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International Assignment Services

Taxation of International Assignees

Country – United Kingdom

Human Resource Services

International Assignment Taxation Folio

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Introduction – International assignees working in the UK

The UK tax system as it relates to international assignees is extremely complex. Many assignees will have received some advice on employment contracts, banking arrangements and tax compliance prior to arriving in the UK, but further bespoke advice is usually necessary in order for them to take full advantage of the tax reliefs potentially available to them.

This document reflects law and practice as at January 2011 and tax rates, bands and allowances applying for the 2010/11 UK tax year (to 5 April 2011). It only provides an overview and is not a comprehensive guide. We recommend you contact your PricewaterhouseCoopers adviser for further advice before acting on any of the information contained in this booklet.

Last updated: January 2011

This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

Step 1 – Understanding basic principles

The scope of taxation in the UK

1. The UK taxes its residents on their worldwide income (though with potential reliefs – see below regarding the remittance basis). Non-residents are typically liable to tax on their UK source income only.

2. Additionally, the UK charges tax on capital gains, which potentially apply to disposals made by taxpayers who are either resident or ordinarily resident in the UK. It also has an inheritance tax but, assuming that you are domiciled outside the UK (and not deemed to be domiciled here, which you will be if you have been a resident of the UK in 17 out of the previous 20 UK tax years), this is unlikely to apply to you unless you die or make significant gifts while you are living in the UK.

The tax year

3. The UK tax year ends on 5 April. The tax year 2010/11 for example runs from 6 April 2010 to 5 April 2011.

Methods of calculating tax

4. The UK taxes income and gains according to the resident and ordinarily resident status and domicile of the taxpayer. Taxpayers who are resident, ordinarily resident and domiciled in the UK are taxed on their worldwide income as it arises (the arising basis) and on their worldwide capital gains. Other taxpayers may be able to claim the remittance basis (which allows certain types of foreign income and gains to be taxed only when remitted) as follows:

   – Taxpayers who are resident but not ordinarily resident are eligible to claim the remittance basis in relation to their offshore investment income. In addition they may claim relief from UK tax in respect of any earnings for any overseas workdays, provided that their earnings for those workdays are both paid and retained outside the UK;

   – Taxpayers who are non-domiciled (whether or not ordinarily resident) are also eligible to claim the remittance basis in relation to offshore capital gains and offshore investment income. In addition, earnings from an employment with a foreign employer where the duties of the employment are performed wholly outside the UK are only chargeable to UK tax to the extent they are remitted to the UK.

   A major reform of the remittance basis was introduced with effect from 6 April 2008 and the interpretation of some of the detail in the new law remains unclear at the time of writing.

5. Generally, taxpayers who claim the remittance basis give up any entitlement to tax-free personal allowances for income tax and the annual exemption for capital gains tax. In addition, those who have been resident in the UK at any time in at least 7 out of the previous 9 UK tax years have to pay a £30,000 remittance basis charge for any tax year in which they wish to access the remittance basis.

6. Determining which funds are regarded as remitted to the UK is complex, unless funds are remitted from an account containing income or gains of only one type and only one UK tax year. Where a separate segregated fund is used, it is generally clear what has been remitted to the UK. However, if income or gains of more than one type or more than one tax year are included in a single bank account it will be regarded as a mixed fund. Statutory rules now determine what is remitted from any mixed fund, and taxpayers cannot “choose” what

they are remitting from a mixed fund. Great care is, therefore, needed in structuring offshore bank accounts and segregating income and gains appropriately in order to maximize the reliefs potentially available from the remittance basis.

HM Revenue & Customs (HMRC) has relaxed the strict statutory rules for 2010/11 in respect of remittances of the employment income of resident but not ordinarily resident employees where particular conditions are met in relation to the bank accounts used. It is advantageous to be within the terms of this practice if possible. We, therefore, recommend strongly that further guidance on what is required is sought both before and on arrival in the UK. It is not clear for how long the concessionary practice will continue or how soon a similar relaxation can be enacted in the underlying law.

Husband and wife

7. The UK operates a system of independent taxation and each individual is taxed entirely separately. Each spouse is entitled to his or her own personal allowance and tax bands and the income and gains of married couples are not aggregated. There are, however, some circumstances in which particular rules apply to transactions between spouses, for example gifts between spouses being deemed to take place as "no gain, no loss" transactions for capital gains tax.

8. From 5 December 2005 the UK also recognizes civil partnerships between two partners of the same sex and treats civil partners in the same way as married couples.

Determination of residence

9. You will always be resident in the UK for a tax year if you spend at least 183 days here in that tax year. Otherwise much depends on your intention on your arrival in the UK. If when you arrive here you expect to remain for at least two years and you come for a settled purpose, such as employment, you will normally be regarded as resident from the day you arrive in the UK.

10. If you arrive in the UK intending to make visits in excess of 90 days per year over a four-year period, you are treated as resident from the arrival date. Similarly, if you decide to make such visits during a period, you will be treated as resident from the start of the tax year in which you take such a decision. If you visit the UK regularly for any reason and the visits exceed 90 days per UK tax year on average over a number of years, other rules can come into play that may trigger UK residence.

11. Days are counted if you are in the UK at midnight, unless the taxpayer is only in the UK at midnight because he or she is in transit. In addition, days spent in the UK beyond the taxpayer's control, for example because he or she is unable to travel because of illness, may be ignored in considering the 90 day on average test.

12. Currently the UK has no single statutory test of residence and much is based on HMRC's practice, derived from case law, and the interaction of the various tests is complex. Your residency position may therefore be more complicated if this is not your first assignment to the UK, especially if you have lived in the UK recently.

13. Technically, taxpayers are resident or not for an entire UK tax year. In practice, however, for taxpayers who come to or leave the UK for full time employment encompassing at least a two year period, most tax liabilities are calculated by reference to the split year period of residence only.

