



Financial Action Checklist for British Expatriates

Iain Yule's guide to the tax and financial planning choices open to those living and working abroad

Introduction

If you are leaving Britain to live abroad there are a number of financial measures you can take now to save you problems later. These apply whether you are leaving on a work assignment or as a permanent move.

Many expatriates have come to regret not sorting out their tax and financial affairs before they go. This is because they may later and inadvertently break tax rules. Or they may fail to take advantage of a financial planning opportunity.

There are complicated rules governing how UK expatriates are treated by the UK government, the taxman and social services. They are made more difficult when you try to balance them with the rules of the country to which you are moving.

It may be that you need to seek specialist tax and financial planning advice. But this brief guide provides information on the action you might consider taking.

Remember that action taken now might save you hassle - and money - later.

- Your Residence Status

- Property

- Taxation

- National Insurance

- Financial Planning

Your Residence Status

First, you need to consider how going to live abroad affects **Your Residence Status** in the eyes of the UK authorities.

You should certainly make sure you are non-resident, as this has major tax advantages (see the Taxation section of this guide).

If you are going to work abroad, then you are provisionally considered non-resident of the UK from the day you leave.

But you have to confirm this by remaining out of the country for a complete tax year, which runs from 6 April until the next 5 April. You are allowed brief visits home.

The relatively new Statutory Residence Test helps you and the taxman establish if you are truly UK non-resident.

The first step in establishing UK residence is to look at the 'basic rules', which will establish whether you are either:

- Conclusively non-resident: 'the automatic overseas test', or
- Conclusively resident: 'the automatic residence test'
- Or whether, if neither of these apply, it will be necessary to consider other connection factors and day counting: 'the sufficient ties test'.

One of the 'automatic overseas tests' will apply when, broadly, you leave the UK to carry out full-time work abroad for at least a complete tax year.

Provided you are present in the UK for no more than 90 days in the relevant tax year and no more than 30 days are spent working in the UK in that tax year, you should be treated as non-UK resident.

You will also have to pass the 'Sufficient Hours Overseas' test, meaning:

- You work sufficient hours overseas during the tax year concerned, and
- During the tax year, there are no significant breaks from overseas work, and
- The number of days in the tax year that you do more than three hours' work in the UK is less than 31, and
- You spend less than 91 days in the UK in the tax year.

You will be considered to be working sufficient hours overseas if you work for an average of at least 35 hours per week, whether you are an employee or self-employed.

ACTION: Get Form P85 from your local tax office or at www.hmrc.gov.uk. This allows you to apply for non-resident status. Fill it in and return it before you leave the UK.

ACTION: Thoroughly familiarise yourself with the Statutory Residence Test. You can find a guide to it at www.worldofexpats.com/british-tax-and-residence-rules. You may also need the help of a properly regulated, expert expat financial adviser.

Property

Next, what about your **Property** in the UK and overseas?

If you own a property in the UK, do you intend to leave it empty, or are you going to rent it out? Leaving it empty affects your mortgage, home insurance and council tax.

There are three things you must do.

ACTION: Contact your mortgage lender to let them know you are going abroad and leaving the property empty, and make sure they are satisfied with this. You need your lender's permission to rent out your property.

ACTION: Contact your local authority, as leaving an empty property may affect the way you are assessed for council tax.

ACTION: Contact your home insurer and find out if you are in breach of the terms of the policy. It may be that you have to arrange for someone to visit your property regularly and check on it. Or you may need a specialist insurer to cover the property if it is being left vacant.

If you let out your property you will be taxed. The UK taxman will want you to pay tax on any UK-source income, and has ways of levying it. If you use an agency to rent out and

manage the property for you they will deduct income tax at source from the rental and pass it on directly to the taxman.

But if you have UK source income this means you also have a UK personal income tax allowance (£10,000 in tax year 2014/15). If your income falls below this amount you may not have to complete a UK tax self-assessment form, or pay the tax.

- *Note that there is a consultation on possibly restricting the UK personal income tax allowance to UK residents only.*

If your UK income exceeds your personal tax allowance then you should complete a UK tax self-assessment form. See the Taxation section later in this guide.

ACTION: If you have UK rental income, get hold of explanatory leaflets and forms from your tax office or www.hmrc.gov.uk to let the taxman know about it.

