Friends Provident International

Temporary non-residence

UK expats

For financial advisers only.

This guide explains the temporary non-residence rules and how they can apply to a policyholder that returns to the UK.

What are the temporary non-residence rules?

The temporary non-residence rules are anti-avoidance measures, which prevent formerly UK-resident individuals from realising income, or gains that would ordinarily be taxable in the UK whist non-resident.

Where applicable, income or gains realised as a non-resident can be taxable in the year that the individual returns to the UK.

Who is considered a temporary non-resident?

Individuals that leave the UK for fewer than 5 years (periods of 12 months, not tax years), and prior to leaving have lived in the UK for at least 4 out of 7 of the most recent years, can be treated as being a 'temporary non-resident' upon returning to the UK.

Once an individual has been resident outside of the UK for more than five years (a minimum of five years plus 1 day), they will no longer be treated as a temporary non-resident upon their return.

What taxes does this impact?

The rules are most commonly seen in the context of capital gains tax. However, they can also apply to situations where a receipt would be caught under UK Income Tax. For example, chargeable event gains and lump sum pension distributions.

Case Studies

Temporary non-residence rules apply

Mr Jones took out a Friends Provident International (FPIL) policy in 2010 whilst resident in the UAE. In January 2015, at the end of his employment contract, he returns to the UK.

In 2020, after being resident in the UK for over 5 years, he returns to the UAE for another five-year employment contract.

In January 2022, he surrenders the FPIL policy and realises a gain of £20,000. As Mr Jones is resident in the UAE, there is no tax to pay on the gain of £20,000 in either the UAE or UK.

Due to a change in circumstances, in December 2023, Mr Jones returns to the UK. Because Mr Jones was resident outside of the UK for fewer than 5 years, he will be treated as being a temporary non-resident upon his return to the UK. The gain of £20,000 will be taxable in the UK as though it accrued in the period that Mr Jones returned to the UK (2023/24 tax year) rather than at the time received.

Temporary non-residence rules do not apply

Mr Jones took out a Friends Provident International (FPIL) policy in 2010 while resident in the UAE. In 2015, he returns to the UK at the end of his employment contract.

In 2020, after being resident in the UK for over 5 years, he returns to the UAE for another two-year employment contract.

In January 2022, he surrenders the FPIL policy and realises a gain of £20,000. As Mr Jones is resident in the UAE, there is no tax to pay on the gain of £20,000 in either the UAE or UK.

Instead of returning to the UK in December 2023 (see above example), Mr Jones remains in the UAE until 2026.

Because Mr Jones was resident outside of the UK for more than 5 years, he will not be treated as being a temporary non-resident upon his return to the UK. Therefore, the gain of £20,000 would not be assessable to income tax upon his return to the UK.

What reliefs are available to anyone caught?

Where tax is paid whilst resident in another jurisdiction and again upon return to the UK, it might be possible to file a claim for double taxation relief in the UK.

Where a chargeable event gain becomes taxable in the UK, the individual may be able to use time apportionment relief to reduce the amount of the gain that would be liable to income tax in the UK.

Important notes

For financial advisers only. Not to be distributed to, nor relied on, by retail clients.

This document is based on our understanding of HM Revenue and Customs (HMRC) practice and may be subject to change.

Friends Provident International Limited: Registered and Head Office: Royal Court, Castletown, Isle of Man, British Isles, IM9 1RA. Isle of Man incorporated company number 11494C. Authorised and regulated by the Isle of Man Financial Services Authority. Provider of life assurance and investment products. **Singapore branch:** 182 Cecil Street, Level 17 Frasers Tower, Singapore 069547. Registered in Singapore No. T06FC6835J. Licensed by the Monetary Authority of Singapore to conduct life insurance business in Singapore. Member of the Life Insurance Association of Singapore. Member of the Singapore Financial Dispute Resolution Scheme. **Hong Kong branch:** 803, 8/F., One Kowloon, No.1 Wang Yuen Street, Kowloon Bay, Hong Kong. Authorised by the Insurance Authority of Hong Kong to conduct long-term insurance business in Hong Kong. **Dubai branch:** PO Box 450591, Unit 706, One Za'abeel - The Offices, Za'abeel Palace Street, Za'abeel First, Dubai, UAE. Registered in the United Arab Emirates (UAE) with the Central Bank of the UAE as an insurance company. Registration date, 18 April 2007 (Registration No. 76). Registered with the Ministry of Economy as a foreign company to conduct life assurance and funds accumulation operations (Registration No. 2013). Friends Provident International is a registered trademark and trading name of Friends Provident International Limited.

FPITECH019a 09/23