RISK ASSURED
LIFE INSURANCE SPECIALISTS

Impact of non-dom taxation changes

Synopsis: Non-dom taxation changes and the reported increase in "millionaire emigration".

Date published: 21.01.2025

The announcement (effectively, confirmation and some additional details) of the material changes to the taxation of non-UK domiciled individuals in the October 2024 Budget appears, from recent reports, to be having an impact ahead of their commencement on 6 April 2025.

It appears, according to reports in The Times of 17 January, that the UK is experiencing a material increase in the number of departing millionaires and entrepreneurs – as a reaction to the changes and predominantly as a result of the inheritance tax (IHT) changes in relation to current non-UK doms.

HMRC stated that there were 74,000 non-UK doms in 2022/23, with 37,800 paying the fixed fees in 2021/22 to keep income and gains taxed on a remittance basis.

The new rules will replace domicile with "long term residence" as the determinant of liability to tax in the UK of foreign income and gains and also in relation to liability to IHT on non-UK situs assets.

Broadly speaking, there will be a four-year test for foreign income and gains and, in relation to IHT, an individual is long-term resident (and in scope for IHT on their non-UK assets) when they have been resident in the UK for at least ten out of the last 20 tax years and then remain in scope for between three and ten years after leaving the UK.

According to the report in the Times, New World Wealth (a global analytics firm) has reported...

- In total, the UK lost a net 10,800 millionaires last year (2024), which represented a 157% increase on the previous year. This "net" figure is after factoring in newly arriving millionaires.
- Of these departing millionaires, 78 were "centi-millionaires" (those worth at least £100m).
- Destinations were mainly other European countries, e.g. Italy and Switzerland, as well as the UAE.
- The departures amount to one millionaire leaving the UK every 45 minutes.

Oxford Economics additionally report that, of the 700 current non-UK doms they surveyed, two thirds were seriously planning to leave the UK with the IHT changes being the main driver.

Even the Office for Budget Responsibility (OBR) estimate that between 12% and 25% of non-UK doms could leave the UK.

Aside from the drop in actual income tax, capital gains tax (CGT) and IHT resulting, there would also be a material drop in economic activity and a resulting decrease in VAT on purchases made by non-UK doms.

The Treasury predicted a net yield of £2.5bn from the non-UK dom tax changes. However, factoring in the results of the survey made by Oxford Economics throws this into doubt. If those seriously thinking about leaving do leave, that £2.5bn net inflow figure would change to a negative £1bn - and that's without factoring in the lost VAT.

The Adam Smith Institute estimates that, by 2035, the non-UK dom reforms will make the economy £1.3bn smaller every year, which could lead to job losses.

Comment

If these studies are to be believed, they would go some way to providing living proof of the validity of the "Laffer Curve" when it comes to tax rises - especially when those affected are relatively mobile.

American economist Arthur Laffer developed a bell-curve analysis in 1974 that plotted the relationship between changes in the Government tax rate and tax receipts. The analysis is known as the Laffer Curve.

It suggests that taxes could be too low or too high to produce maximum revenue and that both a 0% income tax rate and a 100% income tax rate generate $0 in receipts. Essentially, the principle is founded on the behavioural impacts of tax increases – especially where individuals have relative freedom to take action to avoid the tax increases – in the case in point by just leaving the jurisdiction that is imposing the (unacceptable to them) tax increases.

To better understand the Laffer Curve, let's consider an example. Imagine a country with a tax rate of 0%. In this scenario, the Government would not collect any tax revenue. On the other hand, if the tax rate was 100%, meaning all income is taxed and confiscated by the Government, people would have no incentive to work, invest, or engage in productive economic activities. As a result, tax revenue would again be zero.

Now, let's assume the Government decides to increase the tax rate to 20%. Initially, this may lead to an increase in tax revenue since people are still motivated to work and generate income. However, as the tax rate continues to rise, individuals and businesses may start to reduce their economic activities, seek tax shelters, or engage in tax evasion. Consequently, tax revenue may begin to decline despite the higher tax rate.

The Laffer Curve suggests that there is a point at which further increases in the tax rate will result in diminishing tax revenue, as individuals and businesses adjust their behaviour to minimize their tax burden.

According to the surveys reported on, that point may have been reached for a material number of non-UK doms.

020 7183 3931
www.riskassured.co.uk

Risk Assured is authorised and regulated by the Financial Conduct Authority. This information is based on our understanding of current legislation, regulations and HM Revenue and Customs practice at the published date. This technical paper should not be relied upon as it may be subject to change and should not be construed as advice. We take no responsibility for any advice given or contracts entered into on the basis of this technical paper. This information is intended for professional advisers only.
E&OE