rosan helmsley
WEALTH MANAGEMENT

KEY GUIDE | JULY 2025

Living abroad – the tax rules

Introduction

PLANNING TO LEAVE

Many people now find themselves in the position that they can from work anywhere they want in the world. This has led to a new breed of digital nomad, and several countries offer schemes allowing extended workcations. This lifestyle is particularly attractive for the self-employed, but employees may also find their employer is open to the idea.

For more permanent relocation with full residence rights, some countries offer golden visas. Such visas were previously considered to be the preserve of high-net-worth individuals, but are increasingly accessible to those on lesser incomes. The golden visa schemes offered by Greece, Portugal and the United Arab Emirates are currently quite popular. Apart from a less punitive tax regime compared to the UK, relocation can mean lower living costs, especially if private school fees are a factor.

Long-term leavers, such as those retiring overseas, may benefit from inheritance tax (IHT) moving to a residence-based system from 6 April 2025. This provides certainty as overseas assets will be outside the scope of UK IHT after a maximum of 10 years of non-UK residence.

Paying adequate attention to financial planning is vital in this major change to your life. The tax consequences of leaving the UK are complex so it is essential that you seek professional advice.

Contents

Key considerations

INCOME TAX

If you remain UK resident despite going abroad, you will pay income tax on all of your income whether it arises in the UK or overseas. If you are employed, you will therefore pay tax on your remuneration regardless of where your duties are carried out.

The general rule if you become non-resident is that you will pay tax on your UK income but will not be liable to UK tax on your overseas income. So, if you are employed, you will not pay UK tax on remuneration for duties performed abroad. Earnings for duties performed in the UK will remain taxable unless they are only incidental to the overseas duties. Other points to consider if you become non-resident include:

- Tax may be deducted at source from your UK property income.
- You will still be entitled to the personal allowance.
- As a non-resident, your UK income tax liability will be subject to an upper limit. The calculation is complex, but the broad effect is that no tax is charged on your UK bank and building society interest or UK state pension provided the personal allowance is disregarded. This limit may be of particular benefit if you are retiring abroad.

It is possible that some of your income could be taxable in the UK and also taxable in the country that you have moved to. However, the worst-case scenario is that you effectively end up paying just the higher of the UK tax or the tax charged abroad.

Planning point

Take local advice when moving abroad about the tax rules that will apply in the country where you will be living.

CAPITAL GAINS TAX

If you are a UK resident then you will pay UK capital gains tax (CGT) on gains from disposing of your assets wherever they are situated in the world.

The tax treatment does not change if you are only temporarily non-resident – essentially when you are away for a period of five years or less. However, if you are non-resident for longer than this, such as when you are retiring abroad, the general principle is that you are not liable to UK CGT even in respect of assets situated in the UK.

Any UK residential property you retain remains liable to UK CGT despite you being non-UK resident, although only gains accruing since 6 April 2015 (when this rule was introduced) are taxed when the property is sold. The availability of private residence relief is also restricted, so if you are non-UK resident it will not normally be possible to exempt a UK property from CGT by claiming that it is your main residence. Similar liability has been extended to UK commercial property from 6 April 2019 (with an option to rebase the value of the property at that date so that prior gains are not taxed on a subsequent sale).

Be warned that even when UK assets are exempt from CGT, tax may be payable in your new country of residence, and this could be higher than the CGT that would have been paid in the UK.

INHERITANCE TAX

From 6 April 2025, IHT has move to a residence-based system. Previously, an individual's liability to IHT depended on their domicile status. Very broadly, an individual was domiciled in the country that they regarded as their permanent home.

Compared to domicile, which could be quite difficult to change, a residence-based system means certainty when you leave the UK on a long-term basis, such as those retiring overseas. Only those treated as long-term resident are subject to UK IHT on their overseas assets.

