

## *Wealth Owner Summary*

Significant tax changes come into force in April 2017 for UK resident non-doms. If you have been in the UK for 15 years or more you will lose substantial tax advantages. Although some beneficial tax treatment will remain, it is safe to assume your tax will likely increase. Here we provide a guide to the proposals so you can plan ahead.



## UK RESIDENT WITH A FOREIGN DOMICILE OF ORIGIN

Proposed position from April 2017

### UK TAX RESIDENT FOR FEWER THAN 15 TAX YEARS (SHORT-TERM RESIDENT)

A non-UK domiciled individual who has been UK tax resident in fewer than 15 of the previous 20 tax years can claim the remittance basis of taxation.

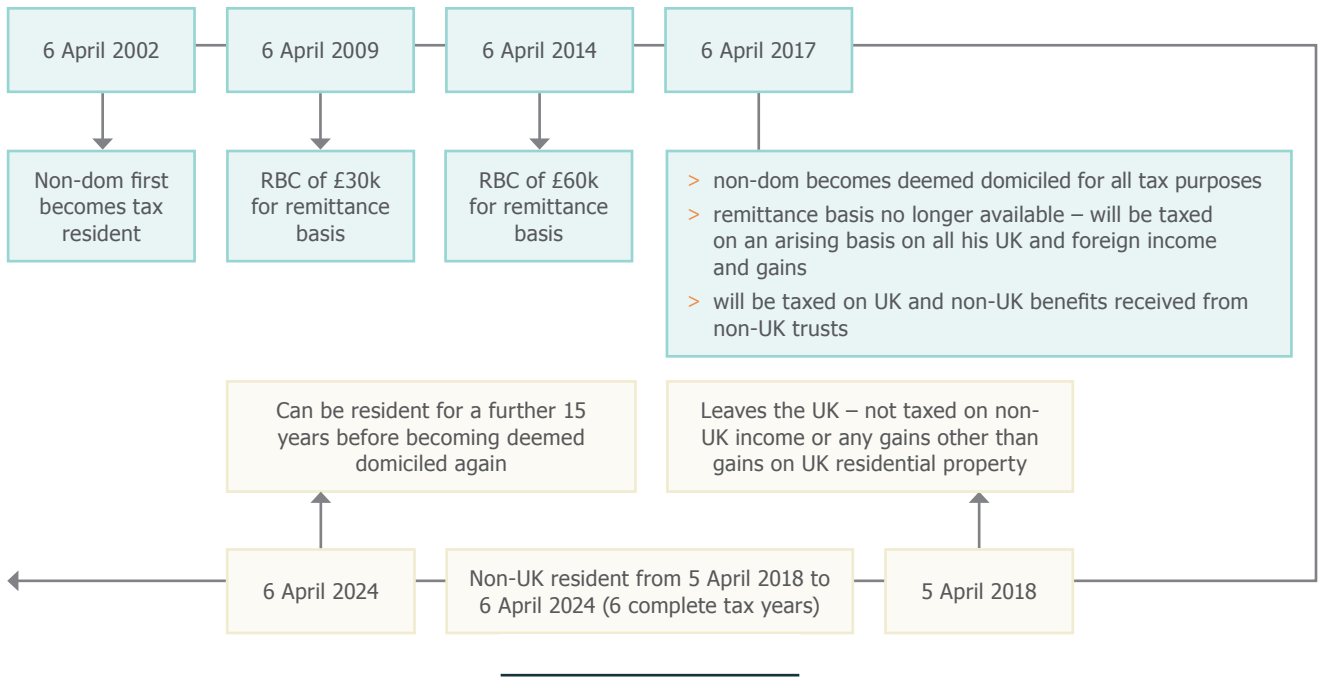
- > If he makes a valid claim for the remittance basis:
  - he will be subject to tax on his (i) UK income; and (ii) gains realised on UK assets, as they arise
  - he will only be subject to tax on his foreign income if it is remitted to the UK
  - he will only be subject to tax on his foreign gains if the sale proceeds are remitted to the UK
  - in relation to an offshore trust set up by him:
    - he will be subject to tax on UK income of the trust on an arising basis
    - he will only be subject to tax on:
      - foreign income of the trust if it is remitted to the UK
      - gains of the trust if he receives a benefit from the trust in the UK
- > If he does not claim the remittance basis he will be subject to tax on his worldwide income and gains, and the income of any trust set up by him
- > Whether or not he claims the remittance basis:
  - he will only be subject to inheritance tax on his directly held UK assets, and UK residential property (held directly or indirectly)
  - non-UK assets held in an offshore trust set up by the individual will not be subject to inheritance tax

### UK TAX RESIDENT FOR 15 OR MORE TAX YEARS (LONG-TERM RESIDENT)

A non-UK domiciled individual who has been UK tax resident in 15 or more of the previous 20 tax years will be deemed domiciled in the UK for all tax purposes.

