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Asian Private Banker | 2017-03-15
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15 March 2017 | REGULATIONS | EXCLUSIVE



Text size:



Carlo Gray

Proposed reforms to the UK’s non-domicile taxation rules are “making people to think twice about going back to UK,” says Carlo Gray, partner and head of Buzzacott Expatriate Tax Services in Hong Kong, who adds that British expats in the city showing concern ahead of the rollout date of 6 April 2017.

Buzzacott says that they have received a flurry of enquiries from Brits who have opted to domicile overseas but are planning to temporarily return to the UK for work or for their children’s education.

Under the current law, British residents who are non-doms are not taxed for income generated outside the UK.

(Continued on following page)

However, once the proposed changes come into effect, non-dom individuals will be subject to taxation for income generated in Hong Kong and the UK during their stay, which includes a 28% capital gains tax for Hong Kong properties and income tax for any income generated from overseas trusts, companies and even stock investments.

With respect to inheritance tax, there will be a 4-year trail period after the temporary residence period has ended.

However, the tax change will not affect short-term travellers, according to Gray.

“If those individuals establish UK tax residence, for example, by being physically present in the UK for 183 days or more within a tax year, they will be subjected to UK tax on their worldwide income and capital gains.”

Gray said that the property-related tax is a major concern, as non-doms may wish to rent out or sell their properties while living in the UK, and therefore will be subject to a 28% capital gains tax that cannot be exempted under the UK Principal Private Residence Relief rules.

“Ideally, what they will have to do is to minimise income and capital gains generated overseas during their stay in the UK, but it’s easier said than done,” he added.

The UK’s non-dom tax reforms were first mooted during 2015’s summer budget speech. The government announced a series of reforms to taxation rules for those who were born in the UK or who inherited their residence, but opted not to domicile in the country.

The government expects to raise almost £1.35 billion (US\$1.6 billion) over the next five years as a direct result of the reforms.