International
Comparative
Legal Guides

Practical cross-border insights into private client work

Private Client 2022

11th Edition

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ICLG.com

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Introduction

Internationally mobile high-net-worth individuals ("**HNWIs**") have traditionally favoured the UK as one of the top destinations in the world to live, invest and grow their businesses.

However, the UK has been through some turbulent times in recent years:

- exiting the European Union ("**EU**") in January 2020;
- having some of the highest case rates of COVID-19 in the world after being hit by the more infectious variants before other parts of the world;[1] and, now
- reforming its tax landscape to deal with the economic impact of COVID-19, having accumulated the highest level of Government borrowing since the second world war.[2]

Have these developments dented the UK's attractiveness for international HNWIs or is the UK just as much open for business after Brexit and the pandemic?

For detailed information about the UK, please see chapter 32.

Why Move to or Invest in the UK?

When it comes to relocating to or investing in a particular jurisdiction, all sorts of personal considerations will be relevant.

Some may be looking, for example, for a better standard of living, personal security, education, and healthcare. Others may have experienced religious tension, political instability and oppressive governments in their home jurisdictions. Many may be seeking improved work and business opportunities, lower costs of living, attractive property markets and tax planning.

As far as the UK is concerned, it is clearly not the weather that attracts overseas HNWIs to the UK. However, many do make the UK their home, with London having the highest number of HNWIs worldwide.[3] Many more invest from afar, with predictions that London will see US$38 billion in cross-border real estate investments in the year 2022.[4]

Factors that many report as attractive in deciding to relocate to the UK include the quality of life, its culture and the English language, the stability of the social, political and legal environment, the education system and the skills of the labour force, infrastructure and the business environment.

The cosmopolitan lifestyle on offer in urban centres such as London, the rich history of immigration contributing to diversity, the proximity to Europe and the favourable time zone all serve to attract internationally mobile HNWIs seeking a new home.

For those with business interests, the UK combines the credibility of an onshore jurisdiction and OECD member with an attractive tax regime. The UK is home to one of the world's pre-eminent financial centres in the City of London, providing access to funding and a community of sophisticated advisers. UK law is widely used internationally and the UK courts are increasingly the forum of choice for commercial dispute resolution. On a practical level, some of the UK's "red tape" operates with a very light touch: for example, it is possible to incorporate a limited company (and have it appear on the official register) the same day.

Whilst the onset of the COVID-19 pandemic presented economic challenges to most countries across the world, the UK is en route to a strong recovery. In the second quarter of this year, the UK had the strongest economic growth of the G7 countries. Both the IMF and OECD have forecast that the UK will have the strongest growth in GDP of the group in 2021, despite having seen the largest fall in 2020.[5]

Certainly, at the time of writing, the UK is moving rapidly towards some level of normality in the face of lower COVID-19-related deaths and hospitalisations. The UK (or rather England) was the first nation in Europe to unlock fully when it ended COVID restrictions on 19 July 2021.

Despite recent pandemic-induced challenges, it is fair to say that the UK still offers a very attractive place for HNWIs to live or work, whether temporarily or for longer periods.

What to Consider When Moving or Investing in the UK

To make the most of what the UK has to offer, it is essential to take professional advice prior to moving to or investing in the UK, even if the person concerned has lived there before.

For those looking to make the UK their home, there are various legal, practical and tax-related issues that should ideally be considered well in advance.

Four of the key aspects that many HNWIs often confront when looking at what the UK has to offer are explored below:

- Immigration.
- Education.
- Real estate.
- Personal tax.

Immigration

In order to visit, study, live, or work in the UK, an individual will need to ensure that they have the appropriate UK immigration status to allow them to carry out the activities which they wish to engage in.

At the time of writing, the UK is cautiously reopening following an extended period of lockdown throughout the first part of 2021. This process has taken place in stages, commencing in March and with the last set of major domestic restrictions being withdrawn in July. There has also been a relaxation of travel restrictions following a successful rollout of the vaccination programme, with a noticeable uptake in those travelling to and from the UK.

