Is Dubai the top escape from UK tax hikes?

We're now just over a year into the Labour government taking office. It's been a year marked by widespread concern, both publicly and professionally, following the sweeping tax reforms set out in the Autumn Budget 2024. These new policies affect a broad range of people, from foreign nationals and farmers to business owners and those simply saving for their retirement

We are still waiting for detailed legislation connected to pensions being brought into the UK IHT charge from 2027, which we think will affect far more individuals than the Government has estimated. Anyone who owns their own home, particularly in areas where property values are high, are more likely to be impacted. In these cases, the value of their total estate, which will now include their defined contribution pension, could well exceed the current tax free IHT thresholds.

In the interim, the restriction, and removal, of long-standing CGT/ IHT exemptions, which were originally introduced to incentivise investment in UK businesses, plus increased tax and NIC burdens, has led many entrepreneurs to consider investing outside the UK to allow them to more cost efficiently grow their businesses.

In addition, if there is a potential business exit on the horizon, then increases in UK CGT are driving many to consider leaving the UK to essentially realise the sale when non-UK tax resident.

What is the potential impact of tax changes on UK migration?

In a recent report, it has been estimated that 16,500 millionaires, will leave the UK this year, putting it the head of the global league table of exiting millionaires for the first time.

Interestingly, they also expect that the UAE will see the biggest influx of millionaires this year, (est. 9,800) followed by the USA and Italy. Latest figures suggest that Dubai now has over 81,000 Millionaires (102% increase in the last 10 years), plus 240 centi-millionaires and 20 billionaires, placing Dubai 18th globally amongst the wealthiest cities.

Why are tax changes prompting moves from the UK to the UAE?

The 'tax' attraction for anyone looking to reduce their worldwide tax exposure, is that the UAE does not charge any personal tax – at all. Neither do they impose social security deductions. Whilst they do now charge corporation tax (introduced in 2023), the maximum rate for most businesses is currently 9%, compared to 19- 25% in the UK.

The UK also has an agreed Tax Treaty with the UAE, which can provide significant benefits for both individuals and businesses operating across both jurisdictions. Obtaining an entry visa and thereafter achieving tax residence in the UAE is also relatively straightforward compared to other low-tax jurisdictions, especially if an individual is prepared to invest in business/property. Dubai's Golden visa allows for residence for up to 10 years which is attractive when considering long terms business growth plans and family relocations.

Combine this with world class logistics, global travel access, luxury infrastructure from healthcare to schooling, and a safe and politically stable environment, it's not hard to see why the UAE is proving so attractive to many.

What are the UK tax considerations when leaving the UK?

If you are considering a move to the UAE, then to remove yourself from UK tax on overseas income and take advantage of the favourable UAE tax regime, it is important to carefully manage your UK exit. You must successfully achieve non-UK tax residence and thereafter maintain this status by limiting UK return days according to your circumstances.

HMRC's statutory residence tests sets out how and when an individual can achieve non tax residence according to their bespoke circumstances and if there is a possibility that the year of departure can be 'Split' into UK and/ or Overseas parts. These tests are prescriptive, but they do provide clarity and, importantly, an ability to plan ahead.

An important point to note is that UK sourced income will always remain subject to UK tax, however, any UK investment income can be removed from the UK tax charge assuming the 'disregarded income' rules can be applied.

The expected number of years of non-residence must also be considered in terms of mitigating your residual /future UK tax liabilities, ie:

- 5 full years of non-UK tax residence are required to achieve full exemption from UK capital gains tax on assets which were held prior to leaving the UK.
- 5 full years of non-UK tax residence can provide for tax free withdrawal of UK pensions, or where applicable, extraction of profits from UK Ltd companies via dividends.
- 10 years of non-UK tax residence will allow for wider IHT planning aspects. Labour's recent tax changes include exemption from UK IHT on overseas assets where an individual has been out of the UK for more than 10 out of the last 20 years. Note that UK assets will always remain within the UK IHT net, but perhaps then, consideration should be given to disinvesting in UK assets/ restructuring worldwide assets

We know from experience looking after many globally mobile clients, that there are multiple things to consider when leaving the UK, particularly where entire families are being relocated. Tax advice can sometimes become the last item on a very long list of considerations, but it is important to ensure appropriate tax advice is sought well in advance of any move, to negate any later unwelcome surprises.

When it comes to achieving non-UK tax residence "one size will definitely not fit all" specialist advice should always be considered on a bespoke basis.

If you are considering a move overseas, to the UAE or elsewhere, please get in touch with Lynn Gracie or your usual AAB contact.