PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

The Statutory Residence Test (SRT)

WHAT IS THE SRT?

KEY COMPONENTS OF THE SRT

THE AUTOMATIC OVERSEAS TESTS

THE AUTOMATIC UK TESTS

THE SUFFICIENT TIES TEST

In an increasingly globalised world, it's more common than ever for families to have ties in multiple countries. Whether this is for work, retirement or study, moving countries can have both tax and financial implications. As always, proper planning is paramount to avoid unnecessary tax liabilities.

Residence and domicile have traditionally both been key considerations for tax and financial planning in the UK. However, in October 2024, the Chancellor confirmed in the Autumn Budget that the government will abolish the tax rules for non-UK domiciled individuals, replacing them with a solely residence-based regime from 6 April 2025.

The new regime moves away from the concept of domicile to the more direct determination of residence to define an individual's UK tax status. Part of the significant changes mean that new UK residents do not pay tax on foreign income and gains for four years. Following that period, they will pay the same tax on their foreign income and gains, regardless of their domicile status. The new regime also includes other significant changes that impact trusts and Inheritance Tax and will require detailed review for both existing and future residents.

As a result of the changes, UK residence has increased in prominence as the touchstone for the application of a wide range of new rules. This guide is intended to provide a general overview of the topic of residence only and we recommend that expert advice 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.

Determining when an individual becomes UK resident has not always been easy. For many years, the question was subject to sometimes subjective interpretation. However, The Finance Bill 2013 introduced a new, more certain, Statutory Residence Test (SRT). The SRT provided much needed clarification on the topic, whilst still retaining some of its former complexity.

Please note that being considered a UK tax resident generally means becoming liable for UK tax on worldwide income, assuming an initial period of four years of residence has elapsed, whereas a non-resident may be liable (if at all) for tax on UK sourced income only.

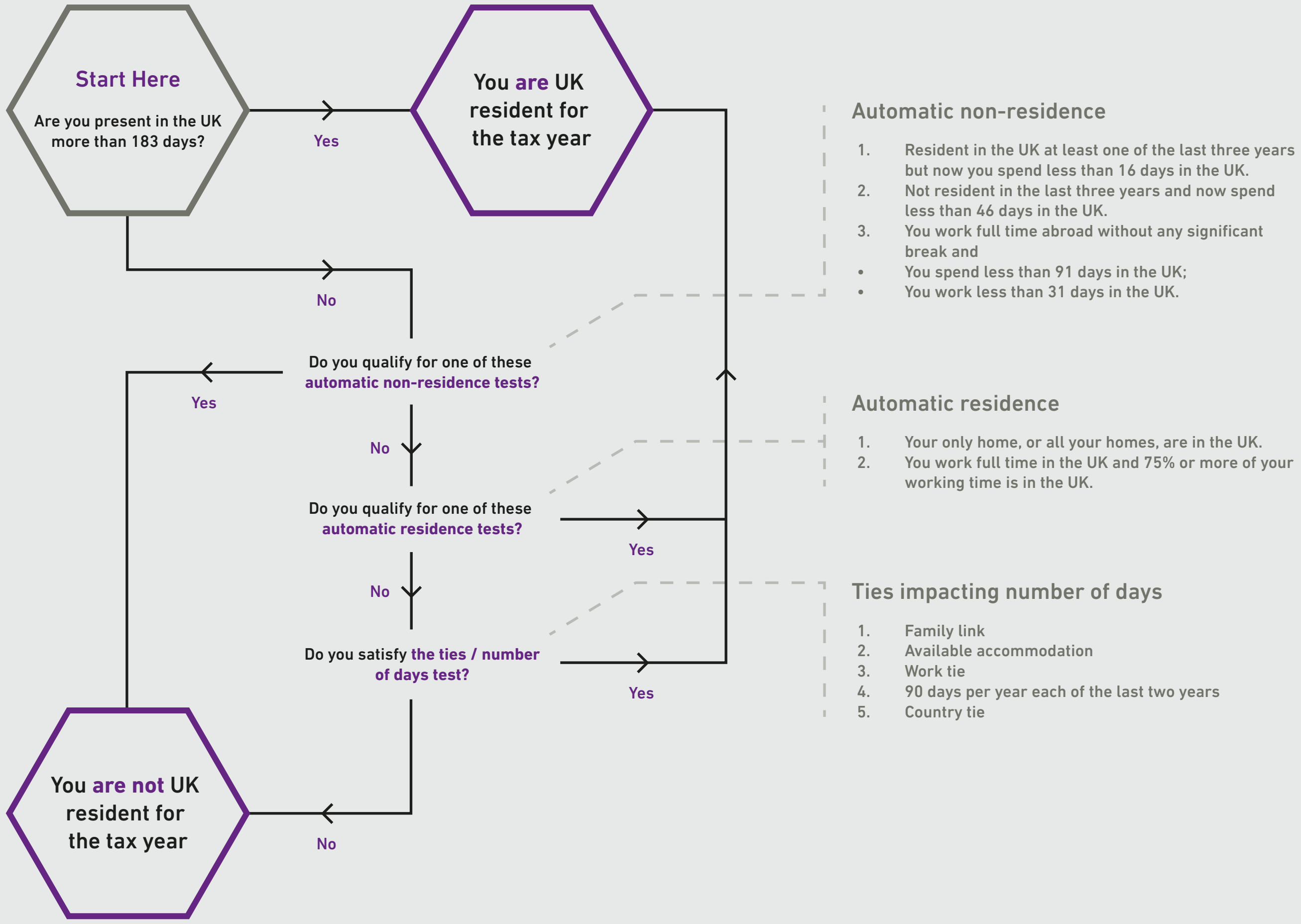
The SRT offers a relatively methodical route to assess residence status for any given tax year. Each tax year is examined separately, as is each individual, so residence in the UK may be achieved in one year but not the next, or vice versa. Despite the relative certainty, with over 200 pages of notes accompanying the SRT rules, it remains crucial that individuals seek specific advice on their own personal 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, an individual progresses 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



