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UK taxation of individuals and their wealth structures following the 2025 "non-dom" reforms

Private Client

THE REFORMS

On 6 April 2025, wide-ranging reforms to the tax regime for non-UK domiciled ("**non-dom**") individuals took effect ("**the 2025 non-dom reforms**"). These were first announced by the Conservative government in the March 2024 Budget but were confirmed, extended and introduced by the Labour government following their success in the UK General Election in July 2024.

THE PREVIOUS NON-DOM REGIME

To put the scale of these reforms into context – the non-dom regime and the related concept of the "remittance basis" of taxation had been in existence since 1799. There were reforms in 1914, 2008 and 2017, but the basic principle that non-doms should only be taxed on their foreign income and gains ("**FIG**") if brought to the UK ("**the remittance basis**") remained unchanged.

From 2008 until the 2025 non-dom reforms, UK resident non-doms had to pay an annual charge to make use of the remittance basis after seven tax years of UK residence, the amount depending on the length of their UK residence. Further changes enacted in 2017 put an end to non-doms' ability to benefit from the remittance basis indefinitely, through the introduction of deeming rules for all UK tax purposes after fifteen years of UK residence. These changes were, however, accompanied by generous protections for FIG arising in offshore trust structures created by non-doms even after they became deemed domiciled in the UK, provided there were no "tainting" additions of value thereafter.

For UK inheritance tax ("**IHT**") purposes, up until the 2025 non-dom reforms, provided an individual remained non-UK domiciled under general law, their non-UK assets (other than, since April 2017, indirectly held UK residential property interests or "relevant loans" in connection with such) could remain outside the scope of IHT for up to fifteen years of UK residence. Thereafter, the individual's worldwide assets were subject to IHT, save for

property in so called "excluded property trusts" ("**EPTs**") created by them while non-UK domiciled and not deemed UK domiciled, which remained sheltered from IHT indefinitely.

THE 2025 NON-DOM REFORMS

Four-year exemption

From 6 April 2025, the remittance basis is abolished and replaced with a new four-year residence-based exemption regime for FIG ("**four-year FIG regime**"). This applies to individuals who become UK resident after a period of at least ten tax years of non-UK residence. It is this ten-year residence criteria that defines access to the new FIG regime for short-term residents, and not the historic concept of "domicile" that largely depended upon the domicile status of an individual's father at birth. Residence is determined by the UK's existing Statutory Residence Test.

During the first four years of UK residence, new residents do not pay UK tax on their FIG, including being able to bring them into the UK tax-free. They also do not pay UK tax on distributions to them from non-UK resident trusts ("**offshore trusts**") of which they are a beneficiary, or FIG arising in such offshore trusts that are attributed to them as settlors. UK residents who were non-doms under the old regime who qualify for the new four-year FIG regime will continue to pay UK tax on their UK source income and gains, as well as UK income arising in offshore trusts that is attributed to them, as before.

After four years of UK residence, the protection from UK tax for FIG ceases and resident individuals are subject to UK tax on their worldwide income and gains as they arise. This applies to FIG arising to them personally, as well as FIG within offshore trust structures attributed to them as UK resident settlors. The previous regime which afforded protection to offshore trusts from liability to UK tax on FIG as they arose, has been abolished. In

addition, FIG which arose in offshore trust structures before 6 April 2025 can be taxed on UK resident beneficiaries if matched to worldwide trust distributions or benefits received by them.

Transitional rules

The legislation includes transitional rules for existing UK resident non-doms who, from 6 April 2025, are not eligible for the new four-year FIG regime.

In respect of FIG that arose prior to 6 April 2025 and which are remitted to the UK after 5 April 2025, UK resident individuals who have been subject to the remittance basis in any year up to and including 2024/25 are able to elect to pay UK tax on those FIG at a reduced flat rate of tax under a new "Temporary Repatriation Facility" ("**TRF**") which is available for tax years 2025/26, 2026/27 and 2027/28. The reduced rate of tax is 12% in 2025/26 and 2026/27, and 15% in 2027/28. The alternative tax rates, without the TRF, can be as high as 45%. The TRF also applies to capital payments from a trust received by the same category of UK resident individual as above in tax years 2025/26, 2026/27 and 2027/28, to the extent to which these capital payments are matched to income and/or capital gains which arose in the trust structure before 6 April 2025.

In respect of capital gains, where non-UK assets are held personally, affected individuals who have claimed the remittance basis in the past, can elect for the value of the asset for UK capital gains tax purposes to be rebased so that the chargeable gain is reduced if or when they dispose of the asset after 5 April 2025. The rebasing date is 5 April 2017.

IHT reform

Changes to IHT apply from 6 April 2025, alongside the new four-year FIG rules.

IHT has now moved from a domicile-based system to a residence-based system with IHT exposure arising on the value of an individual's worldwide assets once they have been resident in the UK for

ten or more of the preceding 20 tax years.

Individuals in this category are known as "long-term residents" ("**LTRs**") of the UK for IHT purposes. Assets will remain within scope of IHT for a further "tail" period after the individual leaves the UK, with the period being between three and ten years depending on the duration of UK residence prior to departure. The tail period rules can be particularly harsh, and potentially an incentive for many UK resident individuals to leave the UK before they acquire a ten-year IHT tail.

A positive aspect to the IHT reforms is that the new IHT test based solely on residence puts British expats looking to return to the UK, and who have been outside the UK for more than ten years, in a better position than under the previous non-dom rules.

In terms of the IHT status of EPTs, the general rule is that, from 6 April 2025, they are subject to the new residence-based IHT rules. For assets within an EPT, the chargeability to IHT depends upon whether the settlor (and, in some cases, the life tenant of the trust) is an LTR or not at the relevant time. If the settlor is an LTR and the trust is subject to the IHT relevant property regime, the assets within the trust (wherever situated) are within scope of IHT, which includes a charge to IHT at every ten year anniversary of the EPT and when assets are distributed out of the EPT. If the settlor can benefit from the EPT, the trust assets are also treated as within the settlor's estate for IHT purposes and may be subject to a 40% IHT charge on the settlor's death (subject to available IHT exemptions and reliefs) – a potential double IHT charge on the same assets. There are transitional rules for EPTs that were in existence on 30 October 2024 (the date of the 2024 Budget when the non-dom reforms were first announced) which will reduce or eliminate some of these new IHT charges, including the potential double IHT charge referred to above.

CONCLUSION

The UK tax landscape for UK resident individuals, whether new residents or "non-doms" under the old regime, has changed dramatically, both in relation to their FIG (personal and arising within offshore

structures) and IHT treatment. Taking professional advice to ascertain the potential impact of these reforms on your circumstances at an early stage is important to determine what planning options are available.

The four-year FIG regime is less competitive than many European jurisdictions' remittance-based, lump-sum, or in-patriate regimes, which typically provide beneficial treatment for new arrivals for up to ten or fifteen years (even if at a cost); but is likely to be attractive to many non-doms looking to come to the UK for a short period and to whom tax-efficiency is a priority. The new IHT regime and the cost of worldwide IHT liability may mean that long-term resident individuals will look at their location options going forwards. The UK's estate tax treaties with some countries may provide relief against double taxation in some situations, but a full analysis will be needed in each case.

Please contact your usual Wedlake Bell adviser, or a partner in the Private Client Offshore team, for any assistance on the new tax regime.

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