STARTING A PRIVATE PRACTICE: WORKING ABROAD

Bienvenue, revenue

Doctors are often offered the opportunity of working abroad at some point in their career. This could be when training or as an experienced consultant and can be an exciting opportunity both personally and professionally. But beware the tax pitfalls, says Ian Tongue

A COMMON MISCONCEPTION is that income earned abroad is not taxed in the UK. This can be the case in certain circumstances, but many people get caught out when returning to the UK – which spells a sour end to their trip.

Temporary work abroad

This is usually the most common opportunity and may involve leaving the UK for anywhere from a few months to a few years. It may also be a prelude to leaving permanently as the opportunity is assessed, but it is important that the tax implications of returning to the UK are understood.

Tax implications of a short-term employment abroad usually depend on the length of time spent abroad, assuming you are a UK-domiciled and tax-resident individual.

In order for you to not have to declare the foreign earnings on your UK tax return, you must leave the UK for a complete tax year or cease to become resident for tax purposes in the UK.

The tax year runs from 6 April to 5 April each year. For example, should you leave during August 2012, returning to the UK on or before 5 April 2014 would require your foreign earnings to be declared in the UK.

It may seem unfair, as you could have spent a calendar year away, but unless you have spent a complete tax year out of the UK, your income tax obligations in the UK remain. If breached, your worldwide earnings are declared in the UK.

Now it is highly likely that the country you are working in will deduct tax on foreign employment income locally.

Most foreign countries have what is known as a 'double taxation treaty' which allow credit for tax suffered abroad to be deducted against any UK income tax due.

If your marginal rate of tax in the UK is 40%, you would only pay more if the rate applied to those earnings abroad was less than 40%.

No tax or refund is payable if the rate suffered abroad is more than 40%. If no double taxation treaty is in place, the rules around self-employed income will usually apply to this income.

It should be noted that some allowances and relief rules differ between the countries and therefore the assessable tax figure may be different in each country.

A common problem area is a consultant leaving the UK for, say, a year and receiving a refund of tax paid in the UK on departure due to their allowances not being fully utilised.

This can also happen in the foreign country where the work is being carried out and can lead to a substantial tax liability upon your return to the UK.

It is important that you discuss your intentions with an accountant, who can ensure that the correct position is adopted in the year of departure and can advise on any liabilities based on your expected return date.

Domicile

In carrying out private practice abroad, the tax treatment in the UK will depend not only on the length of time spent abroad but also residency and domicile status of the individual. Special rules apply to those individuals who are not domiciled in the UK.

Domicile is a complex area but, in simple terms, it is usually taken to be that of the person's father – but it could also be that of another country, depending on their acts or deeds.

From 2008, new rules apply to non-domiciled individuals who are resident in the UK for tax purposes. Prior to the new rules, if the income was not remitted to the UK, it was not declared for UK tax purposes.

However, the new rules require this income to be declared irrespective of whether it is remitted or pay a £30,000 charge to continue using the remittance basis.

Clearly, this is targeting wealthy individuals but applies to all UK tax-resident 'non-doms'. This is a complex area and if you are affected, you should discuss your individual circumstances in more detail with your accountant.

Leaving the UK permanently

Emigration is usually the easiest to deal with from a tax perspective, as frequently your assets are sold and a clean move is made due the intention to leave for good.

However, depending on the timing of your departure, you could still have significant tax liabilities to settle.

For example, if you were engaging in private practice and had a 30 April 2011 year-end and left the UK in November 2011, your 2011-12 UK tax return would reflect the full year ended 30 April 2011 (less overlap profit) and the additional seven months to the end of November.

Therefore, a significant liability could arise and it is vital that you discuss your circumstances and travel plans in detail with an accountant.

If leaving the UK permanently, you must understand the rules on residency, otherwise spending too much time in the UK could trigger UK tax residency again. This is a complex area and is subject to proposed 'clarification', but, in simple terms, if you spend more than 183 days during a tax year – or after four years your visits average 91 days or more over those years – you will be UK resident.

If you leave the UK permanently but retain property either to hold as a longer-term investment or because of the slow property market, it is likely it will be rented out. In these circumstances, a special scheme operates via managing agents known as the 'non-resident landlord' scheme, which deducts basic rate tax at source on these earnings.

Other considerations

Despite leaving the UK, you may still have a residual exposure to UK inheritance tax for a period of time. Again, the rules are complex, but if you were tax resident in the UK for 17 out of the last 20 years in the year of death, you will have inheritance tax to consider in the UK.

It is important that you consider your pension position. If you are temporarily leaving the UK, you should negotiate with your employer to not have a break in service for your NHS pension. If you are leaving permanently, you will need to discuss matters with an expert who can advise you on the best course of action.

If you are to be regarded as non-resident in the UK, it may be appropriate to move your savings offshore in order to receive the income gross.

The above is not an exhaustive guide to leaving the UK, as each person's circumstances will be different. But it does illustrate a number of key considerations requiring advice and, therefore, you should involve your accountant at an early stage to ensure that all matters have been considered.

■ **Next month: Time to plan for the year ahead**

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STARTING A PRIVATE PRACTICE?

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