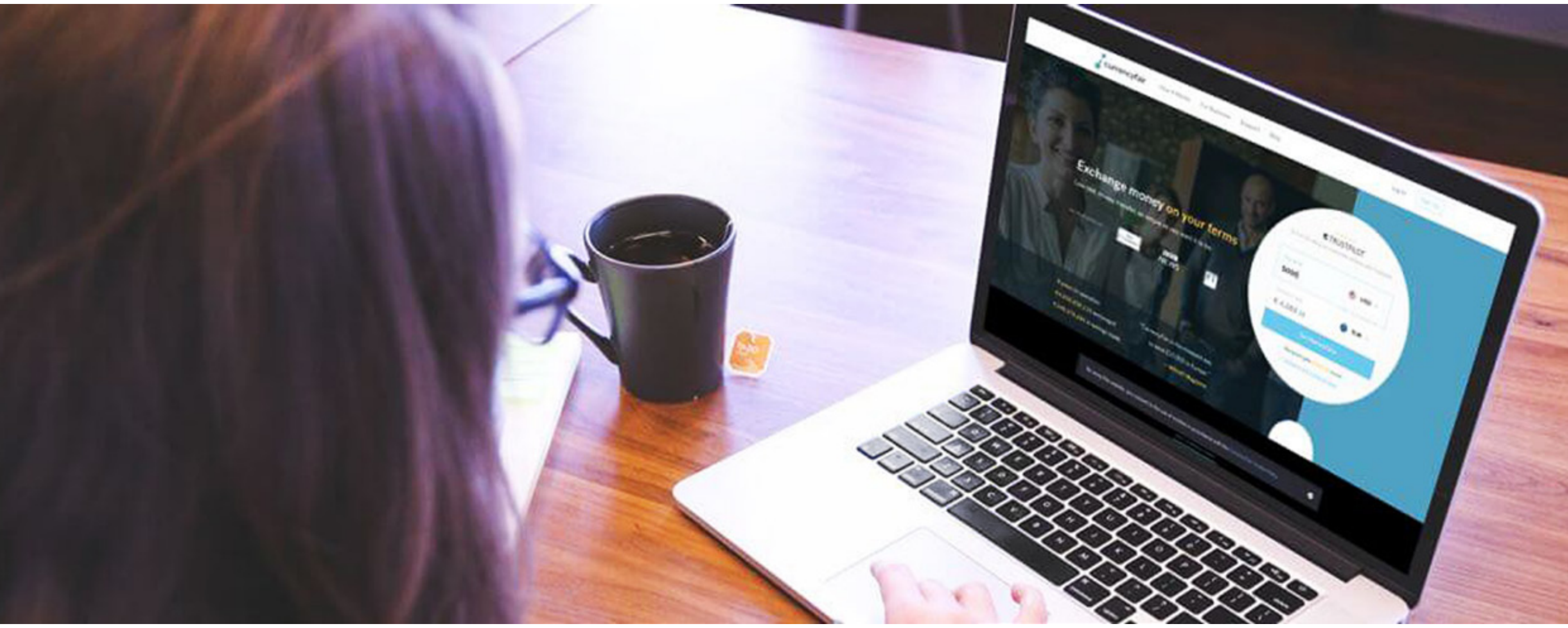

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What You Should Know Before You Remit Money To The UK

By Andrea Solana

Many Americans living in the UK will have wealth that accumulated and was invested in the US prior to packing up and moving across the Pond. Additionally, many may maintain financial advisory relationships in the US and it is often only once they begin to accumulate assets in the UK that they begin to think about seeking financial advice in the UK. If the US adviser is not aware of UK implications and vice versa then this can lead to some potential tax traps given that an American in the UK has two jurisdictions to think about with respect to being tax efficient. This is especially true if there is any future intention to eventually bring any US assets into the UK for expenditure or investment.

Given the relative weakness of Sterling versus the US Dollar in the recent past, more and more Americans are looking to bring money to the UK and take advantage of the favorable rates of exchange. But what are the considerations that need to be taken into account when remitting money?

Typically, in your first seven tax years living in the UK, an individual who is resident but not domiciled in the UK is subject to UK income tax and capital gains tax on their UK 'source' income and capital gains. Foreign income and capital gains are subject to UK taxation only to the extent that the monies are remitted into the UK (i.e. physically brought to the UK or deemed to be brought to the UK directly or indirectly). This is known as Remittance Basis taxation. Under the remittance basis you will not pay UK tax on your foreign income and gains if they are less than £2,000 in the tax year and you do not bring them into the UK (for example, transfer them into a UK bank account). If you have foreign income and gains of £2,000 or more, or you bring any money to the UK, you should file a UK self-assessment tax return to claim the remittance basis or pay any relevant tax on funds remitted. Claiming the remittance basis means that you only pay UK tax on the income or gains you bring to the UK but you lose some potentially valuable allowances such as the personal income tax allowance and capital gains tax allowance.

In addition to transferring money into a UK bank account, there are a number of other ways one can be deemed to remit money such as:

- ★ Receiving a service in the UK and paying for the service using the income or gains that arose outside of the US.
- ★ Purchasing an asset in the UK and paying for it using foreign income or gains. As an example, this might arise by using your US credit card to purchase items in the UK.
- ★ Purchasing an asset overseas using foreign income or gains, and then bringing that asset into the UK, unless it meets an exemption.
- ★ Creating a UK debt and then paying that off using foreign income.
- ★ Giving money to a relevant person who then uses the money to buy goods or services in the UK. A relevant person includes a husband or wife, civil partner, cohabitant plus children or grandchildren under the age of 18.

Some exemptions to a taxable remittance are items of clothing, footwear, jewelry or watches that are brought into the UK for personal use, any property with a value of less than £1,000 and property which remains in the UK for less than 275 days total.

For many people, the first time they seek to bring a large amount of money into the UK is to purchase a home. But with the favorable exchange rates, we are seeing some people seek to bring funds to the UK just because it seems like a good opportunity to do so. Given the potential large sums, proper remittance planning can be key particularly if you face paying up to 45% income tax on the remitted transfer.

It should be noted that any capital that you held before becoming a UK resident should be outside the scope of UK income tax. Certain other types of funds also qualify as capital such as inheritances or gifts from non-relevant individuals. However, where this capital has earned income or realised gains post the time you became UK tax resident and where you have not engaged in proper income sweeping, this can result in taxable remittances.

It may not always be easy to tell what income and gains you have remitted, especially if you put more than one type of income or gain into an account or you have moved funds between accounts. There are specific rules that help to decide the ordering of any remitted money. Therefore, if you make a remittance to the UK from a bank account that contains more than one source, you should seek help from HMRC or a professional tax adviser. It is preferable to seek advice ahead of any transfer so that you can potentially avoid unnecessary tax charges or properly plan ahead and avoid any surprises later. ★

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