If you are buying foreign property while abroad it is important not to leave everything in the hands of the estate agent. The contract will be written in the local language and different laws will apply to the transactions.

ACTION: To avoid foreign property purchase problems, appoint a local lawyer (or notary) who can explain in English the implications of the foreign law contract before you sign anything.

Taxation

While you are abroad it is often possible that you will have less **Taxation** to pay in the UK. If you are a non-resident the UK taxman should not tax you on money earned abroad. Your new 'host' country may levy much lower taxes than the UK does.

If you leave the country part way through a tax year, then you may be due a refund of some of the tax you have already paid on your UK earnings.

If you keep a bank account back in the UK, it should be possible to have any interest earned on your savings paid without deduction of income tax.

ACTION: Get hold of the forms from your local tax office or www.hmrc.gov.uk which tell you how to have bank interest paid without deduction of income tax. And make sure you have asked for a tax refund.

You should open a bank account in your new country of residence and also an offshore bank account where your savings can grow tax-free. See the Financial Management section later in this guide.

Expatriates in Europe who hold offshore bank accounts can opt to have interest paid gross and disclosed to the tax authority of their country of residence. Otherwise a withholding tax will be levied on interest they earn. But some accounts let you defer the interest so no tax applies.

In the UK, if you make a profit on the sale of an asset you are liable to pay capital gains tax (CGT). This applies on asset sales you make before you leave or within five years of leaving the UK.

If you are selling your main home, no CGT is payable on any profit you make as long as the property is sold within three years of you becoming non-resident.

• *Note that there is a consultation on charging CGT on asset sales, including property, by UK non-residents from April 2015.*

ACTION: If you have an asset you wish to sell, but it has a lower price now than when you bought it, sell it before you become non-resident, not after. In this way you achieve a tax loss which can be carried forward until you are resident again and can be used to lower any future CGT bills.

If you are UK non-resident you may think you are not subject to UK inheritance tax (IHT), just as you may be able to avoid UK income and gains taxes. But IHT is levied on people who are UK-domiciled, resident or not, and very few expats manage to convince the taxman they are non-domiciled.

To become non-UK domiciled Britons have to sever all links with the old country for several years and show no sign that they are likely to return. This is a very difficult status to establish, and you have to convince the UK taxman of the merits of your case.

So, if you die while abroad the UK taxman will levy IHT at 40% of the value of your estate above £325,000. Couples can arrange to shelter up to £650,000 of their estate.

ACTION: If you have assets beyond the IHT allowance of £325,000 it may be worthwhile discussing with a specialist tax adviser how you can shelter some assets from potential IHT charge.

Income and gains made while you are abroad may escape the clutches of the UK taxman, but they may still be taxable in your 'host' country.

ACTION: Breaking local tax rules, even inadvertently, can land you in a lot of trouble, and may prevent you coming home. Check with your employer's personnel department or a local tax adviser that you are correctly complying with local tax laws.

Many Britons working abroad find that they have two tax demands on the same income, an unhappy position in which to find themselves. The tax authorities of the country from which the income arises, and of the country of origin, may both be seeking their fiscal 'cut'.

However, many of the world's governments have introduced double taxation agreements to reduce or eliminate the amount of tax to be paid 'twice'. Britain has an extensive list of agreements in place.

If you are trying to reduce or lose elements of double taxation then you must look in detail at the agreements between the two countries which claim you as one of their taxable own. You may well need a specialist tax adviser to do this for you.

ACTION: As a first step, Britons abroad can look up the double taxation section of the HM Revenue & Customs website (www.hmrc.gov.uk), which details the agreements in place and what they cover.

Many expats use the services of a limited company – often based offshore - or a specialist invoicing service to collect their overseas earnings, which may reduce the amount of tax they have to pay.

ACTION: Check with a tax specialist if a limited company arrangement or invoicing service could save you tax.

National Insurance

Many expats end up with large gaps in their history of paying **National Insurance** (NI) contributions, and so are not eligible for a full UK state pension when they retire.

Even if you have missed a relatively small number of years' contributions, you may face a reduced level of state pension.

If you have 'missing years' when you have not been paying NI you can 'buy' some years back.

