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FIG REGIME AND MORE:

The Reforms to Personal Taxation for UK Resident Foreign Individuals

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From 6 April 2025, the key UK tax rules affecting foreign individuals living in the UK have changed. Fundamentally, the application of 'domicile' as a metric for determining a person's UK tax status has been scrapped. Instead, there is now a new system based purely on UK tax residence.

Under the new rules, the extent to which a UK resident individual (and any trust structures they have created) will be subject to UK tax will depend on how long the individual has been tax resident in the UK.

The new system is, in many ways, much simpler than the previous remittance regime. For some UK residents, the ability to shelter all of their non-UK income and gains from UK tax for four years (see below) is a very attractive, albeit brief, opportunity. We have briefly summarised the changes to income tax, capital gains tax and inheritance tax below.

FIG REGIME: INCOME TAX AND CAPITAL GAINS TAX

The remittance basis of taxation (by which UK resident but non-UK domiciled individuals could previously shelter their foreign income and gains from UK tax) has been abolished, and has been replaced by the new Foreign Income and Gains regime (known as the **"FIG"** regime).

The FIG regime applies to individuals who are recent arrivals to the UK and who, before becoming UK resident, were not resident in the UK in any of the previous 10 tax years. For such individuals, during their first four tax years of UK residence they will be known as qualifying new residents (**"QNRs"**) and eligible for the FIG regime.

Specifically, while they are using the FIG regime, QNRs can designate as much of their foreign income and gains to HMRC each year as they wish. These designated funds will then be entirely free of both UK income tax and capital gains tax, even if they are brought into or used in the UK. This means that QNRs can effectively have four years of UK residence without paying any UK tax on their non-UK income and gains. However, once the four-year qualifying period ends, the individual will lose QNR status and will be taxable in the UK on their worldwide income and gains as they arise (subject of course to any available double tax treaties).

If a taxpayer leaves the UK and later wishes to make use of the FIG rules again, they must remain non-UK resident for at least 10 consecutive tax years before they can re-enter the UK as a QNR. This is a comfort to British expats who have been living overseas for at least 10 years; the old domicile rules worked against them, but they too are now able to live in the UK and to benefit from the FIG regime.

TEMPORARY REPATRIATION FACILITY

The Temporary Repatriation Facility **("TRF")** is an extremely valuable (and brief) opportunity for certain UK taxpayers to remit income or gains to the UK and to pay a much lower tax charge than would otherwise be the case.

Where an individual was a remittance basis user under the regime in place before 6 April 2025, income or gains arising to them before that date still remain subject to the old remittance basis rules. This means that, if such funds are remitted into the UK on or after 6 April 2025, they will still suffer UK tax under the remittance system, subject to the application of the TRF.

The UK Government introduced the TRF to provide temporary relief, bearing in mind the abolition of the old domicile-based regime. Where taxpayers who were previously remittance basis users have foreign income and gains that (1) arose in a tax year in which they claimed the remittance basis and (2) were never remitted at the time, they will have three tax years from 6 April 2025 to designate those foreign income and gains for the purpose of the TRF. The rate of UK tax that would apply to those funds in the tax year of designation will then be capped at a flat rate of tax as follows, depending on the tax year of designation:

TAX YEAR	TRF TAX RATE
2025/26	12%
2025/27	12%
2027/28	15%

The taxpayer does not need to remit the funds to the UK for the TRF to apply; they simply need to designate those income and/or gains. Thereafter, they are free to remit the foreign income and gains to the UK in the same or a later tax year (even if that tax year falls outside the three-year TRF period) without a subsequent UK tax charge. This means, for example, that a taxpayer could remit foreign income to the UK at a tax rate of only 12%, compared to the default income tax rate of up to 45% that would otherwise apply if the TRF were not used (representing an income tax saving of 33%).

INHERITANCE TAX ("IHT")

While a taxpayer is within their first 10 tax years of UK tax residence, only their UK situs assets will be exposed to IHT (which in the UK is generally charged at a rate of 40%). Their foreign assets remain wholly outside the scope of charge as 'excluded property'.

However, once a taxpayer has been UK tax resident for at least 10 of the previous 20 tax years, they will then become a "long term resident" ("LTR"), and the worldwide assets of LTRs fall within the scope of IHT. (Broadly, LTR status carries the same IHT consequences as becoming deemed UK domiciled for a taxpayer's personally held wealth while they remain UK tax resident.)

If a UK resident individual ceases UK tax residence before becoming an LTR, their non-UK assets will have never become exposed to IHT. However, if an LTR ceases UK tax residence, their foreign assets will remain exposed to IHT for a specified number of tax years. The length of this 'tail' depends on how many of the prior 20 tax years they had been UK tax resident, ranging from three tax years up to 10 tax years.

Given the extent of these changes, it's essential for potential or actual UK residents to plan appropriately, especially if they are shortly to become LTRs. However, there remain valuable planning opportunities for individuals who take advice at the appropriate time.

KEY CONTACTS

For further information and bespoke advice about any of these issues, please contact Charlie Fowler and Cameron Crees.

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