



Fact Sheet

5 MARCH 2025

Reform of the UK Non-Dom tax regime

As confirmed in the new Government's Autumn 2024 Budget the taxation of non-UK domiciled individuals (non-doms) will change with effect from 6 April 2025.

This note summarises the proposed non-dom taxation reforms as set out in the draft legislation, which is subject to some changes. The note also highlights some actions non-doms should consider before the start date in April and how Bright Grahame Murray can help.

Summary of the current non-dom regime

Broadly under current rules, non-doms are individuals who are tax resident in the UK, but because their permanent home is outside the UK, they have access to a special taxation regime, the remittance basis. If the remittance basis is claimed, the non-dom's overseas income and gains are only taxed to the extent these sources are remitted (brought to or otherwise enjoyed) in the UK.

Those who have been tax resident for 15 out of the past 20 years are considered deemed UK domiciled (deemed-dom) and are taxed on their worldwide income and gains and cannot benefit from the remittance basis of taxation. Additionally, non-doms are only subject to UK inheritance tax ("IHT") on their UK assets. Deemed doms are subject to IHT on their worldwide estate.

What is changing?

From 6 April 2025 the non-dom regime will be abolished and will be replaced by a 4-year foreign income and gains (FIG) regime which is tax residence based. The concept of long-term tax resident ("LTR") will be introduced and domicile will be removed for tax purposes, although it will remain relevant for pre-April 2025 tax considerations.



Taxpayers who do not qualify for the FIG regime will be taxed on their worldwide income and gains as they arise.

The new foreign income and gains (FIG) regime

The FIG regime will apply to taxpayers who become UK tax resident after a period of 10 consecutive years of non-UK residence. The new regime will enable qualifying individuals to pay no tax on most types of foreign income

and gains which arise in the first 4 years of being UK tax resident. There is no requirement to keep the funds outside the UK and in this aspect is more generous than the remittance basis. UK domiciled individuals who have been non-UK resident for at least ten years can also access the FIG regime.

A FIG claim must be made formally on a self-assessment return. The amounts subject to the claim must be quantified, which could be more burdensome than the remittance basis.

As with the remittance basis, the taxpayer loses their entitlement to personal allowances and chargeable gains exemption if they make a FIG claim.

The remittance basis will continue to apply to pre-6 April 2025 overseas income and gains which have benefitted from a remittance basis claim.

Overseas workday relief (“OWR”) currently provides tax relief for non-doms on employment income from work carried out abroad for the first 4 years that they are tax resident in the UK, so long as that remuneration is not remitted to the UK. From 6 April 2025, the relief will instead apply to those who qualify for the FIG regime. They will be able to bring the remuneration into the UK without creating a tax charge. However, OWR will be capped at the lower of 30% of the individual’s worldwide earnings or £300,000.



Transitional reliefs

The new temporary repatriation facility (“TRF”) and rebasing

A new temporary repatriation facility (“TRF”) will be available for individuals who have previously claimed the remittance basis any time before 6 April 2025. It is designed to encourage non-doms to bring their unremitted overseas income and gains to the UK.

The facility enables the taxpayer to designate the amount of unremitted foreign income and gains which will be taxed at reduced rates of 12% for the 2025/26 and 2026/27 tax year and 15% for the 2027/28 tax year. The designated funds can be subsequently remitted to the UK at no extra charge. The designation process involves making an election and can apply to cash and illiquid assets. A TRF claim can also apply to funds held in a trust as explained below (see ‘Offshore trusts’).

Capital gains tax rebasing

There is an opportunity to claim a more limited relief to rebase certain assets to their market value as at 5 April 2017. Only non-doms who have claimed the remittance basis for at least one tax year between 2017/18 and 2024/25 and have not become deemed or UK domiciled at any time before 6 April 2025, can benefit from an election to rebase their assets. They must have held the asset at 5 April 2017 to qualify for rebasing.

