

# Non-UK domiciles – reforming UK tax

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# Residence

# The basics

## What do we mean by residence?

In the UK, residence is where you are deemed to be living for tax purposes. This is **not** a simple case of:

- Where you consider yourself to be 'living'
- Where your main/only home is
- Where you work
- Where you were born
- Where you are a national/citizen

When considering whether someone is a UK resident or not (broadly), is a matter of:

- Days (midnights) spent in the UK during a tax year
- The reasons you are in, or outside, the UK
- What your future intentions are and what your past circumstances were



# RDR3: the statutory residence test

## The automatic overseas tests

- 1<sup>st</sup> – spending fewer than 16 days in the UK (having been UK resident in any of the previous three tax years)
- 2<sup>nd</sup> – spending fewer than 46 days in the UK (having not been UK resident in any of the previous three tax years)
- 3<sup>rd</sup> – working full time overseas

## The automatic UK tests

- 1<sup>st</sup> – spending 183 days or more in the UK
- 2<sup>nd</sup> – only home in the UK
- 3<sup>rd</sup> – working full time in the UK

## The sufficient ties test

- Accommodation
- 90 days
- Work
- Family
- Country



# RDR3: the statutory residence test

Arrivers - not resident in any of the last 3 tax years				
UK DAYS	0-1	2	3	4+
< 16	NR	NR	NR	NR
16-45	NR	NR	NR	NR
46-90	NR	NR	NR	R
91-120	NR	NR	R	R
121-182	NR	R	R	R
183+	R	R	R	R

Leavers - were resident in any of the last 3 tax years					
UK DAYS	0	1	2	3	4+
< 16	NR	NR	NR	NR	NR
16-45	NR	NR	NR	NR	R
46-90	NR	NR	NR	R	R
91-120	NR	NR	R	R	R
121-182	NR	R	R	R	R
183+	R	R	R	R	R

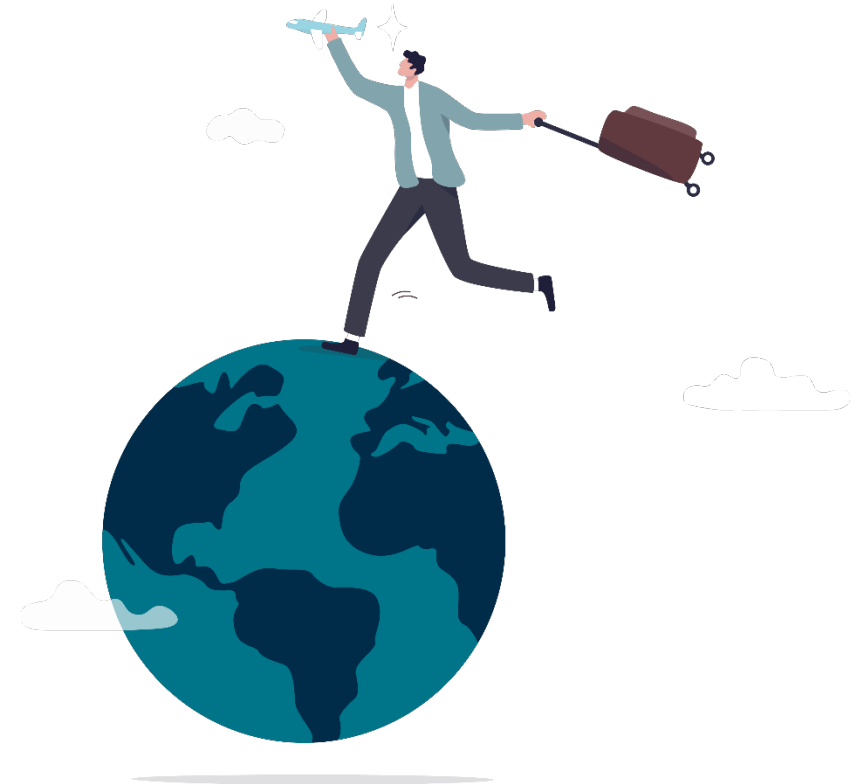
# RDR3: split year treatment

- This treatment will usually apply in a year where your pattern of presence in a country changes – i.e. entering the UK following a full year of non-UK residence.
- Splitting the year is where you identify the relevant point of entry to or exit from the UK and apply non-resident treatment to one part of the tax year, and UK-resident tax treatment to the other.
- Whether or not you can split a tax year is a question of facts.
- There are **eight** cases where an individual could be eligible for split year treatment; **three** of them relate to **exiting** the UK, and **five** of them relate to **entering** the UK.



