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UK plans to restrict personal tax allowance for non-residents

By Paul Montague, Partner, Blevins Franks

Following on from its plan to charge non-UK residents capital gains tax on UK residential property, the UK government is considering whether to withdraw the personal tax allowance from most non-residents.

UK nationals are currently entitled to the UK personal allowances whether they are resident in the UK or abroad.

In contrast, most of the EU, the US, Australia, Canada and other countries, restrict entitlement to their own personal allowances.

HM Revenue & Customs estimate that 400,000 individuals who are non-resident for tax purposes claim personal allowances, and it costs the exchequer approximately £400 million a year. In a consultation document the Treasury now proposes to restrict the availability to non-residents, so that entitlement will be based on the economic connection the individual has with the UK.

Economic connection is likely to be measured by looking at what percentage of the individual's worldwide income arises in the UK. Many other countries use this test, and if an individual's income arising in the country is above a set amount (usually between 75 per cent and 90 per cent), they are eligible for the allowance.

The Treasury consultation document explains that although the loss of the UK personal allowance would mean non-residents face increased UK tax liabilities, most would be able to claim relief overseas in the form of a credit for tax paid in the UK or exemption from tax in their home state.

Most people would not generally pay more tax overall, though this will depend on the relative level of tax rates and allowances between the UK and their country of residence - those living in low tax jurisdictions are likely to pay more tax.

Retirees - Most retired British expatriates would not be affected. Tax treaty provisions generally mean that UK state pensions, personal or private sector occupational pensions are only taxable in the recipient's states of residence. Government service pensions, however, are generally only taxable in Britain. Many retired expatriates do not have any other income which is taxable in the UK, so would not be affected by losing their allowance.

Non-resident landlords are generally taxed on their UK rental income in their country of residence and the UK. They can claim double taxation relief, so should not face an overall cash loss.

High income individuals are unlikely to be affected since their personal allowances are already tapered away by their high income. Middle income individuals are already likely to claim double tax relief in their country of residence against UK tax, so probably only those in low tax jurisdictions would face a loss. Low income individuals - To avoid administrative burden and tax losses to these individuals, the government intends to put a de minimis limit in place.

This is still only a consultation, so there are no changes to the allowance yet. The earliest something can happen is Budget 2015, although Budget 2016 is more likely.

Expatriates need to be aware of how UK tax, and changes there, could continue to affect you. You need to understand the interaction of UK and Spanish taxation and ensure you are not missing out on opportunities to save tax.

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