

Non-dom tax series (Part 3)

Significant changes to the taxation of UK resident non-doms came into force on 6 April 2017. If you are non-UK domiciled but were born in the UK with a UK domicile of origin you will no longer enjoy a beneficial tax regime when you are UK resident. You will be taxed on your worldwide income and gains and the income and gains of offshore trusts you set up when you were non-UK domiciled. You may be able to take steps to mitigate these tax charges before coming to the UK. Here we provide a guide to how you will be taxed under the new rules.



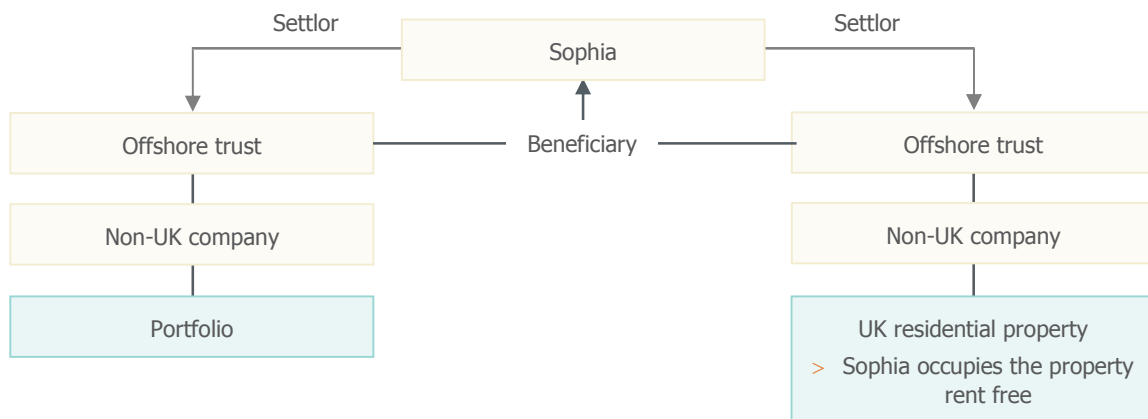
UK TAXATION OF NON-UK DOMICILED INDIVIDUALS: UK RESIDENT NON-DOM BORN IN THE UK WITH A UK DOMICILE OF ORIGIN

Position from 6 April 2017

From 6 April 2017, an individual born in the UK with a UK domicile of origin, who has acquired a domicile in another country but who returns to the UK to take up residence will be treated as UK domiciled as soon as she becomes UK resident. She will be taxed on her worldwide income and gains as they arise, and after one tax year of residence her worldwide assets (including those held in trusts set up by her when she was non-UK domiciled and not deemed domiciled) will be subject to UK inheritance tax.

SOPHIA

- > born in the UK with a UK domicile of origin
- > non-UK resident from 6 April 1982 to 5 April 2014; acquired non-UK domicile of choice in 1985
- > set up offshore trusts in January 2002; she is a beneficiary of the trusts
- > UK resident since 6 April 2014 but intends to return to country of domicile of choice in a few years



TAX POSITION WHILE SOPHIA IS UK RESIDENT

While Sophia is UK resident:

- > she will be subject to tax on an arising basis on her worldwide income and gains
- > her worldwide assets will be subject to inheritance tax if she was also UK tax resident in at least one of the previous two tax years.

Offshore trusts set up by Sophia while a non-dom

- > Sophia will be subject to tax on an arising basis on the UK and foreign income and gains of the trusts.
- > A charge to inheritance tax will arise on the UK and non-UK assets of the trusts if any of following occur once Sophia has been UK resident for one tax year and while she remains UK resident:
 - 10 year anniversary of the trust
 - assets are distributed out of trust to beneficiaries; or
 - Sophia dies.

UK RESIDENTIAL PROPERTY

- > The shares in the non-UK company (held in trust) which holds the UK residential property will be subject to inheritance tax even if Sophia is non-UK resident
- > A charge to inheritance tax will arise:
 - on each 10 year anniversary of the trust
 - if the shares or the property are distributed out of trust; and
 - on Sophia's death.



Expats need to be alert to the changes to tax rules which took effect from April 2017. The draconian rules mean that an expat could find themselves paying UK income tax and capital gains tax and be exposed to inheritance tax on their worldwide assets if they return to the UK, even temporarily.



PLANNING OPTIONS

- > A non-dom who was born in the UK with a UK domicile of origin and is considering becoming UK resident should plan in advance for the period that she will be UK resident. This may include:
 - investment planning to realise gains prior to arrival in the UK
 - planning to defer income and gains, as far as possible, while she is resident in the UK
 - potentially changing certain investments to enable deferral, and tax-free roll-up
 - inheritance tax and succession planning for at least the period of residence.

This note is a general guide only and is not a substitute for specific legal and tax advice.



PRIVATE WEALTH

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