United Kingdom – New Government Issues Update on Foreign Income and Gains Regime

At the 2024 Spring Budget, the Conservative then-Chancellor of the Exchequer, Jeremy Hunt, announced that there would be significant changes to the taxation of non-domiciled individuals with effect from 6 April 2025.[1] KPMG considered the impact of these proposed changes in *GMS Flash Alert* 2024-049.[2]

Following the general election on 4 July 2024, the new Labour government published a policy paper setting out its plans in respect of the taxation of non-U.K. domiciled individuals.[3] The new government has confirmed that it intends to proceed with removing the concept of domicile and the remittance basis from the tax system, to be replaced with a new Foreign Income and Gains regime ("FIG"). However, it is proposing to make some changes to the previously-announced approach, which are set out in this *GMS Flash Alert*.

WHY THIS MATTERS

The changes announced at the 2024 Spring Budget will have a significant impact on how individuals on assignment to the U.K. will be taxed, simplifying an individual's tax position in many cases, but potentially increasing the U.K. tax paid by individuals who have been resident in the U.K. for several years.

As the proposed changes were announced by the previous government, there was uncertainty as to how many of the proposals the new government would adopt, and whether it would amend any of the previously-announced measures. Therefore, this new policy paper provides some welcome certainty regarding the changes to the U.K. tax system, although there are still areas where full details will not be announced until the Autumn 2024 Budget, confirmed to be held on 30 October.

Overview of Main Measures

Foreign Income and Gains Regime

As previously announced, the concept of domicile and the remittance basis regime will be removed from U.K. tax legislation, to be replaced with a new Foreign Income and Gains regime ("FIG"). The new government has confirmed that 6 April 2025, remains the effective date for the new regime.

Under the new regime, eligible individuals will be taxable in the U.K. only on their U.K.-sourced income and gains, and will be able to claim full relief on their overseas income and gains, regardless of whether these are remitted to the United Kingdom. This treatment will be available for a person's first four tax years of U.K. residence.

Additionally, the government has clarified that, to qualify for the new regime, the individual must have been nonresident in the U.K. for "ten consecutive years," which was not explicit in the original technical paper published in the wake of the Spring Budget.

Finally, the new policy paper refers to the FIG regime as a "100% relief," so foreign income and gains would appear not to be exempt from U.K. tax under the new rules, but rather chargeable and then fully relieved. This means that an individual who is taxed under the FIG regime is likely to still be considered resident in the U.K. for purposes of the U.K.'s double taxation treaties.

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The original policy paper published at the time of the Budget did not refer to FIG as a relief. Whilst we have not received confirmation from HM Treasury or HMRC, this clarification may be the way in which the government intends to address concerns raised about a FIG claimant's eligibility for treaty coverage, by being considered "resident" under Article 4 of the OECD Model Treaty.

Overseas Workday Relief

As announced at the Spring Budget, Overseas Workday Relief (OWR) will be retained for individuals who elect to be taxed under the FIG regime, allowing an individual to exempt the income relating to their non-U.K. income from U.K. taxation for the year of arrival and the two following U.K. tax years.

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The new government has confirmed that OWR will be retained, with further stakeholder engagement to follow on the terms of the relief, with details to be confirmed in the Budget on 30 October. The new policy paper contains no comment on transitional rules or future proposals for OWR, which were previously covered in the 6 March publication, so it remains to be seen what shape OWR will take under the new government.

Transitional Measures

Transitional measures will remain; however, the following changes to the original proposals have been confirmed:

- **Temporary Repatriation Facility** will be available to former remittance-basis users from 2025/26, though the rate and duration (formerly 12 percent and until 5 April 2027, respectively) will be reviewed to make it as attractive as possible. Additionally, expanding the scope of the TRF is under consideration with further details to be provided at the 2024 Autumn Budget.

- **Capital Gains Tax Rebasing** will be retained, though the rebasing date (previously 5 April 2019) is being reconsidered and will be set out at the Budget.

