The Hornbeam Guide to Taxation for Emigrants

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Introduction – General Considerations

This guide is about the implications of emigration for UK taxation. However you should remember that once you take up residence abroad you will become liable to taxation in the new country. **You should always take advice from an Accountant qualified to advise on the taxation of the new country**.

The second thing to remember is that most countries will have double taxation agreements with the UK. All these agreements vary. The advice in this leaflet is inevitably of a general nature, and you should always take specific advice about the impact of emigration to your particular destination.

The suspicion is that many people simply emigrate and leave HMRC no forwarding address. Certainly my firm get a steady trickle of foreign residents who are concerned because they have many years of undeclared UK income! However, and this is the point of these articles; people are as often entitled to repayments as are due to pay tax. The approach of this leaflet is to maximise your tax advantage whilst staying well within the law.

Most textbooks and articles about taxation basically set out the rules. Some are more readable than others. The objective of this leaflet is to show you how to make the rules work for you!

Income Tax – The Tax Year

The UK tax year runs from 6 April to 5 April following. All UK residents and Citizens are entitled to an income tax free Personal Allowance for the tax year.

Although strictly residence or non-residence is established on a tax year to tax year basis, by concession a person leaving to live permanently abroad is normally treated as not resident or ordinarily resident from the date of departure.

This can be made to work extremely well for an employee or self employed person moving to live abroad.

Jo has a public sector job earning £30,000 per year. He is planning to emigrate at the end of March. Jo will get no tax refund. If he emigrates at the end of April he will get all of his £392.20 April tax refunded. If he emigrates at the end of May he will get 2 months tax back, and this pattern peaks in June when he recovers £971.60, which is not 3 months tax, but 9 months unused allowances. Having built to a peak in three months the tax recovery now falls each month over the following nine months as the amount of unused personal allowances falls off.

Jo's potential tax repayments thus have the following pattern:

April	£392.20
May	£784.40
June	£971.60
July	£863.80
August	£756.00
September	£648.00
October	£540.00
November	£432.00
December	£324.00
January	£216.00
February	£108.00
March	£0.00

The amount will vary a little from year to year, and from taxpayer to taxpayer, but for most taxpayers in most years this pattern will apply. However for a higher rate taxpayer the figures peak higher and later.

Mike earns £96,000 per annum, and is considering retiring abroad. Because Mike gets the advantage of the full basic rate band, as well as the full personal allowance his potential tax repayments have the following pattern:

April	£2,056.20
May	£2,817.40
June	£3,578.60
July	£4,339.80
August	£5,100.80
September	£5,036.40
October	£4,197.00
November	£3,357.60

December	£2,518.20
January	£1,678.80
February	£839.40
March	£0.00

Many people will not easily be able to change the month in which they emigrate but some will – for example if they already have a home in both countries – for those that can choose the month of emigration, it can make a big difference to their UK tax.

Capital Taxes

UK Capital Gains Tax is only payable by UK residents. There is indeed a steady outflow of Britain's most successful entrepreneurs moving abroad to avoid the tax.

Capital Gains Tax avoidance works like this. The entrepreneur is about to sell up a business he has developed. In order to avoid Capital Gains Tax he "permanently" leaves the UK before the sale and before the end of the tax year. He takes a protracted holiday to some country other than the one he intends to settle in. The sale itself is made during the holiday, after the start of the new tax year and not from the country that the entrepreneur settles in. The entrepreneur then settles abroad, and to avoid CGT he must remain UK non-resident for at least five full tax years.

This scheme is well known and widely promoted by accountants. On a £10,000,000 sale there is £1,700,000 of Capital Gains Tax to save.

However, the same avoidance technique might be adapted by some other categories of emigrants.

Consider Peter who is third generation owner of a family home which he has always wished to pass down to his son. His only other substantial asset is a rental property which is pregnant with £210,000 of potential Capital Gains. Both the family home and the rental property will realise about £400,000 when sold, which is the sum Peter needs to emigrate. If Peter sells the rental property before he emigrates he will be liable for £36,000 of Capital Gains. If he sells up after he has settled abroad he may be liable for Gains Tax in the country in which he has settled (although many double taxation treaties specify tax is only chargeable in the country in which the property is situated). So the temptation is to sell up the family home, the Gain on which will be entirely sheltered by Principle Private Residence Relief.

By arranging to leave the country permanently before he sells the rental property, selling up before he settles permanently abroad or selling up whilst resident in a country which does not tax gains on UK properties, and staying out of the UK for 6 years, Peter can sell the rental property and avoid UK Capital Gains Tax.

Or upping the scale, consider Charlie and Jess, who have 10 rental properties pregnant with £2,020,000 of potential Capital Gains. They want to sell up and retire but are deterred by a potential £360,000 Capital Gains Tax bill. They are half considering retiring abroad anyway. By leaving the country for an extended break before taking up residence abroad or moving to a country that does not tax gains on UK property assets, they can possibly save £360,000 in Capital Gains Tax.

The point here is that timing of the sale of capital assets, such as properties or businesses, together with organising your departure in an appropriate manner, to avoid foreign Capital Gains Tax can make emigration strikingly effective for tax minimisation.

Rental Properties in the UK

We regularly see Britons who have long lived abroad, who are deeply concerned because they have received rental income from UK properties, but have never declared this income to HMRC. Non-Resident landlords are, of course, required to declare their UK income to HMRC.

In fact Letting Agents, or in some cases tenants, are obliged to deduct withholding tax from rent paid to overseas landlords. Our suspicion is that if Letting Agents know about this, virtually no landlords or tenants know, and the rules are often ignored.

What we generally find is that the rental profits on one property, possibly inherited whilst Non-Resident, rarely exceed the Personal Allowance to which all British Citizens are entitled wherever they live. We can therefore declare the backdated income, establish that no tax is due / all tax is paid up to date, and obtain exemption from the requirement to deduct withholding tax.

Occasionally we find that the Non-Resident also has interest on UK bank accounts that has been taxed at source and this tax can be reclaimed.

Contrary to popular belief most private pensions are taxed in the country of Residence of the pensioner, however state pensions are generally taxed in the state that pays the pension. Thus an emigrant who receives or expects to receive a UK state pension as well as rental income will almost certainly find themselves with a UK tax bill and a requirement to submit a UK tax return.

What to take from this is that UK Citizens are always entitled to annual Personal Allowances and that therefore taxation of UK income is likely to be quite favourable when;

- Foreign earnings or self employed income,
- Most Private Pensions and,
- Foreign Bank Interest and Dividends

are not taxable in the UK, but the taxpayer has full Personal Allowances.

In Summary

Taxation issues are always complex if you are emigrating because we have to consider the tax regime of the country that you are emigrating to, and the double taxation treaty between the UK and that country, which can impact significantly upon the taxation of both countries.

None the less there are significant tax advantages to be gained by planning your emigration with a suitably qualified expert.

Hornbeam Accountancy Services Ltd welcomes emigrants as clients.

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