Friends Provident International

Your guide to taxation when returning to the UK

Like many British expatriates, you may choose to return to the UK to live for a period or even permanently. It is important that your financial plans are flexible enough to meet changes in your lifestyle such as becoming tax resident in the UK.

There are many things to consider when moving from one country to another. Careful tax planning is important as this can help you boost your finances by preventing tax eroding your savings and investments unnecessarily.

Tax planning does not need to be complex. If you stay up to date with the latest reliefs and allowances and invest your money in tax-efficient products, you can ensure that you don't pay any more tax than you need to.

This should be an ongoing process rather than a one-off activity, as taxes change regularly. You can get help with this from your financial adviser.

This guide provides you with information designed to assist with your financial planning on becoming a tax resident of the UK. As this document is only a guide and we do not give tax, legal or investment advice, please ensure you always speak with your financial adviser before making any decisions.

Understanding your UK tax status

As a UK resident you will pay income tax as an employee under the pay as you earn (PAYE) system. If you are self-employed or have income and gains on which tax remains payable, you will need to submit an annual tax return. If you do not receive a tax return but have assessable income and gains, you should contact HM Revenue & Customs (HMRC), otherwise you may be liable to tax penalties.

The UK tax system is administered by HMRC. On your return to the UK, you may need to register for Self Assessment if you start working for yourself or have other income or gains from the UK or abroad.

The extent of your liability to tax in the UK will depend on your residence and domicile status. The following explanations can help you to understand what your status is.

Residence

UK residence is determined by the UK Statutory Residence Test (SRT). If you live in the UK, you will normally be considered resident for the whole of the tax year. If you are returning to the UK after living abroad, you might qualify to have the year split into an overseas part and a UK resident part.

HMRC will use the SRT to establish if you are resident or non-resident in a tax year. The SRT comprises three tests:

1. One that will determine whether you are non-resident, the 'automatic overseas test'
2. One that will determine if you are UK resident, the 'automatic UK test'
3. A tie-breaker test, known as the 'sufficient ties test', when neither of the above two tests are conclusive in determining your residence status.

If you do not meet any of the 'automatic overseas tests' you will be considered UK resident if:

- you spend 183 days or more in the tax year in the UK; or
- your main home is in the UK; or
- you work full-time in the UK.

Domicile

The concept of domicile is different to that of residence. You will generally be a UK domiciled individual if the UK was the country of origin of your father, unless you have successfully changed your domicile.

If you are a UK domiciled individual:

- the UK can be thought of as your permanent home, and
- you continue to be UK domiciled even if not actually resident in the UK at the time.

You will remain UK domiciled if you have not taken sufficient steps to both extract yourself from the UK and permanently settle in your chosen new country of residence. Changing domicile is very difficult, with rules in place that create strong ties to the UK. You should take professional advice if it's your intention to adopt a new domicile. This is an important matter because, as a UK domicile, your worldwide estate on your death will be taxed and distributed according to the UK's Inheritance Tax laws and succession rules.

The UK tax system operates on a worldwide basis. This means that if you are a returning British expatriate, your income and capital gains will generally be taxable in the UK, regardless of the country in which they arise.

The UK tax system

The UK tax year runs from 6 April to 5 April. The taxes relevant to this guide are:

- Income Tax
- Capital Gains Tax
- Inheritance Tax

Income Tax

The income tax rates and bands for the tax year 2018/19 are as follows:

Taxable income (GBP)	Income tax rate
0–5,000	Starting rate 0%*
0–34,500	Basic rate 20%
34,501–150,000	Higher rate 40%
Over 150,000	Additional rate 45%

*Only applicable if non-savings income doesn't exceed **GBP 16,850**.

For example, if your non-savings taxable income after the personal allowance of **GBP 11,850** is **GBP 50,000**, you will pay income tax as follows:

Taxable income and rate (GBP)	Income tax payable (GBP)
34,500 @ 20%	6,900
15,500 @ 40%	6,200
	13,100

If you are a UK non-domiciled individual and you become UK resident, this will have an effect on your tax position, particularly on income and gains that arise from sources and assets located outside the UK.

Capital Gains Tax

Capital Gains Tax (CGT) is payable when you sell certain types of investment including shares. If you make a profit on the sale of certain types of property, the gain after deductions will be taxable at the main rate of either 10% or 20%, depending on your income tax bracket. The rates for residential property not eligible for Private Residence Relief are 18% and 28%.

For example, you are a higher rate income tax payer and you sell some shares for **GBP 50,000**. The profit after deducting transaction costs and the annual exemption from CGT of **GBP 11,700** is **GBP 20,000**.

Chargeable gain (GBP)	CGT rate	CGT payable (GBP)
20,000	20%	4,000

Inheritance Tax

Inheritance Tax (IHT) is payable on your estate when you die, at the rate of 40% on the value above your available Nil Rate Band (NRB) which is currently **GBP 325,000**. Transfers between spouses and civil partners who are both UK domiciled are exempt from IHT and it is possible for the survivor to inherit the percentage amount of unused NRB from their deceased spouse.

