



NON DOMS: WHAT DOES THE BUDGET MEAN FOR YOU (AND WHAT CAN YOU DO ABOUT IT)?

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INTRODUCTION

In the first Autumn Budget from the new Labour government, there were a number of significant reforms to the UK tax regime. Two of the most significant changes were the abolition of the “non-dom” regime and the removal of domicile as the connecting factor for UK inheritance tax.

From 6 April 2025, the beneficial non-dom regime has been replaced by a shorter four-year period of tax advantaged status. There is also a transitional period during which those who have previously claimed the remittance basis of tax can opt to pay tax at a reduced rate on previously unremitted funds.

Although domicile will still be relevant when considering matters relating to succession and family law, new residence-based rules will apply to determine exposure to UK inheritance tax. These rules are relevant to anyone who is currently resident in the UK (regardless of whether they have claimed the remittance basis), as well as those who were previously resident in the UK for 10 years or more and have since left. The rules have also introduced significant changes to the taxation of non-UK trusts for UK resident (or formerly resident) settlors and beneficiaries.

The new rules can be summarised in general terms (see Overview of the New Regime of Taxation below) and it is important to be aware of the overarching principles of the new system. However, the legislation will apply in different ways depending upon an individual’s position (e.g. when they came to the UK or when they set up structures). These variations mean that different planning options will be available to different categories of individual. Some of the key planning possibilities are set out below (see Planning Options). Whilst no substitute for tailored advice, the information below is intended as an overview to give individuals and their other advisers a starting point to understanding the new landscape for non-doms, how it might affect them and what planning they may be able to put in place, depending on their residence position.

The information set out in this briefing note is at high level. The draft legislation is complex and the impact of the changes will be determined by the specific circumstances. Individuals are strongly advised to take professional advice as soon as possible; there are various “cliff-edge” dates after which potential planning opportunities will be lost. The first of these is 5 April 2025 which gives relatively little time for individuals to get their affairs in order.

DE-CODING THE NEW REGIME

The legislation in this area (both that already in existence and the draft legislation which, as amended, will come into effect from 6 April 2025) is full of complex terminology. To de-code the new regime, individuals will need to understand the terms set out here.

Excluded Property Trusts – under the old rules, trusts of non-UK assets (excluded property) which were settled by non-doms were outside the scope of UK IHT and were known as Excluded Property Trusts.

FIG regime – the existing tax regime for non-doms, known as the remittance basis, will be abolished for foreign income and gains arising on or after 6 April 2025. It will be replaced by a new status which can be claimed by an individual during their first four years of tax residency in the UK (provided they have not been resident in any of the previous 10 tax years). This is referred to as the “FIG regime” where **FIG** refers to “Foreign Income and Gains” arising on or after 6 April 2025. Split years will count as years in the UK when calculating whether an individual can qualify to use the FIG regime. To claim the FIG regime the taxpayer must make an election on their tax return within one year of the filing deadline.

Gift with reservation rules (GWR) – if the settlor retains an interest in a trust, the GWR rules deem trust assets to be part of the settlor’s estate for IHT purposes. Under the old rules, the GWR rules were “turned off” for Excluded Property Trusts.

Long Term Resident (LTR) – individuals who are Long Term Resident will now be exposed to IHT on their worldwide assets if they have been UK tax resident for 10 or more of the previous 20 tax years. Slightly different rules apply to minors.

Protected Settlements – these were a valuable planning device for non-dom settlors. In a Protected Settlement, rather than income or gains of the trust being taxable on the settlor, trustees could roll up income and gains within the trust and not trigger UK tax until distributions were made to UK tax resident beneficiaries.

Relevant Property Regime – the tax regime which currently applies to UK resident trusts. Under this regime, the trusts are subject to UK inheritance tax at up to 6% on the ten-year anniversaries of the trust and when capital exits the trust.

Temporary Repatriation Facility (TRF) – this will be available for a period of three years to those who have claimed the remittance basis in any tax year up to and including 2024/25. It will allow individuals to designate funds or assets and pay a lower rate of tax. Once assets or funds have been designated and tax paid at the reduced rate, such amounts can be brought to the UK (whether now or in the future) without further tax. An individual can remit pre-6 April 2025 foreign income and gains under the TRF at a flat rate of:

