PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

Expats returning to the UK

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Every year a significant number of UK nationals who have expatriated abroad return to the UK. This will be for many different reasons but one thing everyone has in common is, just as you will have considered your financial position before you left, you need to do so again before you return.

This guide is for UK domiciled individuals returning to the UK. If you are non-domiciled, please see our non-domiciled guides. It is important to note that even if you considered a return previously, the rules for returning expats may well have changed. Here are some of the key items to review or take advise on if you are considering a return to the UK.

UK Residential Status

It is important to know when you will become a UK tax resident and to check that you have not done so already inadvertently. This will enable you to plan when to take action and help consider if you can tweak your movements to a better time for becoming tax resident in the UK.

To remove ambiguity, the UK introduced the Statutory Residence Test, which considers a number of factors to determine when you become a UK resident. You do not need to be resident in the UK for the full year to become a UK tax resident. Failing to consider the rules can lead to becoming UK resident accidently.

Broadly, if you spend 183 days or more in the UK and have a home here, there is a good chance that you are a UK tax resident. However, the time required in the UK can be reduced dependant on the number of other 'ties' you have to the UK, which are:

- **Family** – if you have a spouse, civil or co-habiting partner or minor children in the UK.
- **Accommodation** – having accommodation in the UK which is available for a continuous period of at least 91 days (ignoring breaks of less than 61 days) and spending at least one night there.
- **Substantive work in the UK** – 40 working days or more (a working day is defined as more than 3 hours of work)
- **UK presence in the previous two tax years** – spending more than 90 days in either of the previous two tax years

If you meet three of the ties, you will be tax resident after 91 days in the UK. If you meet all four ties, you will be tax resident after 46 days in the UK.

Understanding these rules and carefully tracking your movements is key to applying them correctly to your circumstances. Generally, you are tax resident (or not) for the full tax year but there are circumstances where split year treatment may apply, such as a change in your jurisdiction of full-time work.

Before you become UK resident

Whilst you are not resident in the UK, you may be aware that you will only be taxed (in the UK) on income or gains that are realised in the UK. Your tax position on non-UK assets or income will depend on the local rules where you are tax resident.

Be mindful of the UK's temporary non-resident rules. As a returning expat you are likely to be UK domiciled. Although you will not be taxed in the UK on foreign income and gains whilst resident abroad, if you return to the UK in five years or less, any taxable gains realised whilst temporarily non-resident will become taxable in the year of your return. This generally only applies to assets owned before leaving the UK, but if you returning to the UK as a temporary non-resident, review any disposals made and ensure you identify if any tax will become due on your return.

However, if you have been non-resident for more than five years, you may want to review your assets and consider if realising any income or gains before your return would be beneficial. This will depend on the tax position you have in your current residence versus the tax rate that would apply on return to the UK. With the UK generally being the higher tax jurisdiction, there is often advantages to taking action before you return, rather than having to pay UK tax on income or gains accrued whilst non-resident.

Review assets and structures

While you have been non-resident you may have accrued assets or investment structures that need reviewing before returning to the UK. Although they may have been very efficient whilst non-resident, it is important to check what the current UK rules are as they may have changed.

Top Tips:

- Start your planning early
- Understand when your UK residency for tax purposes will start
- Review existing assets and structures
- Build a plan to efficiently manage your assets and tax liability on return

Examples:

- Non-UK investment funds – Foreign collective investment funds have an adverse tax treatment in the UK as gains are treated as "offshore income gains" rather that the more favourable treatment of capital gains. Investing in these funds may result in a loss of the favourable tax-free capital gains allowances or lower capital gains tax rates as these holdings are less efficient that their UK equivalent. Equivalent funds in the UK can be sourced, or foreign funds which have applied for UK reporting status also have the same treatment as UK funds.
- Investment bonds – Investment bonds can be efficient tax deferral structures in many jurisdictions. However, the tax treatment can differ between jurisdictions and you should check what the treatment would be applicable to your existing structure and review if any action is advisable, or whether the structure will still be beneficial once back in the UK.
- Trust settlements - If you have settled any trusts whilst non-resident, ensure you have identified what the UK position will be and consider if any action would be beneficial before returning. Confusion may arise as returning expats that are UK domiciled do not benefit from the same rules as non-domiciled individuals coming to the UK, e.g. excluded property trusts.

Pension plans

When leaving the UK, many individuals may have taken the decision to transfer their UK pension overseas. This is perfectly legitimate, but if planning to return to the UK you may wish to confirm if the benefits of holding your pension overseas is still beneficial. For example, review the tax treaty between the jurisdiction that your pension is held in and the UK to ensure that you do not suffer excess tax charges or duplication. Additionally, overseas pensions or QROPS tend to be more costly than their UK equivalents (such as a SIPP). Unless there are benefits to keeping the overseas scheme in place, it may be more cost efficient to transfer your pension back into the UK.

It is important to note that there is no requirement to transfer pensions overseas initially, or transfer your pension back to the UK. Indeed, there may be good reasons to keep your pension overseas and so taking independent advice in this matter is encouraged.

You may also wish to check your entitlement to a UK State pension, which will primarily be determined by your UK national insurance record. However, if you have worked aboard in a jurisdiction where the UK has a social security agreement, you may be able to gain credits towards your UK National insurance record. The International Pension Centre may assist with checking eligibility: https://www.gov.uk/international-pension-centre

Inheritance Tax

As a UK domiciled individual returning to the UK, your UK inheritance tax position will be unchanged. Your global assets will be subject to UK inheritance tax. However, what may change is your position in relation to where you were previously resident, so you should review and if necessary, seek advice on any structure or planning you put in place whilst non-resident. If you are retaining assets in a foreign jurisdiction, also review any treaties that jurisdiction has with the UK and consider any remaining obligations that you may have outside of the UK.

It may also be prudent to also review your will and UK inheritance tax exposure, and incorporate these considerations in your financial planning.

When to start planning

As with all types of financial planning, the earlier you start the better. Generally, it is best to seek advice at least 12–18 months before your intended return to the UK, although many individuals do so up to three years beforehand, so that there are no unforeseen surprises.

At Partners Wealth Management, our team of specialist advisers with international experience are on hand to provide advice and guidance. Through our private office connections, we can also help you find suitable tax and legal experts to meet your requirements, as well as other services like currency exchange or property services.

* We're here to help

If you have any question or would like to discuss how we can be of assistance, please contact Nathan Prior, Head of International on 0207 444 4053 or email nprior@partnerswealthmanagement.co.uk

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