



Briefing note

Taxation and National Insurance on coming to the UK

May 2016

Introduction

An individual's UK tax liability is largely determined by their tax residence and domicile status for any tax year.

Residence and domicile

The statutory residence test (SRT) has applied since April 2013 and a flowchart is available to give an indication of when an individual will be classed as resident or non resident in the UK for tax purposes. It may be possible to split the tax year of arrival in the UK, meaning that some 'pre-arrival' income and gains will not be taxed. The SRT and split year rules are extremely complex and detailed advice should be obtained.

A person's country of domicile has its basis in international law and is considered separately from tax residence. In very broad terms it is the country in which an individual has their permanent home. The father's country of domicile when the individual is born (known as a domicile of origin) is relevant but this can be superseded by a domicile of dependency or by acquiring a domicile of choice. A domicile of choice is acquired by settling indefinitely in another country and severing ties with the previous domicile.

From 6 April 2017, any individual who has been resident in the UK for 15 of the past 20 tax years will be deemed to be UK domiciled for tax purposes. From the same date a person with a UK domicile of origin who was also born in the UK will be taxed as if they are UK domiciled for income and capital gains tax purposes when they become UK tax resident, even if they have previously acquired a non-UK domicile of choice elsewhere. There may be a small grace period before they are taxed as UK domiciled for inheritance tax purposes, but final rules are still awaited.

Basis of Taxation

Individuals who are UK resident and domiciled are taxable on their worldwide income and gains. A tax return is normally required where tax is payable or if certain tax reliefs (including those under double taxation agreements with other countries) are to be claimed.

Where a UK resident is non-UK domiciled, they can elect to be taxed on the remittance basis, being charged to UK tax only on UK income and gains and on foreign income and gains which are remitted to the UK. However, a remittance basis charge of £30,000 will be payable if the remittance basis is claimed by those who have been UK resident for 7 out of the previous 9 tax years. Higher charges are payable by longer term UK residents. In addition the personal income tax allowance and the capital gains tax annual exemption are lost if the remittance basis is claimed.

Income tax

For the current tax year (2016/17), the rate of income tax payable on taxable income, after deducting any personal tax allowances available, is 20% on income up to £32,000, 40% on income between £32,001 and £150,000, and 45% on income in excess of £150,000 net of any reliefs under double taxation agreements with other countries. If personal allowances are applicable, these are withdrawn at a rate of £1 for every £2 of taxable income over £100,000.

There are special rates for UK dividend income. The equivalent income tax rates are 7.5%, 32.5% and 38.1%, with the first £5,000 of dividend income not being taxable.

Employees coming to the UK to work may, depending on individual circumstances, be able to claim travel and subsistence expenses, trips to their home country and tax relief for duties performed outside of the UK as part of their employment.

Previous longer term UK residents returning to the UK after a period of non-UK residence of five years or less may have to pay income tax on certain types of income arising during the period of non-residence, such as certain pension payments, distributions from closely controlled companies, chargeable event gains and offshore income gains.

Capital gains tax (CGT)

Individuals will be subject to CGT on the sale of chargeable assets, such as real estate and shares. Currently, the maximum rate of capital gains tax is 20% (28% for disposals of residential property and carried interest).

Previous longer term UK residents returning to the UK after a period of non-UK residence of five years or less may have to pay CGT if they sold assets, held before they left the UK, during the period of non-residence.

Inheritance tax (IHT)

An individual with a UK domicile is liable to IHT at 40% on all worldwide assets. An IHT free nil rate band of £325,000 (2016/17) is available. Non-UK domiciled individuals (whether or not UK resident) are liable to UK IHT on UK situs assets, although UK assets owned by a non-UK company are not treated as being UK situs. From 6 April 2017, this treatment will not apply to UK residential property held by non-UK companies. However, from 6 April 2017 an additional inheritance tax nil rate band of £100,000 will be due in respect of the main

residential property. This band will increase by £25,000 in subsequent tax years until it reaches £175,000 in 2020/21.

Note that even if you have lost your domicile of origin in the UK, you remain 'deemed' domiciled in the UK for IHT purposes for the first three years after a change in domicile from the UK or until you have no longer been UK resident for any part of 17 out of the last 20 tax years (from 6 April 2017 this will change to 15 of the last 20 tax years).

National Insurance contributions (NIC)

Liability for NIC or social security in the UK or in the previous country of residence will be determined by the countries involved and any reciprocal agreements between them.

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