PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

# The Statutory Residence Test

WHAT IS THE SRT?

KEY COMPONENTS OF THE SRT

THE AUTOMATIC OVERSEAS TESTS

THE AUTOMATIC UK TESTS

THE SUFFICIENT TIES TEST

In today's society, mobility is an increasing aspect of people's lives. Every year, many families move in and out of the UK. Regardless of the reason, whether it be for work, retirement, or simply study, it is important to realise that moving will have both tax and financial implications. The COVID-19 pandemic may have impacted peoples' tax residence without them even realising. As always, proper planning is paramount to avoid creating further tax liabilities.

Note that being considered a UK tax resident would generally imply being liable for UK tax on worldwide income, unless an individual is able to claim the remittance basis, whereas a non-resident will be liable for tax on their UK sourced income only.

Residence and domicile are key considerations of tax and financial planning. For many Europeans, their country of origin will not make the distinction, however, they are crucial points for a person's tax liability in the UK. This guide is part of our series explaining residence, domicile, and the concept of remittance; which have interlinking consideration and may be best reviewed together. Our guide is intended to provide a general overview of the topic only and we recommend that expert advice should be sought to discuss any specific situations.

## What is the Statutory Residence Test (SRT) and why is it important?

Where an individual is taxed on their income and gains each year, it is generally linked to their tax residence. Therefore, in order to understand and plan your personal tax position, you must first determine where you are considered tax resident.

Assessing if and determining if or when an individual becomes a UK resident has not always been easy. For many years, this was subject to interpretation until the introduction of the Finance Bill 2013, which introduced a new Statutory Residency Test. Often referred to as the SRT, it provided clarification on the subject, albeit still with some complexity.

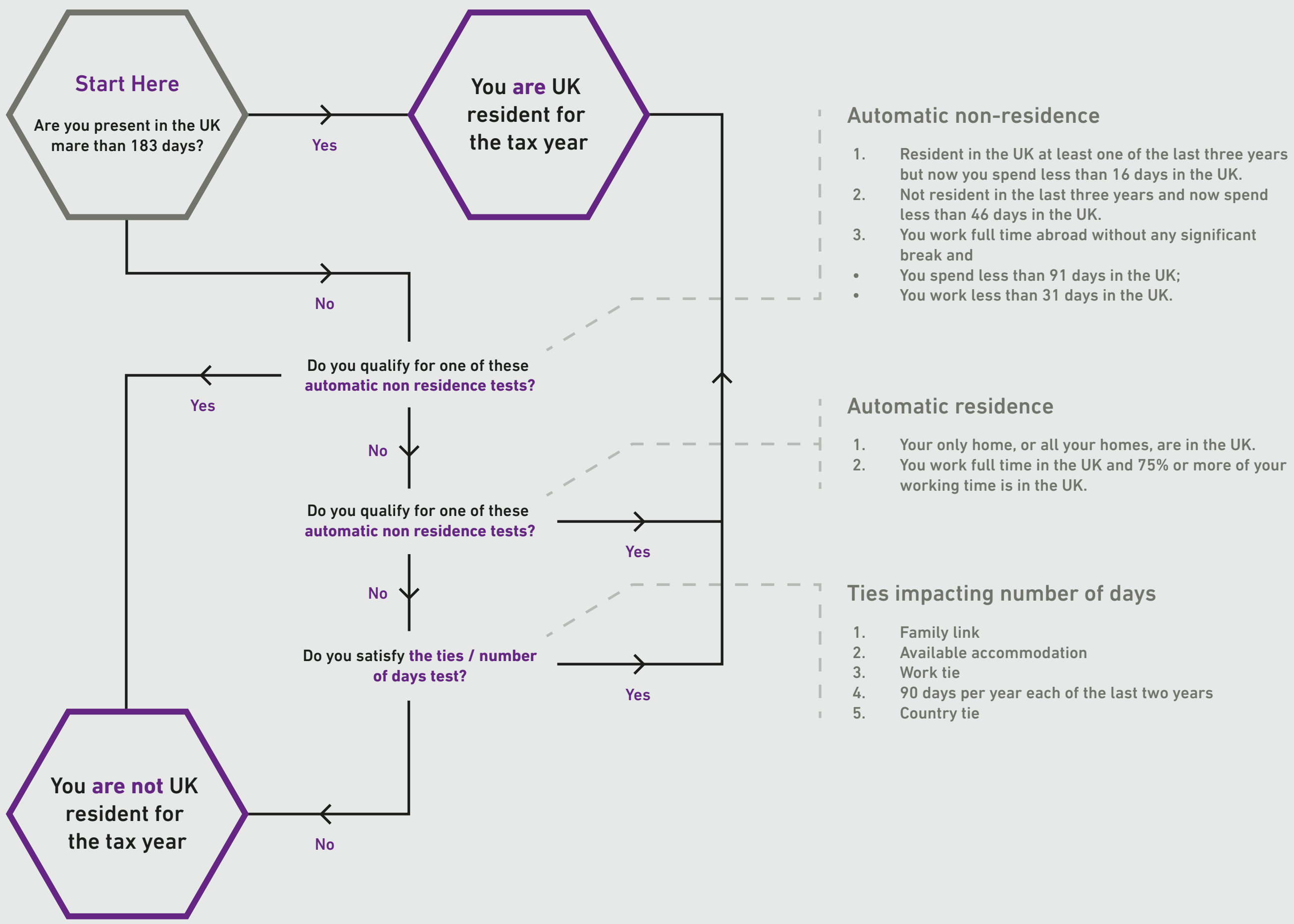
The SRT offers a relatively methodical route to assess residence status for a given tax year. Each tax year is examined separately, as well as each individual being assessed separately, so residence in the UK may be obtained in one year but not the next, or vice versa. Be mindful, however, that with over 200 pages of notes accompanying the SRT rules, it remains important that individuals seek personal advice on their own circumstances.

