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CHARTERED ACCOUNTANTS
& BUSINESS ADVISERS

Your guide to residence, domicile and remittance changes

Issues to consider following the 30 October 2024 Budget in respect of residence, domicile and the remittance basis.

The following is not intended to be a comprehensive overview but instead to highlight some areas you may wish to consider further. If you would like to discuss this with Westcotts, please let us know.

The concept of domicile is ending from 5 April 2025. This means an end to the alternative remittance basis of taxation, whereby non-UK domiciled resident individuals can benefit from deferring tax on their overseas income and gains until such time, if ever, that the income and gains are remitted to the UK.

In its place is a new 'foreign income and gains regime' – the FIG regime – which will apply to anyone who has been outside of the UK for at least ten years, who is coming to or has come to the UK and is UK tax resident.

These relevant individuals will not be liable to UK tax on their foreign income and gains that arise during the first four years of residence (that occur on or after 6 April 2025) and such income/gains can be brought into the UK without a tax consequence. For example, a person who came to the UK and became resident during 2022/23 will be able to benefit from the FIG regime for 2025/26, this being their 4th year of residence.

Electing to use the FIG regime will result in a loss of some tax allowances, so for those with low levels of FIGs, it may not be worthwhile using this new FIG regime.

The key impact of these new rules is that they potentially apply to British citizens who have been resident outside of the UK for a long time, but who come back to the UK, as well as to individuals arriving in the UK for the first time.

British citizens resuming residence after a long time outside of the UK

Can you take advantage of these new rules allowing FIGs not to be taxed until after the 4th tax year of residence?

Depending upon the level of income, does it make sense to keep savings in the UK or invest in UK assets (outside of an ISA) during the first four years of residence?

When coming from low tax or no tax countries such as those in the Middle East, it remains easy to dispose of assets prior to arrival to flush out gains. Those returning from other places may find taking such action difficult due to the triggering of taxes in the local jurisdiction. The new FIG regime will allow some to reorganise their affairs more tax efficiently by disposing of non-UK assets with unrealised gains during tax years where the FIG regime applies.

See also the below comments regarding overseas workdays relief.

Do you have a non-UK domicile?

Overseas income and gains

If you are non-UK domiciled, are currently resident in the UK, and have been resident in the UK for more than four tax years, and have been previously using the remittance basis of taxation from 6 April 2025, you will be liable to tax on your worldwide income and gains.

You can still access the remittance basis for the current tax year ending 5 April 2025. Consideration should therefore be given to as to whether you can accelerate payment of any overseas income or gains to take advantage of the remittance basis before it ends.

Similarly, if you have yet to be resident for four tax years, the FIG regime will apply from 6 April 2025. Can you benefit from accelerating overseas income in the tax years where you will not be charged? Do you wish to consider disposing of overseas assets whilst the FIG regime applies, so that you can 'wash out' any unrealised gains?

Non-UK domiciled individuals with previously unremitted income and gains

Whilst the remittance regime ends on 5 April 2025, individuals who previously benefitted from a deferral of the UK tax due on overseas income having previously used the remittance basis rules, still need to be careful to avoid remitting such income/gains into the UK after 5 April 2025, as there will be a tax charge when this happens.

A temporary repatriation facility will be available during 2025/26, 2026/27 and 2027/28 which will allow individuals to elect to pay tax at a reduced rate on remittances of pre-6 April 2025 overseas income and gains. For 2025/26 and 2026/27 the rate is 12%. For 2027/28 the rate is 15%.

This is a flexible facility.

If a taxpayer has mixed funds, which made remitting difficult because the contents of the mixed fund could not be identified, if you are willing to pay the reduced rate you can elect for some or all of a mixed fund to be repatriated to make use of the temporary repatriation facility.

You do not have to elect for all of your unremitted overseas income and gains to be subject to this facility – you can choose to elect to apply the reduced rate to part only.
The facility can apply to non-liquid as well as liquid assets.

If you have only recently become UK resident with a non-UK domicile it will be sensible to consider whether you can ensure foreign income and gains are realised prior to 5 April 2025 so that, initially, you can use the remittance basis of taxation and then look to take advantage of the temporary repatriation facility to bring the funds into the UK post 5 April 2025 using the lower tax rate.

Overseas gains – possible cost rebasing

Transitional rules will allow current and past remittance basis users to rebase a personally held foreign asset for capital gains tax purposes to its market value as at 5 April 2017. This will apply to disposals on or after 6 April 2025.
This will apply to those:

- non-UK domiciles who have made a remittance basis claim for any one of the tax years 2017/18 to 2024/25; and

- have held a foreign asset since 5 April 2017.

Some non-UK domiciled and resident individuals may not have made a remittance basis claim during the aforementioned period. If you have large unrealised gains on any overseas assets, is it worthwhile considering making a claim for the remittance basis for the current tax year to gain this rebasing?

If this transitional rule will apply, and you were thinking of disposing of a non-UK asset held since before 5 April 2017, does it now make sense to wait until after 5 April 2025 to sell?

Overseas workdays relief

Where an employee is eligible for the four-year FIG regime, an overseas workdays election can be made to allow relief from UK tax for workdays performed when overseas. This election will mean a loss of some tax allowances but will allow the earnings relating to the overseas workdays to be tax-free. Such earnings can be brought into the UK without tax consequences.

