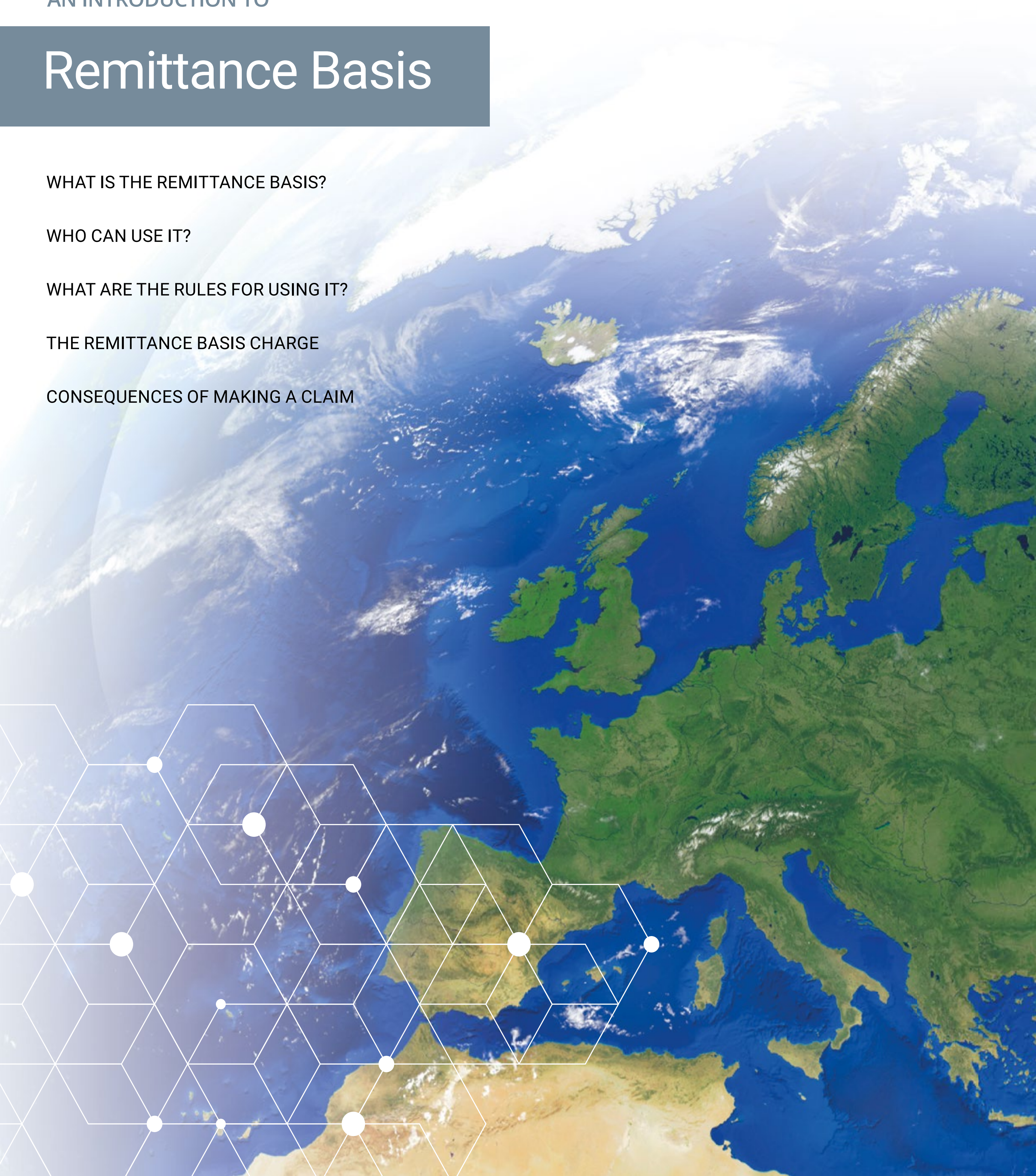
PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

Remittance Basis



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Every year a significant number of individuals and families relocate abroad, whether this be leaving the UK or settling in this country. Whatever clients' reasons for moving, there are numerous things to consider, particularly in relation to taxation and therefore your financial planning. This guide is one in a series providing an overview of key topics within this area, in this case particularly focusing on the issues surrounding the remittance basis of taxation.

