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Non-Dom No More

A summary of changes to Income Tax IHT and Trust in the UK. By Nomaan Ilyas.

Following the UK Budget in October 2024, various changes have been announced and released by the government in relation to non-doms, IHT and trusts. We have summarized some of these changes below.

Non-Dom Regime

The non-dom regime officially ended on 6th April 2025 and has been replaced with a residency-based system whereby an individual who is resident for 10 of the last 20 tax years is now considered a "Long Term Resident".

Remittance basis of taxation no longer applies and has been replaced by a 4-year foreign income and gain exemption with a temporary repatriation facility for individuals previously benefiting from the remittance basis.

4-year Foreign Income and Gains (FIG) exemption

Taxpayers who are UK tax residents under the statutory residence test and are within their first four years of UK residency after at least ten years as a non-UK resident are now eligible for the new exemption from foreign income and gains, known as the FIG regime.

You can claim the FIG regime from 6th April 2025 providing you are eligible. The claim would mean that there will be no UK tax due on foreign income and gains arising from qualifying years. The FIG regime will also allow individuals to remit foreign income and gains earned from qualifying years to the UK without tax charge.

For individuals that have previously bene-

fited from the remittance basis pre-6th April 2025, care must be taken to avoid remitting income and gains prior to this date unless utilizing the TRF which is detailed below.

Temporary Repatriation Facility

TRF is now available for non-UK domiciled individuals who used the remittance basis prior to 6th April 2025. Taxpayers are now able to remit foreign income and gains previously protected by the remittance basis prior to 5th April 2025 to the UK at lower tax rates as follows:

2025/26	12% tax rate
2026/27	12% tax rate
2027/28	15% tax rate

From 2028/29, normal tax rates apply on remittances of pre-6th April 2025 foreign income and gains. With review of the relevant structure and circumstances, it is possible for settlors or beneficiaries of offshore trusts to benefit from this facility.

There will be a specific process to designate foreign income and gains that are to be taxed using this facility. It will therefore be important to ensure the process is followed and the elections are made correctly and on time.

Capital Gains Tax Rebasing

UK resident individuals who cannot benefit from the FIG regime will be taxed on any foreign gain in the normal way. An election is available to rebase foreign assets at their 5th April 2017 value for capital gains tax purposes.

However, this is only applicable to

individuals who were never UK domiciled/ UK deemed domiciled before 5th April 2025, and they must have claimed the remittance basis for any tax year after 6th April 2017. They will also have needed to dispose of foreign assets that they held on 5th April 2017.

Offshore Trusts

Common planning for non-domiciled individuals was to create an excluded property trust which consists of non-UK assets before becoming UK deemed domiciled. This afforded protection against UK inheritance tax on these assets.

Simultaneously, income and capital gains tax protections were available for these qualifying structures. Since 6th April 2025 – these trust protections have been removed; implications are now as follows:

- Foreign settlor interested trusts – A UK resident settlor will be subject to tax on the worldwide income and gains of the trust. The 4-year FIG exemption can apply to this if settlor qualifies.
- Foreign trusts not considered settlor interested – beneficiaries will be taxed on distributions in accordance with current rules.

It is important to note that there is a mismatch in definitions of settlor interested in income tax and capital gains tax. For income

tax, to be a non-settlor interested structure – settlor and their spouse would need to be excluded from benefit. For capital gains tax, to be a non-settlor interested structure – settlor, their spouse, children and grandchildren would need to be excluded. More clarity will be needed on this aspect of the changes.

Inheritance Tax (IHT)

The UK has now moved to a residence based system for IHT purposes. From 6th April 2025 IHT is charged on worldwide assets for individuals who are considered long term resident, an individual who has been UK resident in 10 out of the last 20 tax years. Such individuals will remain in the scope of UK IHT for up to 10 years from leaving the UK. This IHT 'tail' will be dependent on how long they were resident in the UK prior to their departure.

These changes will also impact IHT of offshore trusts. Non-UK property held in an offshore trust is now subject to IHT based on whether the settlor is currently "long term resident" in the UK.