The SRT consists of a number of stages and a variety of rules that, in combination, determine whether an individual is UK resident or non-UK resident for tax purposes in a particular fiscal year.

To determine residential status, you progress through the following three 'tests', moving onto the next stage only if required:

1. Automatic non-residence test
2. Automatic UK residence test
3. Sufficient ties test

## The Statutory Residence Test




## There are five potential ties considered in the final test, which in turn impact the number of days an individual can be present in the UK:

### 1. Family tie

If a spouse, civil partner or common law equivalent, or minor child is resident in the UK. There are significant rules around minor children and if they are your only link.

### 2. Accommodation tie

When a home or other accommodation (including holiday homes or similar) remains available for a continuous period of at least 91 days, and at least one night is spent at that accommodation in the tax year.

### 3. Work tie

This becomes effective when someone is in the UK for at least 40 days in a tax year and works for three hours or more per day.

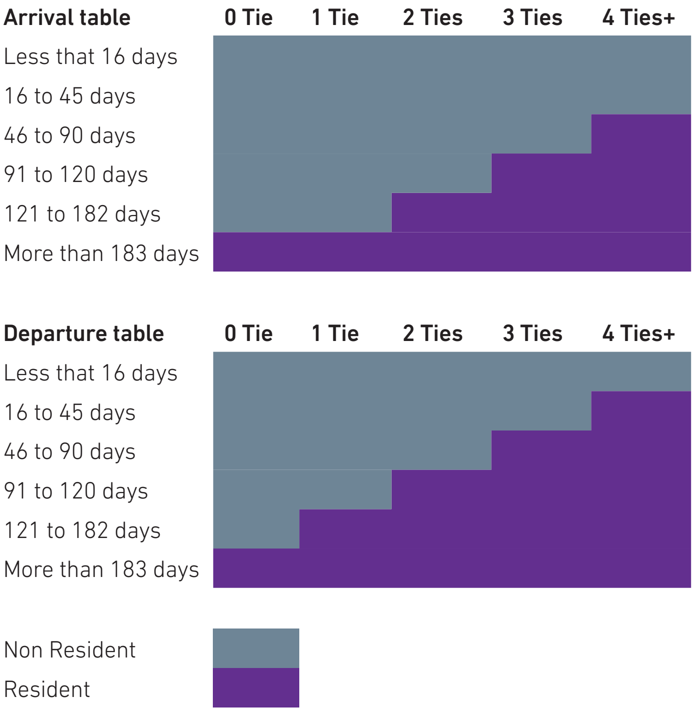
### 4. 90-day tie

If more than 90 days are spent in the UK in any of the previous two tax years.

### 5. Country tie

If more days are spent in the UK than in any other single country in a given tax year. This tie is only relevant for those who have been a UK resident for the previous three years and therefore will most likely only impact people who are leaving – or planning to leave – the UK.

Once an individual has identified which of the above ties apply, the table below can be used to identify how many days the individual can be present in the UK, before they are UK tax resident.




Normally, a day counts as a UK day if the individual is in the UK at midnight. However, there are several factors that may trigger an anti-avoidance rule by which a day will be regarded as spent in the UK if present at midday instead.

There are also specific rules regarding transit days that may allow a person to be physically in the UK without such days counting.

Note that the above is only in relation to identifying your UK tax residence. Ordinarily, it is only possible to be resident in one country in a single tax year, but the SRT also introduced specific rules and guidelines regarding split year treatment. There are additional rules regarding splitting years, and it may be possible to qualify for residence in another country as well as the UK.

Fortunately, the UK does have many tax treaties with other countries to avoid the risk of double taxation in such circumstances and these will need to be followed to determine which country has the primary right to tax the individual. In the last couple of years, this has become particularly important as the outbreak of COVID-19 may have displaced people around the globe. People may have ended up spending more or less time than anticipated in a certain country. This would normally have an impact on their residence. "Exceptional circumstances" might be granted if a person has spent more time in the UK unexpectedly as a result of COVID-19.

This is just a brief overview of a complex area of tax residence. Under specialist financial planning and tax advice, the SRT can be used to determine an individual's position and identify planning opportunities.

## We're here to help

Setting up appropriate financial planning around the concepts of residence, domicile and remittances is what we excel at. Our specialist team has the knowledge, experience and professional connections to support you in optimising your personal financial planning.

For more information on the SRT or any of the concepts noted here, please contact one of our financial advisers.

PARTNERS WEALTH MANAGEMENT

Partners Wealth Management
20 St Andrew Street
London
EC4A 3AG

020 7444 4030
info@partnerswealthmanagement.co.uk
**partnerswealthmanagement.co.uk**