

Non-Dom regime – the Government’s Policy Paper

Since prospective changes to the non-dom regime were first announced in March 2024, we have seen much speculation as to what the new regime may look like and when changes may be implemented.

The new Government released a ‘Policy Paper’ on 29th July giving us some indication as to the ‘direction of travel’.

The Chancellor, Ms Reeves also confirmed that her first Budget will be held on 30th October 2024, where we will get further clarity on the new non-dom regime alongside other tax policy changes.

Whilst the Policy Paper still leaves many questions unanswered, the key points are set out below.

We have also looked at other announcements made by the Government on 29th July.

The End of the Non-Dom Regime

The existing non-dom regime will be abolished effective from 6th April 2025.

This means that the remittance basis of taxation will not be available to UK resident “non-doms” after that date.

New residence-based regime for foreign income and gains

- To replace the remittance basis of tax, the government will introduce a residence-based regime, providing 100% relief on foreign income and gains (“FIG”) for new arrivals to the UK in their first four years of tax residence, provided they have not been UK tax resident in any of the 10 consecutive years prior to their arrival. *This is good for individuals coming to the UK for the first time on or after 6th April 2025, or those returning to the UK after more than 10-years abroad.*
- From 6 April 2025, the protection from tax on income and gains arising within settlor-interested trust structures will no longer be available for UK resident individuals who do not qualify for the 4-year FIG regime.
- A form of overseas workdays relief will remain. **Further details will be confirmed in the October Budget.**
- The anti-avoidance legislation including the ‘Transfer of Assets Abroad’ and ‘Settlements’ legislation will be updated. **This is subject to consultation and no changes are expected before 6th April 2026.**

New residence-based regime for inheritance tax (IHT)

- The existing domicile-based system for IHT will be replaced with a residence-based system from 6th April 2025. This will affect the scope of property brought into the charge to UK IHT for individuals and trusts.
- Under the new residence-based system, the basic test for whether non-UK assets are in scope for IHT will be whether a person has been resident in the UK for 10 years prior to the tax year in which the chargeable

event (including death) arises, with provision to keep a person in scope for 10 years after leaving the UK.

- The government will end the use of Excluded Property Trusts which have historically been used by non-UK domiciled individuals to keep non-UK assets out of the scope of UK IHT. **The government have not yet confirmed if any 'grandfathering' arrangements will be made for existing Trusts.**
- Confirmation of these new rules and their detailed application, including transitional arrangements for affected Trusts, will be published in the October Budget.

Transitional arrangements for affected non-doms

- Any FIG that arose before 6 April 2025, while an individual was taxed under the remittance basis, will continue to be taxed when remitted to the UK, as is the case under the current rules. This will include remittances of pre-6 April 2025 FIG for those who are eligible for the new 4-year FIG regime.
- A new Temporary Repatriation Facility (TRF) will be available for individuals who have been taxed on the remittance basis. Such individuals will be able to remit FIG that arose prior to 6 April 2025 and pay a reduced tax rate on the remittance for a limited time period after the remittance basis has ended. Further details will be announced in the October Budget.
- The scope of the TRF, may be expanded to include stockpiled income and gains within overseas structures. Further details will be announced in the October Budget.
- UK resident individuals who are ineligible for the 4-year FIG regime will be subject to Capital Gains Tax (CGT) on foreign gains in the normal way. Transitionally, for CGT purposes, current and past remittance basis users will be able to rebase foreign capital assets they hold to their value at the rebasing date when they dispose of them. The government is considering the appropriate rebasing date and will set this out at the October Budget.

Other announcements

Alongside the policy paper on non-doms, the Government also made other tax announcements.

- VAT on Private School Fees
 - VAT at a rate of 20% will apply to all private school fees from 1st January 2025. 20% VAT will also apply to pre-payments of fees for terms starting on or after 1 January 2025 made on or after 29 July 2024.
- Abolishing the Furnished Holiday Lettings tax regime:
 - The Government will publish draft legislation to abolish the Furnished Holiday Lettings tax regime from April 2025. This will remove the tax advantages that landlords offering short-term holiday lets have over those providing standard residential properties.
- Taxation of Carried Interest
 - The Government is going to undertake a consultation with a view to closing the perceived 'loophole' regarding the taxation of carried interest.

The image shows a cityscape at night with a prominent bridge structure in the foreground. The bridge has a complex, geometric design with multiple supports and cables. In the background, there are several buildings, including a large, domed structure that resembles a capitol building. The sky is dark, and the city lights are visible, creating a moody atmosphere. The word "verFides" is overlaid on the image in a white, sans-serif font.

verFides

Next Steps

Our Tax Team would be delighted to assist anyone who would like help in reviewing their position. Please contact Terence Pay, Tax Partner, or Adam Thompson, Tax Director, on +44 20 7930 7111 or e-mail us at tax_team@verfides.com

London, 30 July 2024