

REMINDER: WITHDRAWAL OF FOREIGN SERVICE RELIEF ON TERMINATION PAYMENTS

With effect from 6 April 2018 some payments and benefits made in connection with the termination of an employment will be chargeable to income tax and National insurance that previously were not.

One significant change will be for globally mobile employees with the proposed withdrawal of foreign service tax relief with effect from April 2018. This will have an impact on employees returning to the UK, or those already returned, who have worked for their employer overseas and receive a termination payment on or after April 2018¹.

This is HMRC's response to an "outdated relief" they believe is no longer warranted, given the global workforce patterns we have today and a move to a "fairer" tax system. Back in August 2016, HMRC published the results of their consultation, along with draft legislation, on simplifying the taxation of payments made on the termination of an employment.

Currently, **Foreign Service Relief** allows a payment or benefit in connection with a termination, to qualifying individuals to be completely exempt from income tax. This relief applies to employees who receive termination payments whilst working in the UK but have also worked for their employer outside of the UK for more than 75% of the last 20 years. Pro-rata exemption is also available for employees not eligible for the full relief.

With effect from April 2018, if the employee is UK tax resident in the tax year in which their employment is terminated, then no relief is available and payments which previously would have been exempt could now be taxable up to the top rate of 45%.

Employees will however continue to benefit from the existing £30,000 income tax exemption for qualifying termination payments and unlimited employee National Insurance exemption.

Please note that the proposed introduction of employer National Insurance contributions on qualifying termination payments above £30,000 will take effect from 6 April 2019.

The HMRC bi-monthly Employer Bulletin can be a valuable reminder of the issues and upcoming changes affecting employers. Read more here: <https://www.gov.uk/government/collectors/hm-revenue-and-customs-employer-bulletin>.

Employers should take care in understanding the new rules to ensure that payroll withholding obligations are managed correctly in all jurisdictions in which their employees have worked.

Please contact your usual Sopher + Co contact for any additional information or support required.

¹These changes are proposed in the Finance Act 2018.