

This factsheet provides basic information on how foreign income and gains (that is income and gains from outside the UK) are taxed in the UK. It aims to help low income people who would like to come to the UK, or who have already arrived, to understand more about the UK tax system. You should also read the factsheets about **Domicile**, **Short Stays in the UK** and **Residence**. These can be found at: www.litrg.org.uk/tax-guides/migrants-and-tax-guides-and-factsheets.

Foreign income and gains

You may have foreign income and gains if you have come to the UK from overseas. Examples include:

- Earnings from working in another country;
- Profits from running a business in another country;
- Interest on overseas bank accounts;
- Dividends on shares and securities from overseas companies;
- Income from renting out an overseas property;
- Gains on the disposal (by selling or giving away) of an overseas property overseas shares or other overseas assets.

Most people who are resident and domiciled (including deemed UK domiciled) in the UK are subject to UK tax on their worldwide income and gains in the tax year in which they arise, whether or not they are brought into the UK.

If you are resident in the UK, but domiciled overseas, you may be able to choose how to pay UK tax on your foreign income and gains. You can choose between the arising and the remittance bases.



Arising Basis of taxation

If you are resident in the UK, but not domiciled in the UK, then you may be subject to UK tax on your worldwide income and gains in the tax year in which they arise – just like someone who is resident and domiciled in the UK. This is called the ‘arising basis’. If you choose to be taxed on the arising basis then you will get the personal allowance for income tax and the annual exempt amount for capital gains tax to help reduce the amount of tax you have to pay.

You may have to consider double taxation, however, if you have income and gains that are also taxed in another country. You may need to consider the terms of any double taxation agreement in place between the UK and the other country to avoid double taxation (see later in this factsheet).

Remittance Basis of taxation

If you are resident in the UK, but not domiciled in the UK, you may be able to be taxed on the remittance basis for both foreign income and foreign gains instead. You will pay UK tax on your UK income and UK gains in the tax year in which they arise. You will only pay UK tax on foreign income and foreign gains that you bring into (or remit to) the UK.

However, please note that you can only claim the remittance basis in respect of foreign earnings from employment (earnings relating to overseas work duties) in your first three tax years of residence in the UK (Overseas Workday Relief). You can find out more about this and the remittance basis in general on **GOV.UK** here: www.gov.uk/tax-foreign-income/non-domiciled-residents

In practice, the remittance basis can help you avoid double taxation issues (see later). However, if you choose the remittance basis, you will normally lose the right to the personal allowance for income tax and the annual exempt amount for capital gains tax (there are some double taxation agreements that override the UK tax law on this point, although the number of countries concerned are very limited). The loss of these allowances means that you pay UK tax on all your taxable income, without the benefit of any tax free amounts. For example, you cannot have £11,850 of UK employment income before having to pay income tax in 2018/19.

Remittance basis continued.....

Sometimes it can be difficult to make a decision whether or not to claim the remittance basis, because you have to compare things like the tax savings from not incurring tax on your unremitted foreign income/gains versus the higher UK tax incurred by giving up your entitlement to the UK tax free allowances. You may need to seek some professional help.

In addition to losing your tax allowances, if you have been resident in the UK for more than seven out of the previous nine years, you will have to pay a Remittance Basis Charge each year to access the remittance basis of taxation (the charge increases once you have been here 12 of the previous 14). This charge has to be paid in addition to any tax that is due on any remittances to the UK and on UK income and gains. In certain circumstances, even if you are not domiciled in the UK, HMRC treat you as though you are domiciled – you are 'deemed domiciled'. If this applies to you, you cannot claim the remittance basis.



Useful exceptions to the remittance basis rules

However, there is an important exception to these rules where your foreign income and foreign gains that you leave overseas are less than £2,000 per tax year – in this case the remittance basis applies automatically (so you only pay UK tax on foreign income and foreign gains that you bring here from overseas), but you keep your personal allowance and capital gains tax annual exemption (and you do not have to pay a Remittance Basis Charge).

