



# Your UK Assignment

The Essential UK Tax Guide

## PricewaterhouseCoopers Human Resource Services

PricewaterhouseCoopers Human Resource Services practice works with clients who strive to make their people a sustainable source of competitive advantage. Our strategy is built on our own belief in developing our people to be creative and effective team players committed to outstanding client service. We bring the ability to take fresh perspectives, to think differently, and to develop and implement new and value adding solutions.

We work in close relationships with clients to offer practical, multi-disciplined approaches to the increasingly complex challenges facing businesses. One of the main challenges is to create environments in which their people can work most effectively. Our Human Resource Services practice brings together all of the professionals working in the human resource service arena – tax, benefits, retirement, communications, financial planning, international assignment, equity, culture and change, compensation, strategy, regulatory, legal and process management – affording our clients an unmatched breadth and depth of expertise, both locally and globally.

Our expertise in tax, law, actuarial, accounting and compliance issues, combined with our knowledge of employment best practices, sets us apart.

# Introduction

The purpose of this booklet is to explain, in broad outline, the United Kingdom ('UK') tax and social security treatment of nationals of other countries working as employees in the UK and to highlight some planning opportunities. This booklet does not cover self-employed individuals and partnerships, where different rules apply.

This booklet has been designed to answer some of the questions which we are most frequently asked by employees who are about to undertake an assignment in the UK. The answers provided are, of necessity, general in nature. Also, laws and practice may change. Contact your local PricewaterhouseCoopers office for specific advice on your own personal position.

We only deal with the UK tax and social security position in this booklet. Some tax and social security liabilities may arise in the country you have been assigned from and in the country of which you are a citizen. It is important to understand the implications of any action taken in those countries. PricewaterhouseCoopers, with its wide network of international offices, can also provide this advice and we would, of course, be happy to assist.

This booklet reflects tax law and practice in the UK as at October 2005.

For up-to-date information on tax rates and allowances, and Budget news, visit our PricewaterhouseCoopers website at [www.pwc.com/uk](http://www.pwc.com/uk)

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# Overview of the UK tax system

## 01 Q What is meant by the UK for tax purposes?

**A** The United Kingdom comprises England, Scotland, Wales and Northern Ireland together with most, but not all, of the smaller islands around the British coast. The tax system extends to offshore oil platforms in British territorial waters. The Channel Islands, the Isle of Man and the Republic of Ireland are not part of the UK for tax purposes.

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## 02 Q What taxes are charged?

**A** The main direct taxes for individuals are income and capital gains tax and these are dealt with in some detail in this booklet. You may also be required to pay UK social security. Most goods and services are subject to Value Added Tax (VAT). This is a sales tax added to the purchase price. Prices quoted usually include VAT and should clearly state if they do not. There is a variety of other taxes on goods and services, e.g. taxes on alcohol, car fuel, insurance, air travel, etc. Council tax is a local tax based on the value of the property in which you live. You are liable to pay council tax even if you live in rented property unless the landlord has specifically accepted responsibility to pay council tax in the lease agreement. You are unlikely to be affected by estate and gift taxes (inheritance tax) unless you die while living in the UK. Even then, the liability may well be restricted to the value of assets held in the UK.

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## 03 Q What is the UK tax year?

**A** The income tax year in the UK runs from 6 April to the following 5 April.

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## 04 Q Will I need to file a UK tax return and if so when?

**A** In common with many countries, the UK may require taxpayers to file an annual return of taxable income and gains, complete with a self assessment of the remaining tax due. There are fixed filing and payment dates.

Many employees working in the UK pay all their tax through payroll withholding and are not required to file a tax return. However, the more complicated tax position of a foreign national on assignment generally makes it virtually certain that you will have to file a return. This applies even if your taxes are being funded by your employer. If you are filing your own tax return but have not been sent a notice to complete one, you should request one from the UK tax authorities by 5 October following the tax year.

You must file your tax return by:

- 30 September following the end of the tax year – if you are completing your own return but you prefer the UK tax authorities to compute your tax liability. Any residual liability must be paid at the latest by the following 31 January; or
- 31 January following the end of the tax year – if you or your accountant compute the tax liability. Any residual tax due must also be paid by this date.

Automatic interest and penalties apply for failure to file your tax return and pay your tax on time. In some instances, advance payments on account of the tax due may be required during the tax year.

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# Determining your UK tax liability

## Note

At present the UK Government is reviewing the definition of residence, ordinary residence, and domicile and the extent to which these factors affect an individual's liability to tax, but have not yet suggested what changes, if any, might be made. References in this booklet to residence and domicile are therefore according to current law and practice as at September 2005.