This comes at a time when the immigration rules are under constant review as the UK repositions itself following Brexit, with the biggest shake-up of the immigration rules for a generation currently underway.

The EU settlement scheme (the "Scheme")

The Scheme was implemented to provide security to millions of European Economic Area ("**EEA**") nationals living in the UK. This ensured that they would be able to stay in the UK once EU free movement came to an end.

Between 30 March 2019 and 30 June 2021, EEA nationals residing in the UK were able to apply for "settled status" if they had been UK resident for five consecutive years. Those who did not meet this criterion could apply for "pre-settled status" instead, and then apply for settled status once they have lived in the UK for five consecutive years. In most instances, after 12 months of obtaining settled status, applicants are eligible to apply for British citizenship.

The Scheme provided stability and certainty for those whose eventual aim is to make the UK their home; 5.3 million people applied under the Scheme, an indicator of its overwhelming success.[6]

The immigration system post-Brexit

Notwithstanding that immigration is a politically sensitive subject and one that came under extreme focus during the Brexit referendum and the subsequent Brexit process, the UK now has an immigration system that applies equally to both EEA and non-EEA citizens alike, creating opportunities to live and work here temporarily or long term.

Specific visas

In addition, new visas have been created in response to developments further afield. In particular, the Hong Kong British National (Overseas) visa was formally introduced on 31 January 2021, attracting over nearly 65,000 applications.[7] The visa is available to those who have British National (Overseas) citizenship and their eligible dependants.

Investors and Innovators

As far as investors and innovators are concerned, at present there are two dedicated visa categories.

The most flexible visa for many HNWIs is the investor visa, which is available to individuals who have substantial funds of their own to invest in the UK.

It is the most flexible visa category in that it allows the applicant and their eligible dependants to undertake employment, self-employment, study or be self-sufficient in the UK.

To be granted an investor visa, the applicant needs to demonstrate that they have a minimum of £2 million of their own money that they can invest in the UK. They would also need to open a UK bank/investment account for the purposes of making the investment. Provided the applicant meets these requirements, they and their dependants should be granted an initial visa for three years.

Once the applicant is in the UK, they must invest at least £2 million in loan capital or share capital in active and trading UK companies. Provided these qualifying investments are maintained correctly, the applicant and their dependants should be able to extend their visas for a further two years.

The investor visa can also provide an accelerated route to permanent residence with higher investments of £5 million or £10 million.

An alternative category is the innovator visa, which is for experienced entrepreneurs who wish to establish a business in the UK and be actively involved in the running of that business.

The applicant must obtain an endorsement from a prescribed body and demonstrate to the body that they have an innovative idea that they can turn into a successful UK business. This involves providing a detailed business plan for the business they intend to establish in the UK and information about their career history.

The applicant should also normally have funds of at least £50,000 available to invest in their business and must also meet the English language and maintenance requirements.

Provided the applicant meets these requirements, they and their eligible dependants should be granted an innovator visa for three years.

Education

Historically, the UK has been one of the most popular destinations for international students due to its world-class standards of teaching. The quality of education in the UK is recognised by employers, universities and governments worldwide.

In 2020, the UK saw 551,495 international students join its higher education institutions.[8] This meant that the UK was home to the second-largest student population from abroad in the world, beaten only by the United States.

The UK experienced disruption to its schools and universities as a result of the COVID-19 pandemic. As the world was forced to move online, institutions had to adapt to new ways of teaching. UK schools and universities responded quickly and with flexibility. During the peak of the pandemic, 70% of independent schools were hosting one-to-one online sessions, with 93.5% hosting online classes.[9]

Given the future uncertainty surrounding the long-term impact of the pandemic on teaching, it is essential that educational institutions can respond flexibly in how they deliver classes. However, that is not to say that schools and universities are not looking to return to normality. At the time of writing, most UK schools and universities have already returned to face-to-face teaching.

