



THE FRY
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An expat's guide to UK tax

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01 What you'll learn in this guide

Living or working abroad is an exciting time and offers plenty of scope for new adventures.

If you are a British expat, or planning a move overseas, one important aspect to consider is tax planning. Sadly, a common misconception is that moving or living overseas immediately moves you out of the UK tax net, but this isn't always the case, and careful planning and preparation is needed.

We're keen to make sure you enjoy your life as an expat. This guide is here to help.





02 Know your residence status

Any UK tax you'll need to pay is generally calculated based on your residence status – a technical term determined by the UK tax authorities, HMRC.

Even if you're living and working overseas, you may still have to pay UK Income Tax on any foreign income you earn if you continue to be UK resident for tax purposes, so understanding your status is vital if you live and work overseas. If you're able to become non-resident then your overseas earnings and other sources of overseas income are then exempt from UK tax. Selling land or property may incur Capital Gains Tax but other 'disposals' won't generally suffer UK tax if made during a period when you're continuously non-resident for more than five years.

Paying tax on foreign income

If you live abroad but are still considered UK tax resident, you may have to pay tax on your foreign income. This could include:

- Your salary or wages
- Foreign investment income, for example dividends and savings interest
- Rental income on any overseas property
- Income from pensions held overseas

It's worth noting that foreign income is classed as anything you earn outside England, Scotland, Wales and Northern Ireland. As a result, the UK tax authorities will consider any income arising in the Channel Islands and the Isle of Man as foreign income.

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02 Know your residence status (cont)

How do I know if I'm a UK resident or not whilst living overseas?

Working out if you're UK resident for tax purposes is now much more complicated than it used to be. HMRC offers some guidance and generally a good place to start is based on how much time you spend in the UK and whether you have specific ties to the UK, such as a home which you use as a main residence. This is a complicated area of tax planning, and the final decision about your status is determined by the Statutory Residence Test.

Generally, you may be classed as a UK resident under the Statutory Residence Test if one of the following applies:

- You spent 183 or more days in the UK in the tax year
- Your only home was in the UK and it was available to use for at least 91 days in total and you spent time there for at least 30 days in the tax year
- You worked full-time in the UK for any period of 365 days and at least one of these days fell into the specific tax year

Given the complexities of the test it's important to seek specific advice from a tax professional who can review your personal situation and offer advice.

What if I'm resident in more than one country?

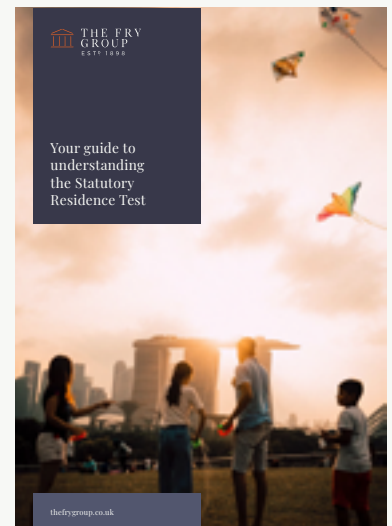
It's possible to be resident in the UK (as determined by the Statutory Residence Test) and tax resident in another country at the same time (as determined by that country's rules). This is referred to as "dual residence".

In many cases there will be an arrangement, known as a double tax treaty, between the two countries which should ensure that you don't pay tax twice on the same income or capital gains.

If you are dual resident, it's important that you seek specialist advice in order to ensure you don't pay too much tax.

An expat's guide to UK tax

For more information to help you navigate the Statutory Residence Test, download our free guide.





03 Plan ahead – if you can

Your UK residence status is the defining factor when it comes to how much UK tax you're likely to pay.

If you've been classed as non-resident for UK tax for more than five years, generally your liability to UK Income Tax and Capital Gains Tax is limited. When it comes to UK Capital Gains Tax it's likely you will only face a bill if you choose to sell UK property or land.

What if I'm planning to live abroad for less than five years?

