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# Breaking Down the UK Government's Non-Dom Tax Changes | 1

## Background

As part of the Spring Budget 2024, the UK Government has announced changes to the treatment of Non-UK domiciled individuals ("**Non-Doms**"). In the UK Government's own words:

"The concept of domicile is outdated and incentivises individuals to keep income and gains offshore"

The UK Government has confirmed that it will be abolishing the current rules for non-UK domiciled individuals and will be introducing a new residence-based regime taking effect from April 2025.

UK Non-Doms are individuals who permanently reside or are domiciled outside the UK. Under the existing rules, Non-Doms who are resident in the UK may opt out of use of the remittance basis of taxation. In practical terms this means that they do not pay UK income tax and capital gains tax in the same way as UK domiciled persons, they only pay tax on their foreign income and gains ("**FIG**") when the FIG are remitted to the UK.

## Changes

Under the proposed changes the tax treatment currently afforded to Non-Doms, which is based on domicile status, will change in respect of new FIG arising after April 2025. For new arrivals (who have a period of 10 years consecutive non-residence in the UK), there will be full tax relief on all FIG arising during the initial 4-year period of UK tax residence. During this four year period, the FIG can be brought into the UK without an additional tax charge. The changes will also impact existing UK tax residents, who have been tax resident for fewer than 4 tax years and are eligible for the scheme, who will also be able to benefit from this relief until their 4th year of tax residence.

The UK Government has also stated that it proposes to retain and simplify Overseas Workday Relief.

The UK Government has confirmed that it is removing the existing protection for non-resident trusts for new FIG arising within such trusts after 6 April 2025. New trusts and additions to existing trusts made by a non-UK domiciled settlor on or after 6 April 2025 will be subject to new residency based rules. Notwithstanding, this, the UK Government has confirmed that the treatment of non-UK assets settled into a trust by a non-UK domiciled settlor prior to April 2025 will not change, so these will not be within the scope of the UK IHT regime.

In the transitionary period, the UK Government has also announced that there will be:

- a temporary 50% reduction in the personal foreign income subject to tax in 2025-26 for Non-Doms who will lose access to the remittance basis on 6 April 2025 and are not eligible for the new 4-year FIG exemption regime.
- Re-basing of capital assets to 5 April 2019 levels for disposals that take place after 6 April 2025 for current Non-Doms who have claimed the remittance basis.
- In tax years 2025-26 and 2026-27, there will be Temporary Repatriation Facility, which will allow Non-Doms to remit FIG that arose before 6 April 2025 to the UK at a rate of 12%.

## Implications and thoughts

The proposed changes to the Non-Dom taxation regime have been seen as more radical and immediate than anticipated and will no doubt have an effect on the roughly 70,000 (according to HMRC figures) individuals with Non-Dom tax status – the bulk of whom reside in London and a large proportion of whom work in the City of London.

In view of the changes to the taxation of non-UK assets settled into trust, trustees should consider whether it is prudent to make distributions before 6 April 2025 to UK-resident who will not be eligible for the 4-year rule, and trust company businesses should in any event give careful consideration to these new rules to the extent that they impact (or may impact) structures that they administer. provided it is not foreseen that the sum will not be remitted to the UK.

In view of the changes to the IHT treatment of FIG arising in non-resident trusts, consideration should also be given to whether to settle new trusts and assets into existing trusts before this prescribed date.

Voisin Law can assist with advising upon the establishment a new trust or making other changes to your existing structures in light of the changes, working closely with your UK tax advisors in this regard to ensure appropriate implementation of their structuring advice.

This note is intended to provide a brief rather than a comprehensive guide to the subject under consideration. It does not purport to give legal or financial advice that may be acted or relied upon. Specific professional advice should always be taken in respect of any individual matter.