Determination of ordinary residence

14. Taxpayers who on arrival in the UK expect to stay for at least three years, or buy a home or lease property for a period of three years or more will also be regarded as ordinarily resident in the UK. If you are treated as ordinarily resident solely because of accommodation available to you for a three year period, and you leave

within three years, and dispose of the property, it is usually possible to amend your resident status retrospectively to resident but not ordinarily resident. You may also be regarded as ordinarily resident when you arrive in the UK if you are employed under a local UK employment contract which is either open-ended or of at least three years' duration. Being resident but not ordinarily resident potentially offers access to the remittance basis for offshore investment income and for earnings derived from foreign workdays (see section below on the Taxation of Employment Income).

Determination of domicile

15. Domicile is a concept in general law rather than tax law and, as noted above, being non-domiciled offers you the opportunity to elect for the remittance basis of taxation for certain types of offshore income and any offshore capital gains. A taxpayer can only have one domicile at any one time, which is usually a domicile of origin, and will normally be where his or her father was domiciled at the time of the taxpayer's birth. The taxpayer may subsequently have changed this through acquiring a domicile of choice if; for example, he or she has immigrated to another country and now regards that country as his or her permanent home.

Step 2 – Understanding the UK tax system

General remarks

16. Different rules apply to the taxation of earned income (whether income from employment or self-employment) and other income such as investment income, which may affect the marginal tax rate of income tax applying. The other main direct tax in the UK is capital gains tax. UK National Insurance Contributions (social security) may also be due; although often a taxpayer who is temporarily assigned to the UK will remain subject to his or her home social security system and exempt from UK NI under agreements between the two countries (see section below on social security).

Taxation of employment income

17. All employees and office holders (including directors) are taxed as employees.

18. Broadly, non-residents are taxed on earnings from their UK workdays. Residents who are not ordinarily resident are taxed on their UK earnings, but assuming that the remittance basis is claimed, will only be taxed on their foreign earnings to the extent that those are remitted to the UK.

19. Taxpayers who are both resident and ordinarily resident in the UK will normally be taxed on their worldwide earnings unless they are both:

    – Domiciled outside the UK, and

    – The earnings derive from an employment with a foreign employer none of the duties of which are performed in the UK.

    In this case, assuming that the remittance basis is claimed, earnings from such an employment will only be taxed to the extent they are remitted to the UK.

20. General earnings includes all salary, bonuses, commissions, overseas allowances, housing allowances and most other items that could be seen as deriving from the employment. There are specific rules for taxing items that are not provided in cash, such as living accommodation and cars. In addition there is specific law which can tax share incentives and termination payments.

21. Relief from tax may be available for business expenses incurred wholly, exclusively and necessarily in the performance of the duties of the employment, such as business travel and subsistence costs. Other tax deductible items may include professional subscriptions and business entertaining.

22. Employees who are assigned temporarily from their permanent place of work, for example by being assigned to the UK for a period of up to 24 months, may be eligible for tax relief on the costs of their subsistence and temporary accommodation during their UK assignments.

23. Employees who change their main residence as a result of taking up a UK assignment are potentially eligible for tax relief for qualifying relocation expenses up to a maximum of £8,000.

24. Subject to certain limitations (see next paragraph), no tax will arise on payments by your employer for the cost of any number of journeys which you make from the country in which you normally live to the UK in order for you to perform the duties of your employment in the UK. Payments for journeys to the country in

which you normally live after you have performed duties here are also not taxable. In addition, payment by your employer for the cost of two journeys in any tax year by your spouse and each of your children (under 18) to accompany you to the UK or to visit you here and to return will also be exempt, provided you are present in the UK for a continuous period of at least 60 days to perform your employment duties, both before and after each journey.

25. Normally, exemption of such travel costs for you and your family is available for up to five years from the start of any assignment which is preceded by either a period of 24 months' continuous absence from the UK or two complete tax years of non-residence. It is important to note that the exemptions are available only if your employer either meets the expenses directly or reimburses you for them. You cannot claim a tax deduction for the cost of journeys that you bear personally. In addition, where for example you have more than one employment, you should note that these exemptions apply only in respect of an employment for which you perform duties in the UK.

26. Assuming that your particular pension plan allows you to continue to participate during your assignment to the UK, and provided that it provides only death or retirement benefits, any employer contributions to the plan will not generally be taxable on you, although law is proposed to be introduced from 2011/12 which may tax contributions to some types of pension schemes that are not both tax approved and open to employees generally in your home country. It is advisable to check the position with your PwC adviser. There is no absolute limit on the amount that an individual can pay into a pension scheme, although you will only be able to obtain tax relief on contributions subject to particular limits (see Appendix A for an overview of the limits) and in prescribed circumstances. Your pension fund administrator may have to commit to providing reports of particular events at some future point for relief to be available.

27. Alternatively, some pension plans may receive favourable treatment if the double tax treaty between the UK and your home country requires it. In this case, you would normally be entitled to a deduction for your contributions. Contributions paid by your employer would not be considered taxable income.

28. If pension contributions have been relieved from UK income tax during your assignment here, you may potentially remain subject to reporting obligations and UK tax charges after you have left the UK on certain payments from the plan, and further advice should be taken as needed.

29. The UK Government has announced its intention to limit the tax relief available on certain pension contributions and accruals. The proposals will apply in full from 6 April 2011 to individuals whose contributions to a pension scheme, together with employer contributions, or the equivalent for defined benefit schemes exceed a much reduced annual allowance level (see Appendix A). In the meantime, an anti-forestalling provision has been introduced that will impose a Special Annual Allowance Charge in certain circumstances. The charge limits the tax relief on pension contributions in prescribed circumstances to basic rate by clawing back part of the tax relief for contributions from those whose annual incomes exceed £130,000. This charge can apply to contributions to offshore pension plans in all the cases considered in paragraphs 26 to 28, where the contributions are subject to UK tax relief and exceed particular limits.

30. An individual can be liable for a Special Annual Allowance Charge regardless of resident or domicile status. This again is a very complex area and we strongly recommend you take bespoke advice on the matter if your annual UK income (including any expatriate allowances and UK taxes borne by your employer) is likely to reach the £130,000 threshold level.

