

Working overseas? Be aware of the tax implications

The pandemic triggered a seismic shift in working practices with remote and hybrid working becoming the norm at many UK businesses.

Even when a return to the traditional workplace became possible, it was evident many workers preferred a more flexible arrangement. Well-reported difficulties in recruitment and talent acquisition led many employers to accept flexible working requests. It also became more commonplace for employers to allow workers to live and work overseas.



Whether these arrangements are temporary or long term, there are tax and legal implications for the employer and the employee working away from HQ. The rules are extensive, and it would be wise to seek advice before making the move.

Income tax

As well as paying UK tax, earnings can also be subject to income tax in the country where the employee physically works. Employers may therefore have obligations to report and collect tax for the overseas country.

Typically speaking:

- If the employee works for six months or less, income duties may not be taxable overseas. However, the employer may have reporting obligations in the country overseas.
- Medium-term working abroad would see the income taxed in the UK – usually with a foreign tax credit – as well as being taxed by the overseas country.
- In the case of long-term working overseas – usually at least one UK tax year – the income would only be taxable in the overseas country.

In some countries, a double taxation treaty exists that can override the local rules.

Social security

Social security contributions may also have local reporting requirements with employee and employer required to pay rates that can be much higher than in the UK. There are some reciprocal social security agreements in place so advice should be taken to prevent issues in this area.

Corporation tax

Employers will also have to be wary of whether having an employee working abroad will create a “permanent establishment” in that country. This would make a taxable presence that could render the employer subject to corporation tax in that country.

However, if the work location is not a fixed place of business, working from a home for example, and the overseas working arrangement is temporary, the risk of creating a “permanent establishment” would be low.

Published in the Wigan Observer 29th August 2023.