# Dual residency

- It's perfectly possible to be resident in **two countries** during the same period.
- Where this situation arises, you need to establish in which country you are '**treaty resident**'.
- The treaty resident country is the one with the main taxing rights and the treaty non-resident country only has limited taxing rights.
- To decide which country you're treaty resident in, there are a series of **tie-breaker** questions outlined in the double tax treaty between the UK and the other country in question (where a treaty exists) namely:
  - Where do you have a **permanent home**?
  - Where is your **centre of vital interests**?
  - Where is your **habitual abode**?
  - Where are you a **national**?





# Domicile

# What was domicile?

## Lifelong permanent home

- Where you intend to spend the rest of your days
- Depends on a number of facts and circumstances
- It is not the same as citizenship or nationality

## Domicile of origin/dependency

- Usually taken from father at birth
- Follows your father until the age of 16
- Women married before 1 January 1974 follow their husband's domicile

## Domicile of choice

- If settle permanently in a new country and sever all ties to domicile of origin
- Extremely hard to change

## Deemed domicile

- Born in the UK with a UK domicile of origin
- UK resident for 15 of the last 20 years

# Why was domicile important?

Remittance  
basis for income  
tax and capital  
gains tax



Foreign assets exempt  
from inheritance tax,  
including excluded  
property trusts

# Reforms to the taxation of non-doms

# What's changing?

Historic position	From 6 April 2025
Remittance basis of tax	Foreign income and gains regime
Overseas workday relief for 3 years if non-UK domiciled	Overseas workday relief for 4 years if qualify for foreign income and gains (FIG) regime
Income and gains taxed when remitted	Temporary Repatriation Facility
Inheritance tax (IHT) charged on worldwide assets if UK domiciled	IHT charged on worldwide assets if resident in the UK for 10 of the last 20 years
Trusts can remain exempt from IHT even after settlor becomes UK domiciled	IHT on trust assets will change depending on residency of settlor

# Foreign income and gains

# What's changing?

## Historic position

In the past, individuals who were non-UK domiciled could opt to be taxed under either the arising basis, or the remittance basis. The arising basis meant UK tax was charged on worldwide income and gains as they arose or crystallised, whereas the remittance basis taxed UK income and gains as normal, but only taxed overseas income and gains when they were remitted to the UK.

## New position – from 6 April 2025

New arrivals to the UK will benefit from 100% tax relief on foreign income and gains for the first four years that they are tax resident, regardless of their domicile.



# Foreign income and gains regime

- 100% relief on foreign income and gains (FIG) for first four years of being UK tax resident if they have 10 consecutive years of non-residence (per the statutory residency tests).
- Must be claimed and if claimed, individual will lose entitlement to personal allowance and capital gains tax annual exempt amount. There is the option to pick and choose for which of the four years a claim is made.
- Individuals who have been UK resident for fewer than four years at 6 April 2025 are eligible for the scheme for their remaining time.
- No requirement to keep money outside of UK.



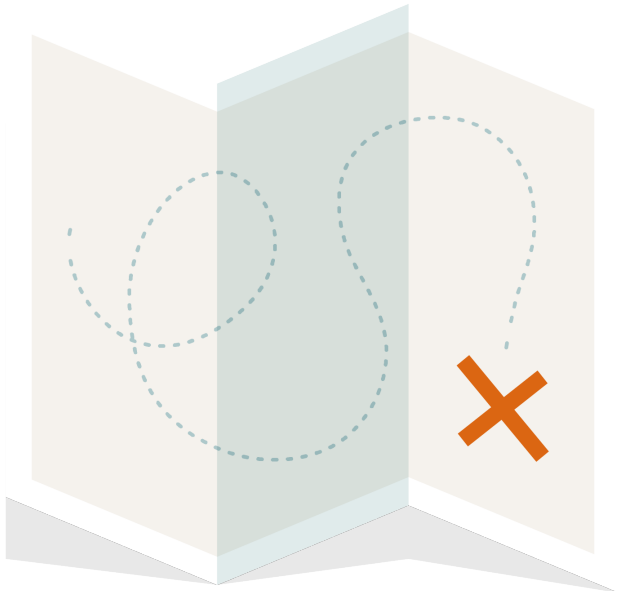


# Non-domicile tax changes: losers

Non-doms claiming  
the remittance  
basis for more than  
four years

More complex tax  
reporting

Moves partway  
through the  
tax year



# Non-domicile tax changes: winners

Those moving permanently to the UK and acquiring a UK domicile

UK domiciles of origin returning to the UK

Those staying for fewer than four years

Current non-doms wanting to remit money to the UK under the temporary repatriation facility

Previous remittance basis users with unrealised gains



# Example: Mr A

Foreign interest	£1,000
Foreign capital gains	£10,000
Foreign capital losses	(£4,000)
No UK income	