There is another case when the remittance basis applies automatically. You will also not need to pay any UK tax on income earned overseas if **ALL** the conditions listed below are met for a complete tax year:

- You are UK resident;
- You are not UK domiciled;
- You have no UK income or gains for that year, other than UK investment income of £100 or less all of which has been taxed at source;
- No foreign income or gains have been remitted in that year;
- You have been UK resident for fewer than seven of the immediately preceding nine tax years OR you are under 18 for the entire tax year.

This exemption is aimed at spouses who accompany migrant workers to the UK, but who do not work in the UK themselves.

Finally, you will not need to pay any UK tax on income earned overseas, whether or not remitted, if **ALL** the conditions listed below are met for a complete tax year:

- You are UK resident;
- You are not UK domiciled;
- You are employed in the UK;
- You do not need to complete a self assessment tax return;
- You are a basic rate tax payer (for the tax year 2018/19 your worldwide income after personal allowances is less than £34,500);
- You earned less than £10,000 from overseas employment, which is subject to foreign tax;
- Your overseas investment income (bank interest) is less than £100, which is subject to foreign tax;
- You have no other foreign income or gains.

This exemption is aimed at lower earning individuals who might inadvertently be non-compliant with the complex remittance basis rules.

This factsheet is intended to provide general information only and does not constitute advice. Before taking any action, you should get appropriate immigration, benefit or tax advice from a professional adviser which is based on your particular circumstances. We have done our best to ensure that the information in this factsheet is up to date as of April 2018. You can read our full disclaimer on our website: www.litr.org.uk/legal.

What is a remittance?

A remittance is essentially money which has been brought into the UK (either directly or indirectly) for your use or for the use of someone linked to you.

It can be very complex to identify precisely what money is regarded as remitted from a bank account containing different sources of income and gains, so you may need to get advice from HMRC or a professional adviser.

There can also be a remittance when:

- you receive a service in the UK but pay for this service using money from overseas;
- you use foreign income or gains to buy assets which you then bring to the UK, for example, a car or luxury goods. There are limited exemptions.

You can find out more about remittances on the **GOV.UK** site: www.gov.uk/tax-foreign-income/non-domiciled-residents

Double taxation agreements

Different countries have their own tax laws. When you are resident in one country and have income and gains from another, you may be liable to pay tax on the same income in both countries. For example, if you are resident in the UK, but have rental income from a property in your home country, you may have to pay tax in both the UK and your home country on the rental income.

Many countries will have amounts that you can earn tax free (like in the UK) or perhaps some other special exemptions or deductions that apply or that you can claim (like the remittance basis of taxation in the UK) which mean that you will not actually suffer double taxation. However where they do not, or where such rules do not apply, there is a network of double taxation agreements to try to make sure that people do not pay tax twice on the same income ('double taxation'). If there is a double taxation agreement, this may state which country has the right to collect tax from you on that particular income.

You can see the lists of these agreements (also called 'tax treaties') on the **GOV.UK website**: www.gov.uk/government/collections/tax-treaties

Even if there is no double taxation agreement, you may qualify for tax relief. For example, you may pay tax at 15% on some foreign income in your home country but also be liable to tax in the UK. If the UK tax rate is 20%, you would only have to pay 5% of tax in the UK, as you would be given relief for the 15% of tax paid overseas.

If you do find yourself in a double taxation situation, you may find that you need to seek professional tax advice as this is a very complex area.

Tax Credits

There are different rules for the state benefit of tax credits. If you are claiming tax credits, you have to take into account your worldwide income. There is no equivalent to the remittance basis for tax credits. So, even if you claim the remittance basis for tax purposes, you must declare your worldwide income for the purposes of tax credits and benefits.

More information

You can find out more detail about some of the topics in this factsheet on our website:

www.litrg.org.uk/tax-guides/migrants-and-tax/residence-and-domicile

www.litrg.org.uk/tax-guides/tax-credits-and-benefits

Getting help with your tax

You can find out where to get help with your tax situation in the '**getting help**' section of our website at www.litrg.org.uk/getting-help.