

## Changes to the taxation of non-UK domiciled individuals from April 2025 - the Government's initial plans

Synopsis: The new Government's plans for the replacement of the non-dom tax rules with a new residence-based regime. Further details will be provided at the 30 October Budget.

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When the [Finance \(No.2\) Act 2024](#) was passed into law on 24 May, legislating for tax changes announced at the Spring 2024 Budget, the non-dom reforms, announced by the previous Government in that Budget, were effectively abandoned as they were still at [consultation stage](#), and the Finance (No.2) Bill (now Act) 2024 was stripped of the relevant clauses in the “wash up” in which it was hurried through the legislative process prior to the prorogation of Parliament ahead of the election.

On 29 July, the new Government published its [Policy Paper](#) setting out some information about its own, promised, non-dom reforms.

It will implement a new residence-based regime, which will be essentially the same as the four-year foreign income and gains (FIG) regime announced by the previous Government at the Spring Budget. However, it will remove preferential tax treatment based on domicile status for all new FIGs that arise from 6 April 2025. Its residence-based regime will provide 100% relief on FIGs for new arrivals to the UK in their first four years of tax residence, provided they have not been UK tax resident in any of the ten consecutive years prior to their arrival. From 6 April 2025, the protection from tax on income and gains arising within settlor-interested trust structures will no longer be available for non-domiciled and deemed domiciled individuals who do not qualify for the four-year FIG regime.

The new Government says that it intends to conduct a review of offshore anti-avoidance legislation, including the Transfer of Assets Abroad and Settlements legislation, to modernise the rules and ensure they are fit for purpose. The intention for this review will be to “remove ambiguity and uncertainty in the legislation, make the rules simpler to apply in practice and ensure these anti-avoidance provisions are effective”. Further details on the review will be provided in due course. The Policy Paper says that it is not anticipated that this review will result in any changes before the start of the 2026/27 tax year.

A form of Overseas Workday Relief (OWR) will be retained. Officials will engage with stakeholders on the design principles for this tax relief and further details will be confirmed at the Budget on 30 October.

As expected, the policy announced by the previous Government, providing a 50% reduction in foreign income subject to tax for individuals who lose access to the remittance basis in the first year of the new regime, will not be introduced.

UK resident individuals who are ineligible for the four-year FIG regime (or who choose not to make a claim for a tax year) will be subject to capital gains tax (CGT)

on foreign gains in the normal way. Transitionally, for CGT purposes, current and past remittance basis users will be able to rebase foreign capital assets they hold to their value at the rebasing date when they dispose of them. The Government says that it is considering the appropriate rebasing date and will set this out at the Budget.

Any FIG that arose before 6 April 2025, while an individual was taxed under the remittance basis, will continue to be taxed when remitted to the UK, as is the case under the current rules. This includes remittances of pre-6 April 2025 FIGs for those who are eligible for the new four-year FIG regime.

A new Temporary Repatriation Facility (TRF) will be available for individuals who have been taxed on the remittance basis. Individuals that have previously claimed the remittance basis will be able to remit FIGs that arose prior to 6 April 2025 and pay a reduced tax rate on the remittance for a limited time period after the remittance basis has ended. The Policy Paper says that the rate and the length of time that the TRF will be available will be set to make use as attractive as possible. The Government says that it is also exploring ways to expand the scope of the TRF, including to stockpiled income and gains within overseas structures, and will confirm further details at the Budget.

### **New residence-based regime for inheritance tax (IHT)**

The Government says that it intends to replace the current domicile-based IHT system with a new residence-based system from 6 April 2025. This will affect the scope of property brought into UK IHT for individuals and trusts. The Government says that it envisages that the basic test for whether non-UK assets are in scope for IHT from 6 April 2025 will be whether a person has been resident in the UK for ten years prior to the tax year in which the chargeable event (including death) arises, with provision to keep a person in scope for ten years after leaving the UK. The Government will engage further with stakeholders on the operation of the new test, so that any refinements can be considered fully.

IHT charges arising on deaths occurring before 6 April 2025 will be unaffected by these changes and will be charged according to the existing rules.

The Government will end the use of Excluded Property Trusts to keep assets out of the scope of IHT. It intends to change the way IHT is charged on non-UK assets which are held in such trusts. However, the Government says that it recognises that trusts will already have been established and structured to reflect the current rules, so is considering how these changes can be introduced in a manner that allows for appropriate adjustment of existing trust arrangements, while ensuring that the treatment of all long-term residents of the UK is the same for IHT purposes.

Confirmation of these new rules and their detailed application, including transitional arrangements for affected settlors, will be published at the Budget, following external engagement.

The Government will not carry out a formal policy consultation on moving to a residence-based system for IHT. Instead, it will review stakeholder feedback

provided following the Spring Budget and officials will carry out further external engagement over the summer on IHT policy design.

### **Next steps**

Further details on the separate engagement sessions on IHT and OWR, will be published on [gov.uk](https://www.gov.uk) in due course. To assist in obtaining technical comments on the draft legislative provisions, the Government will share plans to engage on [gov.uk](https://www.gov.uk) in due course.

### **Comment**

Under the previous Government's proposals, the treatment of non-UK assets settled into a trust by a non-UK domiciled settlor prior to April 2025 would remain excluded property. This might have presented a window of opportunity for non-UK domiciles who have currently been living in the UK for fewer than 15 years or who are planning to move to the UK in the imminent future and remain UK resident for longer than four tax years, to set up an excluded property trust, as these trusts would continue to be outside the scope of IHT.

However, the new Government says that it is considering how these IHT changes can be introduced in a manner that allows for appropriate adjustment of existing trust arrangements, while ensuring that the treatment of all long-term residents of the UK is the same for IHT purposes. Confirmation of these new rules and their detailed application, including transitional arrangements for affected settlors, will not, however, be published until 30 October.

This means that advisers and clients may not have all the information that they would like until 30 October at the earliest, making any decisions over existing excluded property trusts, and any potential new excluded property trusts, somewhat difficult. However, by being able to demonstrate that there are such unknowns, and being able to explain the changes quickly as more information becomes available, that will at least mean that your clients will be in the best position to plan when that point is reached.

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