Non-domicile changes

Personal tax | Inheritance Tax and trusts



18 June 2024

The CIOT submitted papers to HMRC and HM Treasury commenting on the ‘non-domicile’ changes announced in the March 2024 budget and the proposed new temporary repatriation facility.

The Budget in March 2024 contained proposals for changes to the taxation rules for foreign income and gains and inheritance tax (IHT) deemed domicile rules. Whilst widely heralded as the abolition of the ‘non-domicile’ rules, the changes actually concern the remittance basis for foreign income and gains, moving from a domicile basis of assessment to one of residence.

From 6 April 2025, a four-year window will be available for individuals who become UK resident after a period of10years non-residence. Within that four-year window, qualifying individuals will not pay tax on any foreign income and gains arising. Those who cannot benefit from this window and whose foreign income and gains are subject to the arising basis in April 2025 will have 50% of their foreign income (not capital gains) subject to UK tax for 2025/26 only. Thereafter, the arising basis will apply to all their income and gains; an election to rebase assets at their April 2019

value for capital gains tax purposes may be available for those who had been claiming the remittance basis. Those who have settled anon-resident trust will also be taxed on that trust's income and gains on an arising basis from 2025.

For pre-2025 foreign income and gains, encouragement to remit those monies to the UK will take the form of a 'temporary repatriation facility' where a tax rate of 12% will apply on remittances for 2025/26 and 2026/27.

For IHT, from 6 April 2025, once an individual has been resident in the UK for10 years, they will subject to IHT on their worldwide assets; they will continue to remain liable for a further 10 years after leaving the UK. Existing 'excluded property' offshore trusts containing offshore assets will remain outside the scope of IHT after 2025, but trusts settled by a non-domiciled settlor thereafter will be subject to the new residence-based regime. These changes are subject to consultation.

Whilst the CIOT supports a move away from a domicile-based assessment of foreign income and gains to one of residence, we are concerned that a four-year tax-free window is too short. Other countries have longer periods (for example, Italy and Greece with 15 years) and four years will not be attractive or practical for those considering settling and bringing wealth into the UK. We recommend that a 10-year window would be more effective.

With respect to the temporary repatriation facility, we consider this a 'welcome and pragmatic measure' as part of the transition to the new rules. However, greater detail as to its operation and application is needed. A simple 'designation' method to pay a fixed amount of tax on foreign income and gains over multiple years may be preferable.

Whilst Labour have stated that they support many aspects of these changes, they have also stated that they would not give a 50% discount for foreign income in2025/26, the temporary repatriation facility may be amended or extended, and protections for existing excluded property trusts would end.

The papers can be read on our website at: www.tax.org.uk/ref1337.

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