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UK tax changes for "non-doms" From 6 April 2025

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Introduction

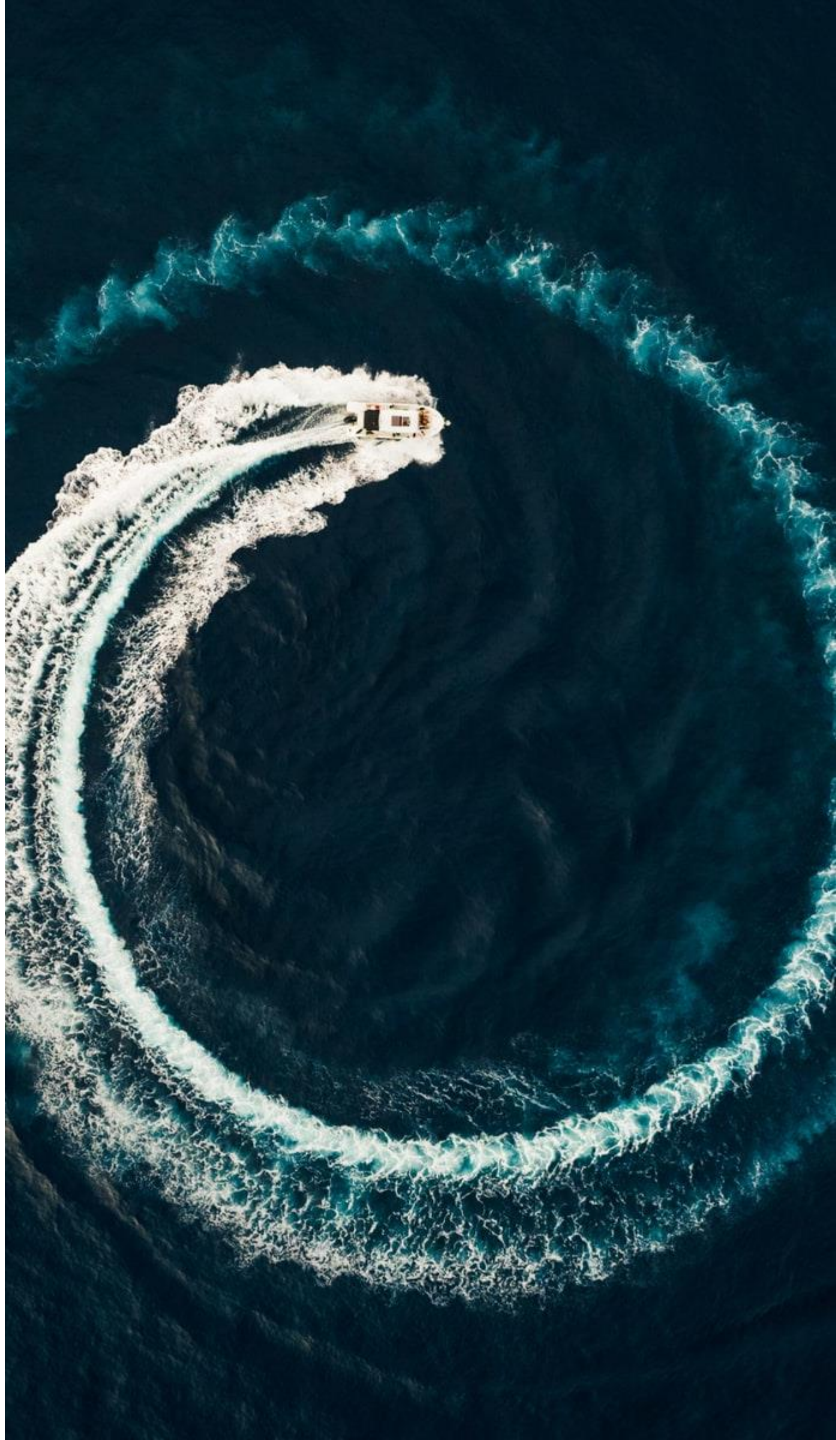
- Major changes regarding the taxation of “non-doms” have been introduced with effect from 6 April 2025.
- How did we get here?

