

Moving to the United Kingdom is something of a rite of passage for many Australians seeking to expand their experience working overseas. If you're considering making a temporary or permanent move, there are some tax considerations you should be aware of.

Whether you're moving for a specific job, study or for a temporary work, there are many facets of tax that are different in the United Kingdom when compared to Australia's tax system.

Our international partner, **Frank Hirth PLC**, is a leading specialist in UK and US tax law and has compiled a list of the key areas of US tax that you should be aware of when planning your move.

Tax Year

The UK tax year runs from April 6 to April 5.

Classifications for Residency / Domicile

From 6 April 2013 there is a new statutory definition of resident. In certain circumstances you can spend as little as 16 days in the UK and this, if you have sufficient ties to the UK, can make you UK resident.

There essentially are three tests:

1. Automatic UK Residency test,
2. Automatically Not-UK resident test, and
3. if you do not fall under either of these tests then there is the Sufficient Ties test.

This third test looks at the number of days and the number of UK ties you have to determine your residency position.

Broadly the more UK ties you have the lower the number of days you can spend in the UK without being treated as UK resident. For example a UK tie is having a spouse, partner or children who are UK resident, a UK employment, UK accommodation. There are new rules and therefore untested in practice. The objective is to give certainty to the residence position.

Foreign nationals coming to the UK are generally not domiciled in the UK – that is they do not intend to make the UK their long term permanent home.

Significance of Classification

Individuals who are resident and domiciled in the UK are taxable on their worldwide income and gains under UK



principles. Employees who are resident expect to be in the UK for a short time for example two years, can avoid UK tax on earnings for work outside the UK provided it is not remitted or brought to the UK.

This is to be known as overseas workday relief and will be effective from April 2013. Individuals who are not domiciled in the UK are taxable on UK sourced income but only on remittances of income and gains arising outside the UK for the first 7 years of residence.

For the 8th year onwards, the non domiciled individual has a choice as to whether to pay tax on worldwide income and gains or only on UK sourced income and gains plus remittances of overseas income and gains.

In order to continue with the remittance basis there is a payment required to the UK government of £30,000 per annum which rises to £50,000 per annum after year 12.

Length of Stay in UK

Certain living expenses such as accommodation and subsistence can be tax exempt for employees who plan to leave within two years of arrival. This is in addition to the allocation of income to overseas work days for those who expect to be in the UK for less than 3 years.

Remittance Basis

Income or gains are considered remitted if they are physically brought to or somehow used in the UK. For example goods bought in the UK using an overseas credit card which is paid

for out of offshore income is treated as a remittance of that income.

Arising Basis

Taxed on worldwide income and gains.

Mixed funds

If a non UK account contains a mixture of personal capital, income and capital gains (which are all taxed at different rates) there is a predetermined order in which the money is deemed to be remitted to the UK. This generally gives rise to the highest tax liability so for example income is treated as remitted before capital gains.

Personal Capital

This is generally the cash which exists at the time of becoming a UK resident and can be remitted to the UK at any stage without a tax liability attached to it. Any income derived on it from date of residence will be taxed and treated as remitted first. Also see mixed funds section above.

Banks generally withhold 20% tax on interest income unless you have a tax free Individual Savings Account (ISA) Personal Allowance (currently approximately £9,440 per person annum) – every individual who is resident in the UK is entitled to a tax free amount deducted from his/her income unless electing the remittance basis.

Capital Gains Tax

Separate tax on the disposal of assets. No distinction between short and long term gains with a flat 28% on any gains.

Review portfolio for gains before moving to UK to avoid UK tax on assets sold once resident. Cost basis translated at date of original purchase so exchange gains possible. Non domiciled individuals can keep gains offshore but must be on remittance basis and not remit proceeds.

Gains from the selling of main home is not taxable in the UK and there are special rules to extend the time the property can be considered your main home even if you don't live there.

Gift Aid Payments

Gifts to certain charities reduce income tax at the higher rates but also allow a qualified charity to reclaim amounts from the government.

Pension Contributions

Pension Contributions help to reduce your taxable income but recent rule changes have severely limited the deductibility of anything other than modest contributions to such schemes.

Estate Taxes

The UK has a gift and estate tax regime (known as Inheritance Tax) but for non domiciliaries only UK assets are caught. Worldwide assets apply for UK domiciliaries and those who become deemed domiciled (concept only applies to estate tax) by residing in the UK for more than 16 years.

More information

If you're considering a temporary or permanent move to the United States, understanding your tax obligations before you go may save you a good deal of time, hassle and money.

Contact us on 02 9957 4033 or email our team at enquiry@batescosgrave.com.au for more details.



About this factsheet

The information in this factsheet was prepared by Frank Hirth PLC, experts in tax and accounting matters in the United Kingdom and the United States of America. Visit www.frankhirth.com for more information.



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