## 01 Q What factors determine how I am taxed in the UK on my earnings?

**A** Your liability to UK tax depends upon several factors including your 'residence', 'ordinary residence' and 'domicile' status. A detailed description of these terms is provided in Appendix I. When you arrive in the UK at the start of your assignment you should file a tax arrival form (P86). This will allow your residence and domicile status to be determined provisionally. You confirm them by filing your tax return each year.

Broadly, your UK tax liability on your earnings depends on your UK tax residence status as follows:

- **Non-resident** – you are only taxable on earnings attributable to UK workdays;
  - **Resident but not ordinarily resident** – you are taxable on earnings attributable to UK workdays. You are only taxable on earnings attributable to workdays outside the UK if those earnings are paid in or remitted to the UK;
  - **Resident and ordinarily resident** – you are taxable on your worldwide earnings unless you are non-UK domiciled and you have a foreign employment where all the duties are performed wholly outside the UK.
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## 02 Q How does the proposed length of my assignment impact on my tax liability?

**A** The proposed length of your assignment will determine your residence and ordinary residence status. Therefore it is a major factor in determining how you will be taxed in the UK. As a non-UK national temporarily assigned to the UK, you will generally fall into one of the three assignment categories below.

### Expected UK assignment of less than two years

Your tax residence status is reviewed separately for each UK tax year, 6 April to 5 April, as follows:

- if you spend less than 183 days in the UK in a tax year, you are considered nonresident for that year. The implications of being non-resident are:
  - your earnings are taxable in the UK, but limited to the proportion of your total earned income attributable to the days you spend physically working in the UK. Where you are paid, or whether you remit any additional earnings to the UK, is generally irrelevant in calculating your UK tax liability;
  - your earnings may be exempt from UK tax if you are tax resident in another country with which the UK has a double taxation treaty and certain conditions are fulfilled.
- if you spend 183 days or more in the UK in a tax year you are normally resident but not ordinarily resident for that tax year. The implications of being resident but not ordinarily resident are:
  - you are taxable on the proportion of your earnings attributable to the days you spend working in the UK. Earnings attributable to days spent working outside the UK may escape tax in the UK but only if they are not paid in or remitted to the UK (see Appendix III for a detailed explanation of remittances). You should take advice on how much of your earnings should be paid outside the UK so you can exclude from UK tax your earnings attributable to workdays outside the UK.

Where the expected length of your assignment is not more than 24 months, if certain conditions are satisfied, you may be able to exclude from UK tax travel, subsistence and accommodation which relate to your UK assignment. If you are personally funding the cost of these expenses a deduction against taxable income may be available. Strictly this treatment only applies to your personal costs and is not extended to those costs which can be deemed to relate to your spouse or children.



#### **Expected UK assignment of at least two years but no more than three years**

You will normally be regarded as resident but not ordinarily resident for the entire period of your UK assignment, from the date of your arrival until the date of your departure. You may be able to exclude from UK tax your earnings attributable to workdays outside the UK provided they are not paid in or remitted to the UK. You may be required to provide evidence that your assignment will not exceed two to three years. If there is evidence which implies your assignment will be three years or more, you will be considered resident and ordinarily resident, the consequences of which are described below.

#### **Expected UK assignment of three years or more**

You will normally be regarded as resident and ordinarily resident for the entire period of your UK assignment. This generally means that you are not able to exclude from UK tax earnings attributable to workdays outside the UK and are instead taxed on worldwide earnings. The only exception to this worldwide earnings rule applies if you are non-UK domiciled and you have a separate, distinct employment with a non-UK employer where all the duties of your employment are performed outside the UK. This is covered in more detail on page 10.

#### **Planning point**

Consider the impact your proposed assignment length will have on your UK tax liability and whether you have consistent documentation to support this.

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### 03 Q What happens if my assignment is extended?

- A** The impact of extending your assignment will depend on your original assignment length and the intended length of your assignment extension. The two common situations are:
- Extension to an initial assignment of less than two years – if you are not already tax resident, following your change of intention you may become tax resident from the beginning of the tax year in which the extension occurs. If from the date of the extension you expect to stay for two or more years a ‘split year residence’ rule may come into operation to treat you as resident only from the date of the extension. See page 6. No further relief will be given for assignment-related travel, subsistence and accommodation costs from the date your assignment is extended;
  - Extension to an initial assignment of less than three years – if, following your assignment extension, your total assignment period will be more than three years, you will be regarded as resident and ordinarily resident from the beginning of the tax year in which you become aware of your assignment being extended beyond three years. If your assignment period is not formally extended beyond three years but you remain in the UK for longer than three years, despite your initial expectations to the contrary, you should remain not ordinarily resident for the first four tax years you are here. In these circumstances, you will normally be regarded as becoming resident and ordinarily resident from the start of the tax year following the third anniversary of your arrival.

