PARTNERS WEALTH MANAGEMENT

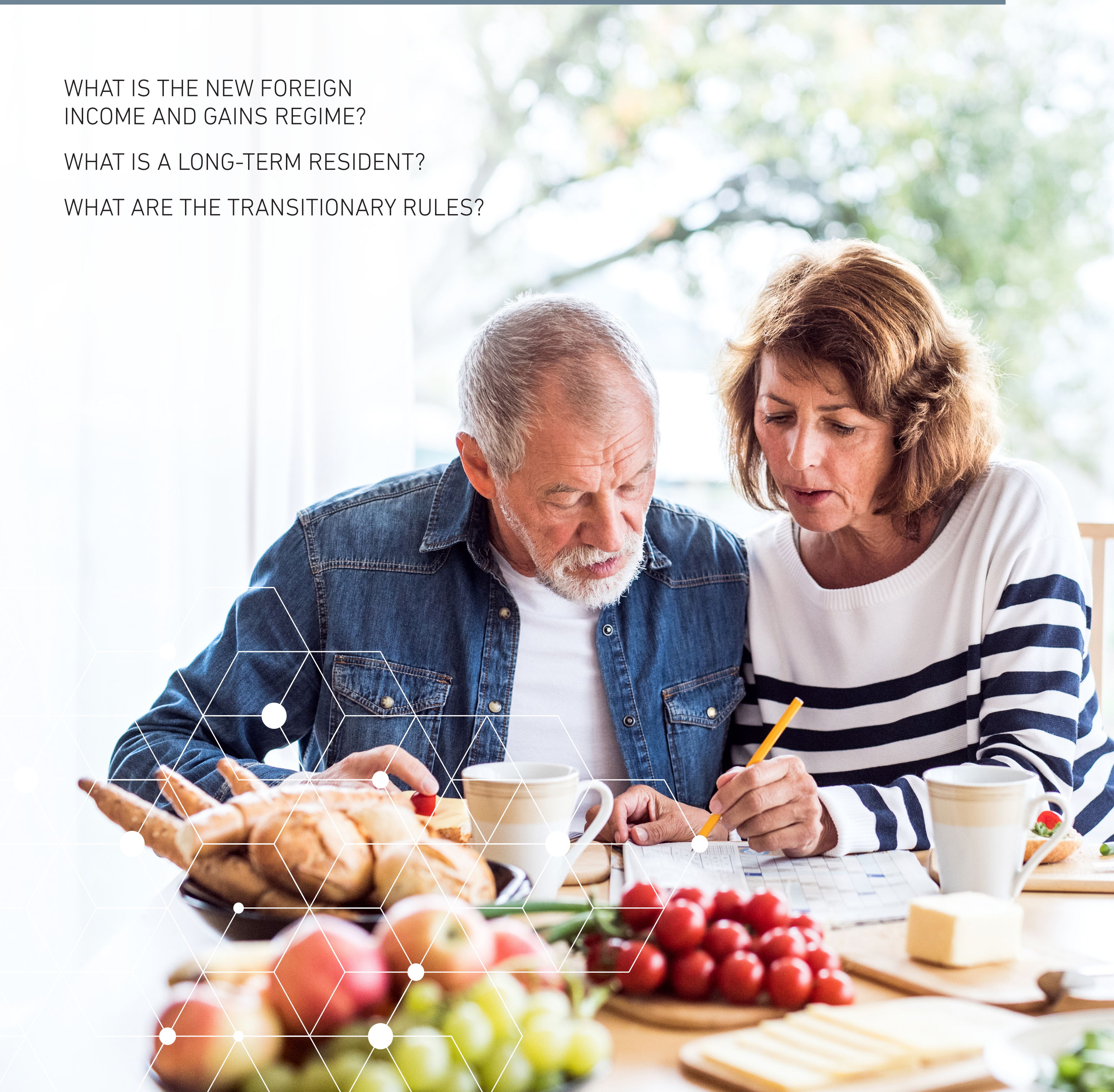
AN INTRODUCTION TO THE

Foreign Income and Gains (FIG) Regime

WHAT IS THE NEW FOREIGN INCOME AND GAINS REGIME?

WHAT IS A LONG-TERM RESIDENT?

WHAT ARE THE TRANSITIONARY RULES?



Historically, the UK has used the complex concept of domicile for taxation of Resident Non-Domiciled individuals. From 6 April 2025, the Foreign Income and Gains (FIG) regime will replace this approach, removing key concepts including Resident Non-Domicile, remittance basis and mixed funds.

