

OFFSHORE VS. ONSHORE INVESTMENT FOR UK EXPATS

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It is a common assumption that offshore investments are somehow more suitable for a UK expatriate. This is not necessarily the case, and the position will depend on the **individual's own tax position**, the **type of investment**, and the tax position in the **current country of residence**.

Of course, taxation is not the only, or even the most fundamental, investment criteria. The relative **choice** and **quality** of funds available onshore and offshore should also be considered, together with their **charging structures** and **regulatory positions**.

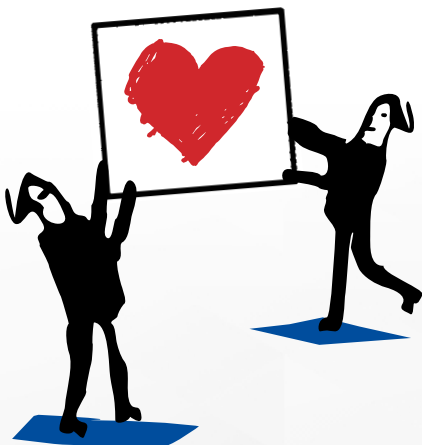
Here we give a broad overview of the tax applying to different types of offshore investments, for non-UK residents who are UK domiciled.

INTRODUCTION

The taxation of offshore investment funds depends upon the nature of the underlying assets and the location of those assets i.e. the jurisdiction in which the investment is regulated. There are usually income tax, capital gains tax and inheritance tax (IHT) implications for all investments, and in many cases there may be no advantage in taking the money offshore.

Of course, taxation is not the only investment criteria, and the relative **choice and quality of funds** available onshore and offshore should also be considered. Historically, the offshore funds market has been less competitive and so may offer a narrower selection of funds with a higher **charging structure**. In addition, the **regulatory environment** and **compensation schemes** offered should be carefully considered, with some offshore locations offering far less robust protection than onshore.

Note that we only consider taxation here from a UK perspective, for individuals who are **currently non-UK resident**. There may also be **tax implications in the country of residence**. Non-residential tax rules can be complex, and professional advice should be sought on your individual position.



INCOME TAX

Interest and dividend income is now paid gross for both onshore and offshore holdings, making the comparison of income tax positions much simpler. Broadly, the income tax position for both onshore and offshore assets is potentially very similar.

UK ASSETS

The amount of income tax payable on interest and dividend income arising from UK deposits and investments, is **effectively limited to that paid at source, which is now nil - unless you want to claim the personal allowance against other income**. There is also an explicit exception for income on UK gilts (government securities), which is free from income tax for all non-UK residents even if the personal allowance is claimed.

Technically, the calculation for the total income tax liability for a non-UK resident limits the tax to that which would be due if the investment income were excluded, and no personal allowances were given.

If a non-UK resident has other types of taxable UK income (eg UK pension, employment or rental income), they may wish to claim their personal allowance for use against this. Whether this is advantageous depends on the relative levels and types of income, and allowances available. In this situation, the existence of UK investment income may effectively reduce the personal allowance available to be used against the pension/rental income. This would, however, be the choice of the individual investor and only claimed if it were worthwhile to reduce overall taxation.

INCOME TAX

OFFSHORE ASSETS

Income arising from non-UK assets is free from any UK income tax liability for non-UK residents. However, there may be tax implications in the current country of residence.

Offshore investment funds may also suffer non-reclaimable withholding tax on dividend income received from the UK, from which onshore funds may be exempt. The rate of this tax depends upon the residence position of the fund.

UK PROPERTY

UK rental income is taxable regardless of your residence status.

In addition, individuals who live abroad for 6 months or more in a year are classed as a '**non-resident landlord**', even if they are UK resident. Lettings agents, or the tenants, are obliged to deduct basic rate income tax from rental income before payment to a non-resident landlord. The tax must then be paid to HMRC within 30 days of the end of each tax quarter. An application can be made for approval to have rental income paid gross. However, a tax return will need to be submitted in either case.

CGT

If an asset (excluding property) is both purchased and sold whilst you are non-UK resident then no liability to UK CGT should arise, whether the fund is onshore or offshore.

If an individual is resident for at least 4 of the previous 7 years and becomes not resident for less than 5 tax years they are potentially liable to tax on gains on the disposals made on assets owned before they left the UK. Gains on assets acquired abroad that are realised in the years between the tax year of departure and the tax year of return should be exempt within the UK (but always bear in mind the tax effect in any other jurisdiction). Careful planning is required as a transaction immediately prior to a return to the UK may be inadvertently caught.

UK PROPERTY

Non-UK residents who dispose of direct or indirectly held property sited in the UK are subject to Capital Gains Tax on the disposal. They must report the sale to HMRC regardless of whether tax is due, and settle any tax, within 60 days of sale.



IHT

Whether you are UK resident or non-resident is not currently relevant for IHT purposes, although there is a proposal under consultation to move to a residence-based IHT regime from April 2025. At present, liability to IHT depends on whether you are UK domiciled (or deemed domiciled). For UK domiciled individuals, you are subject to UK IHT on your worldwide assets – onshore and offshore. For non-UK domiciled individuals, you are generally only taxed to UK IHT on UK situated assets. For further information see our note on IHT Planning.



FIND OUT MORE

If you have any questions about our investment methodology, or would like some financial planning or investment advice, the clarity team are here to help.

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