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### 04 Q What happens if I buy a property in the UK?

- A** If you purchase a property in the UK to live in, or lease a property for three or more years, this is regarded as demonstrating an intention to remain in the UK for a period of three years or longer. If you are not already ordinarily resident here, you will be deemed ordinarily resident in the UK from the start of the tax year in which you purchase or lease the property. If you sell the property or surrender the lease and leave the UK within three years of your initial arrival, this demonstration of intent may be reviewed and you may be reclassified as not ordinarily resident if this is beneficial to you.

You should check the tax implications in your home country too.

#### Planning point

If you sell a home you have purchased in the UK, provided you meet other conditions, you may be entitled retrospectively to overseas workday relief but only if you have received and retained a proportion of your earnings outside the UK.

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## 05 Q How am I treated in years of arrival and departure?

**A** Strictly, the UK law deems an individual to be tax resident for an entire UK tax year. If you come for two or more years, by concession you are treated as tax resident in the UK from the date of your arrival in the UK to start your assignment up to the date of your permanent departure. Your ordinary residence status will depend upon the length of your assignment and the other relevant factors outlined in Q2 and Q3 above. If, for instance, you arrive in the UK to take up a two year assignment on 1 June, you will normally be treated as resident and effectively subject to UK tax only from that date. The position could be complicated if you have a history of recent significant visits to the UK prior to the commencement of your assignment. In these circumstances you should seek professional advice.

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## 06 Q What is the advantage of my non-UK domiciled status?

**A** Domicile is a common law concept, which has a major impact on how you are taxed in the UK. A detailed summary of the domicile concept is provided in Appendix I. Being non UK domiciled has significant tax advantages. Certain personal income such as interest, dividends and capital gains which arise outside the UK will only be liable to UK tax if remitted to the UK. You may also be exempted from tax on income earned under a separate foreign employment contract. See page 11.

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# Taxation of employment income

## 01 Q How does my tax residence status impact on the taxation of my earnings?

**A** In question 2 on page 6 the factors which determine your UK tax residence status were explained. The table below illustrates how your earnings are taxed based on your UK tax residence status.

	Non-resident	Resident but not ordinarily resident	Resident and ordinarily resident
Earnings for UK employment duties	Taxable (1)	Taxable	Taxable
Earnings for employment outside the UK	Not taxable	Remittance basis (2)	Taxable (3)

### Notes

(1) If you are tax resident in another country, relief from UK tax may be available double taxation treaty if all provisions are met.

(2) Earnings relating to these employment duties must be paid and retained outside

(3) Earnings from a separate employment contract with a non-UK employer where are performed wholly outside the UK are taxed on a remittance basis.

## 02 Q Do I have to pay tax on my assignment allowances and benefits?

**A** In general, allowances, reimbursements and benefits which you receive relating to your assignment are taxable in the UK. This includes all cost of living allowances, the provision of housing, company cars etc. It may be possible to claim exemptions for certain specific items such as relocation expenses up to an £8,000 limit and home leave reimbursements. Reimbursed business expenses are not normally reported or taxed.

## 03 Q What if I receive some of my earnings outside the UK?

**A** If you are not ordinarily resident for UK tax purposes, you may be able to exclude from UK tax your earnings attributable to non-UK workdays, if you can demonstrate that you have received and retained a sufficient portion of your earnings outside the UK.

### Planning point

If you are resident but not ordinarily resident and spend time working outside the UK ensure that you receive and retain sufficient assignment earnings outside the UK.



#### 04 Q Are my earnings subject to UK payroll withholding?

**A** Your employer, or the UK entity to whom your services have been made available, is required to operate Pay As You Earn, “PAYE”, on cash payments and certain benefits in kind, including many types of employee share benefits.

This withholding applies even if the payments or benefits are delivered to you outside the UK or payments are received before or after your assignment but which relate to your UK assignment. If your employer is responsible for funding your UK tax liability they should arrange to pay the PAYE directly on your behalf.

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#### 05 Q What if I have two or more separate employments?

**A** If you have two or more separate employments, one of which is performed wholly outside the UK, the earnings from your non-UK employment are only taxed if remitted to the UK and if:

- you are non-UK domiciled;
- your employer is not UK resident or resident in the Republic of Ireland; and
- none of the duties of that employment are performed in the UK in the tax year in question.

