PERSONAL TAXATION

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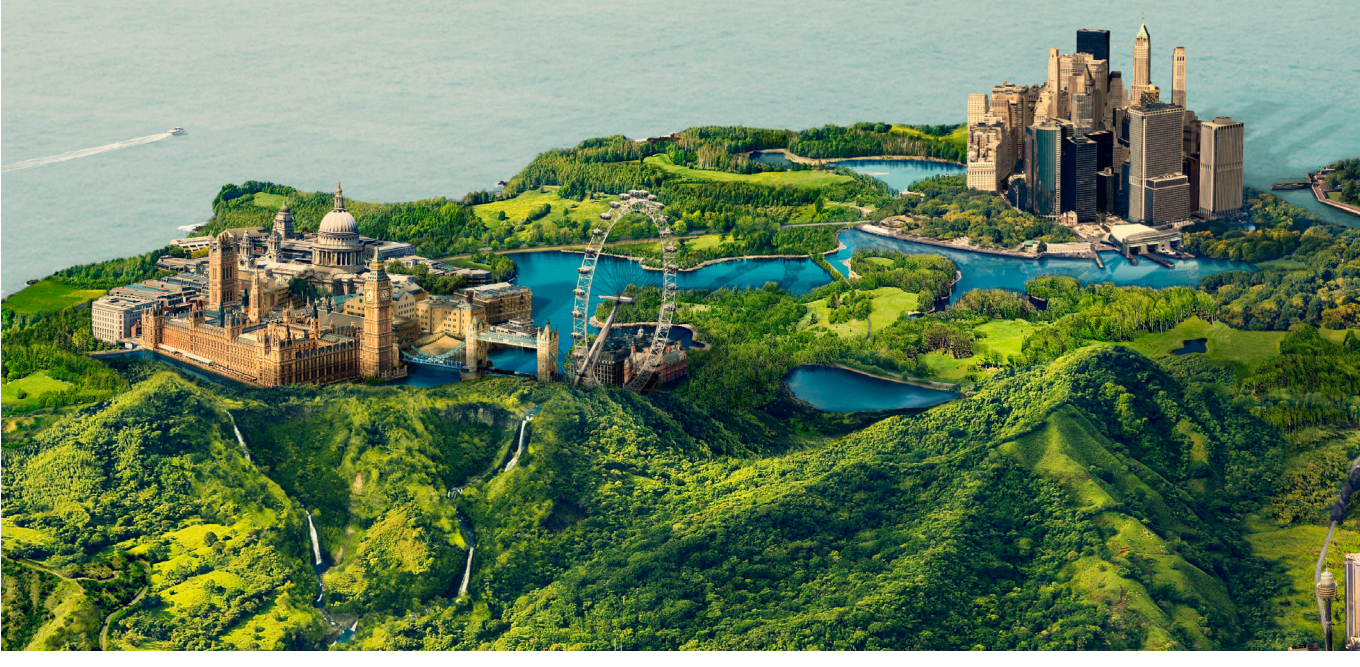

London is a globally recognised business and tourist location as well as a leading financial services and banking capital.

London is well understood to be a multicultural and international city with over half of the children born in London to foreign mothers and more than 300 different languages regularly spoken within the city.

This and much more make London a great place to start your Expatland adventure.

For the arriving expat it is worth recognising that the UK has a complex personal tax system which is administered by HM Revenue & Customs (HMRC).

As such it is important that you allow time to plan for your taxes before you arrive in the UK.

Financial decisions you make and structures that you have in place before your arrival can have a significant impact on your tax position.

Obtaining the right tax advice and implementing this advice can take some time so when planning ahead we recommend you allow a period of at least six months before you arrive.

Let us run through what happens when you arrive. Welcome to Expatland-London

Arriving in Expatland - London

Following your departure from your home country you should be aware that arriving in the UK of itself gives rise to tax consequences in respect of assets you hold and foreign bank accounts you have outside the UK.

You will need to consider how these various assets and income sources might better be rearranged to minimise your exposure to both the UK tax regime and also the UK's inheritance tax regime.