Taxation of self-employment income

31. Profits or gains of trades, professions and vocations which you carry out in the UK are subject to tax whether or not you are UK resident. If you are UK resident, a liability may arise on such profits or gains even if your trade etc is carried on abroad. Professional advice should be taken as soon as possible.

32. The UK has complex statutory rules regarding the taxation of income earned in a taxpayer's personal service company, which may mean reporting obligations and further liabilities for that company, if any of the engagements the taxpayer has with third party clients could be said to have the characteristics of employment. Further advice should be taken by anyone undertaking work through a personal service company, to ensure the implications are correctly understood.

Income from partnerships

33. Partnerships are not regarded as separate legal entities. Rather partners are taxed on their share of the income earned by the partnership in each UK tax year.

Investment income

34. In general, investment income arising from sources in the UK is taxable. Certain forms of UK investment attract favorable UK tax treatment; these include individual savings accounts (ISAs), the enterprise investment scheme and venture capital trusts. Interest on British Government 'gilt-edged' securities is also exempt from tax in the hands of a person who is not ordinarily resident. Before making any investments in the UK, you should take advice on your own circumstances.

35. Broadly, under the system of taxing UK company dividends in the UK, a dividend attracts tax credit of one-ninth of its amount (that is 10% of the sum of the dividend plus the credit). The dividend plus credit is chargeable to tax at 10% or, if the recipient's total taxable income exceeds £37,400 at 32.5%, or at 42.5% if the recipient's total income exceeds £150,000 (based on 2010/11 rates). The 10% credit is available to offset the tax due, but otherwise is not normally repayable. From 2008/09 a similar credit has also been introduced for foreign dividends where the taxpayer is taxable on the arising basis, provided that, under the current regime, the taxpayer holds less than 10% of the class of share capital of the company in respect of which the dividend is paid. For many assignees to the UK claiming the remittance basis for foreign dividends and leaving them offshore will be a more effective means of restricting the UK tax payable on that source of income.

36. If you are not domiciled in the UK, and the remittance basis is claimed, investment income arising from sources outside the UK is generally taxable only to the extent it is remitted to the UK (subject to any relief which may be due for foreign tax). If it is not remitted, such income is not taxable.

Income from real estate

37. Rental income is taxed on the same basis as other investment income (i.e. it is taxable unless it is foreign income and the remittance basis has been claimed, in which case it is only taxed if and when it is remitted to the UK). Any UK tax will be based on the profit you make, determined according to UK rules.

Capital gains

38. Capital gains are charged to tax at two different rates of tax, currently 18% and 28%. For 2010/11 the 18% rate applies to any gain realized on or before 22 June 2010. Thereafter, gains for higher rate taxpayers are chargeable at 28%. Any taxpayer who has not utilized his full basic rate income tax band against his income may effectively utilize the balance of that band against his capital gains for the year, to reduce the tax rate on any post 22 June 2010 gains within that band to 18%.

    Any taxpayer who is resident or ordinarily resident in the UK during any part of a UK tax year is potentially within the scope of capital gains tax for the whole tax year. By concession, a taxpayer who is treated as only tax resident in the UK for part of a tax year may not be taxed on gains realized in the non-resident part of the tax year, but this concession is dependent on how long he has been resident in the UK previously. Similarly, a taxpayer who is regarded as only temporarily non-resident in the UK for capital gains tax, because he does

not leave the UK for a period encompassing five complete UK fiscal years, may continue to be liable to CGT while non-resident. Take further advice from your PwC adviser in this situation. A non-domiciled taxpayer who claims the remittance basis is only liable to tax on any offshore capital gains to the extent they are remitted to the UK.

Sale of principal residence

39. If you live in a property as your main home throughout the period of ownership, you are not normally taxed on any gain arising on its disposal. Neither can you claim relief for any capital loss on sale.

The exemption from CGT for your principal private residence (PPR) may continue to apply to your home property while you are not living there, but only in certain specific circumstances. Therefore, if you retain your main home whilst on assignment to the UK, but decide you wish to dispose of it in a tax year during any part of which you are within the scope of CGT, you should take further advice. If you are not domiciled in the UK and claiming the remittance basis, you will not be liable to tax on any gain arising on disposal, whether or not the PPR exemption applies, provided that the sale proceeds are not remitted to the UK.

Calculation of tax

40. There are three main rates of income tax, a 20% basic rate band that applies to income up to £37,400, a 40% higher rate band that applies to income in excess of that up to £150,000 and an additional tax rate currently set at 50% for income above £150,000. Where applicable, the tax-free personal allowance (to which a phase out applies for those with income of at least £100,000) is deducted from gross taxable income and then the appropriate tax rates for the level of income are applied. A sample calculation is included in Appendix B.

41. As noted above, dividends from UK companies carry a 10% tax credit. This credit satisfies the tax liability on this type of income for basic rate taxpayers, whereas higher rate taxpayers are liable to tax at the dividend upper rate of 32.5%, so they have a further 22.5% to pay. From 2010/11, those liable to tax at 50% on other income are liable to tax at the dividend additional rate of 42.5% on dividends with a 10% tax credit and so will have a further 32.5% to pay.

42. For Capital Gains Tax, the tax rate is 18% or 28% as explained above, and the appropriate rate is applied to all gains realized by a taxpayer in a tax year after deducting the CGT annual exemption where applicable, and after taking relief for any current year or brought forward losses. Normally for foreign domiciles claiming the remittance basis, any offshore losses will not be regarded as capital losses, but you do have the opportunity to make an irrevocable election into a regime that allows relief for offshore losses in some circumstances.

