

UK Resident Non-Doms: UK Tax Relief When Working Overseas

UK resident employees are generally taxable in the UK on worldwide employment income. However, non-domiciled employees may be eligible for UK tax relief in respect of income attributable to duties performed outside the UK, under the 'Overseas Workday Relief' (OWR) provisions.

To benefit from OWR, the individual must be a remittance basis user for the tax year in question, the earnings must be paid into a non-UK account and must not be remitted to the UK.

How the Relief Operates

Overseas Workday Relief is available for the first three tax years of residence in the UK, counting the year of arrival as the first year. So, for example, if an individual becomes UK resident in the 2019/20 UK tax year, the relief is available for the tax years 2019/20, 2020/21, and 2021/22.

Total earnings for the tax year are split into two amounts: earnings attributable to UK workdays and earnings attributable to non-UK workdays. The amount relating to UK workdays is taxable in the UK on an arising basis, and the amount relating to non-UK workdays is taxable on the remittance basis.

For example, if an employee's total remuneration for the tax year is £150,000 and they work for a total of 240 days in the tax year, 80 of which are performed outside the UK, the portion of income qualifying for relief is £50,000 ($80/240 \times £150,000$).

In order to avoid a UK tax charge on the portion of earnings qualifying for relief, the following requirements must be met:

- The employee must elect to be taxed on the remittance basis for the year in question (the cost of making the election is the loss of the personal allowance and annual capital gains tax exemption; the remittance basis charge would not normally apply in most cases), and
- Salary of at least the amount qualifying for relief must be paid directly by the employer into an overseas account held by the employee (ideally, a separate new account that receives only employment income), and
- The earnings qualifying for relief must not be remitted to the UK (bearing in mind the wide definition of the term 'remittance').

The relief can also apply to bonus payments, although the calculation rules may be different, depending on the nature of the bonus and the period to which it relates.

The employee should keep an accurate travel schedule recording UK and non-UK workdays to support any claim for OWR.

Tax Treatment Overseas

Consideration needs to be given to the tax treatment in the country where the work is performed, as the income earned there may be taxable in that country. This will largely depend on the provisions of any

tax treaty that the UK has concluded with the overseas jurisdiction, which may restrict relief in the overseas country to the extent that the income is not remitted to the UK.

Summary

Overseas Workday Relief is a valuable relief, and may significantly reduce an employee's liability to UK tax, particularly in cases where he or she spends a substantial amount of time working outside the UK.

Verfides can provide further advice on the operation of the relief, as well as general tax advice for expatriates moving to the UK, including tax efficient remuneration planning and the remittance basis.

June 2019

This document has been prepared as a general guide and is based on the latest legislation and case law. Whilst every care has been taken in its preparation, Verfides cannot accept any responsibility for any person relying on this publication. Professional advice should be obtained before undertaking transactions and Verfides will be pleased to provide such advice where appropriate.