



Major changes proposed for UK resident “non-doms”



The recent UK Spring Budget will currently be at the forefront of the minds of most UK “non-doms”, as well as most Guernsey fiduciaries. The new regime proposed by the Conservative government will be a significant change to the current system of taxation for non-doms and their trust structures.

It has been a surprise to many that the style of the proposed new regime offers only short-term tax certainty to those coming to the UK, compared to the incentives being offered by a number of other European countries.

It is hard to believe that over seven years have passed since we began considering the various changes to deemed domicile status and the complexities of the Protected Foreign Trust regime and we are now faced with a very different set of rules. There will inevitably be a lot to think about over the coming months, although at present, limited information regarding the new provisions is available.

However, in terms of what we do know, the headline points are as follows:

Measures affecting income tax and capital gains tax

- The notoriously complex remittance basis of taxation is to be abolished from 6 April 2025 and UK non-doms will be taxed on their foreign income and gains (“FIG” – the new acronym on the block) as they arise, unless they are new to the UK, in which case they will be able to benefit from a tax exemption regime lasting up to four years (providing they have been outside the UK for the previous ten consecutive tax years). The only cost of accessing the exemption regime, if claimed, will be the loss of allowances.
- Overseas Workday Relief (whereby earnings of new arrivals to the UK, can be divided between UK and foreign duties, with a special remittance basis applying to the foreign earnings) will continue in a simplified form for three years (for those eligible for the four-year exemption regime), with foreign earnings being exempted from tax, whether remitted or not.
- There will be several concessions relating to the taxation of FIG, to soften the transition and encourage inward investment into the UK.

- Firstly, for those that cannot access the tax exemption regime, and have previously used the remittance basis, only 50% of foreign income will be subject to tax in the first year of the new basis (2025/26).
- Secondly, any amounts brought into the UK by an individual that comprise pre-6 April 2025 FIG (from a tax year for which the remittance basis was claimed) will be taxed at a favourable flat rate of 12% during the first two tax years of the regime (2025/26 and 2026/27). Thereafter, any such remittances will be subject to the usual income tax and CGT rates, as applicable.
- Also, although foreign capital gains will not benefit from the “50% off” concession in 2025/26, there will be a rebasing to April 2019 value for disposals made in any taxable year, subject to an election being made.
- The protected trust regime will cease to apply from 6 April 2025 and non-dom settlors will potentially be taxed on a “look-through” basis in respect of foreign income (and UK income, as currently), as well as trust gains (which are not currently taxed on non-dom settlors in most cases), unless the settlor can access the tax exemption regime for any year.
- No other major changes have been proposed to the vast array of complex legislation that governs the taxation of income and gains of offshore trusts on settlors and beneficiaries (although some “tweaks” may be required). Therefore, those structures that have been (or will be) created with no UK “tax avoidance” purpose, should continue to benefit from the available “motive defences” that can apply in respect of income and offshore company gains. Therefore, not jeopardising these defences is likely to become even more important.

Inheritance tax reform

- Currently, exposure to IHT for individuals and trusts is governed by reference to the domicile of the individual or settlor, but it is being proposed that this is replaced by a residence-based system from 6 April 2025.
- Individuals will come into scope of IHT on worldwide assets after ten years of UK residence and will remain fully in scope for ten years after they leave the UK (the “ten-year tail”). Thereafter, only UK assets (and foreign assets deriving value from UK residential property) should be caught.
- The scope of trust IHT charges will be linked to the residence of the settlor, although whether this is at the point of settlement or at the time of the charge remains to be decided.
- There is to be a concession for existing trusts and any new trusts settled before 6 April 2025 by a non-dom settlor and these will retain their “excluded property status”. The excluded property rules for such trusts will also continue to apply to settlors caught by the gift with reservation of benefit provisions.



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When will we know more?

It could be some while before draft legislation is issued in respect of the provisions relating to income tax and CGT, leading to a relatively small window for taking action with certainty of outcome. Royal Assent is unlikely to be granted until much later in the year, although it is presumed this would be before the next General Election.

The IHT proposals will undergo government consultation in due course, and this will inevitably take time, albeit it is only just over a year until the proposed implementation date. There has been previous speculation over the future of IHT, but the start of a consultation process may indicate that any thoughts of abolition by the government have been shelved, for now at least.

Is it all bad news?

There will be much detail to absorb once draft legislation is published, and for many non-doms, it will be a bitter pill, especially if they are currently some years away from becoming deemed domiciled in the UK. However, there remains a key window of opportunity for IHT planning through the use of trust structures. Also, depending on individual circumstances, the income tax and CGT outcome in relation to some trust structures could prove to be relatively benign and the concessions for foreign income and remittances could be of great benefit, albeit for a short period only.

As a final point, any simplification to the current tax system for non-doms is likely to be a relief to many, as the intricacies of the remittance basis and the protected trust rules are frequently unworkable, even for the most astute practitioners.

Contact us

We would be happy to guide you through the new regime as it develops and advise you on the best course of action based on your specific circumstances. Please contact us on:



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