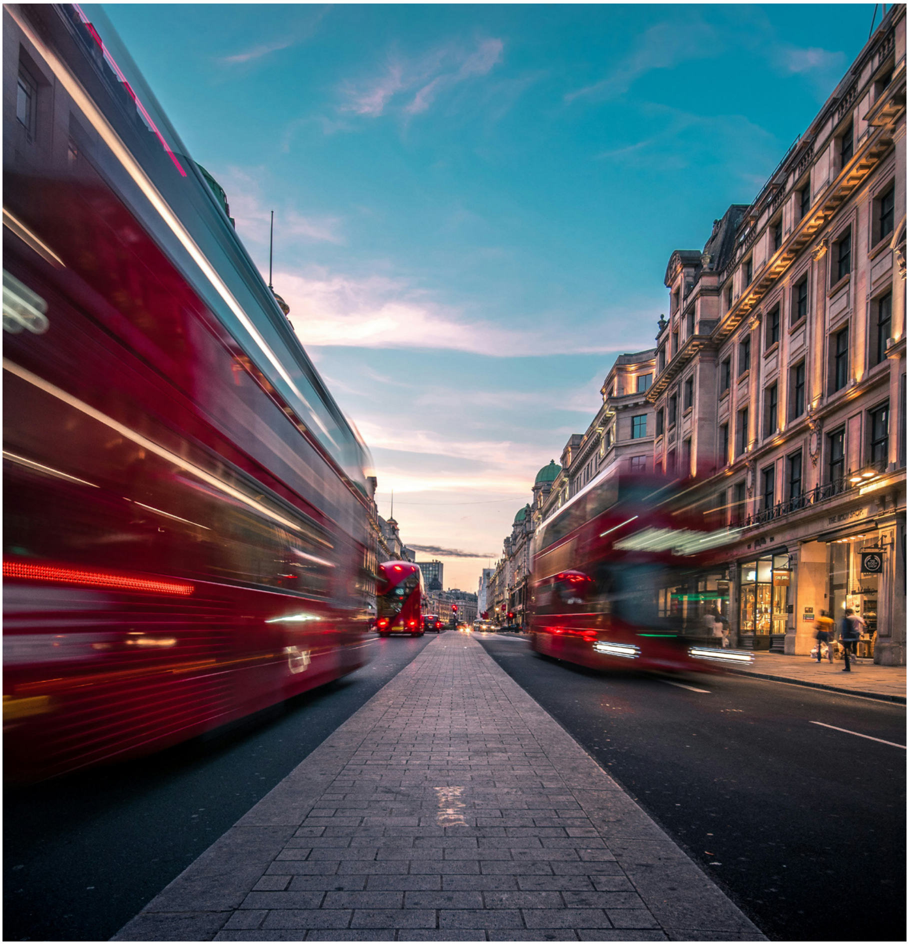
LEAVING THE UK?



A Simplified Guide to Navigating the Tax Maze

SINCE 1986

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FINANCIAL MANAGEMENT GROUP

Many people are now considering a permanent move abroad—often motivated by lifestyle changes, family, retirement, work, or better weather. But moving away from the UK doesn't mean you leave UK tax rules behind immediately.

This guide breaks down what you need to know before relocating, including how UK tax residency is determined, what taxes still apply after leaving, and upcoming changes to inheritance tax (IHT) from April 2025.

1. Before You Go: Broader Considerations

Relocation decisions should never be driven by tax alone. We always advise clients to reflect on wider personal factors, including:

- Employment, investment, or retirement goals
- Education and family needs
- Climate, culture, and healthcare access
- Political stability and legal systems

You should visit the destination first and assess:

- Language and infrastructure
- Transport links
- Regional laws or bureaucracy

2. Timing Your Exit from the UK

When you leave can impact your UK tax obligations. For instance:

- Leaving partway through a tax year may qualify you for split-year treatment
- Leaving after receiving large dividends or selling a business might result in UK tax liability depending on your residency status on the transaction date

3. Understanding UK Tax Residency

Your UK tax residency is determined using the Statutory Residence Test (SRT) under FA 2013 Schedule 45.

This is a three-step process:

Step 1: The Automatic Overseas Test
You are automatically non-UK resident if any of these apply:

1. You were UK resident in at least one of the previous 3 tax years, and spent fewer than 16 days in the UK this tax year.
2. You were not UK resident in any of the last 3 years and spent fewer than 46 days in the UK.
3. You worked full-time abroad (average 35 hours/week) throughout the year, with:

- No significant break (31+ consecutive days working <3 hours/day)
- Fewer than 31 working days in the UK (working 3+ hours)
- Fewer than 91 days spent in the UK total

If none of these apply, move to step 2.