It is necessary to demonstrate that the employments are genuinely different and that one of them is performed wholly outside the UK. Frequent international travel linked to flexible working arrangements and improved communications media can make it extremely difficult to demonstrate that these and other conditions are met. Particular care is also needed to eliminate any UK tax on expense reimbursements.

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#### 06 Q Do I pay tax on relocation costs?

**A** Any relocation costs paid on your behalf or reimbursed to you by your employer and related to your move to the UK are in principle taxable in the UK, but may be exempted subject to a limit of £8,000. Any costs in excess of this amount are taxable in full. Examples of qualifying relocation costs include removal charges, temporary (but not long-term) storage, and certain expenses of disposal of your residence in order to take up your assignment,

**Planning point**

Maximise available relief for travel and relocation costs by taking advice on the detailed rules.

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**07 Q If I have already paid tax on my earnings in another country will I also need to pay tax in the UK?**

**A** Quite possibly, but you are unlikely to end up suffering tax twice on the same earnings.

The fact that you pay tax in another country does not in itself eliminate paying UK tax on the same earnings.

If you work in the UK you may still have to pay overseas tax on your UK employment income if you are tax resident in a foreign country that taxes your worldwide income.

As far as the UK is concerned, if you are not UK resident, you will only pay UK tax to the extent that you carry out your employment duties in the UK. Under double taxation treaty provisions you may be exempted from UK tax if your working visit is for less than six months and certain other conditions are met. Otherwise, you pay UK tax and the foreign country gives double tax relief.

In practice, the UK remittance basis of taxation also helps to prevent double taxation. If you have come to the UK for less than three years and are resident but not ordinarily resident, you are taxed in the UK on employment income relating to work outside the UK only to the extent that it is paid in or remitted to the UK (see Appendix III for the definition of remittances).

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**08 Q What if I receive assignment related income before I arrive in or after I leave the UK?**

**A** Income relating to your UK assignment is taxable even if this income is received before you arrive in or after you leave the UK.

For example, a transfer bonus contingent on you commencing your UK assignment and which is paid before you arrive in the UK, would be taxable here. Other examples include a bonus earned while resident in the UK but received after your assignment has ceased, or a post assignment tax equalisation settlement. It may be necessary to submit a UK tax return for a year after your UK assignment has been completed.

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# Taxation of personal income and capital gains

## 01 Q Am I taxed on investment income from UK sources?

A You are liable to UK tax on investment income (e.g. bank deposit interest or dividends on shares) received from UK sources. Tax at a lower rate is usually deducted at source. If you are liable to pay higher rates of tax there will be additional tax to pay.

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## 02 Q Am I taxed on investment income arising outside the UK?

A Provided you are considered non-UK domiciled you will only be taxed on most forms of non-UK source investment income if it is remitted to the UK.

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## 03 Q If I rent out my property in my home country, will I pay tax on this income?

A Rental income is taxed on the same basis as other investment income arising outside the UK (i.e. taxed only if remitted to the UK). Any UK tax will be based on the profit you make, determined according to UK rules.

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## 04 Q Will I pay UK tax on capital gains?

A UK residents are liable to UK capital gains tax on disposals of chargeable assets. You are entitled to an annual capital gains tax exemption and only gains in excess of this amount are taxable. Capital gains are taxed at the highest tax rate which applies to your savings income. The effective rate of tax on ordinary, non-business gains reduces year by year on assets owned for between three and ten years. More generous relief may be available on business assets, e.g. a shareholding in a family business and most shareholdings of employees in their employing company.

Provided you are not UK domiciled, UK capital gains tax is not payable on gains from the disposal of assets situated outside the UK, except to the extent that such gains are remitted to the UK. In some cases, even where gains are remitted to the UK, a specific exemption applies to the asset sold so there is no final UK liability. The most common example is a property used as your main home, where any gain is usually exempt.

However, you would be liable to UK capital gains tax on a gain arising from the disposal of a UK asset such as a UK quoted share while you are UK resident. If you had a previous UK assignment a capital gains tax liability could also arise on any UK asset sold during the period between two UK assignments.

### Planning point

You should always check the tax liability in your home country/country of origin and the country where the asset is situated if this is different. Take advice before you realise or remit gains in order to minimise tax.

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# Deductions, credits and filing status

## 01 Q How much income can I receive tax-free?

**A** Tax residents receive an annual tax-free personal allowance. Tax is not due until your taxable income exceeds this amount. Each spouse has their own annual tax-free personal allowance.