For example, if your estate is valued at GBP 1 million, the tax payable on your death is:

GBP 1 million less the GBP 325,000 NRB = GBP 675,000
GBP 675,000 x 40% = GBP 270,000

If you leave your entire estate to your spouse, who is also UK domiciled, having made no other chargeable transfers in your lifetime, your estate will not be liable to tax when you die. On the subsequent death of your spouse with an estate now valued at GBP 1.5 million, the tax payable would be:

GBP 1.5 million less GBP 650,000 NRB = GBP 850,000
GBP 850,000 x 40% = GBP 340,000

There is an additional nil-rate band when your residence is passed on death to a direct descendant (e.g. your child). The amount of the nil rate band will be as follows until April 2021:

- **GBP 100,000** in the tax year 2017/18
- **GBP 125,000** in the tax year 2018/19
- **GBP 150,000** in the tax year 2019/20
- **GBP 175,000** in the tax year 2020/21

Where your net estate is valued at more than GBP 2m this additional main residence nil rate band will be reduced by GBP 1 for every GBP 2 that your net estate value exceeds GBP 2m.

These examples show the importance of taking advice on how best to mitigate IHT to avoid a significant amount of your wealth passing to HMRC instead of your beneficiaries.

If you become UK resident and you are a UK domiciled individual, you will be liable to:

Income Tax
on your worldwide income.

Capital Gains Tax
on gains from your assets, including those located outside the UK.

Inheritance Tax
on your total estate, including assets located outside the UK, when you die and in certain circumstances during your lifetime.

Unilateral relief for foreign taxes paid and Double Taxation Agreements

As an expatriate, you could find yourself liable to taxation in your home country on income arising overseas that has already been taxed in the source country. In the UK, relief from this situation may be provided by way of either:

- unilateral relief given by HMRC against taxes already paid or
- through a Double Taxation Agreement (DTA) between the UK and the source country.

Unilateral relief may be granted by HMRC when a UK resident has paid non-reclaimable tax on the income in the country in which it arises. The tax already paid would normally be allowed as a credit towards your UK income tax liability.

The UK has in the region of 100 DTAs in force that determine which country has the taxing rights over your income when that income arises outside the UK. You should take professional advice on how a DTA may operate, if you have income arising overseas.

UK non-domicile status

It is possible to live in the UK as a resident but not be UK domiciled. For example, your spouse might not be British and when living in the UK may be a UK non-domiciled individual. This will have an effect on their tax position, particularly with income and gains that arise from sources and assets located outside the UK.

If a UK non-domicile becomes UK resident, it is possible to use the 'remittance basis' of taxation whereby overseas income and gains will not be taxable in the UK provided they are not remitted to the UK. This option will not be available where the individual has been resident in the UK in at least 15 out of the previous 20 tax years or where an individual was born in the UK with a UK domicile of origin and is tax resident in the UK. If a non-UK domiciled individual intends to live on a longer-term basis in the UK, and has more than **GBP 2,000** of unremitted overseas income, they will need to decide between paying:

- a remittance basis charge or
- UK tax on their overseas income and gains.

From 6 April 2015, the remittance basis charge is payable as follows:

- **GBP 30,000** for individuals who have been resident in the UK for 7 out of 9 previous tax years.
- **GBP 60,000** for individuals who have been resident for 12 out of the 14 previous tax years.

If the remittance basis option is chosen, the personal allowance is lost, and the annual exemption to capital gains cannot be applied.

Even as a non-UK domiciled individual, they may still be liable to pay IHT after living in the UK for 15 out of the previous 20 tax years or if the individual was born in the UK with a UK domicile of origin. This means their worldwide assets will become subject to this tax.

Tax efficiency of international life plans when you return to the UK

International life plans taken out while you are an expatriate can maintain their tax efficiency when you return to the UK.

Policyholder UK taxation after returning from overseas

Life insurance and critical illness policies

- Lump sum benefits are not taxable on receipt.
- Benefits remaining in your estate when you die may be subject to estate duties/IHT.
- May be used with a suitable trust to reduce IHT payable on your death.

Regular premium and single premium unit-linked savings policies

- Enjoy the benefits of gross investment returns inside your policy.
- Switch funds inside your policy without paying CGT.
- Take withdrawals for 20 years on a tax deferred basis, up to 5% per year of the premium(s) paid.
- Chargeable gains are subject to income tax at your marginal rate.
- Time-apportionment relief reduces the amount of chargeable gain that is taxable.
- Assign policy segments to a lower rate taxpayer when considering surrendering your investment.
- Use with a suitable trust to reduce IHT payable on your death.

Insurance based savings plans can bring you a number of tax planning benefits if you decide to return to the UK.

Capital accumulation – gross roll up

International life products are generally not subject to tax whilst the investments accumulate in value. This means your savings could grow free of tax, with the exception of certain withholding taxes.

You could also take advantage of a number of reliefs and allowances available to UK expatriates and residents both during the time you are growing your investment and when you start to withdraw money from the plan.