6 MARCH 2024

4 JULY 2024

30 OCTOBER 2024 → 20 MARCH 2025

6 APRIL 2025



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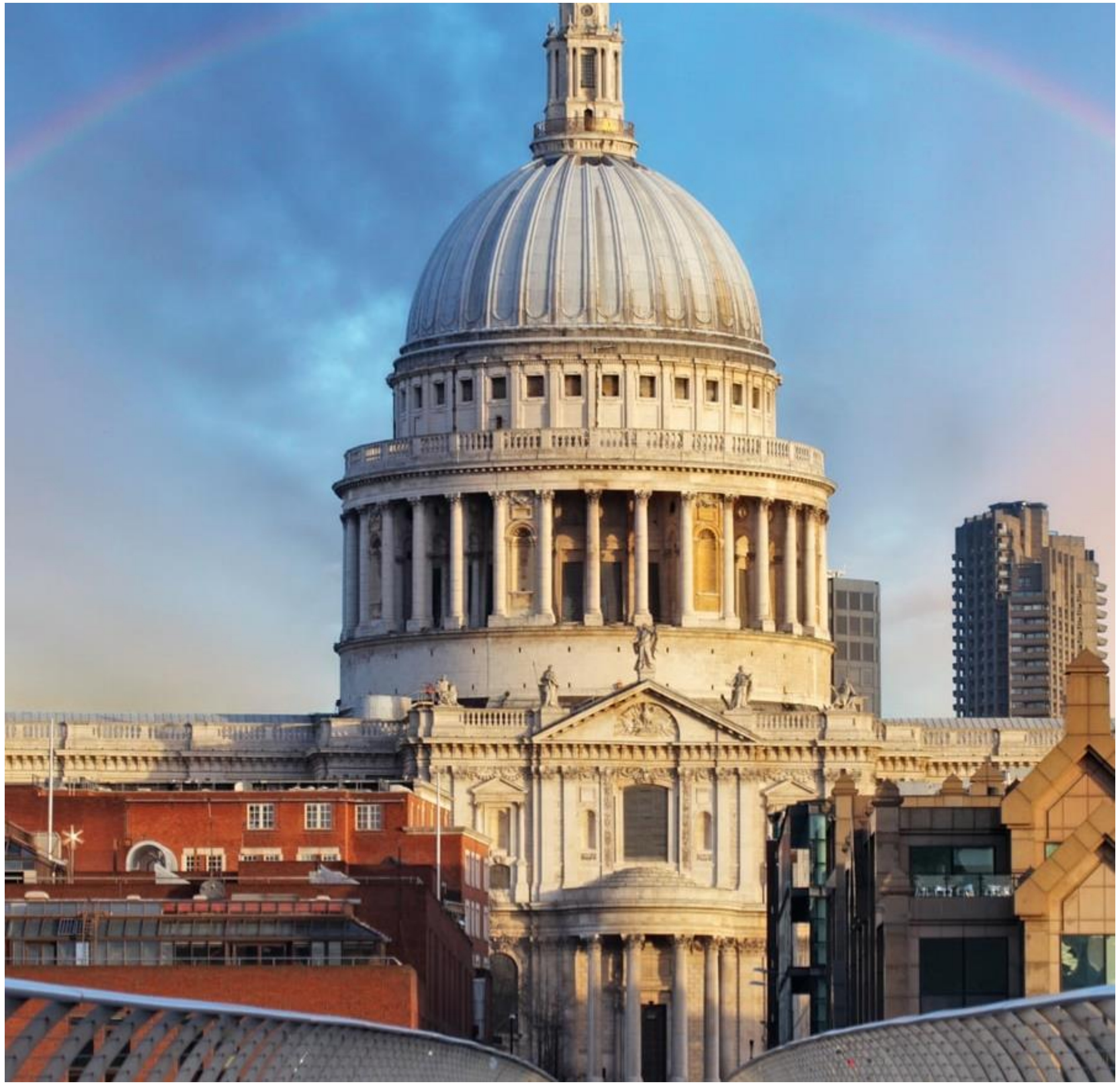
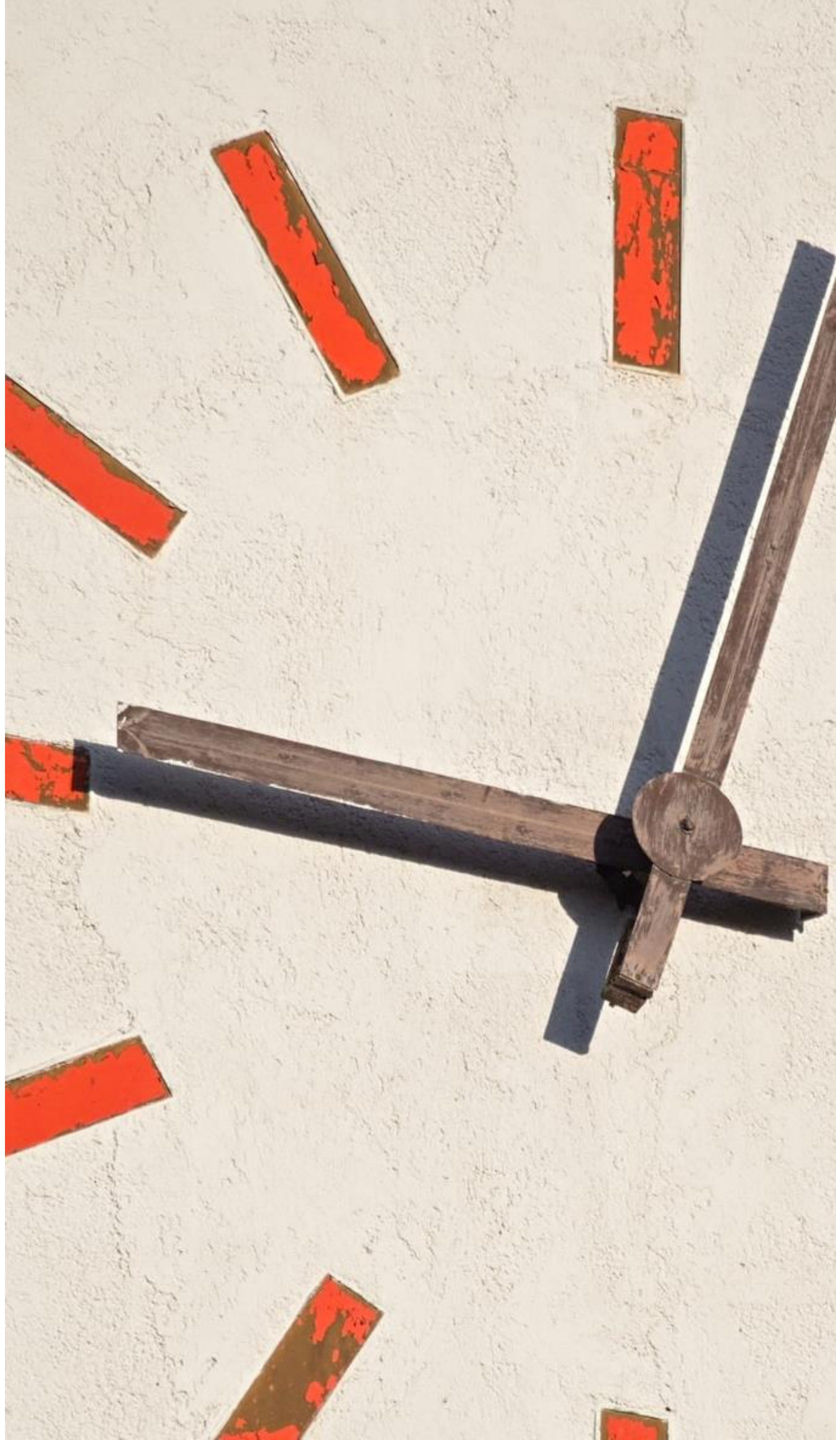
   - The new UK IHT Regime explained.