ACTION: Contact the Pensions Service at www.gov.uk and describe your own circumstances. They can tell you how many years' NI contributions you have accrued and provide a state pension forecast. Have your NI number to hand.

Financial Planning

It is common for many people to use the point of departure abroad as a useful time to review their **Financial Planning**.

A crucial first step in this is to make sure that the appropriate banking arrangements are in place to make your new circumstances easier ... and financially rewarding.

Since it is not tax-efficient to be sending home any surplus cash from your foreign location, beyond what you need to settle any bills in the UK, you should set up an offshore bank account.

With an offshore bank account you can do all the things you can with a UK bank account - and more besides. You can operate an offshore account from anywhere in the world, often using the internet.

Offshore banks are used to dealing in a variety of currencies, and so can offer you accounts and services in sterling, dollars and euros.

Savings interest is paid without deduction of tax to most savers, though EU residents have to tell their savings institution that their details can be disclosed to their tax authority if they wish interest to be paid gross.

Expat savers should check with their local tax authority as to whether or not overseas interest needs to be declared.

ACTION: Open an offshore bank account. Your UK bank may have an offshore offshoot.

You should check that your life insurance covers you for your new circumstances abroad. You may well find it is better to take out insurances to cover your new circumstances before you actually get there, rather than try to do it retrospectively.

ACTION: Inform your life insurer that your circumstances are about to change and arrange additional cover if necessary.

While abroad you may not be eligible to use local healthcare facilities should you have an accident or fall ill. Your employer may provide some cover, but it may only apply when you are at work. Many expatriates therefore take out a medical expenses insurance policy which provides cover across international boundaries.

This insurance means that the cost of seeking foreign medical treatment, and perhaps being flown home, will be reimbursed. Your financial adviser or an insurance broker can help you find an appropriate policy.

ACTION: Take out international medical expenses insurance cover.

Moving to another country also opens up new financial opportunities for many expats. For those working abroad, surplus income may be built up and this should be invested wisely. If this money is sent back to the UK it faces being assessed for UK income tax.

So, sensible expats set up investment schemes offshore, in tax-favourable places such as the Channel Islands and the Isle of Man. A variety of investment funds and other savings schemes are available offshore.

ACTION: Find out from a UK-regulated financial adviser which offshore investment products are most suitable for you.

If you are saving for retirement, then how you do this may be affected when you become an expatriate, so it is worthwhile exploring your opportunities before you leave.

If you have a personal pension, then it is possible to continue contributing to it for up to five years while working abroad. Beyond this time, you may wish to consider building up offshore savings as alternative 'pension schemes'.

ACTION: If you have a personal pension, inform your pension provider of your new circumstances, and remember the five-year limit to personal pension contributions while abroad.

If you are being sent abroad by your employers and you have an occupational pension with them, you can continue to contribute to it for up to four years as a matter of course. Beyond that, you will need to seek the taxman's approval to continue to contribute.

Finally, expatriation may be the right time to consider making a Will, or reviewing it if you have already written one. The point of a Will is to make sure your estate is passed on to heirs as you wish it to be after your death. The problem is that your new home country's legal system may not recognise the terms of any Will written under English law.

To make sure your wishes are carried out, you may well need to make an additional Will, written under the terms of your host country's inheritance laws.

ACTION: Seek legal advice about the inheritance laws of your new country, and if necessary make a new Will.

This brief guide should assist you in sorting out your money before you go abroad. Leaving the country can be stressful - but new financial opportunities also open up. So plan ahead to make the most of your time abroad.

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Expat & Emigration Division

Alexander Beard has been in operation for more than 27 years and can help British expatriates wherever they are in the world with pension, investment and protection advice. We have a proven track record of providing a broad spectrum of financial services in cross border financial planning.

The keys services we offer:

- Saving / investing excess income from overseas employment in a tax efficient structure
- Advice for your UK pension funds and ensuring they can be accessed in a tax efficient manner
- Life, Critical Illness and Income protection for non UK residents
- Investing Lump sums to achieve capital growth or produce an income
- Financial planning for the Foreign Account Tax Compliance Act (FATCA) if you are a US connected individual

Our headquarters are in the United Kingdom (Chester); we also have other UK offices in Bath, Leeds and London with international offices in Australia, The Netherlands, New Zealand, South Africa and U.S.A.

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