Tax year	Rate of TRF charge
2025/26	12%
2026/27	12%
2027/28	15%

OVERVIEW OF THE NEW REGIME OF TAXATION

ASSETS HELD	INCOME TAX AND CGT	IHT
<p>Directly held assets (non-UK)</p>	<p>During an individual’s first 4 years of UK residence, they will be subject to UK tax only on their UK source income and capital gains.</p> <p>After this 4-year period, all worldwide income and gains arising after 6 April 2025 will be subject to UK tax. This may apply with immediate effect for individuals who have already been in the UK for over 4 years on that date (i.e. such individuals will not benefit from the FIG regime).</p> <p>Tax charges will still apply if an individual remits to the UK foreign income and gains which arose pre-6 April 2025 and which were previously sheltered by the remittance basis. There will be no UK tax on clean capital whenever it is brought to the UK.</p> <p>For CGT purposes, in certain circumstances individuals will be able to rebase assets to their market value as at 5 April 2017 (see planning options below).</p>	<p>Non-UK assets will remain outside the scope of IHT until the individual becomes LTR (after 10 years of UK residence).</p> <p>If an individual gifts a non-UK asset when they are not LTR, the gift will not be subject to IHT – even if they later become LTR.</p> <p>From 6 April 2025, once an individual becomes LTR, their worldwide estate will be subject to UK IHT.</p> <p>Even if the individual then ceases to be UK resident, there will be a “tail” for IHT purposes. The length of the tail ranges from 3 to 10 tax years, depending on the length of time the individual was UK resident.</p>
<p>Non-UK trust settled before 30 October 2024 (settlor or beneficiary)</p>	<p>Income/gains arising in the trust before 6 April 2025 will be taxed when matched with benefits received by a UK resident settlor or beneficiary.</p> <p>Income/gains arising in a settlor-interested trust on or after 6 April 2025 will be attributed to the settlor and taxed in their hands regardless of whether the settlor receives a benefit from the trust (i.e. the benefit of Protected Settlements falls away).</p> <p>Benefits received by a UK resident beneficiary will be taxed if they are matched with trust income or gains.</p>	<p>Non-UK assets in the trust will be outside the scope of IHT until the settlor becomes LTR. After this point, all assets held in the trust will be within the Relevant Property Regime. If the settlor then ceases to be LTR, there will be an IHT exit charge of up to 6%.</p> <p>On the settlor’s death, the trust will not be treated as part of the settlor’s estate for IHT as long as no additions were made on or after 30 October 2024 (i.e. GWR won’t apply).</p>
<p>Non-UK trust settled on or after 30 October 2024 (settlor or beneficiary)</p>	<p>Income/gains arising in a settlor-interested trust after 5 April 2025 will be attributed to the settlor and taxed in their hands regardless of whether the settlor receives a benefit from the trust (i.e. the benefit of Protected Settlements falls away).</p> <p>Benefits received by a UK resident beneficiary will be taxed if they are matched with trust income or gains.</p>	<p>Non-UK assets in the trust will be outside the scope of IHT until the settlor becomes LTR. Once the settlor becomes LTR, all assets held in the trust will be within the Relevant Property Regime. If the settlor then ceases to be LTR, there will be an IHT exit charge of up to 6%.</p> <p>If the settlor could benefit from the trust, it will be deemed to be part of their estate on death (i.e. GWR will apply).</p>

PLANNING OPTIONS

The planning options below need to be considered carefully in the context of an individual's current and previous residence position, asset base and future plans. A detailed information-gathering exercise should be done, and decisions taken with the benefit of that knowledge. Not all options mentioned here will be appropriate for every individual and specific legal advice should be sought.

BEFORE 6 APRIL 2025

- If already UK resident but not a current or former remittance basis user, consider claiming the remittance basis for tax year 2024/25, to ensure access to CGT rebasing and the TRF.
- Ascertain years of UK residence before this date as this will dictate whether FIG regime is available and for how many years.
- If UK resident before 6 April 2025, but intending to leave soon, consider leaving before this date and ensuring non-UK residence in the 2025/26 tax year to avoid becoming LTR, or (for those who have been UK resident for 15 or more tax years) to benefit from a reduced IHT "tail".
- Trustees of offshore trusts with UK resident beneficiaries may wish to consider changes to the beneficial class and/or the asset classes the trust fund is invested in, to reduce future exposure to UK tax.
- Trusts settled by a UK domiciled, but non-UK resident, settlor will cease to be Relevant Property Trusts, and become Excluded Property Trusts, on this date. Trustees of such trusts will need to consider any mitigation which can be put in place in advance and how to fund this charge (particularly where the trust fund is illiquid).

BEFORE 6 APRIL 2028

- Deadline for remitting pre-6 April 2025 foreign income and gains under the TRF (doing so before 6 April 2027 where possible will be even more advantageous). This may be particularly useful in the case of "mixed" funds.
- Capital distributions from offshore trusts made between 6 April 2025 and 5 April 2028 can be designated under the TRF if they match to pre-6 April 2025 income and gains.

ONGOING PLANNING – THE FIRST FOUR YEARS OF RESIDENCE

- Claim the FIG regime to bring foreign income and gains (either held directly or received as distributions from a non-UK trust) into the UK free from UK income tax and CGT.

ONGOING PLANNING – THE FIRST 10 YEARS OF RESIDENCE

- Where available, make use of the CGT transitional rebasing to rebase personally held foreign assets to their 5 April 2017 market value prior to sale.
- Consider leaving the UK before reaching 10 years of tax residence, to avoid becoming LTR.
- If planning to stay in the UK and become LTR, consider making any lifetime gifts of offshore assets before this time so that the gift is outside the scope of IHT.
- Settlers of pre-30 October 2024 trusts should not add further funds which would "taint" the trust and remove the beneficial protections available to these trusts.

The information contained in this guide is intended to be a general introductory summary of the subject matters covered only. It does not purport to be exhaustive, or to provide legal advice, and should not be used as a substitute for such advice.

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