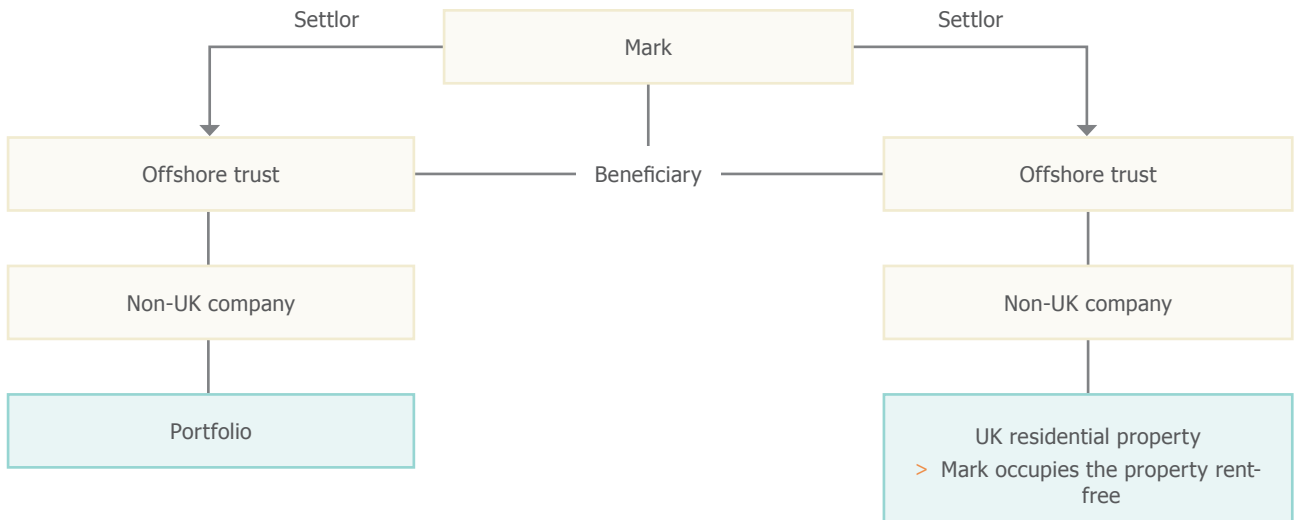
- > He will be subject to tax on his worldwide income and gains on an arising basis; the remittance basis will not be available to him
- > He will be subject to inheritance tax on all his worldwide assets
- > In relation to an offshore trust set up by him before he became deemed domiciled in the UK, he:
  - will be subject to tax on UK income of the trust on an arising basis
  - will not be subject to tax on the foreign income of the trust or the gains of the trust as they arise
  - will be subject to tax on any benefit he receives from the trust, wherever the benefit is received
- > Non-UK assets held in an offshore trust set up by the individual before he became deemed domiciled will remain not subject to inheritance tax
- > His worldwide assets will remain subject to inheritance tax for six complete tax years after he ceases to be UK resident
- > After six complete tax years of non-UK residence he can return to the UK and be resident for a further 15 years before becoming deemed domiciled again

**POST APRIL 2017 RULES**



**MARK**

- > non-UK domiciled (non-UK domicile of origin)
- > UK tax resident since 2002/2003
- > set up offshore trusts in January 2002
- > deemed domiciled in the UK from 6 April 2017 under new rules



## TAX POSITION ONCE DEEMED DOMICILED

Once Mark is deemed domiciled in the UK:

- > he will remain subject to income tax on UK source income of the trusts on an arising basis
- > he will not be subject to tax on foreign income retained in the trusts – under current rules he would have to pay the remittance basis charge to achieve this
- > he will not be subject to tax on gains realised in the trusts
- > but:
  - he will be subject to tax on all distributions or benefits he receives from the trusts or underlying entities, wherever received
  - the consultation paper on these proposals (published in September 2015) suggests that he could be taxed on the 'taxable value' of benefits received, without reference to the income or gains of the trusts. This would mean that he would be subject to tax on his rent-free occupation of the UK residential property even if no income or gains arise to the trust. It is not yet clear whether the government has been persuaded to move away from this proposal.
- > the non-UK assets in the trusts will remain outside the scope of inheritance despite Mark becoming deemed domiciled in the UK

## UK residential property

- > from 6 April 2017, the UK residential property held in the trust will be subject to inheritance tax regardless of whether or not Mark is deemed domiciled in the UK
- > a charge to inheritance tax will arise:
  - on each 10 year anniversary of the trust; and
  - on Mark's death

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



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