



Non-dom regime reform

Long-term resident

I am non-UK domiciled and I came to the UK 30 years ago. I am retired and cannot return to my home country at present for political reasons. I established a non-UK resident trust which now owns a complex corporate structure holding most of my family's wealth in the UK, European real estate and non-UK discretionary portfolios. Since I no longer qualify for the remittance basis, monitoring the UK tax classification of this trust is important to me.



What do I need to think about?

How much tax will I owe as the settlor under the new rules?

What would happen if I left the UK?

Will the IHT changes impact me?

Given the IHT changes, is the IHT cost worth maintaining asset protection?

What information do I need to report to HMRC?

Which changes could impact me?

In the UK Autumn Budget on 30 October 2024, the Government announced the end of the "non-dom" regime from 6 April 2025. You won't qualify for the replacement regime for newcomers to be enacted by the Government as you have been a UK resident for too long. The Government also confirmed it plans to end the 'Protected Trusts' regime (introduced from 6 April 2017) from 6 April 2025 onwards meaning you, as settlor, could be taxed for the first time on trust non-UK source income and worldwide capital gains as if those taxable sources belong to you. However, any of these sources arising pre-6 April 2025 will continue to be subject to tax only when 'matched' to trust distributions and benefits.

One of the transitional measures for taxpayers who can no longer claim the remittance basis is the ability to bring previously untaxed pre-April 2025 non-UK income and gains to the UK after 6 April 2025 and pay a reduced tax rate of 12% for the 2025/26 and 2026/27 tax year, increasing to 15% for the 2027/28 tax year on the remittance for a limited time period of three tax years. Such remittances can include matched stockpiled pre-6 April 2025 income and gains in overseas structures where distributions took place after 6 April 2025 (as well as those income/gains attributed to the trust under various attribution rules from such underlying structures).

The Government is pressing ahead with IHT reform from April 2025, shifting from a domicile-based tax to a residency-based one. This means individuals will be taxed on their worldwide assets after residing in the UK for 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises. Such individuals will be referred to as 'Long Term UK Residents', with those leaving remaining in scope for between an

additional 3 to 10 tax years depending on how long they have been a tax resident in the UK prior to their departure. This reform also affects certain non-UK trusts. The Government have confirmed that from April 2025 all foreign assets held in a trust will become subject to IHT to the extent the settlor is a Long Term UK Resident, regardless of when the trust was settled. This significantly changes the current IHT exposure for foreign assets held in an existing excluded property trusts (i.e., non-UK assets held in trusts that were settled by non-UK-domiciled individuals) that are at present outside the scope of IHT. Such trusts will remain valuable for asset protection and global succession planning, but their UK tax profile will require careful consideration, including the exposure to an IHT charge up to a rate of 6% every ten years on the value of the trusts assets.

Consideration is required if you in the future intend to leave the UK for long enough, which results in ceasing to be a Long Term UK Resident (the end of your "tail" period) whilst you are the settlor of a trust, this could be relevant even if you left before 6 April 2025. An IHT proportionate 'exit' charge could arise up to a rate of 6% on non-UK trust assets at the point such assets become excluded property on cessation of the Long Term UK Resident status.

The Government announced a valuable IHT grandfathering provision, which means assets that were settled into a settlor interest trust prior to 30 October 2024 will not form part of the settlor's estate on death under the 'gifts with reservation of benefit' rules, even for settlor interested trusts, and therefore will not be subject to IHT up to a rate of 40% upon the death of the settlor. The Government confirmed a review of anti-avoidance provisions, including the Transfer of Assets Abroad legislation, which can dictate how income in non-UK resident trusts is taxed on settlors and beneficiaries, although any changes are not expected until the 2026/27 tax year.

What information might I need to seek advice?

- Copy of the trust deed and settlor's letter of wishes.
- Understanding of the current trust structure, the sources of foreign income and worldwide capital gains and when they arise.
- Understanding of the records maintained by the trustee which can be used to calculate the settlor's new UK tax liabilities.
- Copies of any previous advice about the creation of the trust and the rationale for setting it up.

Pre-6 April 2025 possible actions

- Seek advice to evaluate the importance of trust's non-tax benefits and estimate your tax bill post April 2025.
- Scenario plan comparing tax position of keeping and winding up the trust and make a decision.
- Assess your options and confirm any planned actions and decide when to implement any agreed actions.



Remember! Look out for updates about the Autumn Budget and further detail about the abolition of "non-dom" regime and IHT changes.