Child benefit and tax credits

43. Child benefit is a non-contributory social security benefit which is generally payable for all children or “qualifying young people” for whom you are responsible. If you are not eligible to claim an equivalent benefit in your home country, you may be able to claim benefit in the UK if you either have indefinite leave to remain in the UK or you come from another EEA country or you come from certain other countries that the UK has agreements with covering the payment of child benefit, for example, New Zealand and Canada. UK child benefit is not currently taxable in the UK, and it is not currently means tested, although it is proposed that from 2011/12 it will not be paid in respect of any child if either parent is a higher or additional rate taxpayer.

Child tax credit ('CTC') and working tax credit ('WTC') are payable to eligible claimants (the credits are means tested). Both CTC and WTC are administered by HMRC through their Tax Credit Office, are awarded in respect of a tax year and are computed initially on the claimant's income of the preceding tax year. They are non-taxable and are neither related to nor deducted from the claimant's income tax liability. Thus, they are not 'tax credits' in the conventional sense, but social security benefits.

Foreign tax credit

44. The UK potentially allows credit relief to its residents for foreign tax suffered on the same income or gains, either under its network of double taxation agreements (see below) or through unilateral provisions. The credit is restricted to the lower of the foreign taxes suffered (or which can be suffered under a particular treaty for a type of income) and the UK tax liability on the same income.

Double-taxation agreements

45. The UK has a network of countries with which it has negotiated double-taxation agreements. A list of countries with which there is a current agreement is detailed in Appendix C.

Social security taxes

46. Whether you have to pay UK social security will depend on a number of factors including who you are employed by, the length of your assignment, the country you were based in prior to your assignment to the UK, and in some cases, your nationality. If you are liable to pay UK social security, known as National Insurance Contributions (NIC), as an employee you normally have to pay Class 1 rates, as does your employer.

47. Your social security position will depend crucially on whether you have been assigned from:

    – The European Economic Area (which includes the 27 countries of the EU, Norway, Liechtenstein and Iceland) and Switzerland;
    – Countries with which the UK has a reciprocal social security agreement; or
    – The rest of the world (no social security agreement).

    We have described the treatment in each case below on the assumption that you remain employed by a legal entity based outside the UK and are seconded to work in the UK for a temporary period.

48. For the European Economic Area (EEA) and Switzerland, if you are an EEA (or Swiss) national the basic rule is that you pay contributions in the member state where you work. However, if you are temporarily transferred by an employer in your home state, you are required to continue to pay only into your home country scheme if your secondment is expected to last for a period of not more than 24 months from the outset (12 months for moves up to 30 April 2010) and you are not being sent to replace another person.. For assignments extending beyond 24 months, the regulations dealing with European transfers and associated member state practice will normally, subject to certain further conditions, allow you to continue to pay only in your home country for a total period of up to five years. A form A1 should be obtained by your employer in your home country providing exemption from payment of NIC in the UK.

49. The current EC Regulations came into force with effect from 1 May 2010. The underlying principles of a single co-ordinated European social security regime are unaffected, but there were changes in the detail of the law. For example, there are changes in the operation of the rules for workers who pursue their activities in two or more member states.

50. The UK has also negotiated agreements with a number of other countries which are intended to deal with the social security implications of temporary transfers. It is necessary to look at the agreement with the country from which you are being transferred. Some, for instance, will only deal with the question of reciprocation of benefits and not with contributions. However, for those that deal with contributions, the general rule is that contributions can usually continue in the home country for the period specified in their respective agreement (e.g. five years initially in the case of Canada and the USA) where the employment with the home country employer continues. Home country contributions liability continues only if the assignment is expected at the outset to last for no more than the maximum period specified. If the assignment is longer or gets extended

beyond the maximum period, contributions will normally cease in the home country and commence in the UK. Generally, however, it should not be necessary to pay contributions in both countries at the same time.

51. If you come from a country outside the EEA or Switzerland and from one with which the UK does not have a reciprocal social security contributions agreement, you and (under certain conditions) your employer must pay UK Class 1 National Insurance Contributions from 52 weeks after your arrival.

52. A list of the countries with which the UK has a Social Security Agreement is detailed in Appendix D.

53. Generally, under current legislation anyone who is considered resident in the UK is exempt from charges for hospital treatment. A resident for healthcare purposes is a person living in the UK lawfully and on a settled basis or living a settled mode of life; for example, if you come to the UK for the purposes of employment. This exemption applies to the individual's spouse or children (under the age of 16 or 19 if in further education if they have accompanied the individual to the UK). Furthermore, there are some National Health Service (NHS) treatments free to anyone living in the UK regardless of the length of time you have been in the UK or how long you intend to stay, such as treatment as an outpatient in an Accident and Emergency (A&E) department or a Walk-in Centre (the exemption from charges will cease to apply once the patient is formally admitted as an inpatient which also includes emergency operations and admittance to High Dependency Units).

54. Other exceptions from NHS charges depend upon the country from which you have been transferred. In general, healthcare is available to citizens of the European Economic Area (EEA) countries and Switzerland but it is generally necessary to have a Certificate of Entitlement – European Health Insurance Card (EHIC) or S1 to obtain treatment. The UK has healthcare agreements with a number of countries which may entitle you to free or subsidised healthcare treatment.

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Step 3 – What to do before you arrive in the UK

Work permit

55. Unless you are a national of the EEA (excluding Bulgaria and Romania), you may require immigration permission before you can begin your assignment in the UK. The UK has a Points Based System which contains 5 "Tiers" under which overseas nationals may obtain immigration permission to come to work in the UK. The most common category for assignees is Tier 2. Under Tier 2, a sponsoring company in possession of a Sponsorship Licence will issue a "Certificate of Sponsorship" to an assignee and the assignee will then apply for entry clearance (a visa) to come to the UK to work for that company. In order to qualify under Tier 2 (Intra-Company Transfer), which will mean that the UK company will not be required to show that it has searched for a suitably qualified worker for the role that the company wishes the assignee to undertake in the UK, the assignee must already have been working for the company for twelve months in another location. Entry clearance must be obtained before the commencement of your assignment from a British Embassy/Consulate in the assignee's country of residence. You will be refused entry to the UK if you do not have the appropriate documentation before you travel.