Taxable events for inheritance tax purposes, if the settlor is long term resident, are as follows:

1. When assets are settled into a trust
2. At the 10-year anniversary of the settlement
3. Exit charge when either the assets are distributed from the trust, or the long-term resident becomes non-UK resident
4. Death of the settlor – if the gift with reservation of benefit rules applies.

IHT Tax Treaties

The government has recently confirmed that historic IHT tax treaties that were previously signed remain unaffected by the new proposed legislation.

The UK/US Estate Tax Treaty may offer certain protections for US-domiciled citizens who are not UK nationals, though the specific circumstances should be reviewed.

Gift with Reservation of Benefit

Where a settlement is made, and the settlor remains a beneficiary of the settlement, settled assets will remain in the settlor's personal estate for IHT purposes.

There is an exemption from this rule for previously excluded property trusts settled before 30 October 2024 even if the settlor remains a beneficiary post 6th April 2025.

10-year Charge and Exit Charge

Under the relevant property regime, since

6th April 2025, trusts that had protected status under excluded property have lost those protections and have become subject to the 10-year charge and exit charge where the settlor is long term UK resident.

These charges are calculated up to 6% of the value of the trust assets held at the chargeable date. There is an apportionment relief in relation to the number of years in the period that the assets are UK relevant property.

There has been clarification of the rules when a settlor passes away and these are broadly:

Where the settlor passes away before 6th April 2025 and the trust was an excluded property trust – the trust will remain outside of IHT for the remainder of the trust.

Where the settlor passes away on or after 6th April 2025 and the settlor was long term resident in the UK, the trust will continue to be within the charge to IHT moving forward.

Inheritance Tax on Pensions

As from 6th April 2027, most unused pension funds and death benefits will be included within the value of a person's estate for Inheritance Tax purposes; pension scheme administrators will become liable for reporting and paying any Inheritance Tax due on pensions to HMRC.

This measure removes the current incentive for individuals to leave accrued pension wealth unused while using other types of assets to fund their retirement. This may incentivize certain other behaviors as individuals seek to reduce their overall Inheritance Tax liability.

For pension Inheritance Tax exposure, it will be interesting to see the consultation results and whether there will remain a double exposure to Inheritance Tax and income tax on withdrawal of pensions for beneficiaries. However, this would disincentivize taxpayers from using pension funds.

Business Property Relief / Agricultural Property

Other important updates to consider are the reduction of Agricultural Property Relief and Business Property Relief being restricted from 6th April 2026 (full exemption for up to £1m and then 50% relief thereafter).

It should be noted that there are specific requirements to qualify for BPR/APR reliefs.

Taxation of carried interest in the UK

The current 2025/26 tax year will be a transition year, with a tax rate increase from

28% to 32% for carried interest capital gains.

From 6th April 2026, more significant changes to UK taxation of carried interest are set to be effective and to affect all carried interest proceeds received on or after 6th April 2026.

What changes to carried interest taxation are proposed from 6th April 2026?

- Carried interest proceeds – taxed as trading income of individual receiving the carried interest. Income tax and self-employed (Class 4) national insurance will apply.
- Default rule – carried interest subject to tax at the recipient's marginal rate of income tax and Class 4 national insurance.

The current marginal rate for income tax and Class 4 national insurance for additional rate taxpayers is 45% and 2%, respectively, this means the default tax rate for carried interest proceeds from 6th April 2026 will be 47% for additional rate taxpayers.

Qualifying carried interest

A special rate will apply to carried interest which is "qualifying carried interest", which is stated to be 72.5% of the current rates.

For example, this special rate will be 34.075% for additional rate taxpayers, i.e. 47% multiplied by 72.5%.

"Qualifying carried interest" is defined as:

- Carried interest must fall within the existing definition of carried interest within "disguised investment management fee" (DIMF) rules.
- Carried interest must not be treated as "income based carried interest" (IBCI).

While 2025/26 rules that we have detailed above seem to be confirmed, there was a consultation on the changes that apply from 6th April 2026, which ended recently on 31st January 2025, therefore, there may be further revisions to changes of carried interest taxation from 6th April 2026.

There are many changes facing taxpayers in the near future, careful planning is likely to be required to ensure that efficiencies in the future. ★

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