Non-dom regime reform

New resident

I am an overseas citizen. I moved to the UK about a year ago after having sold my business in Europe. I decided to come to the UK for a new adventure as my partner and I have happy memories of a previous holiday a few years ago. Our daughter arrived earlier than expected and was born in London, so the holiday lasted longer than we planned! I plan to stay at least for next 10 years whilst my daughter finishes her education.

I have bought a new house in the UK although I still have a home in Europe and other investments of significant value (all outside the UK).

? What do I need to think about?

- Can I qualify for the 4-year FIG regime?
- Should I change my investment strategies in view of the new regime?
- Do I still need to segregate my bank accounts, keep funds offshore or maintain my clean capital?
- Do I need to consider remittances?
- Do I have untaxed FIG (held either in cash or held in assets) I may wish to spend or invest in the UK?
- What are my UK spending requirements in the future?
- What can I do in expectation of falling within the scope of UK IHT in the medium term?

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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. The Government confirmed it will replace it with a new regime. Newcomers should instead qualify for a 4-year foreign income and gains ("FIG") regime provided they have not been a UK tax resident for 10 consecutive tax years prior to the tax year they commence UK residence. Claimants won't pay UK taxes on FIG in their first 4 years and can remit it tax-free. The timing of your arrival in the UK will determine which regime you will fall under as to qualify for the new regime, you can't have been UK tax resident in the 10 consecutive tax years prior to the tax year you first become a UK resident and so periods of previous UK tax residence will be important to understand.

It is important to note that individuals previously taxed on the remittance basis will continue to see amounts that arose under that regime to be taxed if remitted to the UK in the future (subject to transitional arrangements, see below).

In addition to the new regime, the following transitional arrangements will apply from 6 April 2025:

- Individuals previously taxed on the remittance basis can elect to designate untaxed pre-April 2025 FIG after 6 April 2025 and pay a reduced tax rate of 12% in the 2025/26 and 2026/27 tax year and 15% in the 2027/28 tax year, on the amounts for a limited time period of three tax years. This will permit amounts to be remitted (potentially at a future point in time) without any additional tax payable. Assets can also be designated so the proceeds of disposal can be remitted.
- Individuals who previously claimed the remittance basis and sell non-UK assets after 6 April 2025 can choose to use the market value of the asset as of 6 April 2017 and substitute the original cost with that 6 April 2017 valuation when calculating the resulting capital gain if this results in a lower capital gain.

The Government is also 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', and will remain within the charge for 3 to 10 years after leaving, depending on how long they had been a tax resident in the UK prior to their departure. It will therefore be important to understand how many tax years of UK residency there are before an individual is caught within the scope of UK IHT.

What information might I need to seek advice?

- List of UK assets.
- List of non-UK assets including current MV and be ready to consider MV for April 2017.
- Details to support tax residence over the last 10 years.
- List of current bank accounts.
- Calculation of untaxed FIG that has already been received since the start of UK residence.
- Consideration of expected future UK spending requirements.
- Understanding of FIG that will arise between now and 5 April 2025 and whether receipt is to be delayed until after 5 April 2025.

Pre-6 April 2025 possible actions

- Seek UK tax residency advice and understand your position for last 10 years.
- Understand how "non-dom" and FIG regimes will apply, including transitional provisions.
- Discuss bank account structure with your bankers and seek advice on optimising it according to UK tax rules.
- Assess your options, confirm any intended actions and decide when to implement any agreed actions.

! Remember! Look out for updates about the Autumn Budget in relation to the draft legislation for the 4-year FIG regime.