Whether it is for the education of their children or to undertake studies themselves, many HNWIs looking at the education system in the UK consider independent schools and universities.

Independent schools

Independent schools are those which are not run or funded by the state, and confusingly are often referred to as private, public or preparatory ("**prep**") schools (non-fee-paying schools are usually referred to as "state" schools, rather than "public" schools).

They are fee-paying schools and many of them require prospective students to sit an entrance examination. Where there is no entrance exam (typically at the nursery or pre-school level), entry is often a matter of registering early, sometimes shortly after the child is born.

Independent primary schools fall into two main categories: pre-preparatory, for ages two to seven; and junior or prep schools, for ages seven to 11 or 13.

Independent secondary schools admit students at any age from 11 or 13, up to sixth-form level. Many independent schools are boarding schools, where pupils live and study on the school's grounds. Others are day schools or offer both day and boarding.

At UK independent schools, there are on average just 8.9 pupils to every one teacher, so teachers have more time to give individual support. This is reflected in the results: around 90% of students from UK independent schools go on to higher education, and of these, 92% remain in the UK for their university education.[10]

Universities

Students continuing to higher education in the UK have a huge choice of world-renowned, top-class universities. In fact, four of the top 20 universities in the world are in the UK, including the famous universities of Oxford and Cambridge.[11] Just under a quarter of the UK's undergraduates are international students.[12]

Real Estate

One of the major decisions faced by HNWIs considering living or working in the UK is the question of a UK home.

Short-term and long-term options

Individuals coming to the UK on a short-term basis may wish simply to access temporary accommodation. This could range from hotels to serviced accommodation and other types of short-term rental properties. But for individuals who are looking for something longer term, property rental for six months or more, or purchasing a property, may be more suitable.

Investment properties

For those investing in the UK, the UK has historically been a popular destination in relation to real estate investments.

London saw the highest levels of cross-border private capital from the widest range of different countries invested in real estate in 2020.[13] It also has the highest number of properties considered "prime" than any other city worldwide.[14] Currency changes have also led to sizeable discounts for international buyers.[15] Since the UK voted to leave the EU in 2016, the value of the pound has weakened and is yet to recover. At the beginning of 2021, the pound was 15% weaker relative to the euro than it was pre-referendum,[16] making the UK property market particularly attractive to foreign investors.

Despite its global appeal, the UK housing market took an inevitable hit during the onset of the pandemic. However, the Government showed its willingness to support the sector through its emergency Stamp Duty Land Tax ("**SDLT**") "holiday". This measure was introduced in response to the 50% fall in property transactions experienced in May 2020 and the first recorded fall in house prices in eight years.

Between July 2020 and September 2021, the SDLT holiday raised the threshold for the tax from £125,000 to £500,000, effectively exempting the first £500,000 of property prices from SDLT. This policy-led stimulus meant that the market has seen more activity in 2021 than in the five years leading up to the pandemic.[17] Notwithstanding turbulent times, the UK real estate market has remained buoyant.

Until now, activity during the pandemic has predominantly been driven by the domestic market, but there is increasing evidence that international buyers are returning to the market.

Tax changes

For those thinking about purchasing a property, either for personal occupation or investment, then how the property will be owned and financed must be considered carefully.

There are various taxes associated with the purchase of property in the UK and the tax landscape affecting real estate (particularly residential property) has undergone major changes in recent years.

SDLT

Since March 2021, a new SDLT surcharge of 2% on residential properties was introduced for non-resident buyers. This surcharge applies in addition to the 3% surcharge introduced in 2016 for individuals buying second homes, and which currently applies to all corporate acquisitions of residential property. Together, this means the top rate of SDLT can be as much as 17%.

Whilst non-resident buyers interested in buying UK residential property may have accelerated purchases to avoid the surcharge, based on current levels of transactions, many non-UK-resident buyers appear to have accepted the rates of SDLT that apply to UK residential property, and have not been put off by a further 2%.

