Moving Abroad - Tax Tips

Whatever your reasons for considering a move abroad, there are some basic tax and financial matters you need to consider before leaving.

Taxation

Not only do you need to consider the tax regime of the country you intend to move to but also whether you will have any residual liability to tax in the UK. The key to tax status in the UK is residence and domicile.

Residence and Ordinary Residence

When an individual becomes non-resident in the UK for tax purposes they are only liable to UK income tax on their UK sourced income, whereas if they retain their resident status they are liable to UK tax on their worldwide income.

An individual could end up still being resident in the UK and achieve resident status in their new country as the criteria for determining residence can vary according to country. In this case it is important to consider any double taxation agreements the UK has with many of the countries around the world.

Domicile

An individual's domicile indicates the country which an individual considers to be their permanent home and under UK law every individual has a country of domicile. An individual usually acquires their father's domicile at birth and then retains this for life unless they sever all ties with their original country of domicile and establishes a permanent home in another country.

An individual with a UK domicile will be liable to inheritance tax on their worldwide assets regardless of where they live and die. Whereas if they are non-UK domiciled they will generally only be liable to inheritance tax on their UK assets.

The Inland Revenue have produced two leaflets which can help you understand better the issues surrounding residence and domicile when moving abroad. These are IR138 Living and retiring abroad and IR120 Residents and non-residents.

New country tax regime

The tax regime in your new country may be very different to that of the UK. You therefore need to consider what your tax liability will be in advance of moving in order to take maximum advantage of any tax planning opportunities.

Savings & Investments

The basic rule of thumb is that if you are about to move abroad, you should consider moving any savings and investments Offshore. At Blacktower Financial Management we can help ascertain if this is appropriate to your circumstances.

Offshore bank accounts may give you the choice of paying withholding tax or receiving gross interest. Although, if you are a European Union (EU) resident and you choose to receive interest gross the bank may be required to send details of your interest to the tax authorities in your country of residence.

Offshore bonds -more commonly known as "wrappers" allow you, with our help, to combine a range of different collective investment schemes in a tax-efficient manner.

They also benefit from gross roll-up whereby funds accumulate virtually free of tax. Depending on the tax regime of your country of residence you may have to pay tax eventually, this could be either when you finally cash in the wrapper or, in some countries, whilst they are still invested in the wrapper.

All the major banks and life insurers have offshore companies in well regulated centres such as the Isle of Man, Jersey, Guernsey and Dublin. However, great care should be taken in choosing which off-shore centre to use as some countries, such as Portugal, have "black-listed" many off-shore centres.

Offshore banks offer a range of services that are useful, if not vital, to the UK expatriate, such as internet banking and multi currency accounts.

If you have money sitting in UK domiciled tax-free vehicles such as PEPs and ISAs, you do not need to cash them in but you cannot invest any new monies once you become non-resident. UK tax advantages will be retained no matter how long you live abroad. However, you may incur a tax charge in your new country of residence.

Capital Gains Tax

Even if you are non-resident for income tax purposes you may still remain liable to UK Capital Gains Tax (CGT) on gains arising after you attain non-resident status. Your need to be aware that anyone who leaves the UK will generally remain liable to CGT for the first five years they spend outside the UK. After five years disposal of assets bought prior to departure from the UK are free of UK CGT. However, it is important to note that many countries have their own CGT regime which may be applicable when you acquire and disposes of assets outside the UK.

Inheritance Tax (IHT)

As mentioned previously an individual that retains a UK domicile will be liable to UK inheritance tax on their worldwide assets even if they have been absent from the UK for many years. Many people when planning a move abroad do not realise this and as a consequence cannot take advantage of the many mitigation opportunities available.

The country that you are moving to may have it's own form of Inheritance Tax. In some cases it is more penal than the UK system. However, some countries, such as Portugal, have virtually abolished IHT.

It is important that you obtain tax advice specific to your individual circumstances.

Please see our separate Tax-Facts guides for Spain, Portugal and France.

OTHER USEFUL TIPS ON MOVING ABROAD - overleaf.

OTHER FINANCIAL TIPS - MOVING ABROAD

Property
One of the main concerns of any individual moving abroad has to be regarding property and there are three key areas that need consideration:

Is the sale of an individual's home in the UK liable to CGT?
Generally, there is an exemption from Capital Gains Tax on the sale of a "principal residence", but this normally requires that an individual has lived in the property throughout ownership although certain periods of absence are permitted. If you intend to sell your property once you have moved overseas, the general rule is that no UK CGT will be payable if the property is sold within three years of leaving. Although several restrictions to obtaining this CGT relief apply.

Should you rent out your home?
Whether this is the correct course of action depends very much on your individual circumstances. You will still be liable to UK tax on rental income, less any allowable expenses..

What do you need to consider in buying a property abroad?
The rules and regulations surrounding the purchase of property vary considerably from country to country so it is always imperative that you to seek professional advice.. The process and cost of purchasing abroad differs from country to country.
Please see our separate leaflets on overseas property purchase.

Pensions
This is perhaps one of the most complicated areas for an individual when moving abroad and it is wise to review all your current and future pension arrangements and requirements before you leave:
Occupational Pensions
If you are seconded abroad by your employer and there is no equivalent overseas pension scheme, the Inland Revenue will allow you to stay in an existing scheme for up to four years automatically. Beyond that, you will need Inland Revenue approval.
Personal Pension
By contrast, if you have a personal or stakeholder pension, then continued membership is fine but contributions may be restricted to £3,600 per annum and there will come a time when, subject to your circumstances, you may no longer contribute further premiums if you have no "relevant earnings".
State Pensions
An individual's entitlement to the state pension is not affected when moving abroad; all you need to do is inform the local authority of your intentions and where to pay the money. If you are not yet in receipt of a state pension it may be prudent to consider paying voluntary National Insurance contributions in order to preserve your state pension entitlements. It is important to remember that in certain countries Britain freezes the state pension entitlement from the date an individual moves overseas, or at the date it becomes due for payment. These countries include Australia, Canada and South Africa.
Offshore Alternative
In all three cases you will remain liable to UK tax on any pension income taken as these are all UK sourced assets. It is therefore wise for those leaving the UK permanently to consider alternative pension arrangements. Offshore based pensions can provide an ideal solution. An individual can elect to save as much as they like, generally in a range of currencies, in a virtually tax-free environment. With an offshore "pension", investors can take the money out as and when they need it and they are not obliged to buy an annuity at retirement. However, an individual may be liable to any tax applicable in their country of residence at the time they cash in the policy or, in some countries, an annual tax liability may arise. Tax advice specific to your individual circumstances should be obtained.

Wills
Those living abroad are likely to need two Wills, one for any assets remaining in the UK and one covering their property and savings in the foreign country where they live. Some countries, such as France, restrict how property and land can be passed on and care should be taken with any overseas inheritance tax liability.

Health care and social security contributions
Failing to allow for medical bills is one of the most expensive mistakes that any expatriate can make. If you fall ill in a foreign country you need to know that your healthcare needs will be met by professionals. Do not forget about dental and ophthalmic care.

There may be limited state medical care on offer in your destination country and liability for social security contributions often comes when residence in a foreign country is established.

Consider taking out good health insurance. It could save a lot of pain, worry, inconvenience and expense should the need arise.

And finally....

Check information in advance for obtaining visas and residency permits and work permits, if necessary.
Consider renewing passports . These should be valid,at least, until your next return to the UK.
If you are taking your UK vehicle, make sure it is taxed and MOT'd at least until your next return trip to UK. Check your vehicle insurance is valid and how long overseas cover is offered. Consider whether you need an international driving licence.

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