Farewell to the UK Resident Non-Dom Tax Regime

This month sees the change of the UK tax year and with it, the end of the UK resident non-domiciled tax regime.

One of the UK tax system's longest standing (since 1799), divisive and at times, misunderstood regimes is finally being abolished. Having been gradually weakened, restricted and tinkered with by successive UK governments for the last 15 or more years, it is finally time to bid farewell to this tax regime.

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What is a non-dom?

"Non-dom" describes a UK resident, irrespective of nationality, whose permanent domicile for tax purposes is outside the UK.

A non-dom, as per the tax regime being phased out, pays tax in the UK on the money he or she earns in the UK or receives in a UK bank account, and is not taxed on income earned elsewhere.

What exactly is changing now?

The UK government is phasing out the non-dom tax regime. Those who have recently moved to the UK would not have to pay tax on money they earned overseas for the first four years. In this 4-year 'grace period' non-UK income and gains for those who are new arrivals to the UK will not be taxed, and can be brought into the UK (otherwise known as remitted) without any UK tax charge.

In summary, the changes are:

- A 4-year grace period for those who have recently moved to UK: New arrivals will not be taxable in the UK on foreign income or capital gains (including those remitted to the UK), provided they have not previously been UK resident for the last 10 tax years. This also extends to those who arrived within the last 3-4 years where they are able to make use of the first 4 years of their UK tax residency, if this overlaps with the introduction of this new rule.
- A temporary repatriation facility: This facility is available for the next 3 years – on foreign income and gains generated from April 2025 onwards for long term residents and remitted to the UK where there is a reduced tax liability.
- Rebasing of asset values: Rebasing of the market value of certain assets for eligible individuals to 5th April 2017 values allows them the opportunity to mitigate capital gains tax on future sales of assets.
- UK inheritance tax on global assets: Application of UK inheritance tax to worldwide assets to "long-term residents" i.e. those who have been UK resident for 10 of the last 20 UK tax years. This would also apply to certain offshore trusts. A "tail" provision also applies when such individuals leave the UK, from a minimum of 3 years after departure up to 10 years.

This is an abridged version of the changes, some of which are quite complicated and detailed.

So far, so good. Why all the fuss? To answer this, one must first delve into the history of the UK non-dom regime.

An Attraction for the World's Private Wealth

The non-dom regime was often seen as an attraction to many of the world's wealthiest individuals to base themselves in the UK. As a result, the UK became home to many billionaires and ultra high net worth families, benefiting from a benevolent tax regime, excluding foreign income and capital gains from the scope of UK tax, and more importantly, foreign assets from UK inheritance tax, including those held in trust.

However, the same regime also attracted scrutiny and criticism for offering advantages to wealthy foreigners as opposed to those who were born in the UK.

The scrutiny gathered momentum during the 2007/08 financial crisis when government revenues were put under pressure and a backlash against wealth inequality started. From that point on, changes were made to the non-dom regime rules, introducing a charge for those longer term UK resident non-domiciles to use the remittance basis of taxation.

Over the years, further changes were made, reducing the allure of the non-dom regime. However, it still remained in place, albeit in a more complicated and less benevolent way.

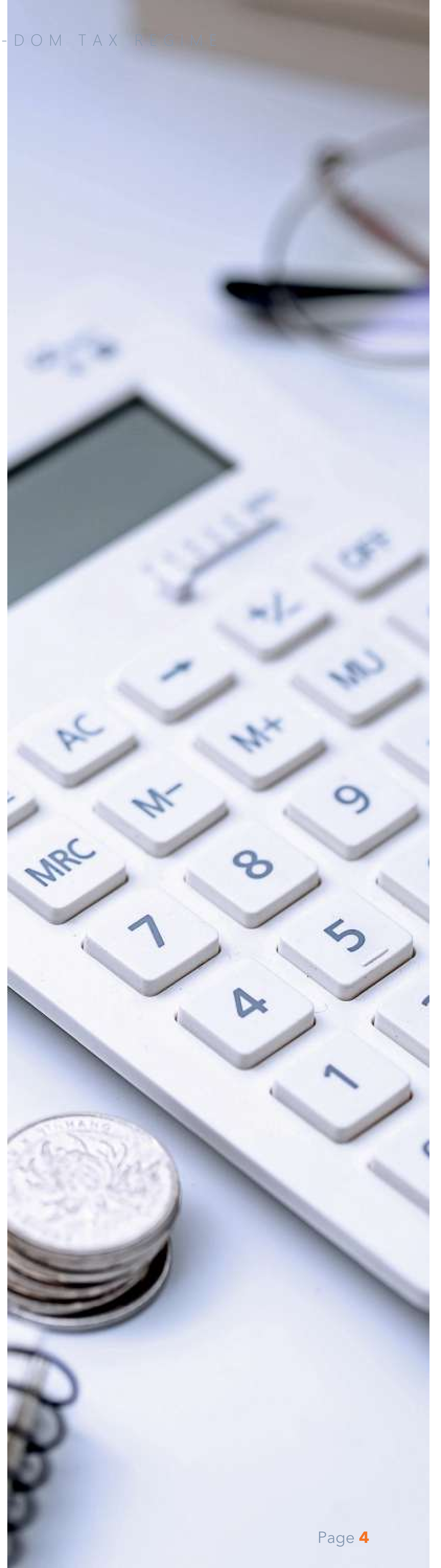
Public & political sympathy appeared to have run out after the Ukraine war commenced when the UK investor scheme was scrapped, sanctions were imposed on Russians living in the UK and it emerged that the prime minister's (then chancellor) wife was a non-dom remittance user.

Timely, or not?

Two of the main political parties made it an election agenda item to abolish the non-dom regime, a decision based on academic think tank reports on the potential revenues that could be generated by this move. It was therefore perhaps inevitable that this would be pushed through UK parliament. What was surprising was the scale of the changes, which went further than many commentators and experts anticipated, particularly given the state of the country's economy at the time.

The most contentious point from the announcement was the abolition of protection from inheritance tax for assets held in so called 'excluded property' trusts. For many long-term UK resident non-domiciled individuals, they had structured their foreign assets in such a way as to avoid exposure to UK inheritance tax. Now, it could be a time-consuming and tedious exercise to unpick, restructure and unwind some long standing arrangements.

What has also now emerged are conflicting reports and studies showing a contrary effect on UK revenues by the scrapping of the non-dom regime, and the likelihood that this will encourage non-doms to leave the UK. A study by Henley & Partners and New World Wealth published in 2024 suggests that the abolition of these rules may have contributed to an increased exodus of wealthy individuals from the UK. Destinations include UAE, Singapore, Italy, Portugal and Greece.



What are the consequences?

It is too soon to tell as to whether this will be harmful to the UK. However, early indications are that the scope of changes may have gone too far, with the application of inheritance tax at 40% being the catalyst for many to consider moving. Recent headlines including steel billionaire Lakshi Mittal mulling a departure, and the proposal by US President, Donald Trump, for a US 'Gold Card' investor visa scheme – the latest country to offer such schemes – are not helping matters.

On the flip side, with the equalisation of tax rules for all people living in the UK, opportunities will arise for many and Jupiter Wealth Advisors Limited stand ready to work with you and your professional advisors to explore such opportunities.

To navigate these changes effectively, a non-dom should firstly engage with wealth planners and tax advisors who can advise on the full implications of the rules, and what are the best options available in terms of re-structuring.

It is crucial to start planning for this early.

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