

PARTNERS WEALTH MANAGEMENT

AN INTRODUCTION TO

US – UK Investment and Financial Planning

DUAL TAX STATUS

WHAT ARE: FBAR, FATCA AND PFIC?

US MUTUAL FUNDS

UK RESIDENT NON-DOMICILE



Despite a long-standing tax treaty in place between the USA and the UK that should minimise the chance of double taxation for individuals in both jurisdictions, there are a number of situations that can create complexity and potential for mismatches.

Our specialist advisers offer a rare combination of independent investment advice, financial planning and advisor experience, to support our clients who are both UK and US taxpayers. The following is a guide to some of the key questions or items to be aware of.

Do I need to file a US tax return?

If you are deemed by the USA to be an American, you will need to report your global finances to the IRS, even when living abroad. Typically, you will be deemed to be an American if:

- your parents were American;
- you were born in the USA;
- you acquired US citizenship; or
- you acquired a US Green Card.

Do I need to file a UK tax return?

If you are resident in the UK, you will be liable to UK taxation on UK situs assets or income. Then, dependant on your tax residence for any one tax year, you may also be subject to taxation on global assets. New rules being implemented from April 2025 allow for new arrivals to be subject to UK tax only on UK sourced income and gains for a period of up to 4 years. Please refer to our separate guides on the Statutory Residence Test and Foreign Income and Gains (FIG) regime and seek advice to ascertain your personal position.

What is an FBAR?

US expats who have non-US bank accounts or investment accounts, may need to file a Foreign Bank Account Report (FBAR), also known as FinCEN Form 114. This should be completed for individuals with accounts holding an aggregate of \$10,000 or more and failure to do so may result in penalties.

The FBAR is separate from and not replaced by Form 8938, which requires US Citizens living abroad with foreign financial assets exceeding \$200,000 on the last day of the tax year (or more than \$300,000 at any time during the year) to complete Form 8938 alongside Form 1040.



What is FATCA?

The Foreign Account Tax Compliance Act (FATCA) came into force in 2010, with the intention of cracking down on tax avoidance on foreign assets. This put additional responsibilities onto financial institutions who have US clients, which is one of the reasons why some non-US companies do not offer services to Americans.

What is a PFIC?

A Passive Foreign Investment Company (PFIC) is a non-US collective investment, such as unit trusts or funds, and they are subject to strict and complicated tax rules. Holders will be subject to additional reporting and taxation in the US. ISAs which are tax shelters in the UK but looked through for US reporting, are often invested in UK funds which would be a PFIC.

Should I just invest in US Mutual Funds?

While this approach solves the PFIC question in the US, this creates a different issue in the UK. Non-UK funds or funds without UK reporting status, are subject to adverse taxation in the UK. These funds will have profits (income and gains) being treated as Offshore Income Gains (OIGs),



which can be taxed at up to 45%, rather than the more favourable allowances and rates otherwise applicable to dividends or capital gains.

UK resident non-domiciled

From 6 April 2025, the new regime moves away from the concept of domicile to the more direct determination of residence to define UK tax status. Under new legislation an individual's UK tax status is now based on their residence. Therefore, the majority of US taxpayers' resident in the UK will be taxable in both the UK due to residence and the US due to citizenship.

A tax treaty between the countries means that you should not be taxed twice on the same money. However, differences in the two tax systems means without careful planning, mistakes can cause mismatches in taxation and the potential for higher taxes due overall.

Selecting investment funds that are not considered a PFIC and do not attract OIG treatment in the UK, can help individuals optimise their tax position. This might seem easier than it is, due to fund regulatory rules limiting access to such funds for UK residence. The alternative to invest without the use of diversified investment funds, raises other investment risks, that may be best navigated with an investment professional.

Old Remittance Basis rules

Historic rules around non-domiciled residents who may have used the remittance basis of taxation have some ongoing effects for these individuals. Funds held offshore due to the use of the remittance basis cannot be freely remitted now without tax consideration. There are transitional rules that may be of assistance and so if this impacts you, please see our previous Introduction to Remittance Basis guide.

We're here to help

Due to the complexities of investment planning for individuals with dual UK and US tax considerations we strongly suggest seeking expert tax and financial planning advice. In addition to the considerations highlighted above, there are also other areas

to consider such as ISAs, pensions, currency exchange, inheritance and trusts. If you have any questions or would like to discuss any issues relating to your circumstances or specific needs, please contact us on 020 7444 4030 or email info@partnerswealthmanagement.co.uk.



PARTNERS WEALTH MANAGEMENT

020 7444 4030

info@partnerswealthmanagement.co.uk

partnerswealthmanagement.co.uk

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from, taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor. No part of this document may be reproduced in any manner without prior permission.

Partners Wealth Management is the trading name of Partners Wealth Management LLP and Partners Wealth Management Solutions Limited.

Partners Wealth Management LLP is registered in England and Wales No. OC307751. Authorised and regulated by the Financial Conduct Authority. FCA Registered No. 442303. Registered office: 1 Angel Court, London, EC2R 7HJ.

Partners Wealth Management Solutions Limited is registered in England and Wales No. 09865585. Authorised and regulated by the Financial Conduct Authority. FCA Registered No. 739045. Registered office: 1 Angel Court, London, EC2R 7HJ.