UK tax exit charges: the hidden costs of leaving the UK

Personal tax

19 May 2025

We consider the tax implications for individuals who cease their UK tax residency, including the loss of access to valuable tax reliefs and exemptions.

Key Points

What is the issue?

Individuals and business owners leaving the UK face significant tax consequences through the loss of various tax reliefs and exemptions. Ceasing to be a UK tax resident can lead to unexpected liabilities on future income and gains, making early and effective tax planning crucial.

What does it mean for me?

Ceasing tax residency can result in forfeiting key tax benefits such as the tax-free personal allowance, business asset disposal relief, private residence relief, and the reliefs under the Enterprise Investment Scheme and Seed Enterprise Investment Scheme.

What can I take away?

Although the UK does not levy an explicit exit tax, those leaving must account for the loss of multiple valuable tax reliefs and the potential for retroactive or double taxation. Forward-looking tax planning and professional advice is essential to mitigate these risks before departure.

Whilst the UK does not impose a direct exit tax on individuals departing its shores (unlike the United States with its expatriation tax under IRC 877A), leaving the UK does come with its own set of tax consequences.

Individuals who cease their UK tax residency often lose their entitlement to various valuable tax reliefs and exemptions, which can result in significant tax liabilities on future income and gains. Therefore, careful tax planning is advisable before considering a permanent departure from the UK, particularly following the change in the rules from 6 April 2025.

Tax reliefs lost upon departure

Since the Autumn Statement announcement, the focus has been on advising the non-UK domiciled how to plan their affairs while they continue to live in the UK.

However, whether driven by the country's economic, political or social affairs, or simply the weather, discussions are being held by many British citizens who are considering whether the UK should continue to be their main residence.

For many of those considering the move to sunnier climes, tax considerations remain an essential but not singular priority within a comprehensive planning approach. Therefore, when advising taxpayers on international relocation, thorough assessments must be conducted to balance quality of life factors with financial implications, ensuring that decisions align with both personal preferences and long-term financial goals.

While there is no direct tax charge on leaving the UK, we will consider the loss of certain tax reliefs and tax benefits that cease to be available when an individual stops being a UK tax resident under the statutory residence test, as defined in Finance Act 2013 Sch 45.

Personal allowance: The tax-free personal allowance (£12,570 for 2025/26) is typically lost for non-residents unless they qualify under the Income Tax Act 2007 s 56, which preserves the allowance for those with specific UK ties or through a double tax treaty provision.

Business asset disposal relief: Formerly known as entrepreneurs' relief, this relief reduces the capital gains tax on qualifying business disposals to 14% (10% before 30 October 2024) under the Taxation of Chargeable Gains Act (TCGA) 1992 s 169I. Typically, a non-resident would not need the relief on the sale of shares, although a protective claim may be made in case a gain could be taxed under the temporary non-resident rules. If the disposal is of land assets, the UK capital gains tax will be charged on a non-resident, who may still claim the relief.

Private residence relief: This relief, provided under TCGA 1992 s 222, exempts capital gains on a primary residence from tax, but is restricted for non-residents unless they meet the 90 day occupancy rule introduced in Finance Act 2015.

Enterprise investment scheme (EIS) and seed enterprise investment scheme (SEIS) reliefs: Non-residents cannot claim capital gains tax deferrals against EIS/SEIS investments. Additionally, if an individual who has benefited from these reforms ceases their UK residency within the three-year qualifying period, gains previously deferred under EIS may crystallise immediately upon residency status changes - transforming what was once a comfortable tax deferral into an unexpected and immediate liability, precisely when financial planning becomes most critical. However, the gain will not be crystallised where the individual leaves the UK for reasons of employment and returns within three years, whilst continuing to hold shares (see VCM23120)

Implications for a business if the sole director relocates

If the sole director of a UK business relocates abroad, significant tax and operational consequences may arise:

Corporate residency status: If the director continues to manage and control the company from overseas, the company may become tax-resident in the new country under Corporation Tax Act (CTA) 2009 s 14, subjecting it to local corporate taxes and potential double taxation. Local advice should be taken before relocating.

Permanent establishment risks: Operating the UK company from abroad could create a taxable presence (permanent establishment) in the new country, as defined in OECD Model Tax Convention Article 5, leading to foreign tax liabilities.

Loss of UK tax reliefs: The company may lose access to UK-specific reliefs, such as R&D tax credits under CTA 2009 Part 13, the patent box regime under CTA 2010 Part 8A, and certain investment reliefs.