Step 2: The Automatic UK Test
You are automatically UK tax resident if any of the following apply:

4. You spent 183 days or more in the UK.
5. You had a home in the UK (as your only home or where you spend more time than any overseas home).
6. You worked full-time in the UK, defined as:

- 35+ hours/week across a 365-day period
- At least one day of that period in the tax year

- No significant breaks
- Over 75% of working days in that period were in the UK

If none of these apply, move to step 3.

Step 3: The Sufficient Ties Test
This test assesses how many UK ties you have and how many days you spent in the UK.

Ties include:

- Family tie: Spouse/partner or child under 18 is UK resident
- Accommodation tie: You had access to UK accommodation for 91+ days and stayed overnight at least once
- Work tie: You worked in the UK (3+ hours) on 40+ days
- 90-day tie: You spent 90+ midnights in the UK in either of the prior 2 years
- Country tie: You spent more midnights in the UK than any other country (applies only to “leavers”)

You’ll be classed as UK resident if the number of ties + days in the UK exceeds certain thresholds (varies for “leavers” vs “arrivers”).

Important: Time past midnight counts as a full UK day. Small missteps here can result in unexpected residency.

4. Split-Year Treatment
In some cases, the tax year can be split between UK residency and non-residency. This avoids being taxed as a UK resident for the full year.

You might qualify if:

- You start full-time work abroad
- You leave to accompany a partner
- You move permanently overseas

You must plan the timing of your exit carefully to benefit from split-year rules.

5. What Happens After You Become Non-Resident?

Income Tax

Even if you are no longer a UK resident, some income remains taxable in the UK:

- UK rental income stays taxable under UK rules
- You may need to join the Non-Resident Landlord Scheme
- UK savings/investment income may be “disregarded” for UK tax but taxed locally

If you’re still involved in a UK company:

- Consider where services are performed
- Think about where key decisions are made
- Local and UK tax advice is essential—especially regarding corporate tax residence and permanent establishment rules

Capital Gains Tax (CGT)

As a non-resident, you generally only pay CGT on:

- UK property or land
- Indirect disposals (e.g., shares in a company that owns UK real estate)

Beware the temporary non-residence rule:

You could be taxed on gains made while abroad if:

- You were UK resident for 4 out of the last 7 years
- You return within 5 years

6. Inheritance Tax (IHT) – Major Changes from April 2025

Before 6 April 2025:

- IHT is based on domicile
- UK-domiciled individuals are taxed on worldwide assets
- Shedding UK domicile has been very difficult (especially domicile of origin)

From 6 April 2025:

IHT will switch to a residence-based test

You'll be taxed on worldwide assets if:

- You were UK resident in 10 of the last 20 tax years
- You'll remain within scope for up to 10 years after leaving

Example:

- If you lived in the UK for 13 years, you stay within the IHT net for 6 years after departure
- If you lived in the UK for 20 years, the full 10-year "tail" applies

UK assets are always within the IHT net, regardless of residence status.

Also note: Changes to business and agricultural relief may reduce the 100% relief available on certain UK assets.

7. Common Issues When Moving Abroad

You may face unexpected challenges, such as:

- Language and cultural barriers
- Different tax years and systems
- The need for advisers in both jurisdictions
- Lack of double tax treaties
- Visa and residency requirements
- Local restrictions on trusts (e.g., France doesn't recognise UK trusts)

- Need for local wills
- Unfamiliar local legal or financial structures

Final Thoughts: Get Organised and Take Advice

Before relocating:

- Ensure your personal and business tax affairs are structured tax-efficiently
- Consider trusts or corporate structures, but check how they're treated locally
- Structures like DIFC Foundations (Dubai) may be more effective than UK-style trusts in some jurisdictions
- Always get UK and local tax advice

TASK	WHY IT MATTERS
Understand your UK tax residency status	Impacts income, CGT, IHT
Plan the timing of your move	May affect split-year treatment
Review UK income and rental taxes	Still liable even when non-resident
Consider CGT tail risk	You may owe tax after returning
Understand IHT rule changes in 2025	10-year tax tail based on residence
Review trusts, companies, and estate plans	May not work abroad
Research destination-specific issues	Laws, visas, double taxation, wills
Research destination-specific issues Take professional advice	Both UK and destination country

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