In brief

Due to the unexpected announcement of a snap General Election (to be held on June 8, 2017), the number of provisions in the Finance Bill 2017 was drastically reduced. On April 27, 2017, only a relatively limited number of measures were enacted into law.

Certain draft provisions that impact globally mobile employees were notably omitted from the legislation. They include the introduction of a deemed domicile status for all tax purposes from April 6, 2017, together with the opportunity for many non-domiciled individuals to ‘tidy up’ their offshore bank accounts. While the broad expectation is that these measures will be re-introduced shortly (with the same commencement dates and in substantially the same form) once a new Government has been formed, this is not certain, as it will be a matter for that new Government to decide. In the meantime, these omissions extend what has already been a prolonged period of uncertainty for many globally mobile employees and their employers.

However, not all measures which impact globally mobile employees have been omitted; the Finance Act still includes, among other things, measures reforming the taxation of foreign pension schemes.

In detail

What’s been omitted from Finance Act 2017?

Many items have been omitted. For employers with globally mobile employees, the following are likely to be of most significance:

Deemed domicile and cleansing of overseas mixed fund bank accounts

Previously, the Finance Bill included long-trailed draft legislation deeming certain individuals to be UK domiciled for all tax purposes (i.e., those non-domiciled persons resident in the UK for 15 out of the previous 20 tax years and also UK resident individuals born in the UK with a UK domicile of origin). The Bill also included, among other things, provisions to allow non-domiciled individuals (other than those with a UK domicile of origin) a two year window to ‘tidy up’ any mixed funds held in overseas bank accounts.

The Government’s proposed changes to the taxation of non-domiciled individuals have been omitted from the Finance Act 2017 in their entirety.

Any other omissions?

While the omission of the proposed new rules for non-domiciles will cause the most uncertainty, the following omissions are also relevant:
Making Tax Digital (MTD)

Unincorporated businesses and landlords with an annual turnover of less than the VAT threshold (which would include e.g., many UK outbound employees letting their UK homes) were due to be required to manage their affairs digitally and send quarterly updates to the UK tax authorities from April 2019.

These provisions, together with similar MTD requirements for those above the VAT threshold (which were due to apply from April 2018) have not been included in the Act.

Dividend allowance

The provision to reduce the tax-free dividend allowance from £5,000 to £2,000 from April 2018 has also been left out.

What’s included in Finance Act 2017?

The Finance Act includes core elements, such as confirmation of income tax rates for the 2017/18 UK tax year. In addition, and of particular interest to employers with globally mobile employees, a number of tax changes have been enacted in relation to overseas retirement benefit schemes, including:

Transfers to qualifying recognised overseas pension schemes

The Finance Act 2017 includes a 25% charge on certain transfers to qualifying recognised overseas pension schemes (QROPS) with effect from March 9, 2017. The charge will apply unless both the individual and the QROPS are located in the EEA, or they are both in the same country, or the receiving scheme is an occupational pension scheme provided by the individual’s employer or an overseas public sector pension scheme.

Lump sums from overseas retirement benefits schemes

Lump sums from overseas retirement benefits schemes paid after April 5, 2017 are no longer eligible for foreign service relief (i.e., no UK tax for periods of non-UK service) where the individual is tax resident in the UK when the benefit is paid.

While there is ‘grandfathering relief’ so that lump sums paid out of funds built up before April 6, 2017 should be subject to existing tax treatment (such as foreign service relief), benefits in respect of service after that date will be subject to the new tax rules.

Section 615 schemes

For employers with defined benefits section 615 schemes (for employees working wholly outside the UK) such schemes may not allow further benefits to accrue after April 5, 2017.

The takeaway

The advent of a snap General Election, particularly against the backdrop of the UK’s forthcoming exit from the EU, has created yet more uncertainty with respect to the future course of UK legislation and the UK tax treatment of globally mobile employees more generally.

Many globally mobile employees and their employers were expecting significant changes to apply from April 6, 2017, and some may already have taken actions to take account for this.

As noted above, it is generally expected that the new provisions for the tax treatment of non-domiciles (among other things) will still be introduced, but there will now be a further period of uncertainty as to their precise scope and date from which they will take effect. However, on a positive note, this delay should allow further time for additional scrutiny of the draft legislation before enactment.

In the meantime, taxpayers and employers should keep abreast of any further announcements and changes.
Let’s talk
For a deeper discussion of how these issues might affect your business, please contact your PwC Global Mobility engagement team or the following team member.

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