Inheritance tax (“IHT”)

The scope of IHT will also move from a domicile basis to a tax residence regime. Individuals who are long-term UK resident (“LTR”) will be subject to IHT on their worldwide estate. An LTR is defined as someone who has been UK resident for 10 or more of the previous 20 years. A significant change is that UK domiciled individuals who have been non-resident for at least 10 years will only be subject to IHT on their UK assets. Their non-UK assets will not be subject to IHT.



Offshore trusts

A common planning tool for individuals about to become deemed dom has been to set up an offshore trust, which benefits from certain tax protections. Non-UK source income and gains generated in the trust are free from UK tax until a UK resident beneficiary receives a payment or benefit from the trust. These income and gains can therefore accumulate tax free within the structure. The trust's non-UK assets are also outside the scope of UK IHT, and remained so even after the settlor became deemed-dom.

From 6 April 2025 these income, capital gains tax and IHT protections will be lost and if the settlor (the person who created the trust) continues to benefit from the trust, they will be taxed on all of the trust's income and gains (UK and non-UK sources) as they arise, unless they qualify for the 4-year FIG regime.

However, the TRF will be available for UK resident settlors and beneficiaries who receive a distribution from an offshore trust within the three years leading up to 5 April 2028. This is provided that the distribution can be matched to untaxed foreign income and gains which arose in the trust before 6 April 2025. The recipients must be a previous remittance basis users.

If the settlor is alive on 6 April 2025, their LTR status will determine the trust's exposure to IHT when property is transferred into or distributed from the trust, or at its ten-year anniversary. For example, if the settlor is LTR on the tenth anniversaries of the trust, it will be subject to IHT on its worldwide assets. The periodic charge will not be restricted to the value of UK assets only.

For trusts created after 30 October 2024, for IHT purposes, the trust's assets will be included in a LTR settlor's death estate if they retain an interest in the trust.

What does this mean for you and how can BGM help?

The new rules are complex, and the above provides a broad summary only. It is important to consider how these changes might affect your specific circumstances. We can assist in this process and have pinpointed a few areas for consideration, though this list is not exhaustive.

If you are non-UK domiciled and are eligible to claim the remittance basis you should consider opportunities to maximise the remittance basis; for example, accelerating the receipt of non-UK income or realising gains which will be retained for overseas spending or to be designated for a TRF claim at a reduced rate.

If you will not qualify for the FIG regime and will be subject to tax on your worldwide income and gains, you might want to review your investment strategy with your financial advisor. This review could include considering whether a portfolio diversification to generate returns subject to a lower tax rate is suitable for your situation. Alternatively, if you wish to break UK tax residence, we can advise on how this can be done under the statutory residence test provisions, how to retain your non-UK residence status and liaise with advisors in your new home country on the various tax and other considerations of relocating.

If you are non-UK resident, we can also assist with reviewing your tax residence status which will be critical in accessing some of these new reliefs and exemptions.

If you are a settlor of a non-UK trust and are resident in the UK we can advise you on the potential impact of the changes to the taxation of the trust income and capital gains and any underlying structures. We can work with the trustees to estimate your potential exposure personally and advise on various options for mitigating your and the trust's tax position, including consideration of whether a TRF claim would be beneficial, and/or a restructure or variation of the current class of beneficiaries would be appropriate.

If you are a trustee, we can support you in reviewing the trust's assets to plan for future distributions and IHT anniversary events and mitigating the associated tax charges.

Conclusion

It is important that non-dom individuals, and trustees of trusts with UK resident settlors and beneficiaries, consider their specific circumstances and what mitigating actions they need to take before 6 April 2025 and the TRF period to 5 April 2028.

If you would like to discuss the impact of these changes for you, please get in touch with your usual BGM contact or Eugenia Campbell.



For further information, please contact Eugenia Campbell at eugeniacampbell@bgm.co.uk or your usual BGM partner.

Disclaimer: This information provides an overview of the issues considered and is for general information only. It is not intended to provide advice and should not be relied upon in any specific transaction.

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