An experienced tax adviser will be able to work with you and specialists from various jurisdictions to put together a plan that works for you pre arrival.

We have a number of Expatland tax specialists in our network from a variety of cities for you to consult.

One of the first things you should do upon your arrival is work with your nominated tax adviser or chartered accountant to make sure that not only are you correctly registered for tax but further that your advisor will act as your agent with HMRC.

UK Taxes and Administration

How you will be taxed and at what rate will depend on a number of factors including the level of your income, sources of your income, your residence position and whether you are domiciled in the UK.

Don't worry, all will be clear soon.

UK personal taxes include:

- Personal income tax
- Capital gains tax
- Inheritance tax

The tax year in the UK runs from 6 April to the 5th April the following year – an interesting result of changing from the old English calendar to the Gregorian calendar hundreds of years ago.

The UK tax system is based on individual self-assessment – it is therefore your responsibility to register for tax and declare your taxable income and gains to HM Revenue & Customs (HMRC) on an annual basis.

This must be done and the taxes by 31 January following the end of the relevant tax year.

It is important that you retain your financial records for at least 22 months after the end of the tax year if you are in employment only and 70 months if you are self-employed.

UK Tax Rates - Income

The income tax rates for the 2018/19 tax year are below.

The rates of tax for income remain broadly unchanged year on year.

However, the tax-free allowance and the bands of income will typically change annually.

Taxable Income	Tax Rate (Band)	Tax Rate
Up to £11,850	CGT annual allowance	0%
£11,851 to £46,350	Basic rate	10%
£46,351 and above	Higher rate Additional	20%
Over £150,000	Rate	45%

As you can imagine, given the UK's complex tax system, this is not the whole story. There are various exemptions from tax for small amounts of investment income for example.

There are also a number of tax free saving vehicles including Individual Savings Accounts (ISA's).

However, you may find that these do not carry tax free status in your home country – this is particularly relevant for US citizens and green card holders.

You tax adviser will be able to let you know which investments work from a tax perspective but be aware that UK rules do not allow them to advise in respect of the financial suitability of investments.

Our global Expatland network may be able to assist you depending upon your home country.

UK Tax Rates - Capital Gains (CGT)

Capital gains are taxed at differing rates dependent on the on the type of gain and in which band they fall when added to your other income.

Capital Gains	Tax Rate (Band)	Tax Rate
Up to £11,700	CGT annual allowance	0%
£11,851 to £46,350	Basic rate	10%
£46,351 and above	Higher rate	20%

Capital gains tax on residential property which is not your home is taxed at 18% and 28% instead of 10% and 20%.

Your main home will be exempt from CGT.

Certain business assets benefit from a 10% rate of capital gains tax (Entrepreneurs Relief), up to a lifetime limit of £10m gains.

These are broadly either assets used in your own business or shares in your own personal company that you have held for at least one year. This rate is not limited to relevant UK assets.

Capital gains tax on business assets is calculated broadly as follows:

	£
Proceeds	100,000
Less cost	(10,000)
Chargeable gain	90,000
Less annual allowance	(11,700)
(if not already used)	
Taxable gain	78,300
Capital gains tax @10%	7,800

UK Tax Rates - Inheritance Tax (IHT)

Despite the name, this tax can apply not only on death but also on lifetime transfers of value.

The tax is paid by either your estate if on death or yourself personally if during lifetime.

Inheritance tax is broadly payable on lifetime transfers of value or estates in excess of £325,000 at the rate of 40%.

Inheritance tax is payable by UK tax residents on their worldwide estates and by non-UK residents in respect of UK sited assets only.

However, see the Domicile section further on.

There is a specific exemption from IHT in respect of Government securities.

Tax Residence

It is important to understand your residence as this will broadly determine the extent to which you are subject to tax in the UK.

UK tax residence or non-residence is established by a set of complex rules known as the Statutory Residence Test.

Generally speaking if you come to the UK to work and spend more than 183 days in the UK during the year, you will be a tax resident.

If your circumstances are different or you arrive part way through a tax year, the position is not so clear and we can give you advice based on your facts.

