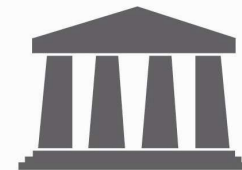


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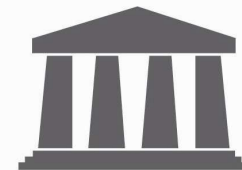
5 Top UK Tax Tips for British Expatriates



The Fry Group

Agenda

- Martin Rimmer
Tax Manager, International Division
 - The Fry Group
 - UK Taxation, Will writing, Inheritance Tax Planning, Wealth Management
 - Fulcra International Financial Planning
- Presentation
- Q & A



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The Five Biggest Issues

5. Basic Tax Planning whilst Non-Resident

4. Pension Commutation/Termination Settlement

3. Returning to the UK : CGT on UK Property

2. Exporting your UK pensions

1. Domicile Planning : How to avoid UK Inheritance Tax!

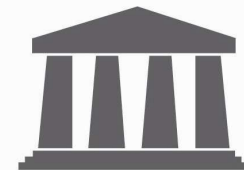


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Favourite Tax Quotes (1)

“The hardest thing in the world to understand is income tax”

Albert Einstein



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5. Basic Planning whilst Non-Resident

Principles:

- 1. Non-Resident Status : UK source income only**
 - One complete tax year of continuous full-time overseas employment
 - Three years for any other reason
 - Less than average 91 midnights in the UK per tax year
- 2. Couple : Married/Civil Partnership**
- 3. Manipulate the ownership / location of assets in order to reduce UK income tax**

Example

Mr S Gerrard is non-resident and owns:

- Unmortgaged London Property MV £750,000 / Rental Profit **£28,000 pa**
- Cash in onshore bank £350,000 / Earning 4% = **£16,000 pa**

He gets married to his long-term fiancée

How can he save UK income tax?



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Mr Gerrard's basic tax assessment

	£	£	<u>Tax</u>
<u>Taxable Income</u>			
Rental Profit	28,000		
UK Interest	<u>16,000</u>		
		44,000	
Less : Personal Allowance		<u>(6,475)</u>	
<u>Chargeable to tax</u>		37,525	
Tax @ 20% (rental profit)		21,525	4,305
Tax @ 20% (deposit interest)		15,875	3,175
Tax @ 40% (deposit interest)		125	<u>50</u>
Tax Payable			<u>£ 7,530</u>



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Move everything into joint ownership

	£	£	<u>Tax £</u>
<u>Taxable Income</u>			
Rental Profit	14,000		
UK Interest	<u>8,000</u>		
		22,000	
Less : Personal Allowance		<u>(6,475)</u>	
<u>Chargeable to tax</u>		15,525	
Tax @ 20% (rental profit)		7,525	1,505
Tax @ 20% (deposit interest)		8,000	<u>1,600</u>
Tax Payable			3,105
	x 2		<u>£ 6,210</u>

Original Assessment	£ 7,530
New Assessment	<u>£ 6,210</u>
Tax Saved	£ 1,320



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...and move the cash offshore

	£	£	<u>Tax £</u>
<u>Taxable Income</u>			
Rental Profit	<u>14,000</u>		
		14,000	
Less : Personal Allowance		<u>(6,475)</u>	
<u>Chargeable to tax</u>		7,525	
Tax @ 20% (rental profit)		7,525	<u>1,505</u>
Tax Payable			1,505
	x 2		<u>£ 3,010</u>

Original Assessment	£ 7,530
New Assessment	<u>£ 3,010</u>
Tax Saved	£ 4,520 per annum



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The Five Biggest Issues

5. Basic Tax Planning whilst Non-Resident
- 4. Pension Commutation/Termination Settlement**
3. Returning to the UK : CGT on UK Property
2. Exporting your UK pensions
- 1. Domicile Planning : How to avoid UK Inheritance Tax!**



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4. How are pension benefits / termination settlements taxed in the UK?

1. Pension Benefits

(a) Taxation of Foreign Pension Income

- 10% Foreign Pensions Allowance
- Foreign Tax Credit
- UK Tax Returns required!
- Remittance basis if “non-UK domiciled”

Example: Maria becomes resident in the UK and receives a pension from Belgium of €45,000pa (say £40,000pa)

Received	£40,000
Exempt	(£ 4,000)
Taxable	£36,000



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How are pension benefits / termination settlements taxed in the UK?