If you are tax resident for only part of the UK tax year, you will nevertheless receive your full annual tax-free personal allowance. If you are non-resident in the UK, you will only be entitled to a personal allowance if you are a citizen of the Commonwealth, or a citizen of a Member country of the European Economic Area or if you are entitled to the allowance under specific double tax treaty provisions which cover personal allowances.

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## 02 Q Can I claim a deduction for mortgage interest for a home I buy in the UK?

**A** No.

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## 03 Q What other deductions can I claim against my taxable income?

**A** Other than the deductions available for relocation previously mentioned, the main deductions allowed in the UK are:

- business related travel and subsistence costs, subject to certain conditions;
  - contributions to qualifying employer and personal pension schemes (subject to certain limits) – see page 18 for overseas employer pension plans;
  - gifts to UK charities under either approved payroll deduction schemes, or direct gifts (“gift aid” arrangements);
  - the cost of up to two family home leave trips per year reimbursed to non-UK domiciled employees for the first five years of their assignment. Unlimited reimbursements apply to the employee during that period; and
  - if your assignment is for a period of no more than two years you may be able to eliminate the tax charge on assignment-related travel, subsistence and accommodation
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## 04 Q Do I get a credit if I pay tax on the same income in the UK and another country?

**A** If a double taxation treaty applies you will rarely end up incurring a double tax burden. Double taxation treaties correct double taxation and also try to prevent it arising in the first place. If you are a UK tax resident the UK will give treaty relief for overseas tax paid on overseas source income to the extent that the income has been doubly taxed. Where no double taxation agreement is in existence you may still be entitled to relief under UK domestic law. In all cases, relief will be limited to the UK tax due on the doubly taxed income for the relevant UK tax year. If you are tax resident in another country they should give relief for UK tax paid on UK source income if it is also taxed in that country.

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## 05 Q Can I file a joint return with my spouse?

**A** No. A system of independent taxation operates in the UK under which each spouse with taxable income is required to file a separate tax return each year.

Each spouse is entitled to separate personal allowances, tax rate bands and their own annual capital gains exemption.

### **Planning point**

If your spouse is not liable to UK tax or is taxed at lower rates, consider transferring assets producing UK taxable income or gains into the name of your spouse to utilise his or her personal tax allowances and lower tax rate bands.

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# Social security contributions and benefits

## 01 Q Will I have to pay UK social security contributions?

### A

This 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. A summary of the position is provided in Appendix IV. 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.

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## 02 Q How will my social security benefits in my home country be affected?

### A

If you remain covered under your home social security system, it is unlikely that your benefits will be affected by working in the UK. If coverage in your home country ceases, the impact will depend upon the social security agreement, if any, which exists between the UK and your home country. A list of social security agreements is provided in Appendix V. Most of these agreements will address the question of benefits and may, for instance, allow credit for contributions to the UK system in determining your entitlement to benefits in your home country.

If you are concerned about your entitlement to benefits in your home country you should take advice.

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## 03 Q Am I entitled to claim UK child benefit?

### A

Child benefit is a non-contributory (ie a “public funds”) social security benefit which is generally payable for all children. It is payable regardless of parental income levels for any child under the age of sixteen (and over sixteen in certain circumstances).

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 have indefinite leave to remain in the UK;
- you come from another EEA country; or
- you come from certain other countries with which the UK has agreements covering the payment of child benefit. Such countries include New Zealand and Canada.



Where neither the conditions in bullet two nor bullet three apply, note that you cannot usually get UK child benefit if your right to remain in the UK is subject to immigration control. If this is the case, your right to enter or remain in the UK is subject to the condition that you have no recourse to public funds, such as UK Child Benefit, and your passport would usually be stamped as such. You may qualify for immediate payment of benefit if you pay UK social security contributions from the time of your arrival in the UK.

You may also qualify for immediate payment by virtue of your residence in another agreement country (but not under the EEA provisions). Otherwise, payment will not normally commence until you have been in the UK for 26 weeks.

You can claim child benefit by completing a claim form which you can obtain from any social security office. UK child benefit is not currently taxable in the UK.

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#### 04 Q Am I entitled to state-provided free medical treatment in the UK?

**A** This depends 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 – Form E111 or European Health Insurance Card (EHIC or E106) to obtain treatment. The UK has healthcare agreements with a number of countries which may entitle you to free or subsidised healthcare treatment.