- It is important to remember, however, that UK assets remain subject to UK IHT whether you are long-term resident or not.
- Long-term residence essentially means being resident in the UK for at least 10 out of the previous 20 tax years.
- Those leaving the UK remain within the scope of UK IHT for between three and 10 tax years after leaving the UK, known as the IHT tail. If you have always been UK resident, then you will need to be non-UK resident for the maximum 10 tax years before being outside the scope of UK IHT on overseas assets.
- If you remain long-term resident, you will be liable to UK IHT on gifts of assets wherever those assets are situated – whether in the UK or overseas.
- Many countries also charge IHT (or its equivalent) based on residence, so when you die your estate may be liable both in the UK and also abroad. There is tax relief from the double charge, but this could be an issue given the potential 10 tax years of non-UK residence required before being outside the scope of UK IHT.
- If you do cease to be a long-term resident, then you will need to be careful if you are married or in a civil partnership. If both of you are long-term resident, gifts between you are exempt from IHT. But if one of you is not a long-term resident, the exemption is limited to a lifetime total of £325,000. You can elect for the non-domiciled spouse or partner who is not long-term resident to be treated as long-term resident, so avoiding the restriction – but making the election does have other IHT implications.

If you own property abroad it can be a good idea to have one will to deal with your UK assets and another to deal with the assets situated abroad. If you do not make a new overseas will, then any assets that you have abroad may end up being passed on according to the inheritance laws of the country in which you are living. But be careful, as the last thing you want is for the new overseas will to result in your existing UK will being revoked.

Planning point

For those leaving the UK, the use of life assurance written into trust will shield beneficiaries from the exposure to the potential UK IHT liability during the IHT tail.

WHAT ABOUT YOUR UK PROPERTY?

If you are a UK homeowner, you must decide what to do with your property before going abroad. Even if you could afford to, simply leaving it empty could be in breach of your mortgage agreement and may invalidate your household insurance. Also, you will likely have to pay council tax despite your property being empty. Even worse, the rate of council tax payable once a property situated in England has been empty for one year can be increased by up to 100% (up to 200% if the property is empty for five years). Each council can set its own charges and discounts, so you need to check what applies to your property. In Scotland there is also an increase of up to 100% after a property is empty for one year, but in Wales it is an increase of up to 300%.

If you decide to sell your property, you should allow plenty of time to do so – although if the sale has not been completed before you leave, you can give power of attorney to your solicitor or to a relative or friend.

If you decide to rent the property out, you will normally still be liable for income tax if the rent (minus certain allowable deductions) exceeds your personal allowance (when combined with other UK source income, and assuming the upper limit

basis mentioned above is not applied). Your letting agent will normally be required to deduct tax at source and pay it to HM Revenue & Customs (HMRC) unless it agrees otherwise.

BANKING, SAVINGS AND INVESTMENTS

Even if you are moving abroad permanently, until you are properly settled in your new homeland you should consider keeping a UK bank account open and at least one credit card, because in some countries it can be difficult to borrow before you have an established credit history there.

Anyone returning to the UK at some point in the future should definitely keep their UK bank accounts open. This is because you will find it difficult to open a new account without a UK address. Some UK pension schemes will only make payments into a UK bank account, so you should plan for this if your pension is going to commence after you leave. However, the state pension can be paid into either a UK bank account or an account in the country where you are living.

You will almost certainly want to open a local currency bank account in the country that you move to, but you might also decide to set up an account in a well-regulated offshore centre. The latter should provide 24-hour internet banking, multi-currency facilities and mortgages. There are some good online banking options as well.

You can retain any existing individual savings accounts (ISAs) if you become non-resident, but will not be able to make any further investment. It is also possible that despite being exempt in the UK, the income from ISAs might be taxable in the country that you move to.

Becoming an expatriate will also provide you with access to a range of tax-efficient financial planning opportunities such as offshore pensions and investment bonds. But these should be considered in conjunction with professional advice to ensure you pay due attention to currency and taxation issues, and achieve an appropriate level of risk, diversification and flexibility.