If you return to the UK after less than five years you may be classed as a 'temporary non-UK resident' and could still face UK tax. Any tax bill might apply to certain types of income or capital gains which you received or brought into the UK whilst you were overseas. The tax would arise in the tax year in which you return to the UK, so careful planning ahead is needed.

Even if you're non-UK tax resident for more than five years you would still face UK tax when you sell or gift UK land and property or dispose of assets used in a trade.

When do temporary non-residence rules apply?

There are a number of situations where these rules kick in. One example is if you own shares and then move overseas where you sell those shares and make a significant gain. If you return to the UK within five years, you're likely to face a Capital Gains Tax bill for the sale of those shares which took place whilst you were non-resident. Other examples involve some pension payments and distributions from certain types of companies.

If your only source of income is your overseas employment, these rules are unlikely to apply - even if you just spend a few years abroad - but it's always useful to check and seek advice on your personal circumstances.

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Our Guide to Returning to the UK can be a useful read if you're planning a move home.





04 Understand why where you work matters

If you're non-UK tax resident, your salary (including bonuses) when working overseas won't be taxed in the UK. But during that period, if you spend any time working in the UK, your salary and bonuses could attract UK tax.

How much work can I do in the UK whilst based overseas?

UK work days are generally limited to a maximum of 30 days each tax year. However, it's important to remember that even with this allowance, any UK work days could incur a UK tax charge. Be very careful and seek advice on your personal situation.

What if I receive a termination payment from my overseas employer?

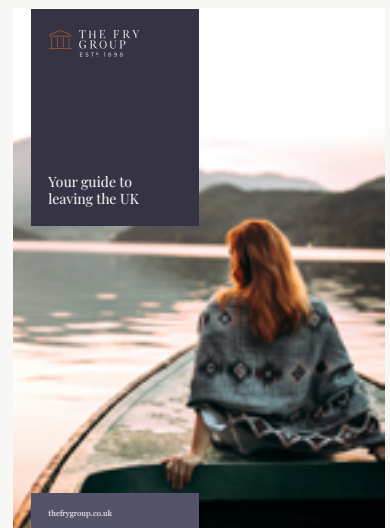
If you're planning to return to the UK after working overseas, you may need to be wary of termination payments. These non-contractual gratuity or thank you payments may be offered by your employer, but can be tricky for tax purposes. This is because you'll become UK resident again in the year of your return and any lump sum payments you receive as a legacy from your overseas employment could attract UK tax. It's possible to take action against this – so speak to an expert to plan ahead.

What about share schemes, bonuses and long-term incentive plans?

Bonuses and share schemes can be problematic. For example, you may have been awarded shares or share options as part of a long-term incentive plan but have to wait a period of time before you can sell them. If you've become UK tax resident before that period is up, it's highly likely that UK Income Tax, National Insurance and Capital Gains Tax could apply. Expert advice can help you understand the steps you can take to reduce or eliminate any tax.

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More details about the financial implications of working overseas are available in our Guide to Leaving the UK





05 Manage your pensions and investments

Spending time overseas could offer some significant scope for your investment plans. Any investment strategy needs to be tax-efficient for the country you are tax resident in, but there may be opportunities to consider offshore schemes and pensions which aren't possible for those living in the UK.

One area to be aware of concerns a popular tax-efficient scheme - ISA's (Individual Savings Accounts). Whilst you aren't resident in the UK for tax you can't continue to contribute to an ISA. However, there's nothing to stop you continuing to hold or manage funds in an existing ISA account.

You also won't face UK Income Tax on income earned from your overseas investments. However, there are some circumstances where you might pay Income Tax for any income earned from your UK investments.

Finally, make sure you keep an eye on those temporary non-residence rules. Even if you aren't UK tax resident, you don't get automatic exemption from UK Capital Gains Tax when selling any investments. Here expert advice is vital; you'll need to make absolutely sure you haven't fallen foul of those temporary non-residence rules.

Can I contribute to a UK pension scheme while living and working abroad?

Even though you're not UK tax resident, you might still be able to contribute to a UK pension scheme. In general, you can continue to make contributions and receive tax relief for the first five years while you are based overseas. After that, you'll need to consider other options.