The changes from 6 April 2025: a re-cap

- **Out**: the remittance basis* (*but it still applies to the past!)
- **In**: the QNR Regime
- **In**: (for former RBUs) the TRF (on a transitional basis) and April 2017 rebasing

- **Out**: domicile, deemed-domicile and the 15/20 year rule
- **In**: long-term residents (**LTRs**) and the 10/20 year rule
- **In**: IHT "tails" of up to 10 years (subject to treaty protection)



Case Study 1: Klaus and Lucy (new arrivals)

Status Quo:

- Klaus is a 40-year-old German citizen from a wealthy German family. He has lived in Bonn since his birth.
- He is a shareholder in a German limited liability company (GmbH, non-real estate company, incorporated and registered in Germany) with an interest of 11%. He receives dividend income from the German GmbH.
- His wife, Lucy, is a UK citizen living in Germany and they have two minor children who are at boarding school in the UK.

Planning considerations:

- Klaus is considering selling his home in Bonn and becoming resident in London as of 1 June 2025 (i.e. part-way through tax year 2025/26).
- Klaus has heard about the new four-year regime for “qualifying new residents” (**QNRs**) (the **QNR Regime**), which was introduced with effect from 6 April 2025 (to replace the remittance basis), and, as a newcomer to the UK, he would like to explore making use of this QNR Regime.
- Klaus would also like to understand what his exposure to UK IHT would be as a result of moving to the UK.

The new QNR Regime – does Klaus qualify? (1/2)

- First, is Klaus UK tax resident? → Statutory Residence Test (**SRT**).

- Klaus will qualify for the QNR Regime because he <u>becomes</u> UK tax resident <u>from 6 April 2025 (or later),</u> **and** he has not been UK tax resident in any of the preceding 10 tax years.

- Klaus will be able to qualify for the <u>full</u> four years of the QNR Regime (if he wants to).

- The QNR Regime applies on a "use it or lose it" basis. The benefit of QNR status, if unused in a particular tax year, cannot be carried forward.

- Assuming UK tax resident in each year, Klaus would need to <u>elect</u>, on his UK tax return, for the QNR Regime to apply from 6 April 2025 and will need to do so on an annual basis (up to four years).

- QNRs will be able to claim relief from tax under three separate heads: (i) **foreign income** (by way of a "foreign income claim"), which Klaus will be doing; (ii) **foreign gains** (by way of a "foreign gains claim"); and (iii) **foreign employment income** (by way of a "foreign employment election").

- Assuming a successful "foreign income claim" has been made, the dividend income which Klaus receives from the GmbH (being non-UK source income) will not be subject to income tax in the UK, for the first four tax years – this could be particularly useful if large dividends are due to be paid in the four-year window.

The new QNR Regime – does Klaus qualify? (2/2)

- If Klaus maintains his home in Bonn, Klaus may be considered German tax resident – i.e. dual resident – and the dividends from the GmbH taxable in Germany (up to 25%). Will the Double Tax Treaty (**DTT**) assist (N.B. Article 24: Limitation-of-Relief Clause)?

- As a QNR, Klaus would only be subject to tax on his UK source income and realised capital gains for four years.

  - **Planning opportunity:** To maximise the benefits of the QNR regime and to limit IHT exposure, Klaus could avoid UK-situated assets / assets generating UK-source income.

- N.B. It will be important to ensure the German GmbH continues to be non-UK resident for UK tax purposes, and so care will need to be taken over "central management and control" issues, etc.

- Lucy – a British national – can also qualify for the QNR Regime (i.e. domicile is no longer relevant). … → Expats are a potential winner of new regime.

The new QNR Regime – Olaf

- Klaus has a brother – Olaf – who also qualifies for the QNR Regime, as someone who is already resident in the UK at 6 April 2025, having become UK resident from 6 April 2023 (i.e. resident for fewer than 4 tax years as of 5 April 2025) and was non-UK resident for 10 years before that. (His use of the QNR Regime will be more limited than Klaus’s as he will not be able to use the full four years.)
  - **Planning opportunity:** Olaf could make a “foreign gains claim” / use TRF to bring in any previously unremitted dividends.

Application of the UK IHT Regime to Klaus and Lucy

- Klaus will only become subject to UK IHT on UK assets for the first 10 tax years of residence.

- If Klaus remains resident in the UK for 10 years or more, he will be subject to IHT as an “LTR” and will (by default) acquire a 10-year IHT tail. (However, the tail will be shorter than this if Klaus spends fewer than 20 years in the UK.)

- Klaus can therefore live tax-efficiently in the UK for at least 9 years. Offshore life bonds can offer income tax and CGT deferral, and IHT exposure will be limited to UK situated assets (and Schedule A1 property) <u>unless and until</u> he becomes an LTR.

- Even after becoming an LTR, life insurance can be obtained to cover the IHT exposure; and the IHT “tail” will be limited to three years if Klaus does not clock-up more than 13 years of UK residence.

