

What is the future of the UK's non-dom tax regime?

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The tax regime for UK resident non-UK domiciled persons, 'non-doms', has long been the subject of public and political scrutiny. However, it has recently been subject to a renewed focus. The three main UK political parties have all commented on the status of the current regime, and it seems likely that the next government, of whichever party, will make significant amendments. Therefore, in advance of the next UK general election (in or before December 2024) it is helpful to understand the current thinking of each party. Speculation is rife as to whether non-doms currently living in the UK would flee if there are significant changes but there is already concern from those who are considering a move to the UK.

The non-dom tax regime

The current regime (the 'remittance basis') applies to individuals who are resident but not domiciled, or deemed to be domiciled, in the UK. Broadly, non-doms are only subject to UK tax on their UK income and capital gains and on foreign income¹ and capital gains that are brought into (or 'remitted') to the UK. Non-doms can claim the remittance basis free of charge until they have been UK resident for seven out of the nine previous tax years. After this point, it costs GBP30,000 each year to access the remittance basis. The charge increases to GBP60,000 per year once one has been resident for 12 out of the past 14 tax years. This charge is per person, not per couple or per family. Despite this yearly payment, on average a non-dom taxed on the remittance basis has GBP420,000 each year in offshore income and capital gains.²

Once UK resident for 15 out of 20 tax years, a non-dom will be 'deemed domiciled' in the UK for tax purposes. At this point, they will no longer be able to access the remittance basis and will be subject to UK tax on their worldwide income and gains as these arise. They will also be exposed to UK inheritance tax on their worldwide estate.

Generally, tax regimes such as this are considered economically useful because of their ability to attract highly talented individuals to work and invest in the country. This is the position of the UK's current Conservative government. However, across the political spectrum, attitudes vary.

The Conservative Party

The Conservative Party have traditionally been in favour of the non-dom tax regime. However, notable changes to the remittance basis have previously been made with the Conservative Party in power – most importantly, the 2017 introduction of the concept of 'deemed domicile' by virtue of long residence for income and capital gains tax purposes (described above). In light of this and the current political backdrop to the UK, the likelihood of the Conservatives changing the remittance basis should not be underestimated.

Following political pressure from the opposition and the public, the Conservative government are openly considering reviewing the tax benefits offered by the regime. In November 2022, Chancellor Jeremy Hunt indicated that he had ordered Treasury officials to review how much

¹ Foreign earnings have limited protection.

² <https://www.lse.ac.uk/News/Latest-news-from-LSE/2022/i-September-22/Abolishing-the-non-dom-regime-would-raise-more-than-3.2-billion-each-year-finds-new-report>. Accessed on 21 December 2022.

money could be raised by completely abolishing the scheme. While it is unlikely that any changes will be this extreme, it is interesting to note that external research conducted by the London School of Economics earlier in 2022 indicated that abolishment would raise more than GBP3.2 billion each year.³ The real question is how much could be lost as a result of people leaving or, more likely, people not coming.

At the same time therefore, the Conservative Party is wary of disincentivising non-doms from coming to the UK. Jeremy Hunt has indicated that he would prefer those who benefit from the non-dom status to stay in the UK and spend their money here.

The Labour Party

The Labour Party are the only party that has confirmed what they will change about the non-dom tax regime if they form a government. In April 2022, Rachel Reeves (Shadow Chancellor) announced that the Labour Party would 'abolish' the non-dom tax regime. She later clarified that the regime would be replaced with a shorter-term scheme for those staying in the UK for up to five years.

This approach is not new for the Labour Party. Indeed, Ed Miliband proposed a similar 'temporary resident tax regime' as the party's leader in 2010. A shorter-term regime like the one proposed is more in line with France and Canada who both operate partial tax exemptions for short-term residents (up to eight years and five years respectively). For tax purposes, this would essentially mean that a non-domiciled individual would become deemed domiciled in the UK after five years, instead of the 15 years currently allocated. Consequently, their worldwide assets would become subject to UK inheritance tax, income tax and capital gains tax much more quickly.

The Liberal Democrats

The Liberal Democrats also support a change to the non-dom regime, having previously supported increases to the remittance basis annual charge. At this stage, their proposed changes are unclear; the last official policy on the non-dom regime was reviewed in 2013 and it will be revised before the next election.

Likely changes

While overall attitudes differ as to the helpfulness of the non-dom tax regime, it is clear that some changes should be expected, particularly within the current social, economic, and political context. Three types of change seem likely to be considered. Firstly, as the Labour Party have suggested, the introduction of a similar but shorter-term regime. This would require non-doms living in the UK or considering moving to the UK to take a much more critical approach to their tax planning. The second and third changes relate to the current remittance basis charge: either increasing it, or making it payable at an earlier stage of an individual's UK residence. These changes seem the most likely to be considered by the Conservative Party. Having said this, it is worth noting that with the UK general election less than two years away, the political approach to the non-dom tax regime may change yet further. Advisors with clients currently living in the

³ <https://www.lse.ac.uk/News/Latest-news-from-LSE/2022/i-September-22/Abolishing-the-non-dom-regime-would-raise-more-than-3.2-billion-each-year-finds-new-report>. Accessed on 21 December 2022.

UK or considering moving to the UK in the future should therefore keep the position under review.