Capital gains tax (CGT)

Historically, non-UK residents have been outside the scope of UK CGT on their real estate investments. However, this protection for non-UK residents has mostly been removed over the last few years.

Since April 2019, non-UK residents were brought within the scope of CGT in respect of the disposal of their real estate interests. Both direct disposals, of residential or commercial properties, as well as indirect disposals via the sale of interests in "property rich" vehicles, are caught by this new regime.

This development, while clearly unwelcome for investors, represented an alignment of the UK position with most other jurisdictions in which those investors might invest.

Income tax

Since 6 April 2017, the Government has been restricting the amount of income tax relief landlords are entitled to on residential property finance costs (such as mortgage interest). This has now been fully phased in. As of 6 April 2020, mortgage interest deduction is only given at the basic rate (20%).

Corporation tax

The scope of corporation tax has also been extended in recent years to non-UK-resident companies that receive taxable income from the UK, such as rental income from UK land.

This change has affected a large number of investors who hold their UK real estate assets in companies. On the plus side, these changes reduced the headline rate of tax for non-UK landlords' rental income in line with the UK corporation tax rate (which is currently 19%, as opposed to the rate for income tax, which is 20%) and enabled greater flexibility to use losses within a group. However, it has meant the application of the new interest barrier rules to offshore landlords, resulting in a potential restriction to their deductible finance costs.

Inheritance tax

Significant inheritance tax reforms affecting UK residential properties were also introduced with effect from 6 April 2017.

The changes affect all non-UK domiciliaries who have an interest in a non-UK structure that derives its value from UK residential property, loans used to acquire, maintain or improve UK residential property, or collateral for such loans. Those interests are now within the scope of inheritance tax.

Corporate ownership of UK residential property therefore no longer prevents an inheritance tax charge for non-UK domiciliaries. However, owning shares in a non-UK company that in turn owns UK commercial property will still offer protection from UK inheritance tax for non-UK domiciliaries.

Personal Tax

The UK is "light touch" as far as the taxation of non-resident, non-domiciled ("**non-doms**") individuals is concerned. Such individuals will *only* be taxed in respect of certain UK-source income and gains (such as UK rental income or capital gains realised on UK real estate). HNWIs should therefore consider whether they can limit their time spent in and connections with the UK such that they remain non-UK resident and outside the scope of most UK taxes.

For those that do spend sufficient time in the UK to become UK resident, the impact of the UK tax regime is greater. However, although the UK tax system has comparatively high rates of tax, the system is structured in a way that restricts the scope of the regime for overseas nationals who come to live in the UK.

The key to making sure that overseas nationals can benefit from the restricted scope of the regime is their retention of a non-UK domicile, coupled with careful advice (as the rules are complex), preferably in the tax year prior to becoming UK resident.

Domicile

UK law relating to domicile is complex and distinct from the concepts of nationality or residence. Domicile, in essence, is the country which an individual considers to be their permanent home.

When a person who was born overseas comes to live in the UK for the first time, they will not be considered UK domiciled if they have the intention to leave the UK at some point in the future. It is therefore possible for an individual to become resident in the UK for an extended period without becoming domiciled here.

To give an example, if an individual whose domicile at birth is in Hong Kong moves to the UK, but they retain the intention to return to Hong Kong or move elsewhere sometime in the future (such as when their children finish education), then they will not acquire a UK domicile under general law.

Residence

A statutory residence test, introduced in 2013, sets out relatively clear rules that determine whether an individual will be a UK resident.

The statutory residence test looks at particular connections with the UK, coupled with the number of days spent in the UK.

In very basic terms, an individual who spends more than 182 days a year in the UK will automatically be considered a UK resident. Conversely, an overseas individual who comes to live in the UK for the first time and spends fewer than 46 days in the UK will not be UK resident.

The "non-dom" regime

UK-resident non-doms have the option to benefit from the "remittance basis" of taxation in respect of their foreign income and gains. They also are not liable to inheritance tax on non-UK *situs* assets (subject to the points made above regarding residential property held through a non-UK company).