In addition, if you are coming to the UK for the purposes of employment, you and your dependant family members are entitled to access UK state healthcare (the National Health Service or NHS) under the Common Provisions regarding NHS healthcare. Note though, that you will be entitled to the same level of state healthcare as a UK resident and this may differ from the level of healthcare provided in your home country: For example, **dental** and **eyecare** is excluded. You may therefore wish to consider whether you should seek additional private medical insurance cover for yourself and your family members if they have accompanied you to the UK.

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# Miscellaneous issues

## 01 Q What if I am granted and/or exercise stock options during my UK assignment?

**A** The taxation of options over stock and many other “securities” (widely defined) is extremely complex and professional advice must be obtained before any actions are taken.

In general, no liability to UK tax should arise on the exercise of options over non-UK stock where:

- the options are granted prior to the commencement of your UK assignment; and
- the stock you receive is free from any form of restrictions, is not convertible, and will not be sold for more than the market value; and
- proceeds from the subsequent sale of the stock are not remitted to the UK.

The exercise of an option granted while you are resident in the UK may give rise to a UK liability even if the exercise takes place after your assignment has ceased and you are non UK resident. We strongly recommend that you contact your professional adviser before exercising any stock options. In some circumstances stock options granted at an undervalue whilst you are a UK resident can give rise to an income tax liability at the date of grant.

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## 02 Q Can I continue to participate in my employer’s home country pension plan?

**A** Again, this is an extremely complex area. You will need to determine whether your particular pension plan allows you to continue to participate during your assignment to the UK. Your pension plan will only receive favourable tax treatment for UK tax purposes if it meets certain conditions, which defer before and after 6 April 2006, when the rules are due to change. Alternatively, it may receive favourable treatment if the double tax treaty between the UK and your home country requires the UK to recognise the plan. In either case, you would be entitled to a deduction for your contributions and more importantly, contributions paid by your employer would not be considered taxable income.

### Planning point

If your pension plan is ‘correspondingly accepted’ apply to the UK tax authorities to receive UK tax relief for contributions.

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## 03 Q Do I need a work permit?

**A** Unless you are a citizen of the EEA, you will almost certainly require a work permit before you can begin your assignment in (see Appendix V) the UK. Your work permit should be obtained before the commencement of your assignment since you may be refused entry to the UK if you do not have the appropriate documentation.

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#### 04 Q Am I liable to estate and gift taxes in the UK?

**A** 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-based 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 purchase an expensive UK property out of your personal wealth.

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#### 05 Q When I transfer funds to the UK is there anything I should consider?

**A** You should consider whether you may be triggering a UK tax liability by remitting foreign income or capital gains. The taxation of remittances is a complex area, for instance, remittances are not limited to straight cash transfers. An overview is provided in Appendix III.

In particular, remitting funds from a non-UK account which contains a mixture of earned income, investment income and capital gains can result in a tax liability which was not anticipated when the monies were transferred to the UK. You may need professional advice before transferring funds to the UK, especially if the amounts are substantial.

**Planning point**

On arrival in the UK consider operating separate bank accounts outside the UK to identify the source of funds remitted to the UK to minimise your UK tax liability.

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**06 Q What forms do I need to fill in when I arrive in the UK?**

**A** A form P86 should be completed when you arrive to allow the UK tax authorities to consider your residence, ordinary residence and domicile position based on the information you supply and so determine the appropriate level of PAYE withholding. It is important to take advice on the completion of this form since the information you supply will determine how you will be taxed in the UK during your assignment.

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**07 Q Must I notify the UK tax authorities when I leave the UK?**

**A** No. There is no requirement to obtain an exit permit from the UK tax authorities before you leave the UK. A form P85 or P85(s) is usually completed, enabling the UK tax authorities to confirm your tax residence and ordinary residence status following your departure. It may speed up tax refunds.

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## Appendix I Residence, ordinary residence and domicile

As noted earlier in this booklet, the relevance of domicile and residence to taxation matters, and the criteria for determining residence, are at present under review by the UK Government. This Appendix describes only the law and practice in force as at September 2005.

### Residence

Residence is not defined in tax law. However, to be regarded as tax resident in the UK you must normally be physically present in the UK at some time in the tax year. Your residence position elsewhere is irrelevant in determining tax residence under UK law.

Without exception, you will always be resident if you spend 183 days or more in the UK in a tax year. For this purpose, any days of arrival in or departure from the UK do not count.

If you intend to work in the UK in full time employment for two years or more, you will normally be regarded as resident from the day you arrive until the day you finally leave. If you visit the UK for any reason in four consecutive tax years and the visits exceed 90 days per year on average (disregarding days of arrival and departure), you would normally be treated as resident from the start of the fifth year. However, if your visits to the UK will then be at a much reduced level the UK tax authorities may be persuaded to continue to treat you as non-resident. 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 the period, you will be treated as resident from the start of the tax year in which you take such a decision. Days spent in the UK because of exceptional circumstances, such as a medical emergency for yourself or a close family member, are generally ignored for this purpose.