If you aren't tax resident in the UK your exposure to UK tax will be limited.

For example:

- UK Investment income such as dividends and bank interest –tax is limited to that withheld at source so in effect no tax

- UK Let property income – subject to income tax

- Capital gains on the sale of UK residential property – taxable and must be declared and paid to income including let property income will, however attract income tax on any profit arising. As a non-resident, you will not be subject to tax on overseas income and gains

As a UK resident you are potentially taxed on your worldwide income, capital gains and worldwide estate for inheritance tax.

However, with careful planning and use of the UK tax rules, much of this can be avoided as we will discuss further below.

Tax Domicile

What is domicile and why is it relevant? Domicile is often confused with residence.

A non-UK domiciled person is able to take advantage of UK tax law that allows you to potentially exclude foreign income and gains from your UK tax return.

There are also potentially significant benefits with regard to inheritance tax.

There is no statutory definition of domicile and instead the concept has been established over the years through extensive case law.

The general position is that your country of domicile is where your permanent home is, although this is a complex area. Essentially, everyone has a country of domicile.

Domicile of Origin

Everyone is born with a domicile of origin which normally follows that of your father. If your father was of Australian origin for example then you will have an Australian domicile; unless,

Domicile of Choice

You can choose to acquire a new domicile by giving up residence in your country of domicile and taking up permanent residence in another country. If you then give up this permanent residence your domicile will revert to your domicile of origin - no one can have more than one country of domicile or be without a country of domicile.

It is important to understand your domicile position prior to arrival in the UK as there will be a number of actions you'll need to take before arrival.

A word of warning, once you have been resident in the UK for 15 out of the previous 20 years you will be considered deemed' domiciled and lose all access to the benefits of your non-domicile status from that point.

Planning Point

When you become UK 'deemed' domiciled your worldwide assets will be within the scope of UK inheritance tax.

You may consider planning early to move these assets into a non-UK trust and avoid the eventual 40% tax charge.

We understand strategies that can assist expats in this regard.

Remittances

As mentioned, being non-UK domiciled can allow you to exclude certain non- UK income and gains from your UK tax return – as long as these funds aren't 'remitted' to the UK.

To illustrate the point – most people would assume' that selling a foreign property and making a capital gain – before you arrive in the UK – should mean that you can bring that money in at a later stage without tax.

However this is not the case under the UK tax system and foreign capital gains regardless of when they were made can be taxed if they are brought into the UK.

This warning is absolutely critical for first time entrants to the UK.

HMRC routinely looks at inward remittances and asks for further particulars as to the source of money from where these remittance were made.

Also please note that the remittance basis' of taxation must be 'claimed' on a tax return, it is not automatic.

Remittance simply means brought into the UK either directly or indirectly.

The rules around remittances are very complex and careful planning before you arrive and while you are UK resident is required.

Often this involves setting up at least one or more segregated offshore bank accounts.

Please note that lending in money against assets secured offshore is also a 'remittance.

As noted above with remittances of capital gains made in earlier years - it is very easy to get the remittance rules wrong.

A recent example springs to mind.

A client came to me too late to plan effectively.

He had sold an investment property in Sweden before he arrived in the UK, there was no UK tax liability as the gain was realised before he acquired UK residence.

He decided to use these funds to buy a UK property.

Unfortunately, in the same bank account were the proceeds of a sale of shares made while he was UK resident.

The complex matching rules for remittances meant that instead of remitting tax free cash, my client had inadvertently remitted taxable foreign gains.

A costly mistake.

Fortunately we were able to obtain a low 10% tax rate on the gains but that's a story for another time.

This case highlights the need to take advice at the earliest opportunity.

I was asked about remittances the other day by a New Zealand domiciled client.

The fact were as follows;

- "I want to buy a UK property"
- "I am the beneficiary of an NZ discretionary trust"
- "The trust has realised funds of £250k on the sale of property"

My client asked "If the funds are distributed to the NZ beneficiaries instead of me, do I have to pay tax in the UK".

The answer of course was no.