1. Pension Benefits

(b) Taxation of Foreign Pension Commutation

- Potential 100% Exemption (ESC A10)
- Dependent upon
 - (a) length of service
 - (b) length of non-UK service
- Can be paid after return to UK
- Article 18 of UK/Belgian DTA

Exempt....if:

- (a) >75% of service is non-UK, when total service <10 years
- (b) Whole of last 10 years o/s, when total service <20 years
- (c) Non-UK service >50% of the total, when total service >20 years



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How are pension benefits / termination settlements taxed in the UK?

2. Termination/Ex-Gratia Payments

- Potential 100% Exemption
- Same rules
- Stricter enforcement

Taxable

PILONs

Restrictive Covenants

Holiday Pay

Exempt

Ex-Gratia Payment

Compensation for loss of office

Non-Contractual

Not Customary

But the same 100% relief can apply



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Favourite Tax Quotes (2)

“Put not your trust in money, but put your money in trust”

Oliver Wendell Holmes Sr.

“Benjamin Franklin said nothing is certain but death and taxes; but at least death doesn't get worse every year”.

Anon



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The Five Biggest Issues

5. Basic Tax Planning whilst Non-Resident
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- 3. Returning to the UK : CGT on Property**
2. Exporting your UK pensions
1. Domicile Planning : How to avoid UK Inheritance Tax!



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3. Returning to the UK – CGT on Property

When will it arise for a British Expatriate?

- 1. Usually, in the tax year of departure from the UK**
- 2. Potentially in any of the next 5 tax years**
 - Assets owned at the point of departure**
 - Assets acquired after departure / sold in complete tax year of non-resident status**
- 3. Usually, from date of arrival in UK**
- 4. Sometimes from 6th April before arrival!**
- 5. No CGT in Belgium on Private Assets**



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Capital Gains Tax.....cont.

- Returning to the UK
 - CGT from date of return
 - Sale after return = Tax on the whole gain
 - Problem : what to do with accumulated property gains?
- Solutions
 - Do nothing – worry about it later!
 - Sell before return
 - Don't sell after return
 - Gift to a relative
 - Place Property into a Trust
- Retirement Home/Prospective Main Home – some relief
- Investment Property : is it really a problem?



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Capital Gains Tax.....cont.

- **“But it’s my main home in the UK...”**
 - Principal Private Residence vs Investment Property
 - “...requires a ‘degree of permanence’, necessary ‘quality’ of occupation and the expectation of continuity....”*
- **A person or couple may have**
 - Only one
 - In the world
 - At any one time
- **Relief for actual occupation, and**
 - Last 36 months of ownership
 - Up to £40,000 per owner if let
 - Full exemption if employment wholly overseas
 - 36 months for any reason
 - Deemed occupation *‘Job Related’*



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Capital Gains Tax.....cont.

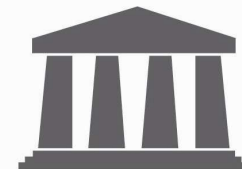
- Example:

- Mr & Mrs Smith move to Brussels in July 1991
- Provided flat as expatriate benefit
- Buy Retirement Home in UK June 1997 (£250,000)
- **Rented out** from July 1997
- Move back to UK June 2008
- Occupy Property until Sale June 2009 (£750,000)
- £30,000 gift to daughter in November 2004



1. Joint owners
2. 12 years owned
3. 1 year occupied

What is the gain?



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Capital Gains Tax.....cont.

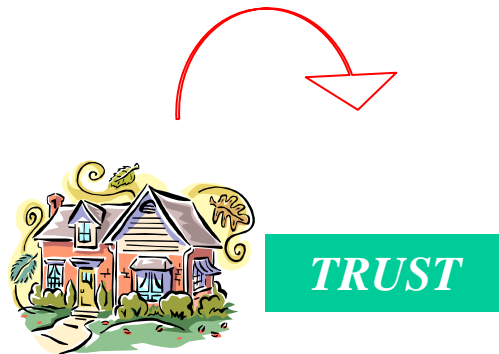
	£
Net Proceeds	750,000
Less : Cost	<u>(250,000)</u>
Subtotal	500,000
Less : PPR Relief ($£500,000 \times 3/12$)	<u>(125,000)</u>
Taxable Gain	375,000
Less: Annual Exemption (x2)	<u>(20,200)</u>
Gain Subject to Tax	354,800
Tax at 18%	63,864



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Capital Gains Tax.....cont.

