sidebar on apportioning UK and Non UK earnings for NIC purposes.

## Pensions

You will need to check your pension scheme rules to see if your employment abroad is to be treated as a secondment. If it is so treated, you will retain your eligibility to participate in the scheme. A potential problem is your own contributions. If you're not liable to UK tax, any personal pension contributions that you make will not attract tax relief.

## Employment in the USA

We have included here a few pointers specifically about taking up employment in the USA. If you choose to work in another country, you will need to check the tax and NI position there.

If you work in the USA, you'll normally be liable to US tax (in the form of federal income taxes, state and municipal taxes) on your US source income and on your worldwide income sources once you are treated as a US resident. However since the UK has a Double Taxation Treaty with the USA you may be able to claim exemption or partial relief from items where you may otherwise be taxed by both the UK and the US tax authorities.

Normally, you will receive some relief from UK tax on the following sources of income:

- Pensions
- Royalties
- Dividends
- Interest

Some agreements state that you must be subject to tax in the other country on the income in question before you get relief from the UK tax. For the precise conditions of the exemption or relief you will need to consult a US Tax advisor as it is not possible to give full details of this agreement without having detailed knowledge of US taxation law.

If you are paid, not in the USA, but by an employer in the UK, your salary will still be liable to US taxes. Whilst being on the UK payroll you would have a "NT" or "No Tax" tax code.

If you were seconded overseas for less than one year you would still be liable to UK National Insurance Contributions (your salary would of course still be taxed in the US). If the secondment lasted for more than one year, you would be liable to the US equivalent of NIC.

### Tax and Finance Tips for Expats

**Before you leave the United Kingdom:**

- Complete Inland Revenue form P85 to apply for non-resident status. Beware, if you spend more than 90 days a year in the UK, you will lose non-resident status.
- Complete Inland Revenue form R105 so that interest on UK accounts can be paid gross. This is known as "not ordinarily resident declaration."
- Pay voluntary National Insurance Contributions to maintain UK pension.
- Seek tax advice specific to your new country of residence. For example, Spanish taxes are levied over the calendar year, rather than our 6 April to 5 April fiscal year. Tax rates in Spain also vary between regions – this has not happened here yet.
- Consider using British taxbreaks – such as pensions and individual savings accounts – which non-residents are not allowed to invest in.
- Retain an agent to manage any rental income from UK property.
- Consider setting up an internet bank account.

**Before you return to the United Kingdom:**

- Close all bank and building society accounts and open new ones immediately before you return to avoid income tax and capital gains tax in the UK.
- Where bonuses or other payments can be received before returning to Britain, it may be beneficial to negotiate to bring payment forward.
- Consider selling or putting in a trust, assets which have appreciated in value to avoid capital gains tax (CGT).
- Assets bought after leaving the UK should be sold in the tax year before you return to Britain to avoid tax here.
- Where you do not wish to sell assets and have been non-resident in the UK for more than five years, consider setting up an offshore trust.
- Seek professional advice specific to your individual and family circumstances before you return.
- Complete form P86 to register your return to the UK with the Inland Revenue.

**Source:** Daily Telegraph, 21 June 2003

# Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

If you would like to receive further information about this subject or other publications, please call us – see our contact details on the next page.

## Important Notice



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