

Publications

View from Groom: US Tax Issues for US Expats in UK Pension Schemes

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SERVICES

If you are overseeing a pension fund or other benefit program such as a stock option plan or bonus program for local employees in a country outside the US, or perhaps provide a global pension arrangement such as an International Pension Plan (IPP) or Third Country National (TCN) Plan, simply administering the plan and complying with the local tax and other regulatory concerns may be daunting enough. But with the rise of tax information sharing among country tax authorities, it is increasingly important to be aware of cross-border tax issues that may arise at the member level. This is particularly true for plan members who may happen to be US taxpayers, because the US income tax system taxes US citizens and green card holders and residents (generally those spending more than 183 days a year in the US, subject to tax treaty) on their worldwide income. One may recall Boris Johnson's unhappiness with having to pay capital gains on the sale of his UK home, for example.

The low tolerance of the US Internal Revenue Service (IRS) for US taxpayers concealing foreign accounts is fairly well known. What is somewhat less well appreciated is that being a member in a pension scheme, having options or other share rights, or even bonus arrangements, may be considered having a financial account for this purpose. For a US taxpayer to not properly treat or disclose such benefit for US tax purposes can lead to significant penalties, and for their employers, some reputational risk or embarrassment. Thus, even if, as a plan administrator or HR director, you are not immediately concerned with US tax consequences to your local employees, it can still be in your company's interest to be aware of the issues and alert US expats to them. An aware US taxpayer may well also need to come to the scheme administrator for assistance in complying with their individual reporting requirements.

US taxation of foreign pensions, deferred compensation, equity-based compensation and the like is subject to a large number of complex rules, but in addition to those of general or default application, there is an overlay of tax treaty provisions which vary country-by-country. For that reason, any analysis of cross-border taxation must be

done country-by-country. In the attached article, we focus on US taxpayers performing services in the UK and participating in UK plans or IPPs or TCNs.