BRIEFING

The holding pattern for non-doms

Interim update but full details yet to come

On Monday 29 July, the government published an update on its plans for the UK's non-dom regime.

In a few areas, the latest proposals expand on those set out by the previous government on 6 March. For most of the detail, we will need to wait until the budget, which will be published on 30 October. While that is later than expected, it will buy the government time to follow through with its pledge to consult with stakeholders.

INCOME AND GAINS - THE FIG REGIME

The government has confirmed that it will press ahead with the four-year foreign income and gains ("**FIG**") regime. This will be residence-based, with the concept of "domicile" being removed for tax purposes.

The remittance basis, whereby UK residents who are not UK domiciled are not taxed on foreign income and gains unless they are "remitted" to the UK, will be abolished from 6 April 2025.

Under the FIG regime, individuals who have not been UK tax resident in any of the last 10 tax years will be exempt from tax on their foreign income and gains in their first four years of UK tax residence, regardless of any remittances.

The previous government had stated that foreign income and gains arising in non-UK resident trusts (and distributions from those trusts) would also be tax-free during the four-year period. The latest paper is silent on this, suggesting that this part of the policy will be retained.

As announced before, anyone who is not (or ceases to be) eligible for the FIG regime, will be subject to income tax and capital gains tax ("**CGT**") on their worldwide income and gains. Outside of the FIG regime, the income and gains of "settlor-interested" trusts will be taxed on settlors.

TRANSITIONAL RULES

The previous proposals included transitional rules for individuals who were already UK resident. Here, there are some changes:

Reduced rate of tax on foreign income earned in 2025/2026

Originally, it was proposed that existing remittance basis users who did not qualify for the FIG regime on 6 April 2025 would only pay income tax on 50% of their foreign income in the 2025/2026 tax year. This relief will not be introduced.

F

AN UPDATE ON THE GOVERNMENT'S PLANS FOR THE UK'S NON-DOM REGIME

Temporary Repatriation Facility

The Temporary Repatriation Facility ("**the TRF**") will go ahead. This will allow those who have previously been taxed on the remittance basis and who have unremitted income and gains to remit them and pay tax at a reduced rate.

The TRF was originally intended to be available for a two-year window from 6 April 2025 to 5 April 2027, with a reduced rate of 12%. In the latest paper, it is stated that "*the rate and the length of time that the TRF will be available will be set to make use as attractive as possible*." It is, therefore, possible that we could see a lower rate or a longer period to encourage more inward investment.

The policy paper states that the government is "*exploring ways to expand the scope of the TRF, including to stockpiled income and gains within overseas structures*". This is new, as the proposals previously stated that the TRF would not be available for income and gains in trusts.

Further details on the TRF will be set out in the October budget.

Capital gains tax rebasing

The proposed rebasing for CGT purposes of personally held assets is being kept. This will allow current and past remittance basis users to rebase foreign assets to their value on a specific date. This could reduce the chargeable gain if an asset is disposed of on or after 6 April 2025 and the individual is not eligible for the FIG regime.

Originally, the rebasing date was 5 April 2019. It is now stated that the date will be set in the October budget.

INHERITANCE TAX

As was announced in March, the abolition of the concept of domicile will also apply to UK inheritance tax ("**IHT**") – again, to be replaced with a residence-based system.

This change is now due to take effect from 6 April 2025, which is sooner than might have been expected. The previous government had intended to consult on the details. The new government has stated that it will engage further with stakeholders, but does not intend to carry out a formal consultation.

It is envisaged that, from 6 April 2025:

- An individual will become liable to IHT on their worldwide assets once they have been UK resident for 10 years. It is not clear whether these 10 years must be consecutive or cumulative over a longer period.
- Once within the scope of IHT, individuals will remain so for 10 years after ceasing UK residence.
- The residence status of a settlor will dictate whether non-UK assets within a trust are subject to IHT. It appears that residence will be determined at the time of a "chargeable event". This would include the transfer of assets into trust, each 10-year anniversary of the trust, and a distribution of trust assets. It would also include the death of a settlor who could benefit from the trust.

The last of these changes will end the existing IHT shelter on non-UK assets provided by "excluded property" trusts.

Prior to the general election, the Labour Party had stated that there would be no "grandfathering" of existing excluded property trusts. The latest policy paper states that the government "*recognises that trusts will already have been established and structured to reflect the current rules, so is considering how these changes can be introduced in a manner that allows for appropriate adjustment of existing trust arrangements, while ensuring that the treatment of all long-term residents of the UK is the same for IHT purposes*."

The intrigue caused by this elusive statement looks set to continue until further details are provided in the budget.

PLANNING AHEAD

The announcements on Monday confirmed the government's intention to end the non-dom regime and the remittance basis of taxation, which have been features of the UK's tax system since 1799.

The transitional provisions for the FIG regime, and the suggestion of concessions on the IHT treatment of existing trusts, will give some reassurance to those who have planned in reliance on the existing regime and now need to map out their future.

In each case, the path ahead will require careful consideration once further details are announced on 30 October 2024. In the meantime preparatory steps can be taken so that planning can proceed as soon as possible following the budget and ahead of 6 April 2025. Please contact the Forsters Private Client team to find out we can help.