

Contractors working abroad can make use of tax equalisation

Highest Personal Tax Rates And Contractors' Favourite Destinations

- o Australia-- 45%
- o Middle East -55% (average)
- o US-- 50%
- o Germany-- 40%
- o Hungary-- 60%

One of the disadvantages of [contracting overseas](#) is that you have to pay tax where you work, and the rate of taxation can be much higher at your destination than it is in the UK. To cope with this, an increasing number of agencies are offering contractors "tax equalisation" -- this means that you wind up only paying what you would pay in the UK. It's a significant perquisite, but you need to understand how to handle it.

UK Is Midway

With personal tax rates here topping out at about 40%, you can find that what you earn at the destination you've chosen is quite disappointing after taxes. The UK is at about midway on the world personal tax rankings, but at home you probably can take advantage of a slew of deductions that may not be accessible under a foreign tax system.

Going the corporate route won't help you either. If you [set up a limited company](#) at your destination, the chances are good that it will be taxed 10-20% higher depending on your destination.

Oddly enough, it's developing countries that often charge the most personal tax. Eastern European countries have been trying to change their tax systems which are relics of the old Soviet Union, and personal tax rates are still at a point in some where well-paid individuals still turn over more than half of their income to the state.

How Tax Equalisation Works

Needless to say, contractors aren't eager to head over to places where they will earn less. So many companies in high-tax countries offer tax equalisation.

"Tax equalisation ensures that overseas staff focus on their job and not on how much tax they're paying," explains a spokesman for the Leeds-based tax consultancy [Xpatria](#), which specialises in overseas tax matters. "Many companies operate tax equalisation or protection programmes so that expats receive a guaranteed net salary and benefits package."

What this means is that the client or agency pays your taxes to the national government where you are working. This is absolutely necessary since you are tax-liable in the country where you work, be it as a person or as a company.

You Always Pay The Same Amount

The client or agency then charges you for the amount of tax you would have paid if you were living in the UK. This 'internal' tax payment is of course no tax payment at all; it's just a charge that allows the client or agency to recuperate part of what they are paying for you.

“ Many companies operate tax equalisation or protection programmes so that expats receive a guaranteed net salary and benefits package ”

Xpatria

Here's A Tip: It's Negotiable

And here's a tip: you can sometimes negotiate this payment even lower, claiming deductions you feel you are entitled to. You can make this part of your overall agreement with the client or agency. And you'll never be troubled by tax authorities, because you're not really paying tax, you're just paying back the client or agency.

This means that you always receive the same amount in fees and taxes whether you work in Vladivostock or in Virginia. It makes it very easy for you to go and work wherever you want -- assuming the people you work for will go for it. "Many companies believe that the costs of this kind of offer is offset by allowing expats to feel secure about their tax position and so focus on their new roles," the Xpatria spokesman points out.

Tip No. 2: A UK-based Agency

If a UK-based agency wishes to offer you tax equalisation, the agency may seek to pay you in the UK to keep its paperwork simple. That's quite possible: you then could find a multi-national umbrella which could take your payment in the UK and then arrange for you to receive it abroad. You would still only be tax-liable abroad, and the umbrella might be able to come up with some ways to avoid foreign exchange risks and some other deductions that you wouldn't have known about yourself.

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