The client then went on to say "if the NZ beneficiaries then make a gift to me and I use that money to buy the property, will I have to pay tax in the UK?"

The answer to this question was yes!

As you can see the definition of remittance is very broad.

I suggested to the client that actually, a better solution would be to borrow the money from the trust at a low interest rate and pay little or no tax at all!

A final note on the remittance basis, once you have been resident in the UK for 7 out of the 9 previous tax years you will be required to pay a charge for the privilege of making the claim.

The charge of £30,000 rises to £50,000 once you have been resident for 12 out of the previous 14 tax years.

Overseas Work Day Relief

There is a valuable tax break for non-UK domiciled employees new to the UK.

If you are non UK domiciled working in the UK, you can claim exemption from tax in respect of the proportion of your salary relating to work that you perform overseas.

The conditions are:

- Your salary must be credited to a non-UK bank account. Many UK banks have offshore branches in for example the Isle of Man.

- The funds related to the exempt amount must be retained outside of the UK. If any amount is brought into the UK the claim is reduced accordingly.

- It must be your own account just containing funds from the employment.

- The claim can only be made for the year of arrival in the UK and subsequent two tax years

Excellent record keeping and planning is essential to ensure that you retain the benefit of these tax breaks.

To give you an example.

A new client arrived in the UK. Working in the investment industry, he regularly travels outside of the UK for work and typically spends 40-55% of his time working outside the UK.

He received advice before he arrived in the UK and the overseas bank account was set up to receive his pay. He was also advised to keep all of his travel records.

By taking advantage of the overseas workday relief rules and keeping excellent records, the client has saved in excess of £90k in tax for the first two years in the UK .

The claim will be made once more before he becomes ineligible.

Planning Point

Before arriving in the UK you might consider opening two new non-UK bank accounts.

It is useful to use an offshore branch of a UK bank for ease of access.

The new accounts will contain non-UK source income and capital gains and, separately, income from your employment.

You will then know that if you spend any of the overseas funds in the UK, you'll pay tax even if you have claimed the remittance basis.

With regard to your employment income, if you undertake any work overseas for your employer in the first three years of arrival, this can be excluded from your taxable income by the remittance rules, but only if paid into an offshore account.

Much better to save the tax and use the funds for family holidays overseas or investment.

Foreign Taxes Paid - Double Tax

We often hear the question "will I pay tax twice – at home and in the UK?"

Given its long history of international trade, the UK has predictably one of the largest double tax treaty networks in the world with over 130 tax treaties in force.

These treaties are in place to ensure taxes are paid in the correct jurisdiction and to remove the burden of double taxation.

For the international traveller, these treaties can often throw a lifeline that prevents double taxation of income and gains in their home country and the UK.

There are though still circumstances where double taxation can arise.

In order to establish the relevance of the treaties it is vital to understand your residence position.

With our broad network of Expatland tax advisers, we are well placed to ensure that your global position is considered together with the relevant treaties.

AT A GLANCE

- It is essential that you plan and consider the tax implications of a move to Expatland-London before you arrive – six months should give you time.

- When obtaining tax advice, choose an advisor that will work for you rather than your employer and can work with your international team.

- Think globally. What are the tax implications of leaving your home country?

- The UK tax system is complex. Don't assume that you will be taxed in the same way as in your home country.

- Speak to your tax adviser before making significant decisions. Tax free investments for example may have a different tax treatment in your home country. That said, financial decisions should not be driven by tax considerations alone.

- Keep all your financial records. Remember that the UK tax system is self-assessment and it your responsibility to declare income and gains and retain records.

- Retain your travel records. Understanding your residence position is vital to understanding your UK tax position.

- See if you can benefit from Overseas Work Day relief. This will also allow you to exclude overseas workdays form your tax computation in the first three years.

- Consider the provisions of double tax agreements carefully.

- Above all, review your tax plan regularly. Life plans change and this can have a significant impact on your tax position.

- Finally, this chapter is intended as a broad introduction to the UK tax regime for travellers in Expatland and is not intended to be a substitute for advice specific to your own circumstances.