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06 Manage your pensions and investments (*cont*)

Are National Insurance contributions possible while living abroad?

As an expat, you can continue to make National Insurance contributions in the UK whilst overseas. Over your lifetime, currently you'll need to record 35 years of National Insurance contributions to receive the highest rate of State Pension when you retire. If you continue to contribute rather than taking a break, you're likely to pay a much lower rate than if you miss a few years and then try and catch up.

What about my pension?

Pensions are an extremely complicated area if you are living or working abroad. Therefore, it's important to speak to a specialist about your individual circumstances.





07 Let your UK property

Many expats choose to hold onto a UK property, either letting out the family home or using it for short-term visits. If you do let your property, there are some key considerations to bear in mind.

Can I let my UK home whilst living as an expat?

If you're non-UK resident and choose to let out a UK property, your agent or tenant is obliged to deduct 20% tax from any rent and pay it to HMRC. As a result, you receive any rental income net of 20% tax at source - whether or not that tax is due.

But a system exists to remove this obligation, and ensure you receive the full rental income. Signing up to the Non-Resident Landlord Scheme means your tenant or agent can pay you any rental income without deducting tax at source. This doesn't mean the rental income is free of tax, but just means you pay it through the usual self-assessment system.

What property expenses are allowed?

There are a number of expenses which can help offset any UK tax due if you're letting a UK property. As a general rule, any expenses sustained in running the property as a rental are usually allowable including:

- Letting agents' charges plus VAT
- Water rates and utility bills
- Council Tax
- Building and contents insurance
- Repairs, redecorations and renewals
- Gardening costs
- Reasonable accountancy costs
- Mortgage interest only (up to a maximum of 20% tax relief)

We can help you navigate this tricky topic. To find out more about letting a UK property, [listen to our recent webinar here](#) for some useful insights.



07 Let your UK property (*cont*)

What happens if I want to sell my UK property whilst living or working abroad?

As an expat, you need to be aware of the very special rules for disposing of UK land and property when you're non-UK tax resident. If this is the case, and you've maintained your status outside the UK tax net for more than five years, only gains arising after 5 April 2015 attract UK Capital Gains Tax. You won't be charged on any gains which have happened over the whole life of the ownership of your property, and any calculation is worked out based on the value of your property in 2015, compared to the amount you sold it for.

What is Capital Gains Tax?

Capital Gains Tax is charged on any profit you make when you sell something (usually an asset like land or property) that's increased in value.

The tax applies to the gain you make, not the amount you collect. So, if you bought a painting for £10,000 and sold it later for £50,000, you've made a gain of £40,000.





07 Let your UK property (*cont*)

When does Capital Gains Tax apply?

Generally Capital Gains Tax comes into play if any of the following situations occur with UK land or property that you own:

- Selling it
- Giving it away as a gift, or transferring it to someone else
- Getting compensation for it - like an insurance payout if it's been lost or destroyed

As a non-UK tax resident, if you sell a UK property or land, Capital Gains Tax applies, no matter how long you have lived overseas.

If you are planning on returning to the UK there may be some steps you can consider to decide whether or not to sell your UK property before you return, and avoid Capital Gains Tax.

Our experts can help you to understand everything you need to consider if you have UK property and live abroad.

Take care with Capital Gains Tax on property

Capital Gains Tax on UK property is the highest rate of Capital Gains Tax so it's important to discuss your plans with a tax planning professional who can help you navigate your way through any decisions you make.

It is very important to note that any chargeable disposal of UK land and property needs to be reported to HMRC within 60 days and if there is tax to pay that also needs to be paid within the 60 days.



08 Tax in action

Jenny and Brian Court moved to Hong Kong in 2018. Jenny is a UK citizen and Brian has Australian citizenship but both are non-UK tax residents, and their only source of taxable UK income is from their jointly owned property in the Cotswolds.

Jenny and Brian's UK property is currently lived in by a tenant, and they enjoy a good rental income with a profit of £12,000 a year. However, Brian's share of £6,000 has been taxed at 20% because as an Australian citizen he's not entitled to a tax-free personal allowance.