If you are returning to the UK you should take advice regarding the disposal of investments prior to your return. Depending on your circumstances and, in particular, the amount of time you have been away, considerable tax savings might be possible.

Planning point

If you are non-UK resident for the ten consecutive tax years immediately prior to your return to the UK, then you can claim exemption from UK tax on foreign income and/or gains for the first four tax years of your renewed UK residence. If the exemption will be beneficial, but you don't quite meet the ten-year qualification period, it might be worthwhile retaining non-UK resident status until the test is met.

INSURANCE

If you have individual life assurance, critical illness cover or income protection insurance, it is essential that you establish whether it will remain valid overseas. Your insurer may decide to remove your cover or increase your premium if it feels that your move makes you an increased risk. Similarly, if you are going to be working overseas, you should check with your employer whether you will be covered for death in service and whether you have private medical insurance.

If you are not covered for private medical insurance via your workplace, you should take out an individual international private medical insurance policy. Much will depend on local state medical facilities, because in some countries these are of a much higher standard and are far more accessible to expatriates than in others. Make sure your medical insurance covers you for diseases such as Covid-19.

THE IMPACT OF THE UK'S DEPARTURE FROM THE EU

There is no longer the automatic right to live and work in the EU, and any move, either for work or retirement, must be made in accordance with the immigration rules of the country you are moving to.

New retirees to EU countries are now treated as third-country nationals, although there are certain exceptions to this treatment:

- The UK government continues to uprate the UK state pension for pensioners who move to the EU, maintaining its value in real terms (there has been a 4.1% uplift for 2025/26).

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- Healthcare cover continues to be available.

It can be more difficult, however, to travel to the EU with pets, and UK driving licence holders may need extra documents in order to drive or hire a car in the EU. And you might be caught out if you plan on doing some part-time work, since there is no longer mutual recognition of most professional qualifications.

The government has issued detailed guidance covering each EU country at https://www.gov.uk/uk-nationals-living-eu.

RESIDENCE STATUS

Your residence status is the main factor determining your continuing liability to UK tax, and this is established using a set of statutory tests. IHT liability on overseas assets is also now determined by your residence status.

It is worth gaining a basic understanding of what you will need to consider if you are thinking of leaving the UK to live abroad – or if you have been abroad and are now returning to the UK. For both situations you can minimise the amount of UK tax that you will have to pay if you plan well ahead.

There are three aspects to the statutory residence tests, with the starting point being whether you are automatically non-resident or automatically resident. If neither of these apply, your residence status will be determined by how closely you are still linked to the UK.

Automatically non-resident in the UK

There are some situations where you will automatically be treated as non-resident in the UK, and you then do not need to consider any of the other tests. The most relevant tests if you are leaving the UK are:

- Whether you stay in the UK for fewer than 16 days during the tax year. For instance, if you are retiring abroad and do not make any return visits.

- Whether you leave the UK to work full-time abroad. This can be on an employed or self-employed basis, with full-time defined as working an average of more than 35 hours each week. You can visit the UK for up to 90 days each year, of 30 of which can be days where you are working. A working day is defined as one where you work more than three hours.

Automatically resident in the UK

These tests will be more relevant when you are returning to the UK, but you could also find yourself treated as resident in the UK after you have moved abroad. The most relevant tests for being automatically treated as resident in the UK are:

- Whether you stay in the UK for 183 days or more during the tax year.

- Whether your only home is in the UK – very broadly, you must have that home for a period of more than 90 days, and must live there for 30 days during the tax year.

If you leave the UK to live abroad the second test is unlikely to be relevant because you will almost certainly have an overseas home as well as any UK home.

Sufficient UK ties

If neither of the automatic tests apply, your residence status for a particular tax year will be determined by what is known as the sufficient UK ties test. This test will typically be applied if you have retired abroad, but your return visits to the UK mean that you are not treated automatically as non-resident.

