

END OF UK NON-DOM REGIME

WHAT ARE THE NEW RULES?



As of 6 April 2025, the UK's long-standing non-domiciled (non-dom) tax regime has officially been abolished, marking a major turning point in how the UK taxes foreign income and gains for resident individuals. The new rules introduce a residence-based approach that significantly alters the planning landscape for international professionals and long-term UK residents alike.

Here's a breakdown of what's changed, what transitional reliefs are available, and what it means for taxpayers going forward.

WHAT WAS THE NON-DOM REGIME?

Before April 2025, UK residents who were not domiciled in the UK could elect to be taxed on the remittance basis. This meant their foreign income and gains (FIGs) were only taxed if brought into the UK—allowing many to legally avoid UK tax on offshore earnings.

This system was often criticised for favouring wealthy individuals and creating an uneven playing field. In response, the UK Government scrapped the remittance basis in favour of a new regime.

WHAT HAS REPLACED IT?

Reforms to Income Tax and Capital Gains Tax

Arising Basis for All Residents

From 6 April 2025, all UK tax residents are now taxed on the arising basis—meaning they must pay UK tax on worldwide income and gains, regardless of whether those funds are remitted to the UK or kept offshore. Domicile status is now irrelevant for income tax and capital gains tax purposes.

New Four-Year FIG Exemption for New Arrivals

To try to preserve the UK's appeal to international talent, a four-year foreign income and gains (FIG) exemption has been introduced for individuals who either:

- Become UK resident after a 10-year period of non-residence; or
- Have not been UK tax resident in any of the previous 10 tax years.

Under this new regime:

- Foreign income and gains are entirely exempt from UK tax for the first four years of UK tax residence;
- There are no restrictions on remittances during this period—funds can be freely brought into the UK tax-free;
- After year four, the individual transitions to the arising basis of taxation.



Transitional Reliefs for Former Non-Doms

Those who previously relied on the remittance basis are being offered temporary reliefs to help manage the transition:

- **50% Foreign Income Reduction (2025/26 Only)**

In the 2025/26 tax year, former non-doms can claim a 50% reduction on their foreign income to soften the impact of full taxation.

- **Temporary Repatriation Facility (TRF)**

The Temporary Repatriation Facility (TRF) allows individuals who have previously claimed the remittance basis to make an election to designate amounts derived from untaxed and unremitted foreign income and gains that arose prior to 6 April 2025 and pay a reduced rate of tax for a period of three tax years. Designated amounts will be charged to tax at a rate of 12% in tax years 2025–26 and 2026–27, with the rate rising to 15% in 2027–28. The TRF will be available provided the individual is UK resident in the relevant tax years. The remittance of designated amounts will not incur any other UK tax charge. Individuals who make a designation under the TRF and pay the TRF charge will be able to choose when to remit the designated amounts to the UK. This does not need to be in the three year TRF window, and could be in a later year.

- **Capital Gains Rebase to 5 April 2019**

Eligible individuals may elect to rebase foreign assets to their 5 April 2019 value, reducing the UK capital gains tax payable upon disposal post-2025.

These reliefs are time-limited, and early planning is crucial to benefit.

Reforms to Inheritance Tax (IHT)

As of April 6, 2025, the UK has implemented significant reforms to its Inheritance Tax (IHT) system. Here's an overview of the changes and their implications:

Shift from Domicile to Residency-Based IHT

Previous System: Under the old rules, IHT liability was primarily determined by an individual's domicile status or deemed domicile status. Non-UK domiciled individuals were subject to IHT only on their UK-situated assets, while their foreign assets remained outside the UK IHT net.

New System: Effective April 6, 2025, the UK has transitioned to a residency-based IHT system. Now, individuals who have been UK residents for 10 out of the previous 20 tax years are considered "long-term residents" and are subject to IHT on their worldwide assets, not just those located in the UK. This change aligns IHT liability more closely with an individual's connection to the UK through residency rather than domicile.

KEY FEATURES OF THE NEW IHT REGIME

1. Worldwide Asset Inclusion

Long-term residents are now liable for IHT on their global assets. This includes properties, investments, and other assets held outside the UK. The inclusion of worldwide assets marks a significant expansion of the IHT scope for affected individuals.

2. Post-Departure IHT Exposure

Individuals who cease UK residency remain within the IHT net for a period ranging from 3 to 10 years after their departure. The exact duration depends on the length of prior UK residency. This "tail" provision ensures that recent long-term residents cannot immediately escape IHT liability upon leaving the UK.

3. Impact on Trusts

Trusts established by individuals who become long-term residents are affected by the new rules. Non-UK assets held in such trusts are now subject to IHT charges, including the 10-year anniversary charge and exit charges. However, trusts established before October 30, 2024, may benefit from transitional provisions, potentially shielding them from immediate IHT charges under certain conditions.

PLANNING CONSIDERATIONS

Given these changes, individuals affected by the new IHT regime should consider the following actions:

- **Review Residency Status:** Assess your UK residency history to determine if you fall within the "long-term resident" category.
- **Evaluate Asset Holdings:** Analyse your global asset portfolio to understand the potential IHT implications under the new rules.
- **Trust Reassessment:** Examine existing trust structures to determine their exposure to IHT and explore restructuring options if necessary.
- **Seek Professional Advice:** Consult with us, we specialise in UK taxation to develop strategies tailored to your specific circumstances.

IMPACT AND CONSIDERATIONS

Who's Most Affected?

- Long-term UK resident non-doms: These individuals can no longer shelter offshore income from UK tax and may face significantly higher tax bills.
- New residents: The four-year exemption offers a valuable but short window of opportunity—planning for year five begins now.
- Trust structures: Many offshore trusts previously protected under the non-dom regime may now be within the UK tax net.



KEY ACTIONS

- Review offshore structures: Trusts, companies, and foreign bank accounts should be reassessed under the new rules.
- Use the TRF window: Bringing in offshore income at 12% could be highly tax-efficient, especially for funding UK property or lifestyle.
- Rebase where possible: Individuals with large capital assets should evaluate rebasing elections and future disposal strategies.
- Plan ahead for IHT changes: Early estate planning could reduce future inheritance tax exposure as new residence-based rules come into play.

CONCLUSION

The abolition of the UK's non-dom regime is a landmark change in the tax landscape. While the reforms bring greater fairness and simplicity, they also introduce new complexities for internationally mobile individuals and families. For both new arrivals and long-term residents, early and proactive planning is key to navigating the new regime and making the most of the available reliefs.

Stay tuned for further updates, particularly regarding the forthcoming inheritance tax reforms, expected to reshape the estate planning environment by 2026

WE CAN HELP

If you require further assistance with any of the issues raised in this alert, call us on **01753 888 211** or email **info@nhllp.com**