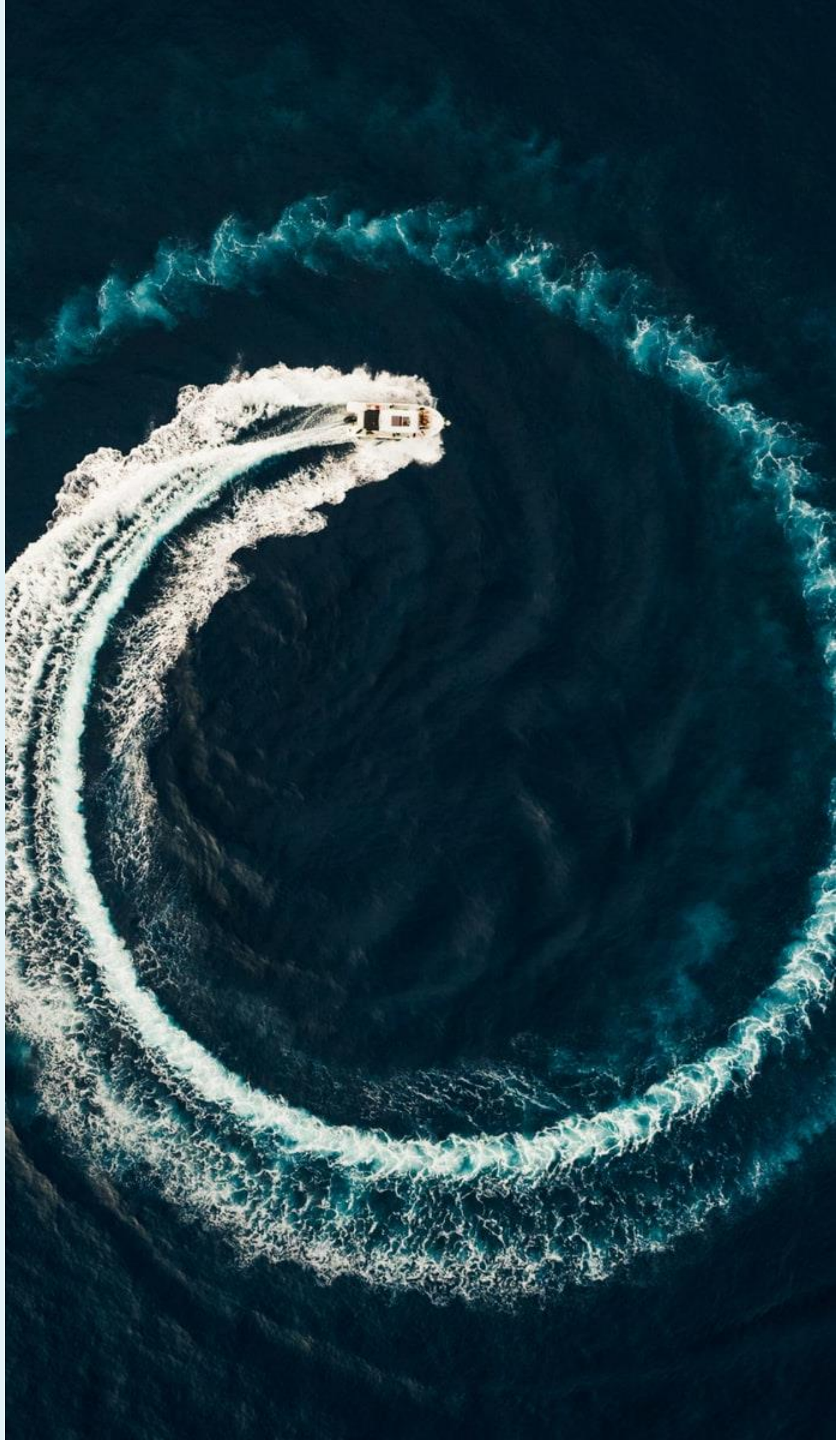
- Therefore, to avoid IHT exposure on non-UK assets and to avoid acquiring an IHT tail, Klaus should leave in the ninth year (i.e. before the end of his 9^{th} year of UK residence).

- Outright gifts or structuring using a family investment company (**FIC**) or family limited partnership (**FLP**) of non-UK assets after 5 years of leaving Germany (this being the German IHT ‘tail’) but before 10 years in the UK may be the optimal estate planning with no IHT.

- Lucy was born in the UK with a UK domicile but provided she has not been resident in the UK within the past 10 years, she will enjoy the same 10-year exemption from global IHT as Klaus.

Conclusion

- Internationally competitive?
- **New QNR Regime** – opportunity for short stays in the UK… “pit-stop” for estate planning …
- … but not long-term due in large part to **IHT reforms** (i.e. 40% on worldwide estate if an LTR and then the “tail” even when ceased residency)?



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