Transfer In



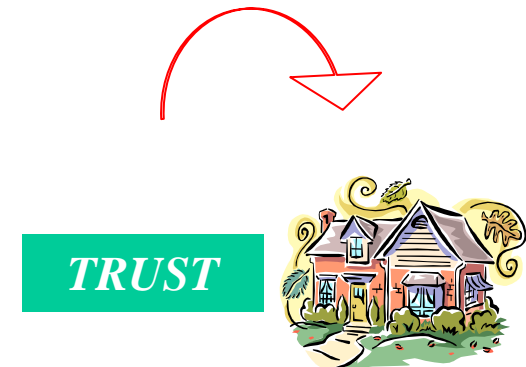
Gain of £500,000 realised whilst non-resident

Client Returns to the UK and occupies property as main residence



Tax Saving of £63,864

Transfer Out



No charge to Capital Gains Tax



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Is a Trust worthwhile?

	£	£
Value of Property transferred (no mortgage)		750,000
Less : Annual Exemption (x4)		(12,000)
Nil Rate Band £325,000 (x2)	650,000	
Less : Gifts in Previous 7 years	(30,000)	
Less : Remaining Nil Rate Band		(620,000)
Chargeable to Lifetime IHT		118,000
Lifetime IHT @ 20%	<u>Payable within 6 months</u>	23,600
Capital Gains Tax Saving	63,864	
Less: Lifetime IHT	(23,600)	
Less: Trust Charges	(4,700)	
Total Avoided	35,564	

NB: Please don't die until 7 years after transfer into trust



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Favourite Tax Quotes (3)

“The income tax code is about 10 times the size of the Bible – and unlike the Bible, contains no good news”

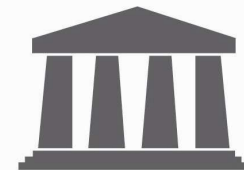
Don Nickles



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The Five Biggest Issues

5. Basic Tax Planning whilst Non-Resident
4. Pension Commutation/Termination Settlement
3. Returning to the UK : CGT on Property
- 2. Exporting your UK pensions (new)**
1. Domicile Planning : How to avoid UK Inheritance Tax!



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2. Exporting your UK pensions

- Frequent question: What can be done with UK pensions?
 - **Answer – ‘very little!’**
- Now there is a solution!
 - **‘A’ day – 6th April 2006 – pensions simplification**
 - **Freedom of movement of Persons and Capital**
- **“Qualifying Recognised Overseas Pension scheme”**
- **Since the 6th April 2006 HMRC have allowed UK “Frozen” pensions to be transferred to any “QROPS”**
- There are **no** UK tax consequences on transfer, unless transfer value exceeds the Lifetime Allowance (currently £1.75m)



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2. Exporting your UK pensions

Benefits

- **No requirement to purchase an Annuity at retirement .**
- **Freedom of investment choice**
- **Continuity of investment of the fund even during retirement / Drawdown**

Tax advantages and Flexibility

- **There are no Taxes on transfer**
- **Lower Income Tax rates in Belgium**
- **No taxes within the Pension fund?**
- **Income withdrawals are paid without tax deducted at source**
- **Succession Planning**



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2. Exporting your UK pensions

What does this mean to you !

- Consolidation of all Pension arrangements.
- Freedom to choose when and how much you take as a annual Pension.
- Pass the whole fund to family should you die.
- Care with Defined Benefits schemes
- Choice: Guaranteed (but taxable) income often index linked and often with spouse benefits vs freedom of investment choice and capital sum in estate

Transfer Values

- Obtain from pension provider
- Actuarial calculation but rule of thumb
- Annual pension in payment x 20
- i.e. £24,000 x 20 = £480,000



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2. Exporting your UK pensions

What pensions will this work for

- **All!**
 - **UK Pension / Other Occupational Pensions**
 - **Even Government service pensions**
 - **Even pensions in payment**
- **Except:**
 - **State Retirement Pension**
 - **Annuities in payment**

One limitation – The ‘5 Year Rule’

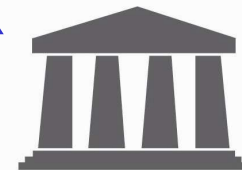
- **All withdrawals must be reported **unless** you have been NR for at least 5 years.**
- **Care required if returning to the UK with a QROPS**



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The Five Biggest Issues

5. Basic Tax Planning whilst Non-Resident
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- 1. Domicile Planning : How to avoid UK Inheritance Tax!**



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1. Domicile Planning

- Common area of confusion!!
- Income Tax & Capital Gains Tax **Residence**
- Inheritance Tax **Domicile**
- Residence
 - Where do I live? Where do I spend my time? How much time do I spend there? Where am I now?
- Domicile
 - Where have I come from?
 - Where am I going to?
 - Will I stay here?