    Please note that major changes will be implemented to the UK immigration system on 6 April 2011 including the imposition of certain restrictions to the Tier 2 (Intra-Company Transfer) category and a quota on Tier 2 (General), the category for individuals who have not worked for the company previously overseas or who have worked for it outside the UK for less than twelve months.

Remittance basis

56. As noted above there are now complex statutory rules that come into play whenever a mixed fund, that is an account containing more than one type of income or gains or income of gains of more than one tax year, is used. Before becoming UK resident consider establishing separate bank accounts outside the UK to segregate existing pre assignment capital. In addition you may wish to establish different bank accounts for your offshore investment income and earnings that arise after you have become UK resident, as this will help to identify the source of funds you are remitting to the UK, and will help you to plan to minimise your UK tax liability. As the mixed fund law is extremely complex we recommend that you take additional detailed advice on this issue as early as possible.

    As also noted above, HMRC has a practice of relaxing the strict statutory rules applying to mixed funds in very limited circumstances. While this will improve the position for many assignees, there are particular restrictions that apply (for example, the practice only applies to certain bank accounts held in joint names). It is therefore essential that appropriate advice is sought as soon as practical after accepting an assignment to the UK.

Employment contracts

57. If you are employed in the UK your employer is required, under statute (subject to certain exceptions), to give you a written statement of specified terms and conditions of your employment. The statement must be given within two months of commencement of employment and any changes in your terms and conditions must be notified to you in writing within one month of the change. The written statement must contain certain specific details. Professional advice should be sought when preparing such a statement.

58. If an employer who is not resident in the UK is loaning your services to a UK resident organization, consideration should be given to whether a secondment agreement, regulating the terms and conditions of this arrangement, would be appropriate. There are a number of potential advantages for doing this, including:

- The ability to continue participating in your employer's benefit plans;
- The opportunity to claim exemption from UK tax under a double taxation agreement, provided other conditions are also met; and
- The opportunity for you to be exempt from National Insurance contributions for all or part of the period of your assignment, dependent on other conditions also being met.

59. If secondment arrangements are to apply to you, your employer and the UK resident organization for which you will be working should determine, in conjunction with their advisers, how the practical arrangements for your services are to be handled. The arrangements must reflect the fact that it is the non-resident concern which remains your employer and not the UK resident. It is particularly important to clarify these arrangements if you are appointed as an officer, for example, a director, of a UK resident company to whom your services have been loaned.

60. If you are non-domiciled, it may be appropriate to have a separate employment contract for duties to be performed wholly outside the UK so that, assuming the remittance basis is claimed, the earnings from that employment would be taxable only if remitted to the UK. However, HMRC is likely to question whether the duties performed inside and outside the UK genuinely relate to separate and distinct employments, whether there are commercial and economic justifications for the employments being separate, and what are the relative amounts of earnings payable under each employment. Therefore, these and other points must be considered in assessing whether separate employments are justifiable. Detailed advice should be taken. If separate employments are appropriate, the terms and conditions of both employments should be fully documented in dual contracts, which, ideally, should be signed prior to your arrival in the UK.

Step 4 – What to do when you arrive in the UK

Registration

61. Your residence and domicile status are of primary importance in establishing the basis of individual taxation in the UK. Normally, your status will only be fully determined when you have submitted your tax return which self assesses your resident and domicile status and it has been accepted by HMRC. It is therefore advisable on arrival to prepare and retain a record of all the key information relevant to your UK resident status, as this will allow an initial assessment of your likely resident status to be made.

62. You will also need to complete a form 64-8 to register the fact that you have a professional adviser dealing with your tax affairs with HMRC. If this form is not completed and filed, HMRC will not recognize your taxation agent, and all relevant correspondence etc will come to you personally rather than through your agent. In addition, the agent will not be able to obtain copies or negotiate with HMRC on your behalf without completion and submission of this form.

63. HMRC also requires the completion of a form P46 (Expat) in order to establish a self-assessment (SA) tax record for you. This form will normally be given to you for completion by a UK payroll department, which should file this form on your behalf. Once your SA record is established, HMRC will issue a tax identification number or UTR – see below.

Social security obligations

64. Assuming you are eligible to claim exemption from social security contributions for all, or part, of the duration of your stay in the UK, there is no longer any requirement to obtain a UK National Insurance number.

Tax identification number

65. Your tax records will be identified by a Unique Tax Reference or UTR. This is issued to you by HMRC once your self-assessment tax record has been established. This is usually done when the form P46 (Expat) is processed.

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Step 5 – What to do at the end of the year

Tax return

66. As noted above the UK operates a tax return system of self-assessment and your self-assessment tax return will normally be issued by HMRC shortly after the end of each tax year. If you compute your own self-assessment and file the return electronically you must file it with HMRC by 31 January following the end of the tax year. Accordingly, you would have to file your 2010/2011 return by 31 January 2012. If you wish HMRC to work out your tax liability, or you wish to submit the return in paper format it must be submitted by 31 October following the end of the tax year (so by 31 October 2011 for your 2010/11 tax return). Penalties typically apply for late filing of the return.

67. If you are not issued with a return but have a liability to UK tax, you must notify HMRC within six months of the end of the tax year (by 5 October) so that a return can be issued to you. Penalties can be imposed for failure to notify.

68. The self-assessment tax return consists of a six page core, and a four page form of additional information, which covers the most common types of income, deductions and reliefs, plus supplementary pages covering specified types of income and capital gains in general. You are responsible for ensuring that you complete the correct supplementary pages for your income and gains. You must obtain supplementary pages from HMRC if you are not originally sent the correct pages. It is by completing and filing the Non-residence supplementary pages that you formally notify your residence and domicile status to the HMRC.

69. Both you and HMRC can amend your self-assessment within specified periods. HMRC also has powers to enquire formally into any return which forms the basis of a self-assessment. HMRC may initiate an enquiry into a return for specific reasons, but each tax year some returns will be selected at random for enquiry. HMRC must notify its intention to enquire into a return within a specified period. This is normally one year after 31 January following the end of the tax year, but may be 12 months from the date of submission of the return, where it is submitted after the filing deadline.

