



# Non-domicile tax charge

## Briefing Note



Over recent years the UK government has tightened the tax regime for those non-UK domiciles who are long-term residents in the UK.

A UK resident is normally taxed on the 'arising' basis of taxation. This means that all their worldwide income and gains will be taxable in the UK.

Therefore, even if foreign income and gains have already been taxed in another country they may still be taxable in the UK and must be declared on a tax return. In many cases, relief is given in the UK for foreign tax paid on foreign income and gains under the provisions of the relevant Double Taxation Agreements (DTAs) or via unilateral relief.

A person's domicile is usually the country their father considered his permanent home when they were born. It can change if they move abroad and do not intend to return.

A UK resident who is not domiciled in the UK has a choice of whether to use the arising basis of taxation or the 'remittance' basis of taxation whereby they only pay UK income or capital gains tax when they remit overseas income or investment gains into the UK. It must be reported in a Self-Assessment tax return.

The remittance basis can only be used for non-domiciles and means that, for a tax year, UK tax will be paid on:

- any income and gains which arise/accrue in the UK
- any foreign income and gains exceeding £2,000 that is brought (or remitted) to the UK, even if that remittance occurs in a later tax year

HMRC's Guidance on Residence, Domicile and the Remittance Basis explains the rules for bringing income or gains to the UK: <https://www.gov.uk/hmrc-internal-manuals/residence-domicile-and-remittance-basis>

### Deemed domicile

It is not possible to use the remittance basis when a person is "deemed" domiciled meaning that they will pay taxation on their worldwide income and gains on an arising basis. An individual who is non-UK domiciled will be treated as "deemed" domiciled in the UK for tax purposes if they meet condition A or B:

#### Condition A – the individual:

- was born in the UK
- their domicile of origin was in the UK
- was resident in the UK for 2017 to 2018 or later years

#### Condition B – the individual:

- has been UK resident for at least 15 of the 20 years immediately before the relevant tax year

### The non-domiciled tax charge

Claiming the remittance basis means a person pays UK tax on the income or gains they bring to the UK, but they will:

- lose tax-free allowances for income tax and capital gains tax
- pay an annual charge if they have been resident of the UK for a certain amount of time

#### The annual charge is either:

- £30,000 if they have been here for at least 7 of the previous 9 tax years
- £60,000 for at least 12 of the previous 14 tax years



### Future planning opportunities using an international investment bond

An investment bond is a 'non-income producing' asset that can provide UK resident non-UK domiciles or deemed-UK domiciled individuals with tax advantages allowing policyholders freedom to access an almost unlimited range of unit trusts, investment trusts and other acceptable pooled funds.

Holding assets in an investment bond means that no liability to capital gains tax arises when assets are switched whilst held in the bond. Additionally, no UK income tax liability will arise provided that no withdrawals are made in excess of the cumulative 5% tax deferred allowance, and provided that no other chargeable events occur. Such events may be the death of the last life assured, if the bond is on a life assurance basis, or maturity if on a capital redemption basis.

For these tax benefits to apply, the investment bond must be funded by a premium which is not made up of any previously unremitted non-UK income or gains. For example, an individual could invest £1m into a bond and withdraw £50,000 each year for 20 years without any immediate tax liability. Exit strategies are also available to reduce the final tax charge when the bond or any of the underlying policies are surrendered.

Finally, Canada Life International Limited and Canada Life International Assurance (Ireland) offer an excluded property trust for use by UK resident non-domiciled individuals. Where a non-domiciled individual has been resident in the UK for 15 out of 20 tax years then he or she will become 'deemed domiciled' for UK inheritance tax purposes and subject to UK inheritance tax on their worldwide assets.

This exposure may be mitigated by setting up an excluded property trust holding a non-UK situated asset that is an international investment bond before the individual becomes deemed domicile. This document does not cover the benefits of an excluded property trust in detail and care should be taken when establishing one.

**This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at April 2019 and could be subject to change in the future. It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.**

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