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The End of the UK Non-Dom Regime



Legislation was confirmed on October 30, 2024, that will affect individuals with U.K. non-domicile (non-dom) status, U.K. residents and non-U.K. assets or foreign income and gains (FIG), and trustees of trusts created by individuals who previously had non-dom status. The new legislation goes into effect on April 6, 2025.

U.K. Chancellor of the Exchequer Rachel Reeves confirmed the U.K. government will abolish the non-dom tax regime and remove the "outdated concept" of domicile from the tax system. Reeves stated that "everyone who makes their home in the U.K. should pay their taxes here." The old system will be replaced by a residence-based regime as of April 6, 2025. Such changes will end the use of offshore trusts (excluded property trusts or EPTs) to shelter assets from inheritance tax (IHT). The Office for Budget Responsibility states this package of measures will raise £12.7 billion over the next five years.

Under the current system, U.K.-resident non-dom individuals can avoid U.K. taxes on FIG if they are not brought (remitted) into the United Kingdom. In April 2025, the remittance basis will be replaced by a new residency-based regime that applies to all U.K. residents regardless of domicile status. Below are the key points:

- Residency-Based Income and Gains Taxation
 - The new regime will provide 100% relief on FIG for new arrivals to the United Kingdom in their first four years of tax residence, provided they have not been U.K. tax residents in any of the 10 consecutive years prior to their arrival, after which an individual will be taxed on their worldwide income.
- IHT and EPTs
 - The current domicile-based system of IHT will be replaced with the residence-based system. Non-U.K. property will be brought into the IHT regime for individuals and trusts. An individual is a long-term resident (and in scope for IHT on their non-U.K. assets) when they have been a resident in the United Kingdom for at least 10 out of the last 20 tax years and then remain in scope for between three and 10 years after leaving the United Kingdom.

- Any non-U.K. assets a person puts into a trust (which may include certain U.S.-style revocable trusts that are not drafted carefully) will be subject to IHT charges at times when the settlor is a long-term resident.
- Capital Gains Tax
 - For capital gains tax (CGT) purposes, current and past remittance basis users will be able to rebase foreign capital assets they held as of April 5, 2017, to their value when they dispose of them.
- Transitional Income Tax Relief Under a Temporary Repatriation Facility
 - A new temporary repatriation facility (TRF) will be available for the next three years, affording reduced tax rates for individuals who previously claimed the remittance basis. Such individuals will be able to designate and remit at a reduced rate FIG that arose prior to the changes. This includes unattributed FIG held within trust structures. The TRF will be available for a limited period of three tax years. The TRF rate will be 12% for the first two years and 15% in the final tax year.

Given this wholesale change to a residency system of taxation, we recommend that (1) individuals who currently hold non-dom status, (2) new arrivals into the United Kingdom who have non-U.K. assets or FIG, and (3) trustees of property settled into trust by individuals who previously had non-dom status or who changed their residence status seek legal advice prior to the April 6, 2025, deadline in order to understand how these changes will affect both income tax and IHT and what can be done to mitigate the effect of the new legislation.

For more information, please contact Gerard F. Joyce, Jr. or Raveet S. Phull.

Authors