70. If most of your income is paid to you after deduction of tax it is likely that you will only need to make one balancing payment of tax in respect of income and capital gains on 31 January following the end of the tax year. For example, you are likely to have to pay your tax liability for 2010/2011 on 31 January 2012. If you owe a balance of income tax for one tax year, you may also be required to make payments on account for the following tax year, on 31 January during and 31 July after that tax year. Payments on account of tax are only made in respect of income and not capital gains. Any repayment of tax due to you will normally be made to you shortly after you submit your tax return following the end of the tax year.

71. Automatic interest applies to any tax paid late. Surcharges may be applied to any tax that is outstanding after specified dates and penalties can apply both for late filing and for any error in a self-assessment tax return. Interest is also applied to late paid surcharges and late paid penalties. Interest on late paid repayment of tax is, broadly, paid from the date on which the tax is paid to the date of repayment.

72. You will also be required to retain adequate records relating to your tax return for specified minimum periods. For employees, this date will normally be one year after 31 January following the tax year. Therefore, for your 2010/2011, you will have to retain records to 31 January 2013, at the earliest. A penalty of up to £3,000 may be imposed for each failure to keep records. Even if there is no legal requirement to retain records for a longer period (i.e. if you have no business income and HMRC are not enquiring into your return) we consider it a wise precaution for all records to be retained for at least four years from 5 April concerned. Automatic interest applies to any tax paid late. Surcharges may be applied to any tax that is outstanding after specified dates and penalties can apply both for late filing and for any error in a self-assessment tax return. Interest is also applied to late paid surcharges and late paid penalties. Interest on late paid repayment of tax is, broadly, paid from the date on which the tax is paid to the date of repayment.

Step 6 – What to do when you leave the UK

Cancellation of registration with the tax authorities

73. There is no requirement to obtain an exit permit from the UK tax authorities before you leave the UK. However, we normally recommend advising HMRC by letter on departure from the UK. The position regarding your tax residence and ordinary residence status will then be confirmed in due course by entries on your self assessment tax return.

74. Typically, an assignee that leaves the UK to return permanently to his home country will be regarded as not resident and not ordinarily resident in the UK from the day after his departure. The position is less clear cut for someone who is likely to return to the UK or retains ongoing links here. You should take further professional advice as necessary depending on your personal circumstances.

75. Not all reporting obligations cease with UK residence. In particular, a taxpayer who leaves the UK for a period that does not encompass five complete UK tax years may remain subject to UK capital gains tax under the temporary non-resident rules. Similar rules can also apply to remittances of offshore investment income by a remittance basis user who is regarded as only temporarily non-resident where the income arose prior to his departure from the UK. In addition, if you have had tax relief on any contributions to a pension fund, you may be subject to additional reporting obligations, and also potentially to charges such as the Unauthorised Payments Charge, if for example within a period of five years of being resident in the UK, benefits are taken at a time or in a format that would not be allowed for a UK registered pension scheme.

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Step 7 – Other matters requiring consideration

Wealth tax

76. The UK does not have any separate wealth taxes as such, although Inheritance Tax and Capital Gains Tax may be due on particular transactions.

Gift and inheritance tax

77. Assuming that you are not UK domiciled, you are unlikely to be affected by estate and gift taxes (inheritance tax) unless you die or make significant gifts while living in the UK. Even then, the liability may be restricted to the value of assets held in the UK, or be restricted by double tax treaties.

78. If you are non-UK domiciled your exposure to inheritance tax (payable on death and by the donor in respect of certain lifetime gifts) is limited to your UK situs assets. For inheritance tax purposes only, you may be deemed domiciled in the UK after you have been UK tax resident for seventeen out of the last twenty tax years. In these circumstances, your exposure to UK inheritance tax extends to your world-wide assets. Inheritance tax planning should be considered if you are planning to settle long-term in the UK or acquire significant assets here.

Miscellaneous

79. Although this folio is primarily concerned with tax matters, we recommend that you seek advice on the following topics before you arrive in the UK:

    – The availability of housing and the likely costs of accommodation;
    – Educational facilities for children where appropriate;
    – The level of remuneration required to provide a proper standard of living for yourself and your family;
    – Motoring regulations; and
    – Life assurance and other insurance cover whilst working in the UK.

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Appendix A – Overview of personal tax deductions and income tax rates

Personal tax deductions and income tax and capital gains tax rates for the year 2010/11

Personal tax exemptions

The following basic amounts of taxable income are exempt from tax in 2010/11 (in UK £):

Basic allowance for taxpayer (1)	6,475
Personal allowance for people age 65-74 (1)(2)	9,490
Personal allowance for people aged 75 and over (1)(2)	9,640
Married couple’s allowance – aged 75 and over (2)(3)	6,965
Income limit for age-related allowances	22,900
Minimum amount of married couple’s allowance	2,670
Blind person’s allowance	1,890
Capital gains tax annual exemption	10,100

1. From the 2010/11 tax year the Personal Allowance reduces where adjusted net income is above £100,000, by £1 for every £2 of income above the £100,000 limit. The reduction applies irrespective of age.

2. These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. For 2009/10, they were never less than the basic Personal Allowance or minimum amount of Married Couple’s allowance. However, from the 2010/11 tax year the Personal Allowance for people aged 65 to 74 and 75 and over can be reduced below the basic Personal Allowance where the income is above £100,000.

3. Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

4. The allowances and annual exemption for Capital Gains Tax are not available to taxpayers claiming the remittance basis.