Time Apportionment Relief

If you have started your plan before returning to the UK, you should be able to claim what is known as Time Apportionment Relief, which is a deduction against the gains you made for the time you held the investment as a non-UK resident. The following example will help to illustrate how this works:

You invested **GBP 100,000** ten years ago and are surrendering the investment today for **GBP 180,000**.

You lived outside the UK for five years but have been UK tax resident for the past five years. In this example you will only be liable to income tax on half the gain, **GBP 40,000** not **GBP 80,000**.

Managing your investments – switching funds

As your investments grow, you may wish to switch funds to realise gains and invest in new opportunities. Buying and selling funds directly can create a liability to UK CGT, but by using life assurance products you should be able to avoid this and make decisions based on the state of markets rather than tax considerations.

Withdrawing money to support you in the future

There may come a time when you want to start using your investment to supplement other sources of income, such as your pension, or for capital expenditure such as buying property.

A key benefit for UK residents who have invested in life assurance savings plans is the ability to draw down the capital invested before releasing the profits. This creates a form of tax deferred 'income' payment.

You can withdraw up to 5% of the premium(s) paid into your plan on a yearly basis without paying income tax at the time of receipt. You can also aggregate these withdrawal payments so if, for example, you hadn't withdrawn any money for five years, you could withdraw 25% of the original investment.

Another flexible benefit is 'segmentation' where your plan is structured as a cluster of policy segments, each of which can be surrendered independently of the others or assigned to your spouse or adult children, if they pay less income tax than you.

Personal portfolio bond legislation

It is very important that you inform us if you become UK resident, so we can check the fund rules relating to your policy.

If your policy has fund rules allowing you to hold "personalised" assets (such as equities and bonds) it will be subject to a penal annual tax charge based on "deemed gains" equalling 15% of the policy premium, once you return to the UK.

This annual charge would occur on each policy anniversary. However, it is possible to avoid this annual tax charge if you consent to us changing your policy fund rules to allow collective investments only.

You should also contact your financial adviser to discuss your options.

Retirement planning

UK pensions have undergone significant changes. The UK Government introduced new rules from April 2015 to make them more flexible.

As your pension fund may well be one of your largest assets, it is important to take advice on the best way to structure your retirement planning, specifically as an expatriate who has spent periods of time living overseas.

As a UK resident you can, if the scheme rules allow, start drawing your pension from age 55. The benefits available to you include a tax-free cash lump sum of up to 25% of the pension fund. The new rules will provide a flexible method of drawing down the remainder to suit your personal circumstances.

If you are moving back to the UK having set up an overseas pension, you will be taxable on the income as you draw it.

If you had previously transferred your original UK pension to a Qualifying Recognised Overseas Pension Scheme (QROPS), you will now be subject to the UK pension rules on what benefits can be taken.

Our retirement planning guide for UK expatriates, 'Securing your future' may also be of interest to you. For more information about retirement planning, please speak to your financial adviser, or visit our website.

Succession planning and IHT

If you are a UK domiciled individual, your worldwide estate on death will be taxed and distributed according to the UK's IHT laws and succession rules. However, as an expatriate, you will most likely have acquired assets in different countries with different laws on how they will be taxed and be passed on, if you die.

An international life company may require sight of a Grant of Representation before paying any monies on your death to your personal representatives. Before this Grant can be applied for, your representatives will first have to obtain the equivalent legal documentation in your home country. This whole process can be lengthy, creating considerable delays before investments can be passed on to those who need them.

You can avoid such delays by planning ahead and using beneficiary nominations and trusts, where appropriate, to ensure the smooth transfer of wealth to your beneficiaries.

Our estate planning guide for UK expatriates, 'Passing on your wealth' may also be of interest to you. You can get this from your financial adviser, or on our website. Estate planning is a complex matter – you should obtain independent advice on how best to proceed.

This guide has covered: understanding your tax status, the UK tax system and the tax efficiency of international life plans.

When discussing returning to the UK with your adviser, you may also wish to cover:

01 Obtaining valuations on your UK and overseas property assets for CGT purposes.

02 Taking advice on the tax implications of retaining overseas assets.

03 Using surplus cash to boost your UK pension investments.

04 Reinstating your name on the electoral roll.

05 Ensuring your UK income tax returns are up to date.

06 Checking that your UK driving licence is still valid.

www.fpinternational.com

Visit our website to learn more about our range of flexible savings, investment and protection plans.

Speak to your financial adviser today to see how we could help you plan for your return to the UK.

About Friends Provident International

We are a leading financial services provider, with a reputation of trust, commitment and integrity, offering financial solutions to customers throughout their lives.

Friends Provident International does not condone tax evasion and the company's products and services may not be used to evade taxes.

The information in this guide assumes that the UK expatriate is not subject to Scottish income tax.

Please note that the tax rates and allowances provided in this document are those announced in the 2017 UK Autumn Budget for the 2018/19 tax year. They are not guaranteed to become law.

This document is for information only. It does not constitute as investment advice or an offer to provide any product or service by Friends Provident International.

Please seek professional advice, taking into account your personal circumstances, before making investment decisions. We cannot accept liability for loss of any kind incurred as a result of reliance on the information or opinions provided in this document.

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