- **Temporary 50-percent Foreign Income Reduction** will not be taken forward, as previously advised by the Labour Party prior to the general election.

Inheritance Tax Proposals

As well as the introduction of the FIG regime, the previous government also proposed to change the Inheritance Tax system from a domicile-based system to a residence-based system, subject to consultation, applying from 6 April 2025.[4] The basic test proposed was as follows:

- If a person has been resident in the U.K. for 10 years prior to the tax year in which the chargeable event (including death) occurs, the IHT charge will apply to his/her worldwide assets;

- Correspondingly, there will be a provision to keep a person within the scope of worldwide IHT on an ongoing basis for 10 years after breaking U.K. residence (the "ten-year tail").

The new government has announced that plans for a full consultation on moving Inheritance Tax to a residency-based regime have been withdrawn. Instead, the government will review feedback already gathered since the Spring Budget and carry out further stakeholder engagement.

The basic test for IHT on worldwide assets remains as previously proposed. However, the government will engage further with stakeholders on the operation of the new test, so that any refinements can be considered fully.

As previously confirmed by the Labour Party prior to the general election, all foreign assets held in a trust (specifically Excluded Property Trusts) will be brought within the scope of worldwide IHT where an individual is liable, irrespective of whether those assets were settled pre- or post-April 2025. Further stakeholder engagement will take place before details are published at the Autumn Budget, with a view to ensuring that transitional provisions may be put in place for existing trust arrangements affected by this change.

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Globally-mobile individuals and their employers may be very interested in the update provided by the government on its plans for the abolition of non-domicile status and the introduction of the new FIG regime. The confirmation that the new rules will come into effect on 6 April 2025, will help with planning the timing of assignments, and the policy paper helps provide more certainty about what the new regime will look like.

Individuals initially moving to the U.K. are likely to welcome the announcement that the new government proposes to keep the four-year period of FIG availability, and that a form of Overseas Workday Relief will be retained.

On the other hand, those who have been in the U.K. for several years who will not qualify for the new FIG regime may be disappointed by the removal of the proposed transitional rule for the first year of the new regime. This would have meant that only 50-percent of the foreign income arising in 2025-26 would have been subject to tax. And, they may be disappointed that all of their income will be taxed at 100 percent once they are no longer eligible for the FIG regime.

Next Steps

HM Treasury has published further details of its stakeholder engagement plans for the coming months, leading up to the Autumn Budget on 30 October. A series of meetings will be held with interested parties during August, focusing on Overseas Workday Relief and Inheritance Tax, before the finalised measures are confirmed on 30 October.[5]

KPMG LLP (U.K.) will continue to keep readers informed of any further developments that concern individuals, including those on international assignments, and their multinational employers.

FOOTNOTES:

1 For the previous government's announcement on the proposed changes to the taxation of non-U.K. domiciled individuals, see: HM Treasury, "Policy paper: Technical note: Changes to the taxation of non-UK domiciled individuals" (Updated 23 April 2024).

2 For coverage by KPMG LLP in the U.K. of the Spring Budget 2024, see *GMS Flash Alert* 2024-049 (7 March 2024).

3 For the new U.K. government's Policy Summary on the changes being made to the taxation of non-U.K. domiciled individuals from April 2025, see: HM Treasury, "Policy paper: 2024: Non-UK domiciled individuals- Policy Summary" (Last updated 31 July 2024).

Also see HM Treasury, "Policy paper: Changes to the taxation of non-UK domiciled individuals" (Updated 31 July 2024).

4 For coverage by KPMG LLP in the U.K. of the Inheritance Tax changes announced at Spring Budget 2024, see "Budget: Inheritance Tax based on UK residence from 6 April 2025" (11 March 2024).

5 For details of the U.K. government's stakeholder engagement plans, see HM Treasury, "Policy Paper: Changes to the taxation of non-UK domiciled individuals: Summer engagement" (Updated 31 July 2024)

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