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1. Domicile Planning

- Domiciled in the UK
- Domiciled elsewhere

World-wide Estate
UK situated Assets

- **Origin** Where were you born and raised?
- **Dependence** What was your fathers domicile?
- **Choice** Where do you choose to be domiciled?

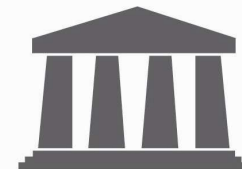
- **A Brit resident in Belgium will either have....**

- Retained UK domicile of Origin
- Acquired a BE domicile of Choice

Worldwide Assets
UK assets

- **A Brit resident in Belgium will also be.....**

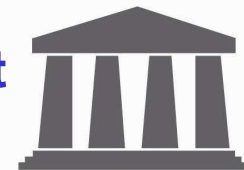
- Liable to Belgian IHT
- Liable to other IHT (French property etc)



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1. Domicile Planning

- Tends to be difficult to achieve practically
- 3 years after move to Belgium
- Severing links with the UK/Establishing ties in Belgium
 - Financial, Family, Domestic, Social, Political, Religious etc
- Intention to remain permanently
 - Statement of Intentions / Professional Endorsement
 - Burial Plot!!
- Lose domicile of choice if 2 things happen:
 - (a) Change your mind about remaining permanently **and**
 - (b) Leave that country
- HMRC will not endorse the change....unless they are forced to do so.....
 - Trigger charge to lifetime tax
 - £400,000 of overseas assets to discretionary trust
 - (£400k – 6k – 325k) @ 20% = £13,800



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1. Domicile Planning

Example

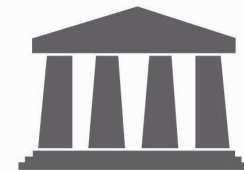
David and Victoria (UK domiciled) jointly own:

- Former home now let (UK)	£ 350,000
- Fulcra Managed Portfolio (C.I)	£ 800,000
- Banque DeGroof (BE)	£ 500,000
- Main Home in Overijse (BE)	£ 500,000
- Investment Properties (F)	<u>£ 600,000</u>
	£2,750,000

They retire in Belgium and intend to stay permanently.....but

David dies unexpectedly.

- No IHT on estate as all passes to Victoria
- Victoria dies and assets pass to children.



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1. Domicile Planning

UK chargeable assets in Victoria's Estate

- Former home now let (UK)	£ 350,000
- Fulcra Managed Portfolio (C.I)	£ 800,000
- Banque DeGroof (BE)	£ 500,000
- Main Home in Overijse (BE)	£ 500,000
- Investment Properties (F)	<u>£ 600,000</u>
	£2,750,000

Less: Nil Rate Band

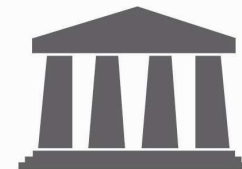
(£ 650,000)

Subject to Inheritance Tax in UK

£2,100,000

IHT @ 40%

£ 840,000



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1. Domicile Planning

David & Victoria acquire a domicile of choice in Belgium

UK chargeable assets in Victoria's Estate

- Former home now let (UK)	£	350,000	
- Fulcra Managed Portfolio (C.I)	£	800,000	Exempt
- Banque DeGroof (BE)	£	500,000	Exempt
- Main Home in Overijse (BE)	£	500,000	Exempt
- Investment Properties (F)	£	600,000	Exempt
	£	<u>350,000</u>	

Less: Nil Rate Band (say)

(£ 650,000)

Subject to Inheritance Tax in UK

£ 0

IHT @ 40%

£

0

Tax Saving: £840,000



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Favourite Tax Quotes (4)

“A tax lawyer is a person who is good with numbers but does not have enough personality to be an accountant!”

James D Gordon III

- **The Fry Group & Fulcra**
- **Regular Trips. e-Bulletins & initial consultation**
- **tim.nicholls@fulcra-international.com**
- **martin.rimmer@thefrygroup.co.uk**
- **www.thefrygroup.co.uk**



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Favourite Tax Quotes (5)

**“The trick is to stop thinking of it
as ‘your’ money”**

Revenue Inspector



The Fry Group

Questions?

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