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Published in Japanese
Eikoku News Digest
January 2010

EXPATRIATE TAX ISSUES

- *My company has an expat coming to work in the UK from our head office. Are we legally responsible for paying his tax?*

The simple answer is yes. The regulations say that the UK entity is the employer for tax purposes. It follows that your company is responsible for managing his payroll taxes and social security.

- *Is it true that his earnings in Japan are not subject to UK tax?*

Tough one. The answer depends on a number of factors, such as how long he intends to stay in the UK, the nature of his duties, where he works and how much money he remits to the UK. The rules are complex so we recommend taking professional advice to ensure that only the right amounts are subject to tax.

- *Oh, is there anything else we should be aware of?*

Well, starting at the beginning, some relocation allowances are taxable, some are not and others are chargeable over an £8,000 limit. Also “benefits in kind” such as cars, accommodation, medical insurance, school fees and payment of taxes are all taxable.

- *But, I have heard that accommodation is not taxable?*

Strictly accommodation is taxable, but in certain circumstances it can be treated as subsistence costs, which are not. Broadly speaking, this would apply when a secondment is expected to last less than 24 months.

- *OK, but what do you mean that the payment of tax liabilities is taxable?*

If the company is paying the employee’s tax for them, the net salary is “grossed up” in order to calculate the tax due. Assuming a marginal tax rate of 40%, this means that for every £100 paid to the employee he is deemed to be receiving £167 and the employer pays £67 in income tax. After 5 April 2010, if the grossed-up annual income is more than £150,000 the marginal rate of tax will be 50%, so for

every £100 paid to the expatriate at this level of income, another £100 will be payable as taxes.

- *Is there an easy way to administer this payroll scheme?*

I can't say there is an easy way, but H M Revenue and Customs do recognise some of the difficulties in running a payroll for expatriate staff. In order to help you can apply to set up a "modified" payroll scheme for expatriates which has longer deadlines and also allows benefits in kind to be processed through the payroll.

- *Does this mean that the expatriate does not need to file a personal UK return?*

Unfortunately not. Also the accuracy of the personal tax return is the responsibility of the expatriate himself and cannot be delegated. In practice the return is often completed by the employer or accountant, but it must be approved by the expatriate.

- *Are there any special rules for social security payments?*

Yes, the employer can apply to the authorities in Japan for exemption under a Reciprocal Agreement between the UK and Japan. The employee would then continue to pay his social security in Japan and be exempt in the UK. Normally the exemption is for a maximum of 5 years.