GMS Flash Alert

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United Kingdom - Autumn Statement Covers Foreign Pensions, Tax Treatment of Non-Domiciliaries

On 23 November 2016, the U.K.'s new Chancellor of the Exchequer released the Autumn Statement providing an update on the U.K. economy and fiscal policy.[1] Included was commentary on several measures that have been the subject of consultation such as changes to the tax treatment of certain non-domiciled individuals. In addition, there were new announcements including a change to the U.K. tax treatment of foreign pensions, which could impact employers with assignees to/from the United Kingdom.

Further details will be published on 5 December alongside the draft Finance Bill for 2017, which is set to come into effect from 6 April 2017.

WHY THIS MATTERS

For employers of globally mobile assignees there was little that was new or unexpected but there was confirmation on a number of matters relevant to them and their assignees.

However, it is important that both assignees and their employers understand the proposed changes and the potential for increased tax costs and complexity that may arise. The proposed change to the treatment of foreign pensions could have an impact on the cost of moving people to and from the U.K. where there is a mismatch in tax treatment and more details will be published once they are known.

With respect to the tax plans for non-domiciled individuals, employers may wish to review their assignee population to identify those individuals who will be impacted by the new rules and consider the personal impact on them under their global mobility policies.

Overview of the Specific Measures

In terms of the headlines:

- The government confirmed that the introduction of worldwide taxation for "deemed" U.K.-domiciled individuals will go ahead in 2017.
- The tax and National Insurance advantages associated with "salary sacrifice" arrangements will be removed from 6 April 2017, except for certain arrangements such as pensions, child-care, and ultra-low emission cars.
- The changes to termination payments previously announced will come into effect from 6 April 2018, although there are some easements in scope that have arisen as a result of the consultation process.
- There was a significant new set of announcements around the tax treatment of foreign pension payments which are set to become more aligned with the U.K.'s domestic pension tax regime. The changes are likely to impact both the deductibility of pension contributions and the tax position of pension and lump-sum distributions from such schemes to U.K. residents, as well as some other aspects such as transfers. The government is also closing 's615' schemes that are used by non-U.K. resident employees.

KPMG NOTE

No detail and no timeline were given on these proposed changes. The taxation of foreign pensions is a highly complex area and we at KPMG LLP (U.K.) would therefore expect the government to publish consultations on any potential changes to the regime in future. We would hope to see some grandfathering provisions being considered for existing arrangements.

- Class 2 National Insurance Contributions (NICs) will be abolished from 6 April 2018. These are typically paid voluntarily by U.K.-outbound assignees to maintain certain entitlements when they are overseas. They will have to pay the more expensive Class 3 NICs in future.
- There was no update today on the "Making Tax Digital" plan which is the U.K.'s initiative to transform the tax administration system by 2020.

KPMG NOTE

KPMG LLP (U.K.) will continue to work with HMRC in shaping the path to digital accounts for international assignees.

- The government remains committed to the anti-avoidance agenda with a view to reducing the U.K.'s 'Tax Gap'

KPMG NOTE

This is the first set of U.K. tax announcements following the BREXIT referendum and many were looking for clues on the direction of tax policy in light of the government's commitment that the U.K. remains 'Open for Business'. There were several headline measures around Corporation Tax such as the continued commitment to reduce the rate of Corporation Tax to 17 percent.

Long-Term U.K. Residents – Deemed Domicile

In the Autumn Statement today, the U.K. government has confirmed that it will be going ahead with its proposals to deem non-domiciled individuals living in the U.K. to be U.K. domiciled for income tax, capital gains tax, and inheritance tax purposes if they have been resident for 15 of the last 20 years or were born in U.K. with a U.K. domicile of origin. (For prior coverage, see GMS *Flash Alert* 2015-147, 11 December 2015.) Inheritance tax will also be charged on U.K. residential property when it is held indirectly by a non-U.K.-domiciled individual through an offshore structure, such as a company or trust. The proposed new rules are set to come into force from 6 April 2017, with the draft legislation to be published in the draft Finance Bill on 5 December 2016. It is important that employers are aware of the ways in which their assignees and senior executives may be impacted.

The proposals are complex and we will issue a separate GMS *Flash Alert* giving further details of the changes in due course.

KPMG NOTE

HM Treasury has undertaken an extensive consultation on these proposals – both in respect of the original consultation document and the draft legislation previously published.

Employers may wish to inform their U.K.-based non-U.K.-domiciled employees of the key points contained in the current proposals so that they can take further advice on next steps as necessary. While it may be that many impacted employees are fully aware of the changes, it is almost certain that some will not be. Employers should also consider taking stock of their assignee population to identify those individuals who will be impacted by the new rules and consider the personal impact on them under their international assignment mobility policies. Adjustments may be required to such policies to help ensure the original spirit of the policy is upheld in spite of the change in legislation.

FOOTNOTE:

1 See the "Autumn Statement 2016."

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