Any election is made on a tax year by tax year basis, where eligible to do so.
Relief for overseas workdays will be capped for each relevant tax year at the lower of:
- 30% of worldwide earnings; or
- £300,000.

This relief, albeit in a slightly different format, did apply pre-6 April 2025; however, the big difference is that a special account is no longer required to receive such earnings, and the earnings can be paid direct into the UK or abroad as you prefer. Portions relating to overseas workdays relief no longer need to remain outside of the UK.

For those who arrived pre-6 April 2025, the relief was allowed for a period of up to three tax years. Employees who are part way through their three-year claim on 6 April 2025 can have this extended to four years as long as they are eligible under the new four-year FIG regime.

For those paid under PAYE, the employer can notify HM Revenue & Customs of its intention to exclude a portion of the pay from PAYE to allow PAYE only to be operated on the work relating to the UK. This is a welcome relaxation of the rules, which will provide cashflow benefits to employees.

Inheritance tax aspects of the FIG regime

The position pre-6 April 2025.

- An individual with a UK domicile or deemed UK domicile was/is liable to inheritance tax on worldwide assets (subject to any inheritance tax agreements with other countries – of which there are only a few in place) upon a chargeable event happening.

- A non-UK domiciled individual only had to consider their UK assets.

A chargeable event is usually death, but some lifetime transactions are considered.
The rules after 5 April 2025.

The domicile concept is abolished from 6 April 2025 (although in some of the inheritance tax agreements with other countries domicile is still mentioned, so does not entirely go away). Thereafter inheritance tax will be considered solely by reference to 'long-term residence'.

A long-term resident considers their worldwide estate.

Someone who is not long-term resident only considers UK assets.

Who is a long-term resident?

This will be someone who has been resident in the UK for at least 10 of the 20 tax years immediately preceding the tax year in question.

If an individual has been non-UK resident for 10 consecutive tax years, the test is reset.
Note: if someone is 20 years old or younger, the test is whether they have been UK resident for at least 50% of the tax years since birth.

There will be a 'tail'. For those who have been resident between 10 and 13 tax years who leave the UK, they will remain in scope for three tax years following departure. This tail then increases for every additional tax year of residence, up to a maximum tail of ten tax years.

I am a non-UK domiciled resident individual who will become long term resident on 6 April 2025. Is there anything I should consider?

Most people are aware that if they gift an asset or cash they need to survive seven years from the date of the gift for the gift to fall out of their estate for inheritance tax purposes. For non-UK domiciled individuals, property outside of the UK is excluded, so a gift could be made and there is no seven-year survival condition.

If you have been thinking of gifting cash or assets, it may be opportune to consider gifting overseas assets (and cash in a non-UK account is overseas) on or before 5 April 2025, as this will be a gift of excluded property. If you become long-term resident on 6 April 2025, the same gift will require you to survive seven years to avoid an inheritance tax issue.

Trusts – be careful

It was common for some non-UK domiciled individuals about to become deemed domiciled to gift non-UK assets into trust. The reason for this was to benefit from the non-UK assets gifted into trust remaining excluded property. If the individual had retained the assets and subsequently became deemed domiciled, the assets would form part of their estate for inheritance tax purposes.

From 6 April 2025 the excluded property status of non-UK settled assets will no longer be fixed at the time the assets were settled into trust. Going forwards, the assets will only remain excluded property (and not subject to IHT) at times when the settlor is not long-term resident.

When a settlor is long-term resident, any assets settled (even when not long-term resident) will be subject to IHT.

I settled a trust when non-UK domiciled and will be long-term resident on 6 April 2025 – what does this mean?

For most settled trusts – commonly called discretionary trusts – from 6 April 2025, non-UK settled property is no longer excluded property if the settlor is long-term resident.
If the settlor then adds further assets to the trust, there will be an IHT entry charge.

As the settlor is now long-term resident, the trust assets become relevant property for the IHT regime. This means IHT charges may arise on each tenth anniversary of the trust and there could be IHT exit charges on any assets exiting the trust.

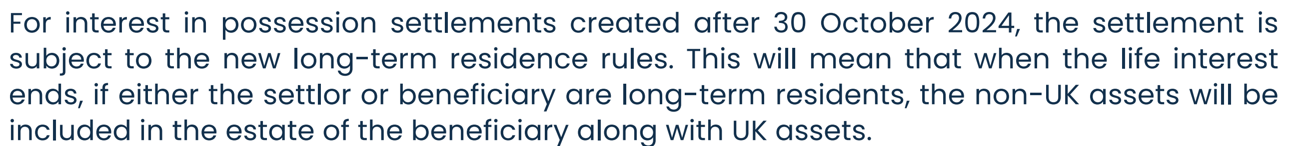
Following on, what happens if I cease being long-term resident?

This means that non-UK assets then cease to be relevant property for IHT purposes, which may result in an IHT exit charge arising.

What about interest in possession trusts?

Non-UK property in the settlement will only be excluded if both the settlor and the beneficiary with the interest in possession are not long-term residents. This only applies where the settlor did not die prior to 6 April 2025.

Non-UK settled assets that were excluded property prior to 30 October 2024, will not be subject to charge on the life interest ending (which usually occurs on the death of the beneficiary).



For interest in possession settlements created after 30 October 2024, the settlement is subject to the new long-term residence rules. This will mean that when the life interest ends, if either the settlor or beneficiary are long-term residents, the non-UK assets will be included in the estate of the beneficiary along with UK assets.