

Tax in the City

By Carol Hipwell

Many people confess ignorance of their tax position, whether they prepare their own tax return or use professional advisors. A lack of understanding of the inter-relationship of the UK and US tax systems is usually the key factor making this difficult. Managing cash flow when filing a UK return with a year-end of April 5 and a US return using a calendar year can be even harder!

How can you tell if you are minimising your worldwide tax position?

Obviously as a CPA I will tell you to simply ask your tax advisor! This is both simple and yet complex. By asking if you are minimising your tax position you would usually also want advice on whether you could reduce your tax. This includes advice linking the US and the UK tax systems, and finding areas where you can reduce your tax in one jurisdiction without increasing tax in the other.

Consider asking a few simple questions as a tax “health check”. This might lead to ideas for improving your tax position. These questions are designed for Americans living overseas who are not tax equalised. Tax equalisation includes too many variables to consider in this short article, though HR managers might consider if the questions relate to expatriates within their company.

What rate of tax am I paying?

Reviewing the types of income that you have and the related taxes due can highlight areas of double taxation and low taxation. For example, if you have broken state residency and pay very little federal tax, it may no longer make sense to hold municipal bonds instead of higher yielding investments.

Am I paying the US alternative minimum tax?

If so, changing your working pattern to spend time working in the US can create a US tax that is creditable against your UK tax – a valuable difference for long-term expatriates paying UK tax on their entire earnings. If you are paying the alternative minimum tax, finding ways of using the credits being generated by the foreign tax credit limitation can put cash back into your pocket.

Have I been building up foreign tax credits on my US return?

If so, you have been paying foreign tax at a rate greater than your US tax. There may be ways to refresh credits that would otherwise expire unused after five years. Alternatively, take a fresh look at your UK tax to see if any tax savings can be made. With the recent reduction in US tax rates, this is even more important.

Would my current tax situation be different if I owned a UK home, or if I paid rent?

For some assignees, home ownership in the UK can trigger a change in residency status. This could increase the tax on employment income in certain cases. For US taxpayers living overseas, the tax treatment of rental costs versus mortgage interest can provide a markedly different tax result.

These are just a couple of questions that can generate a greater understanding of your tax situation and whether it is being minimised. It sounds simple – and it can be! Don't be discouraged by the complexity of the forms – taking the time to understand your basic tax position can be the most valuable time spent.

NB: Just as I was finalising this article a call on this subject came through!

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