5. Personal allowances are only available to certain non-residents.

Main personal income tax rates

Tax rates applicable to individuals in 2010/11 are as follows (in UK £):

Taxable income over	Not over	Tax on column 1	Percentage on excess
0	37,400	-	20%
37,400	£150,000	7,480	40%
150,000	And above	45,040	50%

Capital gains tax rate

Tax rate applicable in 2010/11 depends on when the chargeable gains are realized and the overall income level of the individual. For gains realized on or before 22 June 2010 the applicable rate is 18%. Thereafter, for taxpayers with income exceeding the basic rate band for income tax the applicable rate is 28%. Taxpayers whose income is less than £37,400 will pay CGT at 18% on gains realized to the extent that, when added to total income, these do not exceed the unutilized basic rate band. Gains in excess of this will be taxed at 28%.

Pensions

Rates of Annual Allowance and Lifetime Allowance

Annual Allowance

Tax year	Rate of Annual Allowance
2010/11	£255,000
2011/12	£50,000(proposed)

Standard Lifetime Allowance

Tax year	Rate of Lifetime Allowance
2010/11	£1,800,000
2011/12	£1,800,000
2012/13	£1,500,000(proposed)

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Appendix B – Typical tax computation

Typical tax computation for 2009/10 for a single individual (employee)

Tax computation	**£**	**£**
Earned income		
Salary	160,000	
Benefits	**15,000**	
Total earned income		**175,000**
Less — Personal deductions:		
Personal allowance (where available)* Less : Phase out where income exceeds £100,000	6,475 (6,475)	 0
Taxable net income		**175,000**
Tax due		
£0 - £37,400 @ 20%		7,480
£37,401 - £150,000 @ 40%		45,040
Over £150,000		**12,500**
Total		**65,020**

*The personal allowance is not available to any taxpayer claiming the remittance basis.

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Appendix C – Double-taxation agreements

Countries with which the UK currently has double-taxation agreements:

Antigua & Barbuda	Gambia	Lithuania	Saudi Arabia
Argentina	Georgia	Luxembourg	Serbia**
Australia	Germany	Macedonia	Sierra Leone
Austria	Ghana	Malawi	Singapore
Azerbaijan	Greece	Malaysia	Slovak Republic***
Bangladesh	Grenada	Malta	Slovenia**
Barbados	Guernsey	Mauritius	Solomon Islands
Belarus*	Guyana	Mexico	South Africa
Belgium	Hong Kong ****	Moldova	Spain
Belize	Hungary	Mongolia	Sri Lanka
Bolivia	Iceland	Montenegro**	Sudan
Bosnia & Herzegovina**	India	Montserrat	Swaziland
Botswana	Indonesia	Morocco	Sweden
Brunei	Ireland	Myanmar	Switzerland
Bulgaria	Isle of Man	Namibia	Taiwan
Canada	Israel	The Netherlands	Tajikistan*
Chile	Italy	New Zealand	Thailand
China	Ivory Coast	Nigeria	Trinidad & Tobago
Croatia**	Jamaica	Norway	Tunisia
Cyprus	Japan	Oman	Turkey
The Czech Republic	Jersey	Pakistan	Turkmenistan*
Denmark	Jordan	Papua New Guinea	Uganda
Egypt	Kazakhstan	Philippines	Ukraine
Estonia	Kenya	Poland	USA
Falkland Islands	Kiribati & Tuvalu	Portugal	Uzbekistan
Faroe Islands	Korea	Qatar****	Venezuela
Fiji	Kuwait	Romania	Vietnam
Finland	Latvia	Russian Federation	Zambia
France	Lesotho	St Kitts & Nevis	Zimbabwe

Notes

*The agreements with the former Soviet Union will apply to these states until they are replaced by new conventions with each country.

**The convention with Yugoslavia is to be regarded as remaining in force with the former Yugoslav Republics.

***The convention with Czechoslovakia is to be regarded as remaining in force with the Slovak Republic.

****The conventions with Hong Kong and Qatar have been ratified but do not come into force before the 2011/12 UK tax year.

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Appendix D – Employer and employee social security contributions

Weekly earnings	Employee rate	Employer rate
Earnings below £110	Nil	Nil
Earnings £110 - £844	11% [9.4%*]	12.8% [9.1%*]
Earnings above £844	1%	12.8%

Notes

1. Although no contributions are due from employees until earnings reach £110, strictly earnings below £97 (the lower earnings limit (LEL)) attract nil contribution, but earnings between the LEL and £110 (the employee's earnings threshold (EE/ET)) are liable for contributions, but at 0%.

2. Similarly, earnings between £97 and £110 (the employer's earnings threshold (ER/ET)) strictly attract employers' contributions at 0%.

3. *Contracted out rates in respect of salary related pension schemes are shown in square brackets. Contracted out employee contributions are the same for both occupational salary related and money purchase schemes, but the rebate on employers' contributions in relation to money purchase schemes is only 1.4% (instead of 3.7% for salary related schemes). The contracted out rates apply to earnings between £110 and £770 per week. Earnings between £770 and £844 per week are subject to the non-contracted out rate. The full rate of employers' contributions of 12.8% applies on the excess over £770. The rebates are also given on earnings between £97 and £110 (which effectively gives a negative NIC rate at these levels). For money purchase schemes an additional rebate, dependent on the age of the scheme members, is made directly into the pension scheme.

4. Class 1 National Insurance only applies to cash remuneration, but Class 1A also applies to employer provided benefits that are chargeable to tax. It is an employer only charge at the same rate as the employer's rate of Class 1 NIC, currently 12.8%.

5. From 6 April 2011 for Class 1 National Insurance, which applies both to employees who are subject to UK social security while working in the UK and to their employers, the main rates of Class 1 will be increased by 1% for both employees and employers. The upper marginal rate for employees will increase to 2%. The increased Class 1 marginal rate for employers will be 13.8%, and will also apply to Class 1A and Class 1B contributions.