The remittance basis has been a feature of the UK tax regime for many years, as the Government has recognised the valuable economic contributions that non-doms can make through the money they spend here, the funds they invest, the skills they bring and the tax they pay.

The remittance basis is a complex area but, in essence, individuals who choose to be taxed on the remittance basis will be taxed only on UK income and gains that arise in the tax year and on foreign income and gains that are brought to the UK in the tax year.

Non-doms who do not use the remittance basis will pay tax on all worldwide income and gains on an arising basis.

An individual becoming resident in the UK for the first time will be able to claim the remittance basis of taxation free of charge. However, once an individual has been resident for a certain number of years in the UK, they must pay a fee to take advantage of the remittance basis. Currently, the charge is £30,000 for individuals who have spent at least seven out of the last nine tax years as resident in the UK, and the charge is increased to £60,000 for those who have lived in the UK for 12 out of the last 14 years.

Once an individual has been resident in the UK for at least 15 out of the last 20 years, they are deemed domiciled in the UK for all tax purposes. This means that they become liable to income tax, CGT and inheritance tax on their worldwide income, gains and assets, and the remittance basis is no longer available (and the charge is no longer payable as a result).

It is normal for individuals to undertake further estate planning in advance of becoming deemed domiciled for UK tax purposes, so as to maximise tax efficiency for the remainder of their stay in the UK. This usually involves transferring non-UK assets into a non-UK-resident trust.

Tax reforms

Like many countries, the UK now faces the challenging task of raising substantial amounts of revenue to fund the unprecedented financial response to the COVID-19 pandemic.

Recent developments announced in the Spring Budget may indicate the direction of travel as far as HNWIs are concerned.

Income tax

A "stealth" tax on income was announced, as the thresholds for the personal allowance and basic and higher rate tax bands will be frozen from April 2022 until at least April 2026.

CGT

The rates of CGT remain unchanged, despite much speculation about a potential increase, but the annual exempt amount (on which no CGT is payable) will be frozen at the current levels (£12,300 for individuals and personal representatives and £6,150 for trustees) until 6 April 2026.

Inheritance tax

The nil rate band for inheritance tax (last increased on 6 April 2009) will not change before 6 April 2026, remaining at £325,000.

This 17-year freeze will continue to have a significant tax impact, particularly considering the increase in residential property values since 2009.

Wealth tax

At the time of writing, a tax focused on the wealthy such as a wealth tax has not been proposed by the Government.

Rather than a specific wealth tax, it may be that the Government chooses to reform CGT and inheritance tax.

Corporation tax

For many entrepreneurs, the recent corporation tax changes will be of most interest.

The headline rate of corporation tax will increase from 19% to 25% from 1 April 2023.

A future "small profits rate" set at 19% will also be available to protect smaller businesses from 1 April 2023 for profits up to £50,000, although this will not be available to close investment-holding companies.

There will also be a tapered rate for businesses with profits between £50,000 and £250,000, along with various short-term measures aimed at helping businesses as the economy recovers (including, in particular, more generous loss relief rules and a temporary super deduction for capital investment).

Although it is a significant one-off increase, the Government was at pains to stress that the UK's corporation tax rate remains the lowest in the G7 and the fifth lowest in the G20 – even at the new 25% rate.

Freeport tax sites

Freeports (sometimes known as free zones) are designated locations within a country's geographic area that are treated as being outside that area for the purposes of customs and import duties.

The aim of freeports is to allow businesses to benefit from tax reliefs in the freeports: full business rate discounts; enhanced capital allowances; a beneficial SDLT regime for commercial land and property transactions; a reduction to employer National Insurance Contributions ("**NICs**"); and, of course, facilitations for VAT and exercise duties for goods.

Eight sites in England were announced at the Spring Budget. This has been the closest the Government has come to identifying a "Brexit Dividend". Even though the UK had seven freeports between the mid-1980s and 2012 during its membership of the EU, EU freeports tend to be more limited than their international counterparts.