If you are simultaneously resident in the UK and in another tax treaty country (applying the domestic law of each) the relevant treaty will have a rule to decide which of the two countries you are resident in for double tax relief and other treaty purposes. For instance, under treaty provisions you may be resident abroad, and not in the UK. That does not mean that you cease to be UK resident for other matters not covered by the treaty, e.g. personal allowances.

### Ordinary residence

Ordinary residence is a longer-term concept than residence. Also not defined, it refers to your “habitual residence” rather than your residence in a single year. There are several tests for ordinary residence:

- Intention as to length of stay. If you intend on arrival to stay for three years or more you will be regarded as ordinarily resident from the date you arrive. It is not then possible retroactively to claim the advantages of non-ordinary residence, even if you leave before you have spent three years in the UK.

If you arrive with no fixed intention as to the length of your stay in the UK, or you intend to stay for less than three years, you will normally be regarded as not ordinarily resident for the first four UK tax years from the time you arrive. However, if there is evidence which implies your stay in the UK will be for three years or longer, for example if you buy a property in the UK, or rent a property on a lease of three or more years, you are ordinarily resident from the date of your arrival, or from the start of the tax year in which you acquire the property. But if you genuinely intended to stay for less than three years, and you do in fact leave and dispose of the property within three years of coming to the UK, you can become retrospectively resident but not ordinarily resident (and this will normally be to your advantage).

If you initially intend to stay for less than three years, but then decide to stay for longer than that, you become ordinarily resident from the start of the tax year in which you decide to extend your visit. You may come for less than three years but end up staying for longer, without actually having decided that you would be in the UK for more than three years. If that happens, you remain not ordinarily resident for the first four tax years. You become ordinarily resident from the start of the fifth tax year, i.e. the tax year following the third anniversary of your arrival.

- Habitual visits to the UK. If you happen to make habitual visits to the UK of more than 90 days on average over four or more tax years you are ordinarily resident (if you become resident) from the start of the fifth year. If you form a decision to make such visits to the UK, you are ordinarily resident from the start of the tax year when you decide to visit on that basis.

### Domicile

Under UK law, every individual has a domicile, indicating which country has jurisdiction for matrimonial and inheritance purposes, and also for certain tax purposes. Domicile is quite different from residence since it rarely changes in the way that residence does as an individual moves from country to country. A child acquires its father's domicile at birth. This is normally retained when the child grows up, unless the individual makes a permanent home in another country.

A foreign national working in the UK for a limited period will generally succeed in being regarded as non-UK domiciled. This is because there will quite clearly be no intention to settle permanently, i.e. retire in the UK. However, if you do plan to settle in the UK indefinitely, but not permanently in this sense, or if you are a UK emigrant returning to work for a limited period, there is a risk of becoming domiciled and you should consult your PricewaterhouseCoopers adviser.

If you are non-domiciled you enjoy important advantages in the taxation of earnings, investment income and capital gains. Domicile is also fundamental to the UK's jurisdiction for inheritance tax purposes. There is an additional rule that you are deemed to be UK domiciled for inheritance tax purposes if you are UK tax resident in seventeen of the last twenty tax years.

## Appendix II

### Double taxation agreement countries

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

#### 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 Czech Republic and the Slovak Republic.

## Appendix III Remittances to the UK

If you are non-UK domiciled but tax resident in the UK, your foreign income is taxed only to the extent it is paid in or remitted to the UK. Income and gains taxed on this basis include:

- earnings paid outside the UK and attributable to workdays outside the UK (where you are resident but not ordinarily resident);
- earnings from a separate employment with a non-UK resident employer (where the duties are performed wholly outside the UK);
- most common forms of investment income arising from assets/funds based outside the UK; and
- capital gains arising from the disposal of assets situated outside the UK.

You are not taxed on remittances of overseas employment income earned before you became resident. There are also rules to limit your exposure on remittances of pre-assignment investment income.

### Constructive remittance

A remittance to the UK is not restricted to the physical transfer of funds into the UK. A remittance includes any amounts paid, transmitted, used or enjoyed in the UK. Loans or indirect fund or credit transfers to the UK may therefore give rise to so-called constructive remittances. The most common example of a constructive remittance is using a credit card in the UK (including a foreign credit card) and then paying the bill from funds held outside the UK.