Challenges in banking and compliance: Many UK banks and regulatory bodies require a UK-resident director under the Companies Act 2006, which could lead to operational difficulties or compliance risks.

Dividend taxation: If the departing director remains a shareholder, dividends received from the UK company may be taxed differently in their new country of residence under the relevant double tax treaty.

Temporary non-residents

A significant consideration for those contemplating a temporary sojourn abroad is the infamous ‘temporary non-residence’ rule found in TCGA 1992 s 1M. This provision creates what might be described as HMRC’s sophisticated ‘boomerang trap’ for tax planning. Under these rules, individuals who have been UK resident for at least four of the seven tax years preceding their departure, and who subsequently return to the UK within five years, may find that gains realised during their absence are unexpectedly caught in the UK tax net.

These disposals, made while apparently non-resident in the UK, are treated as occurring in the year of return to the UK. The provision effectively suspends the tax advantage of non-residence rather than eliminating it, catching many returning expatriates unawares. This retroactive taxation applies to a wide spectrum of assets, including shares in close companies and certain offshore assets with UK connections.

So, for entrepreneurs hoping to dispose of business assets during a brief overseas residency before returning to the British shores, these rules serve as a harsh reminder that it takes more than five years for HMRC to ‘forget’ a resident and their arising tax liabilities.

The 60 days rule for capital gains tax

Beyond the temporary non-residence rules, individuals must also be mindful of the 60 day reporting and payment window for capital gains tax arising on the disposal of their UK property interests. This obligation extends beyond simply selling a personal residence; it also includes disposals of commercial properties and, crucially, shares in property-rich companies where a significant portion of the company’s value is derived from UK land.

Therefore, regardless of residency status, anyone disposing of such UK property interests has an obligation to register with HMRC, report the gain and pay any capital gains tax due within 60 days of completion. Failure to comply can result in penalties and interest charges, adding insult to injury for those venturing beyond the British tax jurisdiction. These rules extend to trustees of offshore trusts that have interests in UK properties or land.

The tax cost of an unplanned departure from the UK: in practice

Consider John, an entrepreneur who decides to leave the UK and move to Dubai. Before his departure, he owns a UK company and holds significant assets, including a UK rental properties portfolio, and makes SEIS/EIS investments and gift aid donations each year. He maximises his personal pension contributions.

After his departure, it is assumed that John continues to provide services to the business’s UK based clients. He carries out his UK duties during his planned travel to the UK in the permitted amount of days that allow him to qualify as a non-UK resident for tax purposes.

Before his departure, however, there are a number of issues which John should consider.

Pensions contributions: John had been making pensions contributions of £48,000 while in the UK. Income tax relief on pension contributions are only available to UK residents. The (limited) exception is that up to £3,600 gross per year can continue to be paid personally to an existing UK pension plan for up to five tax years after leaving the UK with basic rate (20%) tax relief given via 'relief at source', if that is how the existing plan works and subject to the pension plan provider's approval. However, there is no rule preventing non-UK residents from contributing to a UK pension plan. Retirement benefits remain firmly within the scope of UK tax.

Business asset disposal relief (BADR): Share sold after departure are generally not taxable in the UK but may be taxable in the country of residence. Watch out for temporary non-residence rules, which may bring the gains into taxation if John returns, and consider a protective claim for BADR.

Enterprise investment scheme (EIS): If John had previously deferred gains under EIS, these become chargeable immediately upon losing his UK residency status, under the Taxation of Capital Gains Act 1992 Sch 5B para 3.

Company residency risk: If John manages his UK business remotely, the company might risk becoming tax-resident in Dubai under Corporation Tax Act 2009 s 14, leading to double taxation issues.

While John may benefit from lower personal tax rates in Dubai, his exit from the UK has immediate tax costs due to lost reliefs, EIS clawbacks and potential business double taxation issues. This could lead to a significantly increased tax liability than if he had remained in the UK, plus potential additional company tax reporting obligations and potential local tax liabilities. The tax tail, it seems, can indeed wag the dog.

In conclusion

Although the UK does not impose a direct exit tax (unlike the increasingly fashionable approach in the US and some EU countries), individuals leaving the country must carefully consider the tax reliefs before they forfeit their right to them. The impact can be substantial, particularly for entrepreneurs, investors and high-net-worth individuals. Effective tax planning, including asset disposals and restructuring before departure, can mitigate these tax consequences.

For business owners, additional planning is essential to ensure that corporate residency remains aligned with tax-efficient strategies. Seeking professional advice is crucial to ensure an optimised tax position before leaving the UK.