## Claiming FIG

Foreign interest	100% relieved
Foreign capital gains	100% relieved
Foreign capital losses	Cannot be claimed
<b>Tax due</b>	<b>£Nil</b>

## Without claim

Foreign interest	Covered by PSA
Foreign capital gains	£10,000
Foreign capital losses	(£4,000)
Less AEA	<u>(£3,000)</u>
Charged to CGT @ 10%	£3,000
<b>Tax due</b>	<b>£300</b>

# Example: Mrs B

## UK employment income £20,000

Foreign interest	£1,000
Foreign capital gains	£10,000
Foreign capital losses	(£4,000)

## Claiming FIG

Foreign interest	100% relieved
Foreign capital gains	100% relieved
Foreign capital losses	Cannot be claimed
UK employment income	£20,000
<b>Tax charged @ 20%</b>	<b>£4,000</b>

## Without claim

Foreign interest	Covered by PSA
UK employment income	£20,000
Personal allowance	<u>(£12,570)</u>
Taxed @ 20%	£7,430
Income tax due	£1,486

Foreign capital gains	£10,000
Foreign capital losses	(£4,000)
Less AEA	<u>(£3,000)</u>
Charged to CGT @ 10%	£3,000
CGT due	£300
<b>Total tax due</b>	<b>£1,786</b>

# Overseas workday relief

# Overseas workday relief (OWR)

Currently enables non-UK domiciles to claim the remittance basis on overseas employment earnings for three years.

## What's changing?

- Extended to four years to match FIG regime
- UK domiciled individuals can also claim if eligible for FIG
- No need to ring-fence income in offshore account
- Introduction of financial limit



# Example: Mr C

## Mr C

Mr C is a non-UK domicile who moved to the UK in 2024/25.

He claimed OWR on 40% of his salary because he worked in the UK 60% of the time, and 40% overseas.

If Mr C had 10 consecutive years of non-residence prior to 2024/25, he will qualify for the FIG regime and can claim overseas workday relief for 2025/26, 2026/27 and 2027/28 as well.

Assume Mr C earns £1.2m per year.

In 2024/25 he can claim overseas workday relief of £480k.

In later years he can only claim overseas workday relief of £300k per year.



# Capital gains rebasing



# Rebasing of foreign assets

Current non-UK domiciles will be able to rebase foreign assets held on 5 April 2017 to their value at that date.

Effectively wipes out all gains arising before 5 April 2017.

**Be careful! What money was used to buy the foreign asset in the first place?**



# Manual rebasing

- This is a common planning consideration when someone is **returning** to the UK, or **entering** the UK for the first time, and has significant offshore shareholdings/investments.
- If you were to come to the UK and sell those shares from your first day of residence, you would previously be taxable on the whole gain on those shares (even the gains that have accrued whilst you were abroad).
- If the country you're currently resident in has capital gains tax advantages, or no capital gains tax at all, the most tax beneficial option would be to sell all of your shares whilst non-resident (and not subject to CGT) and buy them all back the same day. This way, you will have had a tax-free disposal, and the shares you bring into the UK will have a new, uplifted base cost from the day you repurchased them.
- If you qualify for the FIG regime you can also do this in the first four years of UK tax residence but will lose the tax-free personal allowance and CGT exemption.

# Temporary Repatriation Facility

# Temporary Repatriation Facility

Any foreign income and gains that arose before 5 April 2025, which remain untaxed in the UK, will be taxed when remitted to the UK, regardless of when that remittance occurs.

The Temporary Repatriation Facility will allow unremitted income or gains to be taxed at 12% (2025/26 and 2026/27) and 15% (2027/28).

After 2027/28, income and gains will be taxed at normal rates when remitted.

**Good news for mixed funds?**

**But not without T&Cs!**

# Inheritance Tax

# Inheritance tax changes

- IHT will now be based on tax residency rather than domicile.
- Payable on an individual's worldwide assets if they have been a UK resident for at least 10 out of the last 20 years immediately preceding the tax year of death.
- If an individual has been UK tax resident for 9 or fewer of the last 20 years, IHT will only be payable on their UK assets.