The UK is regarded as an attractive jurisdiction for individuals to relocate to for numerous reasons including the favourable tax regime for non-domiciled individuals (please refer to our Domiciles guide). In the early years of becoming a UK resident, a non-domiciled individual can shelter their offshore assets, investments and income from UK taxation.

Understandably there has been considerable publicity regarding the way long-term UK resident non-UK domiciled individuals are taxed. In recent years there have been a series of legislative measures significantly altering the taxation landscape in this area. As a result, the rules have become increasingly complex, heightening the need for non-UK domiciled individuals to gain a good grasp of the various tax provisions that will apply to them. Indeed, an incorrect understanding of the rules, or failure to correctly submit a tax return to HMRC, can result in severe adverse financial consequences.

What is the remittance basis?

The UK fiscal system typically taxes individuals who are resident in the UK on an arising basis, with tax paid on worldwide income and capital gains as they accrue. The remittance basis, however, is an alternative tax treatment available to individuals who are resident but not domiciled in the UK. It provides the opportunity to 'defer' the UK tax charge in respect of any foreign income and capital gains. As a result, overseas income and gains are only taxed in the UK when they are actually remitted to this country (physically brought in or spent onshore), which means that if they remain offshore, any potential tax charge can be deferred indefinitely.

Who can use it?

In order to use the remittance basis of taxation, an individual must be resident in the UK and either not domiciled (or deemed domiciled) in the UK or not ordinarily resident in the UK. In the latter case, individuals can use the remittance basis in respect of foreign income but not foreign gains, unless they are also not domiciled in the UK.

An individual must elect to be taxed on the remittance basis year by year but for many it is not an obvious decision to make. In cases where a taxpayer has used the remittance basis in a previous tax year and then brings overseas income or gains from that year to the UK at a later date, they will still be liable to UK tax on the remittance, even if not claiming the remittance basis in the later fiscal year. Planning and record keeping are required in order to keep track of what offshore income and gains have not been taxed. Maintaining segregated accounts of income gains and 'clean capital' are essential to maintain the ability for remittance without charge.

What are the rules for using it?

Within the first six years of residence, an individual can claim the remittance basis of taxation without charge. However, after residence in the UK for at least seven of the previous nine tax years, individuals who claim the remittance basis will be subject to a charge.

After this, consideration needs to be given as to whether the cost of using the remittance basis outweighs the potential benefit.

The remittance basis charge

Individuals wishing to use the Remittance Basis Charge (RBC) who have been resident for at least seven out of the previous nine years have to pay a £30,000 annual charge. Those who have been resident for at least 12 out of the previous 14 tax years have to pay an increased RBC of £60,000 per year. Individuals can decide year by year whether they elect the RBC and that charge does not necessarily apply every year.

Prior to 6 April 2017, there was also a £90,000 charge for non-domiciled individuals who had been UK resident for 17 out of the past 20 years. However, since the 2017/18 tax year, this higher fee no longer applies due to the deemed domicile changes introduced by HMRC in April 2017, which resulted in the remittance basis no longer being available to this particular group of individuals.

Whichever remittance basis charge is applicable, it must be paid in addition to any other UK tax due. As a result, it may only worthwhile for individuals who have a significant amount of foreign income or capital gains in a given tax year, which they do not expect to remit to the UK.

