UK Budget 2024

How will reforms to Britain's 'non-dom' tax regime work?

Jeremy Hunt's abolition of controversial colonial-era system expected to raise £2.7bn a year

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Emma Agyemang in London MARCH 6 2024

Jeremy Hunt made big changes to the tax regime for so-called non-doms in his Budget, axing the colonial-era concept of domicile in tax and cutting the amount of time that people can benefit from the perks of the status.

Non-doms are UK residents deemed to have a permanent home outside Britain. The regime, which dates back more than 200 years, allows people domiciled abroad to pay tax in the UK on only their UK income and capital gains.

Unlike UK-domiciled people, who pay tax to HM Revenue & Customs on their worldwide income and gains, non-doms do not pay UK tax on foreign income or gains unless they bring these back into the country.

The regime — which Labour had vowed to scrap — has long drawn controversy. The latest high-profile row involved Akshata Murty, wife of Prime Minister Rishi Sunak, who previously claimed the status.

Downing Street said Sunak "was recused from all policy development and was only sighted on the policy once final decisions had been taken".

What did the UK chancellor announce?

Hunt on Wednesday said he would abolish non-dom status, replacing the concept of domicile in tax with a residence-based system and stealing one of the main opposition party's flagship fiscal policies.

Under the new system, which will come into force in April 2025, an individual will be able to claim its privileges for four years, down from 15 now.

New arrivals will not be liable for UK tax on non-UK income or gains for the first four years, provided they can demonstrate a period of 10 years consecutive non-residence in the UK before their arrival. But from year five they will pay the same tax as other UK residents.

Hunt told MPs that he had "always believed that provided we protect the UK's attractiveness to international investors, those with the broadest shoulders should pay their fair share".

He said the new system would be "both fairer and remains competitive with other countries".

How do the changes affect current non-doms?

Government documents released alongside the Budget showed several transitional arrangements would be put in place for current non-doms.

Those who do not qualify for the new regime will, in the 2025-26 financial year alone, pay tax on 50 per cent of their foreign income. The reduction applies only to income, not foreign gains.

For current non-doms, capital assets will also be rebased to their levels on April 5 2019 for sales that take place after April 6 2025. This change means that when foreign assets are sold, affected individuals can elect to be taxed only on capital gains since April 2019.

In addition, current non-doms will be able to bring foreign income and gains made before April 2025 into the UK and pay tax at a discounted rate of 12 per cent under a "temporary repatriation facility".

This will be available in 2025-26 and 2026-27, and is aimed at encouraging people to bring wealth onshore.

Hunt said the two-year period would encourage people "to bring wealth earned overseas to the UK where it can be spent and invested", and that the measure would "attract onshore an additional £15bn of foreign income and generate more than a £1bn of extra tax".

In a blow to current non-doms, the government said it would axe a common planning method for sheltering foreign income and gains in trusts before non-doms are deemed UK-domiciled after 15 years, from April 2025.

Ministers also promised a consultation on plans to move inheritance tax from a domicile-based regime to a residence-based regime.

What impact will Hunt's reforms have?

The Treasury said axing the current system would raise £2.7bn a year by 2028-29, in addition to the £8.5bn that current non-doms pay in UK tax each year.

In its Budget forecasts, the Office for Budget Responsibility said 10,500 people would be eligible for non-dom status in April 2025, well below the 68,800 registered with HMRC at present.

The fiscal watchdog said the risk of non-doms leaving the UK en masse because of the change was "probably limited by generous protections" set out by the government. It estimated that 10-20 per cent of current non-doms who will not meet the new regime's criteria would go elsewhere.

What do experts make of the changes?

Tax experts said Hunt's announcement was more far-reaching than they had expected. They said that while some aspects of the new regime were competitive internationally, others were not.

"The new four-year exemption . . . falls short of the 15-year Italian equivalent," said Will Johnstone, tax director at chartered accountancy MHA. But he added the new system "still compares favourably . . . by not charging an equivalent of the Italian €100,000 annual fee".

Tim Stovold, head of tax at accountancy firm Moore Kingston Smith, said: "The ability to remit money to the UK at a bargain basement tax rate of 12 per cent will encourage non-doms to bring in huge sums."

But he cautioned that abolishing the current regime had left the inheritance tax position of people coming to live in the UK "up in the air".

At present, a person is liable for IHT only after they have been tax resident for more than 15 years. Reducing this would be "a big disincentive for overseas nationals to base themselves in the UK for longer period", said Stovold.