Social security agreements - Member Countries of the EEA

Austria	France	Liechtenstein*	Romania
Belgium	Germany	Lithuania	Slovakia
Bulgaria	Greece	Luxembourg	Slovenia
Cyprus***	Hungary	Malta	Spain
The Czech Republic	Iceland*	The Netherlands	Sweden
Denmark*	Ireland	Norway*	Switzerland**
Estonia	Italy	Poland	UK (including Gibraltar for EEA purposes)
Finland	Latvia	Portugal	

Notes

*With effect from 1 June 2003, the old pre May 2010 regulations were extended to apply to non-EEA nationals legally resident in the EU, although these changes do not apply to Denmark, Norway, Iceland or Liechtenstein. The new regulations from 1 May 2010 are intended eventually to apply to non-EEA nationals, but as yet the appropriate legislation has not been approved. However, the UK and Ireland have already chosen to opt out and will **not** apply the new regulations to non-EEA nationals. The old regulations therefore continue to apply to non-EEA nationals.

**Switzerland is not a member of the EEA, but following the agreement on Free Movement which Switzerland signed with the EU and which came into force on 1 June 2002, E101s/A1s as appropriate are available for EEA and Swiss nationals for up to five years moving to or from Switzerland.

***The EU regulations only apply to qualifying individuals who are assigned into or from the Greek part of Cyprus. As Turkey is not yet part of the EU, the EU regulations do not apply to assignments into or from the Turkish part of Cyprus. (The UK/Cyprus bi-lateral agreement does, however, cover the whole territory of Cyprus).

Other countries with which the UK has a reciprocal social security agreement

Barbados	Isle of Man*	Malta	Serbia
Bermuda	Israel	Mauritius	Turkey
Bosnia & Herzegovina	Jamaica	Montenegro	USA
Canada	Japan	New Zealand**	Former Yugoslavia***
Croatia	Jersey/Guernsey	Philippines	
Cyprus	Macedonia	Republic of Korea	

Notes

*Letters of Administration

**Benefits-only agreement

***Includes Serbia, Bosnia-Herzegovina, Macedonia, Croatia and Slovenia (although Slovenia joined the EU on 1 May 2004 so is not listed above). Some agreements e.g. UK/Japan agreement, are not full Totalisation Agreements covering benefits, but are Double Contribution Conventions only

Countries with which the UK has a separate healthcare agreement

If you are a visitor from the UK to any of the following countries, you may be able to get some free or subsidised emergency health care treatment in the following countries:

Australia	Channel Islands	New Zealand	Former USSR*
Barbados	Gibraltar	Romania	Former Yugoslavia**
Bulgaria	Isle of Man	Former USSR*	

Notes

*Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

**Serbian and Montenegro and the successor states of Croatia, Bosnia and Macedonia. Also some of the British Dependent Territories (Anguilla, British Virgin Islands, Falkland Islands, Montserrat, St Helena, Turks and Caicos Islands).

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Appendix E – Relief from import duties and taxes

Belongings and vehicles

When setting up normal home in the UK from outside the EU relief from duty and VAT are available provided that:

- You are moving your normal home to the EU;
- You have had your permanent home outside the EU for a continuous period of at least 12 months;
- Personal belongings have been used and owned in normal home for at least six months before importation;
- Personal belongings were not obtained under a duty or tax-free scheme and are declared to HMRC on Form C3;
- Your belongings are kept for personal use;
- You do not sell, lend, hire out or otherwise dispose of them in the EU within 12 months of importation.

Notes

The reliefs above can be obtained where you are moving your normal home to the UK. A normal home is defined as one where you spend at least 185 days in a period of 12 months. Different rules apply for a secondary home, i.e. one you own or rent and where you live for less than 185 days in a period of 12 months. Advice may be sought at the larger PricewaterhouseCoopers offices.

To qualify for relief, vehicles and personal belongings must be duty and tax paid in the country of export. Belongings include clothing, furniture and household and personal effects, but not alcoholic drinks or tobacco, which will only qualify for relief if they travel with you and are within the designated duty free allowances.

If you make a disposal of these goods within the EU within 12 months of their importation, VAT and duty will be payable on the disposal. Disposal means selling, lending, hiring out or otherwise disposing of in the UK.

Documentary evidence is required if you are claiming relief from duty and tax on a vehicle, i.e. registration document, insurance details and purchase invoice if available. If you bring your vehicle in with you, you will not need to complete a customs declaration form. If you import it separately, you will need to complete a declaration form C104A.

No documentary evidence is required if you present your personal belongings personally to Customs on arrival in the UK. If you send them you will need to complete a Customs form C3 and a packing list. If the conditions for relief on a vehicle or on personal belongings from outside the EU, set out in the chart above, have not been met, it may still be possible to obtain relief. Generally, any goods brought back into the UK from outside the EU can be free of duty and tax, provided any duty and tax originally due was paid and has not been refunded.

Appendix F – UK contacts and offices

Contacts	
Sean Drury London Tel: [44] (20) 7212 5552 Email: sean.drury@uk.pwc.com	**Simon Morris** London Tel: [44] (20) 7212 4277 Email: simon.p.morris@uk.pwc.com
Leo Palazzuoli London Tel: [44] (20) 7804 7916 Email: leo.palazzuoli@uk.pwc.com	**Victoria Robinson** London Tel: [44] (20) 7804 1771 Email: victoria.x.robinson@uk.pwc.com
Carol Stubbings London Tel: [44] (20) 7804 9859 Email: carol.a.stubbings@uk.pwc.com	**Robbie Wigley-Jones** Birmingham Tel: [44] (0) 12 1265 5584 Email: robert.wigley-jones@uk.pwc.com
Ben Wilkins London Tel: [44] (20) 7212 4096 Email: ben.wilkins@uk.pwc.com	

Offices – PricewaterhouseCoopers LLP	
Cornwall Court 19 Cornwall Street Birmingham B3 2DT United Kingdom Telephone: [44] (121) 265 5000 Fax: [44] (121) 265 5050	**Plumtree Court** London EC4A 4HT United Kingdom Telephone: [44] (20) 7583 5000 Fax: [44] (20) 7822 4652

A complete listing of PricewaterhouseCoopers' UK offices can be found on pwc.com at the following **weblink**.

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