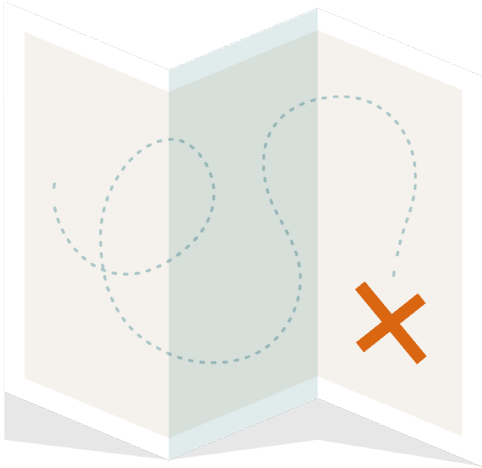


# Non-domicile tax changes: losers

Non-doms  
living in the UK  
for 10-15 years

Expats subject  
to an 'IHT tail'

Trusts



# Non-domicile tax changes: winners

Those moving permanently to the UK and acquiring a UK domicile

UK domiciles of origin returning to the UK

UK doms leaving the UK for more than 10 years

Greater certainty





# Expat tail

Expats leaving the UK will have a 'tail' period during which they remain subject to worldwide IHT based on how long they were previously UK resident. The tail period will be a sliding scale as follows:

## Previously UK resident

13 years or less

14 years

15 years

16 years

17 years

18 years

19 years

20 years

## Tail

3 years

4 years

5 years

6 years

7 years

8 years

9 years

10 years

# Example: Dr D



Dr D lived in the UK from 2010/11 to 2026/27, totalling 16 years.

She became non-resident from 6 April 2027, resulting in a 6-year tail.

She will remain subject to UK IHT on her worldwide assets until 5 April 2033, even if she has no intention to ever return to the UK.

From 6 April 2033, she will be subject to UK IHT on her UK assets only. If she returns to the UK on 6 April 2035, she will be immediately subject to UK IHT on her worldwide assets, as she has been a UK resident for 12 of the preceding 20 years and non-UK resident for 8 of the preceding 20 years.

# Trusts

# Settlor-interested non-resident trusts

Previously, when non-doms created a settlor-interested discretionary non-UK trust, the income/gain arising in the trust would typically not be taxed on the settlor, neither would the trust assets be subject to UK IHT.

This was the case even if the non-dom stayed in the UK more than 15 years, becoming deemed UK domicile. The trust income/gains were protected from UK tax and the trust assets were excluded from IHT.

From 6 April 2025, this will change so that protections for trust income/gains are removed and UK IHT will apply, depending on whether the settlor is UK resident for 10 out of the preceding 20 years.



# But...

There will be lots of exceptions to the new rules, for example:

- Trusts where the settlor has died before 6 April 2025
- Trusts set up before 30 October 2024
- Interest in possession trusts
- Trusts holding UK assets

# Income and capital gains of the trust

Income and gains of the trust will be taxed on the settlor if the trust is settlor-interested or if the transfer of assets abroad provisions apply.

This aligns trusts with those for UK domiciled settlors.

The settlor may be able to use the FIG regime for the first four years of UK residence.

# Distributions paid out of trust

Distributions paid to beneficiaries are taxed when a distribution is paid to them.

Beneficiaries can also be taxed when they receive a benefit from the trust, for example, an interest-free loan.

The beneficiary may be able to use the FIG regime for the first four years of UK residence.

The beneficiary may also be able to use the temporary repatriation facility.

# IHT status of trust assets

- IHT status will no longer depend on domicile status at the date assets are gifted into trust.
- Instead, IHT status will depend on whether the settlor is resident in the UK for 10 of the last 20 years.
- IHT will be tested at the usual trigger points for trusts, i.e. on transferring assets to trust, every 10 years, on assets exiting trust and on death of the settlor.
- Old rules will apply if the settlor died before 6 April 2025.





# UK trusts

- UK trusts may also be affected.
- For example, a UK trust whose settlor leaves the UK for 10 consecutive years will leave the IHT net.
- IHT exit charges will arise but the trust will not be subject to ongoing IHT charges (unless the settlor returns to the UK).



# Example: Mr E

Mr E creates a settlement with £10m of non-UK assets in November 2024 when he is non-UK resident and non-UK domiciled. He becomes UK resident in 2027 and so does not come into scope for IHT charges until 2037. Mr E leaves the UK in 2050.



# Example: Mr E

Mr E creates a settlement with £10m of non-UK assets in November 2024 when he is non-UK resident and non-UK domiciled. He becomes UK resident in 2027 and so does not come into scope for IHT charges until 2037. Mr E leaves the UK in 2050.

- **November 2024:** No entry IHT charge as Mr E is not UK domiciled
- **November 2034:** No 10-year IHT charge as Mr E is not UK resident for 10 out of 20 years
- **November 2044:** 10-year IHT charge as Mr E is long-term resident, however, charge is pro-rated for 7 out of 10 years (i.e. from 2037 to 2044)
- **November 2054:** 10-year IHT charge as Mr E is in the expat tail, despite having left the UK in 2050
- **April 2061:** Mr E has 10 consecutive years of non-residence so he loses the tail. The trust has an IHT exit charge

# Q & A



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