Health and social care levy

Finally, whilst not announced in the Spring Budget, a new health and social care levy will be introduced on earnings on employees, the self-employed and employers.

The projected £12 billion raised in revenue will fund the increased spending on health and social care during the pandemic.

Before the levy is introduced, all three rates of NICs will increase by 1.25% in April 2022 and there will also be a 1.25% increase in taxes on dividend income from April 2022 as well. However, other forms of income, such as those from pensions and property, will not be affected by the new levy.

The "Post-Pandemic Budget"

Given the changes to personal taxation announced at the Spring Budget, the most recent Autumn Budget was relatively quiet by comparison and focused instead on the next phase of the UK's economic recovery and the objective to reboot the UK economy post COVID-19.

The Chancellor's cautiously optimistic tone was supported by recently upgraded Office of Budget Responsibility ("**OBR**") forecasts. The post-COVID recovery is forecast to be quicker than initially thought. The OBR predicts a return to pre-COVID levels at turn of the year (with growth revised up to 6.5%) and expected growth of 6% and 2.1% in subsequent years. The OBR's forecast for business investment has also been revised up for the next five years and there are two million fewer people out of work than previously feared.

Whilst this stronger economic position has afforded the Chancellor some fiscal room for manoeuvre, the Chancellor has sought to put the public finances back on a "sustainable footing". The approach is, perhaps, unsurprising in light of the figures; for example, the £97 billion cost to taxpayers of the furlough scheme and national debt topping out at almost 100% of GDP. With "borrowing higher than any time since the second world war", he set out a new charter for budget responsibility to "strengthen finances", committing the Government to balancing the books and reducing national debt.

The challenge, of course, is how the Chancellor is going to achieve these objectives but, at the time of writing, he is under little market pressure to decide immediately, and deficit-reduction measures such as further tax increases will no doubt become harder for the Chancellor as we get close to a general election.

Conclusion

The UK has clearly been through some significant challenges in recent years.

Brexit is fundamentally changing the economic, social and political framework in the UK, as the UK repositions itself as far as Europe and the rest of the world is concerned.

The COVID-19 pandemic can change quickly and it may not take much for the situation to unravel again. However, it is certainly an achievement at how open society has become in the UK at this current moment in time.

Despite Brexit and the pandemic, the fundamental factors that many HNWIs report as making the UK attractive remain in place: visas for investors and entrepreneurs; a world-class education system; an attractive property market; and a favourable personal tax regime for resident non-doms.

The UK is also still consistently chosen by international entrepreneurs for its appeal as a global commercial hub.

A common theme for each of the four areas explored above is the necessity for HNWIs to start the planning process well in advance to make the most of what the UK has to offer:

- immigration rules are constantly evolving and visa applications can take several months to be prepared and then approved by the Home Office;
- competition for the best school places is fierce;
- a high-value residential property search can take many months before the right property is found, with due diligence and structuring advice essential for property acquisitions following substantial changes to the UK tax landscape in recent years; and
- pre-arrival tax advice should be obtained in the UK tax year prior to the tax year of arrival (i.e. before 6 April).

The UK is open for business and it will remain an attractive destination for HNWIs for the foreseeable future.

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Jonathan Conder is a partner in the Private Client group at Macfarlanes LLP. He advises UK and international private clients and trustees on all aspects of tax, trust, estate and succession planning and on philanthropic matters. Typical clients range from high-net-worth individuals and their families coming to the UK from abroad to take advantage of the favourable tax regime for non-domiciliaries, to UK-based entrepreneurs, taking in the trusts, other structures and financial instruments such clients use to hold their business interests or manage their wealth. Having spent four years as in-house counsel in Bermuda, he has particular expertise in advising private banks and family offices on private client matters. He is also very experienced in complex cross-border estate planning, coordinating matters for clients with assets in several different legal and tax systems. He lectures widely in the UK and overseas to conferences attended by clients and other industry professionals, publishes journal articles on topical issues and is frequently quoted in the national and industry press.

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