The more days that you spend in the UK during a tax year, the fewer UK ties you are permitted before being treated as resident. If you are leaving the UK to live abroad the following ties are relevant:

1. Do you have a spouse, civil partner or minor children in the UK?

2. Do you have accommodation in the UK which is made use of during the tax year?

3. Will you work in the UK for 40 days or more during the tax year?

4. Were you in the UK for more than 90 days during either of the two previous tax years?

5. Will you spend more time in the UK than in any other country during the tax year?

The answer to the fourth of these (the 90-day test) will almost certainly be 'yes' when you are leaving the UK, but you should have some control over whether the other ties apply. When you return to the UK after living abroad the fifth tie (more time in the UK than in any other country) can be ignored.

To ascertain your residence status for a particular tax year, you need to compare the number of days you spend in the UK during that tax year with how many UK ties you are permitted before being treated as resident. The relationship between days and ties is set out in the table on page 7.

This is a very simplified explanation to give you some idea of how residence status is determined, and you need to be aware that most of the residence tests are subject to very detailed rules.

Days in the UK during the tax year	When leaving the UK	When returning to the UK
16 to 45 days	Resident if 4 UK ties or more	Non-resident
46 to 90 days	Resident if 3 UK ties or more	Resident if 4 UK ties
91 to 120 days	Resident if 2 UK ties or more	Resident if 3 UK ties or more
121 to 182 days	Resident if 1 UK tie or more	Resident if 2 UK ties or more

If you are forced to spend more time in the UK than planned, then up to 60 such days each tax year can be ignored as exceptional days; although the requirements are quite strict.

RESIDENCE PLANNING

With careful planning you can become non-resident when you move abroad. If you have UK ties, such as a house in the UK, then it is easy to establish how many days you can safely stay in the UK each tax year. If you need to be in the UK for a set number of days each year, then you will know if you have to reduce your number of UK ties – maybe selling your UK house or reducing the amount of time you work here.

Permitted days in the UK

You should not assume that you can spend the same amount of time in the UK every tax year.

You might be in the position to stay for up to 120 days during a particular tax year. However, a stay of more than 90 days could trigger the 90-day UK tie, meaning you would be permitted fewer days in the UK for the next tax year.

Minimising the number of working days

You will need to be careful when it comes to days working in the UK, given the three-hour definition of a working day.

The number of working days could be kept to a minimum if your work is condensed into full days rather than you working half-days of just over three hours each. Alternatively, it might be possible to keep the amount of work done each day below the three-hour limit.

Consider each tax year separately

An important point to remember is that there is no averaging between tax years – each year is considered entirely separately.

If your number of UK ties means you can stay in the UK for up to 90 days each year, then spending 95 days here during one tax year and 85 days the next would make you resident for the first year. Delaying five days of visits so you spend 90 days in the UK each tax year would mean non-residence status for both years.

A day in the UK is any day where you are here at midnight. However, days spent in the UK for exceptional circumstances beyond your control - such as if you have had to extend a visit due to serious illness - do not always count.

Planning point

Even if you stop paying UK tax, consider whether it's worth continuing to pay national insurance contributions to maximise your entitlement to the UK state pension at retirement age. You need 35 years of contributions to qualify for full pension entitlement.

How to notify HMRC

You will have to notify HMRC of your residence status, and this will normally be done as part of your tax return submission.

For the tax year in which you leave the UK, you might be due a tax refund, especially if you were employed here. This is because you will have an unused portion of your personal allowance and income tax bands between the time your employment ceased and the end of the tax year. If a tax return is not completed, it will be necessary to submit form P85 ('Leaving the UK – getting your tax right') either online or by post to HMRC.

The Financial Conduct Authority does not regulate tax planning.

HOW WE CAN HELP

Moving abroad is a particularly complicated area where specialist help is essential.

You will need the right advice about your potential liability to tax and the most appropriate ways to minimise the tax impact. If necessary, we can liaise with any accountant or tax specialist that you might use in the country that you move to.

We can also help you with investment and tax planning advice if you are about to become non-resident for tax purposes, or are thinking of returning to the UK.

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