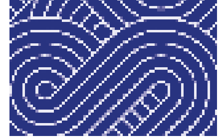

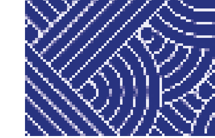

HAS WEALTH GOT (EVEN MORE) POLITICAL IN THE UK?

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Has Wealth Got (Even More) Political in the UK?

In our internationally mobile society, governments' approaches to wealth are important for individuals weighing up where to base themselves. This is a particularly timely topic in the UK following the government's announcement in March 2024 that its taxation rules for non-UK domiciled individuals ("**non-doms**") will change from April 2025. This article discusses the UK government's approach to wealth holding and how it addresses wealth disparities through taxation as well as measures to tackle tax evasion and promote transparency in wealth structures.

Income Tax

The UK government uses progressive taxation to ensure that individuals with higher incomes contribute a higher proportion of their earnings in taxes. The UK political parties are broadly aligned on the idea but we are likely to see the taxation burden on wealthier individuals increase if the opposition party (Labour) wins power in the upcoming general election. At present, the top rate of tax for income in excess of £125,140 is 45% (39.35% for dividend income).

Wealth Tax

The UK does not currently have an annual tax on wealth. There were rumours immediately after the pandemic and academic research papers were published, but the proposals have not materialised. Wealth taxes are largely viewed as "hard left" policies and the Labour leader, Sir Keir Starmer, has carefully managed to disassociate himself from his leftist predecessor, Jeremy Corbyn, so for the time-being a wealth tax remains unlikely. That said, once in power who knows what could happen.

Capital Taxes

The UK taxes wealth on death and when certain gifts are made during lifetime by an "inheritance tax" ("**IHT**"). The rate of tax on death is 40%. There are exemptions and thresholds originally intended to ensure only the wealthiest estates had to pay, but these have been frozen for so long that IHT now draws in a wide section of society. UK domiciled individuals are subject to IHT on their worldwide assets; "non-doms" only on their UK situs assets.

Capital gains tax ("**CGT**") is levied on profits made from the sale (or gift) of assets. The top rates of CGT are currently 28% (private equity gains) and 24% (residential property gains); all other gains are taxed at 20% albeit there are lower rates for basic-rate income taxpayers. Business assets can benefit from a concessionary 10% rate (subject to a £1million lifetime limit). The disposal of your main home remains (for now) CGT-exempt.

Trusts

Trusts have been used in the UK for centuries to manage wealth and control succession. Since 2006, trusts have been more heavily taxed and most trusts (with UK assets or a UK domiciled settlor) are now subject to an IHT charge every ten years (at a maximum rate of 6%) and a similar IHT charge when assets exit the trust. Income tax rules for trusts can be complex but many trusts will pay the 45% top rate of income tax. We don't see these rules improving.

Non-Doms

Currently, non-doms who come to the UK can be resident here for up to fifteen years without becoming "deemed domiciled" and fully within the IHT net. During the same period, they can also elect to keep their non-UK income and gains free of UK tax (for an annual fee of up to £60,000). These rules are, however, changing, and from April 2025, most non-doms will need to pay more UK tax if they want to be resident here.

It is proposed there will be a more limited exemption from UK tax for non-UK income and gains – lasting for a four-year period and applying only to those who have been non-UK resident for at least ten years. Income and gains within offshore trust structures from which a UK resident non-dom can benefit will not be as protected from UK tax as they are currently; and the assets of offshore trusts will, in many cases, become subject to IHT wherever those assets are located if the non-dom settlor has been UK resident for at least ten years.

These are the current government's proposals but they are vulnerable to being tightened by Labour should they win the general election; on the basis that, politically, they will want to retake ownership of one of their flagship policies and stamp their authorship on the changes.

Transparency of Wealth Structures

The UK government enforces strict rules to deter tax evasion and promote transparency. The UK is a signatory to various international initiatives on tax information exchange including the Common Reporting Standard. The UK has also implement the US's Foreign Account Tax Compliance Act ("**FATCA**") into UK law so that information on UK financial accounts of US persons can be shared with the US authorities.

The UK has robust anti-money laundering legislation including regulations to ensure trust structures are not used to conceal the proceeds of criminal activity. There is a central (currently, non-public) Trust Register to which most UK trusts (and offshore trusts with UK property or assets) must disclose details of their beneficial owners. There is also a separate (and public) Register of Overseas Entities to which non-UK entities that hold UK land or property interests must disclose beneficial ownership details.

Closing Comment

The favourability of the UK's approach to wealth holding will depend on the individual, but the lack of a wealth tax is often seen as a positive. Non-doms and ex-pats looking to come or return to the UK should keep a close eye on the politics here as the general election will dictate the attractiveness of the UK in the coming years.