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# Changes to non-dom taxation

A guide to the important changes to the tax treatment of non-doms in 2017.

For many years individuals who come to the UK but do not settle here permanently have had a number of distinct tax benefits.

These UK resident but non-domiciled (non-dom) individuals have had to pay UK tax on income and gains made in the UK and have had the ability to choose that those made overseas are only taxed when brought into the UK.

This is, however, likely to change in April 2017 when the government introduces changes to the non-dom status laws.

These changes could significantly affect an individual's tax position, so what exactly is changing?

The non-domiciled tax status has been a feature of the UK tax system since 1914, allowing individuals from abroad to contribute their share before returning home.

## Residence

Residents will normally be liable for UK tax on all of their income and gains, whether it originates in the UK or abroad.

An individual is automatically considered a resident if either:

- they have spent 183 or more days in the UK in the current tax year
- their only home is in the UK (owning, renting or living there for at least 30 days in a tax year)
- they work sufficient hours in the UK.

## Domicile

A person's domicile is usually the country that their father considered their permanent home at the time of their birth.

Your domicile may have changed from the one you acquired at birth if you moved abroad with no intention of returning.

Domicile does not usually affect the tax you are liable for on your employment income, but can be a big factor when it comes to capital gains and other sources of income.

Non-domiciled residents are therefore people that, while being resident in the UK have their permanent home outside the UK. Generally speaking this means they will have been born somewhere other than the UK.

They do not have to pay UK tax on foreign income and capital gains if both are:

- less than £2,000 a tax year
- not brought (or 'remitted') into the UK.

Currently, these non-dom residents are able to:

- claim tax relief on overseas workdays during the first 3 years they are in the UK
- choose to pay UK tax on foreign income and gains only if they are remitted to the UK.

Disposals of assets that are more intangible, such as intellectual property and business goodwill, are usually treated as income and taxed accordingly.

Tax on gains is paid in this way through corporation tax by:

- limited companies
- most unincorporated associations
- foreign companies with offices or branches located in the UK.

Since 2008, choosing to be taxed under the domicile regime means forgoing the personal tax allowance and the capital gains tax (CGT) annual exempt amount. Non-doms also face charges if they wish to use the remittance basis of tax which are based on the number of years they have been resident. Those under 18 are exempt from these charges.

This is a basic overview so consult us today for more detailed information.





# Changes to non-dom taxation

## What's changing

Announcing the changes in his Summer Budget 2015 speech, then chancellor George Osborne said:

"Non-dom status was meant to be temporary, but it became permanent for some people. Not any longer. I am today abolishing permanent non-dom tax status."

### Deemed-domicile status

From April 2017, any individual that has been a resident in the UK for 15 of the last 20 tax years will be considered domiciled for tax purposes. The individual will become domiciled on the 16th year.

This means that the remittance basis of taxation will no longer be an option, and that a person will no longer be able to be a non-dom on a permanent basis.

The permanent non-dom status will be replaced by the deemed-domicile status. This will include years of residence while the individual is under the age of 18. However, a person can lose their deemed-domicile status if they become a non-resident of the UK for at least 6 years.

### Example

Mary has lived continuously in the UK since 1990. When the new rules come into force in April 2017 she becomes deemed-domicile.

She decides to leave the UK in April 2018 and lives in another country for 6 tax years, from 2018/19 to 2023/24.

Mary returns to the UK in June 2024. She can now claim non-dom status for tax purposes until 2039/40.

Some other details:

- the 15 years will include any tax year the individual was resident in the UK, even if they left the UK at some point during that year
- an individual with foreign income or gains of £2,000 or under will still not need to report.

These changes are set out in more detail in draft legislation published as part of Finance Bill 2017.

Contact us about financial planning today.

## Trusts

One potentially significant source of income for non-doms can be offshore trusts.

Under the new rules, a person who becomes deemed-domicile will not be liable for UK tax on income and gains in offshore trusts that they set up before they are deemed-domicile.

An individual who becomes deemed-domiciled will not be liable for UK tax on offshore trusts that have they have settled while they, their spouse or their children receive benefits from it.

The new rules will be based on the taxable value of benefits received by the deemed-domicile as opposed to the income and gains arising from the trust.

We can advise you on making the most of trusts.

## Inheritance tax

The new rules also aim to bring residential properties located in the UK but held within an overseas structure within the remit of UK taxation.

These changes are set to take effect from 6 April 2017 and will be legislated as part of Finance Bill 2017.

With UK residential properties that are indirectly owned through offshore structures removed from the excluded list (sections 6 and 48 of the Inheritance Act 1984), these properties become liable for an inheritance tax (IHT) charge.

This will apply to overseas structures owned by an individual or a trust.

Properties which are held by corporate or other structures owned by UK domiciled individuals (or trusts made by them) will still be exempt.

The change will be effective for chargeable events after 5 April 2017. Chargeable events will follow the current IHT rules.

Another aspect of the new rules will involve the process of de-enveloping. There will be no CGT or stamp duty land tax relief for individuals who are required to de-envelope their property owning structure.

Structures currently liable for the annual tax on enveloped dwellings will continue to have this liability but will no longer have IHT protection.

Taken together, these changes could represent a large change in the tax position of some people. This article is intended as an introduction to a complex and technical area of taxation, so it is always advisable to talk to a professional if these changes are likely to affect you.

Talk to our team about your tax liability today.

### Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. The information in this report is based upon our understanding of the draft Finance Bill 2017, in respect of which specific implementation details may change prior to this legislation coming into force.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation.

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