The Sufficient Ties Test

If neither of the automatic tests apply, then the sufficient ties test is considered to determine residency. As part of the test, the number of "ties" the individual has with the UK will determine how many days they can be present before becoming tax resident.

The five ties:

1. Family tie

A spouse, civil partner, common law equivalent or minor child is resident in the UK. Rules involving minor children can be complex and require investigation of specific circumstances.

2. Accommodation tie

If a home or other accommodation (including holiday homes or similar) remains available for use 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

Relevant 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

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

5. Country tie

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.

Arrival table	0 Tie	1 Tie	2 Ties	3 Ties	4 Ties+
Less that 16 days	Non Resident	Non Resident	Non Resident	Non Resident	Non Resident
16 to 45 days	Non Resident	Non Resident	Non Resident	Non Resident	Non Resident
46 to 90 days	Non Resident	Non Resident	Non Resident	Non Resident	Resident
91 to 120 days	Non Resident	Non Resident	Non Resident	Resident	Resident
121 to 182 days	Non Resident	Non Resident	Resident	Resident	Resident
More than 183 days	Resident	Resident	Resident	Resident	Resident

Departure table	0 Tie	1 Tie	2 Ties	3 Ties	4 Ties+
Less that 16 days	Non Resident	Non Resident	Non Resident	Non Resident	Non Resident
16 to 45 days	Non Resident	Non Resident	Non Resident	Non Resident	Resident
46 to 90 days	Non Resident	Non Resident	Non Resident	Resident	Resident
91 to 120 days	Non Resident	Non Resident	Resident	Resident	Resident
121 to 182 days	Non Resident	Resident	Resident	Resident	Resident
More than 183 days	Resident	Resident	Resident	Resident	Resident

Non Resident

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, meaning that 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.

Please note that the above only relates to identifying 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 any income or gains. This became relevant during the pandemic, for example, as people found themselves displaced due to travel restrictions, which would normally have an impact on their residence.

With specialist financial planning and tax advice, the SRT and the concept of UK tax residence can be used to identify an individual's UK tax status and help to identify useful planning opportunities.

We're here to help

For over 20 years, Partners Wealth Management has helped clients navigate tax residence to reveal beneficial planning opportunities and to avoid costly tax errors. 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 set out here, please contact one of our International team on 020 7444 4030 or email info@partnerswealthmanagement.co.uk.

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