By transferring the property into Jenny's name only, the couple have been able to save tax – the £12,000 profit now affects her

alone. As she's a UK citizen and entitled to a personal tax allowance there is now no tax to pay at all. On the Court's return to the UK, which is planned for the next few years, the title ownership for their home can again revert into both names.

By structuring their affairs more sensibly Jenny and Brian have been able to minimise the level of tax paid.

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Be aware of Inheritance Tax

UK Inheritance Tax is a powerful tax – with a flat rate of 40%. Your exposure to it is determined by your domicile.

What is domicile?

Domicile is different from residence, which can change over time depending on where you're living. Domicile is a much stickier concept; you're born with a domicile of origin generally acquired from your father and for most it doesn't change over the course of their lifetime. It is possible to acquire a domicile of choice, but this is a complicated process, and you'll need expert support and advice.

If you're UK domiciled, your exposure to UK Inheritance Tax includes your worldwide assets. However, if you're not UK domiciled, and were perhaps born outside the UK to parents who themselves were born outside the UK, and you've never lived in the UK, then your liability to Inheritance Tax is simply limited to just your UK assets.

How does being an expat affect my Inheritance Tax bill?

In short it doesn't! Even if you are outside of the UK tax net because of your residence status, your beneficiaries would still have to pay Inheritance Tax on any assets you own around the world. So, any homes or property you have bought whilst overseas would still fall into your worldwide Estate. Offshore investments may also be included.

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Don't forget your retirement plans

Time as an expat may mean a complete change of lifestyle but it's important to still plan ahead for retirement. You may need to consider whether you're planning to return to the UK ahead of retirement, or move to another country and live out your later years abroad. Or you may be happy in your current overseas life and happy to settle in your current location more permanently.

What if I want to return to the UK?

If you're considering a move back to the UK at any point in the future, you need to consider how to plan ahead to avoid any nasty surprises as you re-enter the UK tax system. A 12-18 month window is usually a good general rule, and our *Guide to Returning to the UK* can offer some helpful advice in making the most of your financial situation.

How do I plan for being overseas during retirement?

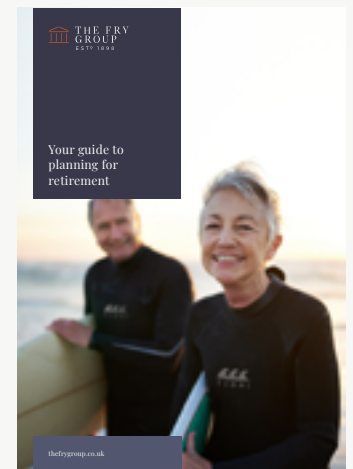
Alternatively, if you don't plan to retire in the UK it's important to speak to a tax planning professional who can help you understand how to plan for this exciting life decision in a tax-efficient way. You may need to put in place some flexible pension plans including drawing your UK State Pension whilst overseas – the UK has a number of arrangements with other countries to avoid unnecessary tax in this situation.

When should I start planning for retirement if I'm an expat?

Expats can often leave it too late to properly plan for retirement which can put unnecessary pressure on you and your family in the latter years of your career. By planning early with the help of a financial planning professional, you can work towards your idea of financial freedom in retirement, giving yourself plenty of time to achieve your goals.

An expat's guide to UK tax

For more information *download our free retirement guide* to understand the key areas you need to be aware of when planning for the future.





11 Conclusion

If you're living or working overseas, or planning a period of time abroad, it's crucial to understand your limits for visiting the UK without becoming UK tax resident.

If you're keen to keep hold of a UK foothold, be aware that there are special rules for letting and selling UK property while you are non-UK resident.

Time overseas, and out of the UK tax net, offers a great opportunity to plan your finances and structure your pensions and investments sensibly.

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12 What next?

Getting the right tax planning in place will allow you to focus on your time as an expat and enjoy all your overseas lifestyle has to offer.

We've been working with British expats for over 120 years and with teams around the globe, we can help support you with all aspects of your tax planning whilst you're abroad or ahead of a return to the UK.

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