



INSIGHTS

Charting the Future: UK Resident Non-Doms and Their Tax Strategy

For those who may be affected, the recent changes to the UK tax regime for resident non-domiciled individuals (RNDs) are significant. The announcements in the March Spring Budget and the new Labour Government's proposals have created a pressing need for immediate and strategic planning.



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WRITTEN BY
Alan Kennedy
+44 (0)2079 522 921
akennedy@tridenttax.com

This article does not offer a judgement on whether the government has struck the right balance in its tax reforms. Instead, it focuses on the impending changes and their implications for UK resident non-doms, providing guidance on the steps they should take next.

A Pivotal Moment – The March Spring Budget

The March Spring Budget 2024 marked a crucial turning point for the UK's non-dom regime. The then Chancellor Jeremy Hunt announced the abolition of the current regime, set to be replaced by a new residence-based system starting from April 2025.

This new system will apply to individuals who have been non-UK tax residents for at least ten consecutive years, allowing them to benefit from a four-year period where foreign income and gains can be brought to the UK tax-free. After this period, worldwide income and gains will be taxable on an arising basis.



TRIDENT TAX



Labour's Position on the Non-Dom Regime

The Labour Party has long been an advocate for abolishing the non-dom regime. Their recent manifesto reiterates this commitment, emphasising a straightforward, residence-based approach.

WHILE LABOUR SUPPORTS MOST ASPECTS OF THE FORMER GOVERNMENT'S PROPOSALS, THEY INTEND TO CLOSE WHAT THEY PERCEIVE AS LOOPHOLES, PARTICULARLY CONCERNING OFFSHORE TRUSTS AND INHERITANCE TAX.

Uncertainties Ahead

Despite the clear directional shift, several aspects remain uncertain:

- ▶ **Transitional Provisions** - as The new government has already announced it will scrap the 50% tax reduction on foreign income for 2025-26 announced by its predecessor. However, more positively it appears that the Temporary Repatriation Facility to remit previous overseas income and gains at a flat rate of 12% for a 2 year period is likely to proceed. Significantly, the government announced on 29 July that it is considering what the rebasing date will be for capital gains tax purposes. This is a welcome development as the previously announced rebasing date of April 2019 was somewhat mystifying. When the

concept of deemed domicile for income tax and CGT purposes was introduced on 6 April 2017, those affected on that date benefited from a rebasing of assets to that date for CGT purposes. We would hope that a similar approach will be taken in April 2025 and await further clarification in the Budget on 30 October.

- ▶ **Inheritance Tax Rules** - The Labour Party scrapped plans for a formal consultation on the proposed change to a residency-based system, exposing the worldwide assets of non-doms to UK inheritance tax after 10 years of residence rather than the current 15 year period. Although that

may not be seen as a dealbreaker for UK RNDs, the proposal that IHT exposure should continue on worldwide assets for 10 years after leaving the UK is seen by many as a self-defeating policy if the UK wants to remain an attractive destination for wealth creators.



Labour has also said it will go further than the previous government with reform of excluded property trust rules. The current position is that trusts settled by a non-dom with non-UK assets remain outside the scope of inheritance tax, regardless of how long the settlor of the trust remains in the UK, preventing any exposure to inheritance tax on the death of the settlor and also preventing 10 yearly charges to inheritance tax on trust assets at a rate of up to 6%.

The previous government had said it would preserve excluded property trust status for those trusts established before 6 April 2025, but the new government will not do so. Details of the new regime are expected on 30 October, but for now the working assumption is that unless action is taken what are currently excluded property trusts



may become fully exposed to inheritance tax from 6 April 2025 if the settlor has been resident in the UK for 10 years or more.

What Non-Doms Should Do Next?

UNFORTUNATELY, DESPITE THE STATEMENTS ABOUT MAKING THE UK AS ATTRACTIVE AS POSSIBLE, WE ARE ALREADY SEEING A SURGE IN NON-DOMS LEAVING THE UK.

However, for those who decide to remain in the UK, extensive reviews are underway to identify potential restructuring options in time for implementation once the legislation is finalised and in advance of 6 April 2025.

Planning for changes as fundamental as those described above takes time, as does the implementation of any necessary restructuring. Taking time now to identify potential options and being ready to implement or make any necessary adjustments following publication of the new legislation is essential to ensure the position is optimised.

Key Areas of Focus

- ▶ **Restructuring Trusts** - With the loss of settlor protections, we help clients restructure their trusts to mitigate potential tax liabilities.
- ▶ **Insurance Bonds and Life Assurance** - Clients are exploring insurance bonds for investment compounding and deferring tax exposure on investment income and gains. Pure risk life assurance is also being considered to protect against inheritance tax exposure. Premiums for those in good health can be surprisingly affordable.
- ▶ **Maximising the Remittance Basis** - Taking full advantage of the remittance basis while it lasts is crucial, as is the opportunity to remit funds at a low tax rate under the Temporary Repatriation Facility.
- ▶ **Asset Rebasing** - Uplifting the base cost of assets ahead of future capital gains tax exposure, subject to the awaited announcement by the government of any automatic rebasing.
- ▶ **Non-reporting Funds** - Investing in non-reporting funds may be effective in some cases.
- ▶ **Gifting Assets** - Restructuring family wealth tax efficiently to mitigate exposure to income tax, capital gains tax and inheritance tax.
- ▶ **Establishing Family Investment Companies and Other Holding Vehicles** - Assisting clients in setting up structures that offer better control and tax efficiency.
- ▶ **Restructuring Underlying Companies and Trust Funding** - Advising on restructuring underlying companies and evaluating trust funding mechanisms such as loans.
- ▶ **Planning for New Arrivals** - Tailoring plans to leverage the four-year tax-free period and transitional reliefs for those arriving in the UK.



Conclusion

Time is short for RNDs to make informed decisions and implement necessary changes. Delaying action could result in missed opportunities and increased tax liabilities. It is critical to seek advice immediately and begin the planning process. The complexity and time required for setting up structures and accounts necessitates prompt action.

Our confident, knowledgeable, and reassuring approach ensures that our clients navigate these changes with clarity and confidence.

Please contact us now to discuss your own circumstances and objectives.

Contact us today.



Alan Kennedy
+44 (0)2079 522 921
+44 (0)7900 678 541
akennedy@tridenttax.com



Scott Homewood
+44 (0)2079 522 921
+44 (0)7398 775 402
shomewood@tridenttax.com