When funds are remitted to the UK it is important to identify the source of the funds remitted to establish whether a tax liability arises. If this is not possible it will be assumed that you have remitted your income in priority to your capital (such as accumulated savings, proceeds of asset sales and inheritances).

If you have significant foreign income or capital gains that will be taxed if remitted to the UK, you should take action when you arrive to minimise the risk of triggering unnecessary UK tax by remitting the wrong overseas funds. This is done by segregating the income and gains at risk from other foreign income and capital which you can remit without incurring UK tax.

For instance, if on arrival, you segregate pre-assignment employment income and capital gains into one non-UK bank account, then you can limit your UK tax liability by making any necessary remittance from this overseas account in priority to others. You should arrange for any interest arising on this account to be paid to a separate account. If you expect to remit pre assignment interest income after you become UK resident, you can limit your UK liability by closing accounts, and triggering payment of interest, before you become UK resident.



In many cases, it may not be practical to operate numerous bank accounts and all funds may be held in one account. In this case, where funds form an account which contains a mixture of income and gains and it cannot be clearly demonstrated what has actually been remitted, the source of funds remitted to the UK is normally considered by the UK tax authorities to be as follows:

- earnings which have already been taxed in the UK;
- earnings relating to overseas workdays if you are considered resident but not ordinarily resident and/or earnings from a separate non-UK employment performed wholly outside the UK;
- investment income which has arisen since the date from which you are considered tax resident in the UK;
- a mixture, in proportion, of capital plus capital gains on assets sold since the date from which you are considered tax resident in the UK; and
- other 'capital' (pre-assignment earnings, investment income and capital gains). 'Capital' is considered the last source of any funds remitted to the UK from a mixed bank account, which is to the taxpayer's disadvantage. It is therefore important in significant cases to consider the tax savings which may be available through operating multiple bank accounts, which allow you to demonstrate which funds have been remitted to the UK.

### Remittance planning

There is much that can be done to limit exposure to UK tax from remittances. It may be a relatively simple matter of ensuring that enough of your assignment income and allowances are paid overseas for you to be able to exclude income attributable to overseas workdays. Or you may need to enter into quite complex banking arrangements to avoid remitting foreign investment income and gains. In either case it is important to act before you transfer funds and that often means as soon as you come to the UK. If in any doubt, contact your PricewaterhouseCoopers adviser.

## Appendix IV Social security overview

You may cease to be liable to pay social security contributions in your home country or become liable to pay UK contributions. Any such change will affect your entitlement to social security benefits, including your pension.

Whether you are liable to pay social security in the UK, called National Insurance Contributions (NICs), depends on your legal employer during your assignment, which country you are assigned from, your expected assignment length and in some cases your nationality. In particular, your social security position will depend crucially on whether you come from:

- the European Economic Area;
- 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.

### The European Economic Area (EEA)

If you are an EEA national the basic rule is that you pay contributions in the member state where you work. However, if you are temporarily transferred, you are entitled to continue to pay only into your home country scheme if your secondment is expected to last for a period of not more than 12 months from the outset. There is scope for this to be extended for a further year if the original assignment is extended. A form E101 should be obtained by your employer in your home country providing exemption from payment of NIC in the UK.

For assignments extending beyond 12/24 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.

### Countries with which the UK has a reciprocal social security agreement

The UK has negotiated agreements with a number of 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 (eg five years initially in the case of Canada and the USA). Home country contributions liability continues only if the assignment is expected at the outset to last for the maximum two years. 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.

### Rest of the world

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

## Appendix V Social security agreement countries

### Member countries of the EEA

Austria	Germany	Malta	Switzerland**
Belgium	Greece***	Netherlands	United Kingdom (including Gibraltar for EEA purposes)
Cyprus*** (excluding the Turkish zone)	Hungary	Norway*	
Czech Republic	Iceland	Poland	
Denmark*	Ireland*	Portugal	
Estonia	Italy	Slovakia	
Finland	Latvia	Slovenia	
France	Liechtenstein*	Spain	
	Lithuania	Sweden	
	Luxembourg		

#### Notes

\* With effect from 1 June 2003, the 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.

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

#### Notes

\* Letters of Administration

\*\* Benefits-only agreement

\*\*\* Includes Serbia, Bosnia-Herzegovena, Macedonia, Croatia and Slovenia (although Slovenia joined the EU on 1 May 2004 so is not listed above)

Some agreements eg 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	Romania
Barbados	Gibraltar	Former USSR*
Bulgaria	Isle of Man	Former Yugoslavia**
	New Zealand	

**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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