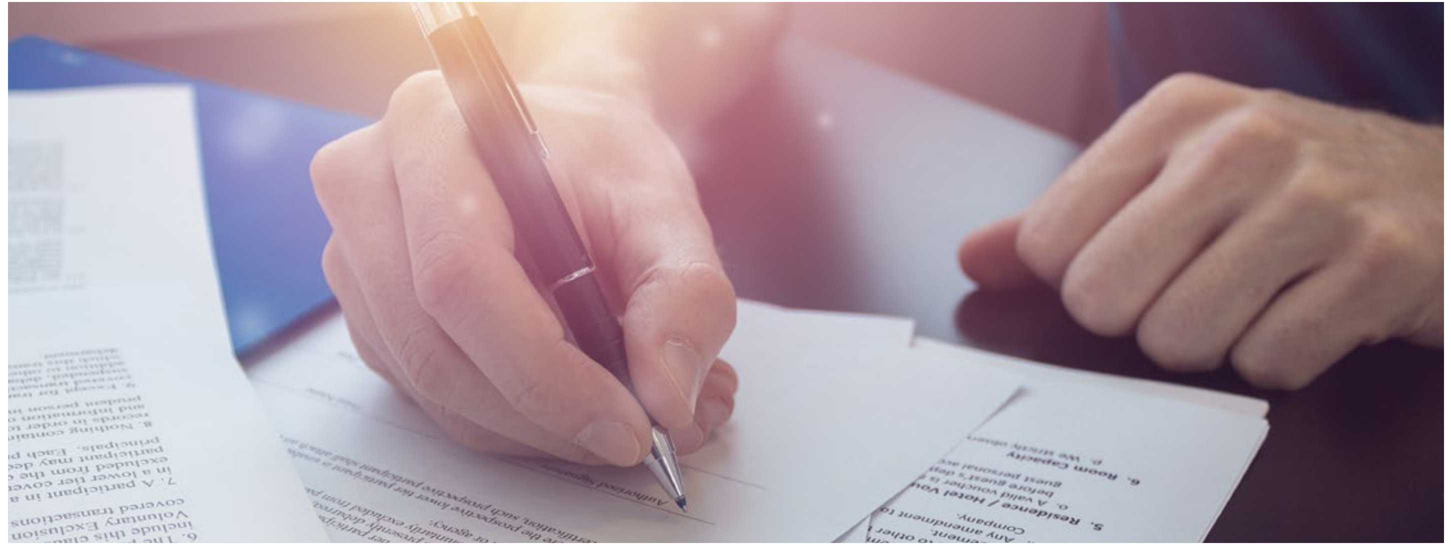
Careful planning can assist individuals make provisions for paying the RBC using their offshore assets, without having to use up their onshore liquidity or clean capital.

Consequences of making a claim

A key consequence associated with making a remittance basis claim is that an individual will lose any tax-free allowances generally available to individuals tax on the arising basis. In other words, they will not be entitled to either a personal allowance for income tax purposes, or an annual exemption for capital gains tax purposes for the particular fiscal year relating to their claim. The one exception to this rule is non-UK domiciled individuals with unremitted foreign income and gains under £2,000 in a tax year.

Again, careful planning is required to consider whether the loss of allowances, the cost of the applicable RBC and the potential future restriction (or taxation) of future remittances, make it suitable for an individual to claim the remittance basis or to pay tax on the arising basis.

As provisions within this area are so complex it is essential to seek expert advice in order to maximise tax efficiency. We have both the experience and knowledge required to help our clients with a range of international and multi-jurisdictional needs, and we are only a phone call or email away. So, if you have any questions or would like to discuss any issues relating to remittance basis of taxation and your specific needs, please contact Nathan Prior, Head of International, on 020 7444 4053 or email nprior@partnerswealthmanagement.co.uk.



Latest update

We recommend that your personal circumstances and planning is regularly reviewed as rules do change over time. In the Spring Budget 2024, the government announced the abolition of the tax rules for non-UK domiciled individuals to be replaced with a residence-based regime which will begin on 6 April 2025. The new regime is intended to be much simpler, ensuring that all UK residents who stay in the UK for over four years will pay the same tax on their foreign income and gains, regardless of their domicile status.

Individuals who come to the UK will only be taxable on their UK income and gains for the first four years of UK tax residence, assuming they've not been UK tax resident in the preceding 10 years.

There will be transitional provisions, which will allow for a repatriation of foreign income and gains, taxable on remittance to the UK, for two years from 6 April 2025 at a flat rate of 12%.

For current non-domiciled individuals capital assets should, we believe, be rebased to 5 April 2019 values for disposals after 6 April 2025, provided the assets were held at 5 April 2019. However, the exact date for rebasing has yet to be confirmed.

Due to the change in government in July 2024, there is potential for additional significant changes, some of which could take place in the near term. This heightens the need to take up-to-date professional advice before taking any action.

It is important that if you have questions regarding the new rules, or if you have historical offshore income and gains, you come and talk to us.

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