This guide will help outline the new rules applicable to both existing and new UK residents.

What is the Foreign Income and Gains (FIG) regime?

The FIG regime provides qualifying individuals an exemption from UK taxation for their foreign income and gains for a certain period. It also gives a prominent position to the Statutory Residence Test, which has been in effect since April 2013 and removes the dominance of domicile as a determining factor. The FIG regime also introduces the concept of long-term residence and impacts on how UK Inheritance Tax (IHT) is applied, on a global basis.

Who is a qualifying individual?

Anyone, regardless of their nationality, who is becoming UK resident, providing they have not been resident for more than four years in the last ten years. This will also apply to UK citizens that are returning to the UK after a period of residing abroad.

What are foreign income and gains?

Foreign income and gains are those which either arise abroad or are from non-UK sources. Some examples of these include non-UK real estate income, dividends from foreign, income received for effective work done abroad or general offshore portfolio income or gains.

> It is likely that offshore bonds will be treated in the same way as before and will be deemed onshore income and gains upon withdrawal.

What period does the FIG regime apply for?

The new regime is available for eligible individuals for four years from the date of their arrival.

If an individual has been in the UK for less than four years, regardless of whether they were claiming the remittance basis (see our previous guides), they can transfer the remaining number of years to the new regime. For example, if they have been here for three years, they can still have one year under the FIG rules. The four-year period starts from the first year of arrival and will not last longer than four years from that date, leaving the UK temporarily will not extend this period.

If an individual has been in the UK for longer than four years and were claiming the remittance basis at some point in the past, there may be further opportunities using rebasing or the new Temporary Repatriation Facility (TRF).

Important impact on Overseas Workday Relief (OWR)

One part of the previous regime that still exists and could be beneficial to employees who work abroad for part of their time, is the OWR. In essence, if an individual resides in the UK, but works abroad for some of that time, earnings relating to the duties performed overseas may receive UK tax relief.

The biggest evolution under the new regime is that the portion of earnings relating to working abroad no longer needs to be paid and retained offshore. This will greatly simplify reporting for taxpayers and administration for HMRC. Specifically, this also removes the requirement to have an offshore bank account for salary payments and tax repayments.

What is a long-term resident?

Generally, non-UK residents or temporary UK residents are only subject to UK IHT on their UK assets. However, the new rules set out how long term or previously long-term UK residents will be subject to UK IHT on a global basis.

Under the new rules, temporary residents will only have UK IHT applied to UK situs assets. However, a long-term resident will have UK IHT applied to their global assets, regardless of whether they are a UK citizen or not. A long-term resident is anyone who has been a resident of the UK for 10 years or more, therefore consideration of the Statutory Residence Test will be needed to track and calculate their UK IHT position.

Under the new rules, after 10 years of residence within the past 20 years, individuals will be liable for IHT on their worldwide assets, not just UK assets, as under the previous regime. This creates a period in which new arrivals can reside in the UK for a period, without their non-UK assets being subject to UK IHT. However, for long-term residents it introduces an IHT tail, which can follow them for up to 10 years after becoming non-resident.

The IHT tail effectively starts at three years for those residents in the UK for between 10-13 years and extends out as much as a 10-year tail for those that have been resident for 20 years. It is a sliding scale, that increases with each year of residency, so that the longer the period of residence, the longer that tail becomes. Under the tail, UK IHT will continue to apply to your worldwide assets, not just UK, regardless of your citizenship.

For very mobile individuals and families, it is possible to use the Statutory Residence Test to fine-tune planning for their entry and exit dates for residency purposes. This also means that favouring a country which has an IHT treaty with the UK could be beneficial when planning to move out. Note that at the time of writing, the UK has specific IHT provisions with only 10 countries.

Trust and offshore structure considerations

The impact to trusts, such as Excluded Property Trusts (EPTs), are significant and anyone with such a structure should seek advice. The previous concept of being able to shelter offshore assets in a trust by settling it before being UK-domiciled has been removed. Assets within a trust will now be assessed based on the settlor's residency status and so could suffer both 10-year charges and exit charges under the new rules. This can have significant impact to structures where the settlor leaves the UK after being a long-term resident or for those where the settlor dies as a long-term resident.

This does not necessarily mean that there is no future benefit to trust structuring and may well be one of the areas that benefits from future amendments. However, it seems certain that some of the previous significant benefits around using trusts for IHT planning have been lost and reviewing previous structures or plans is essential.

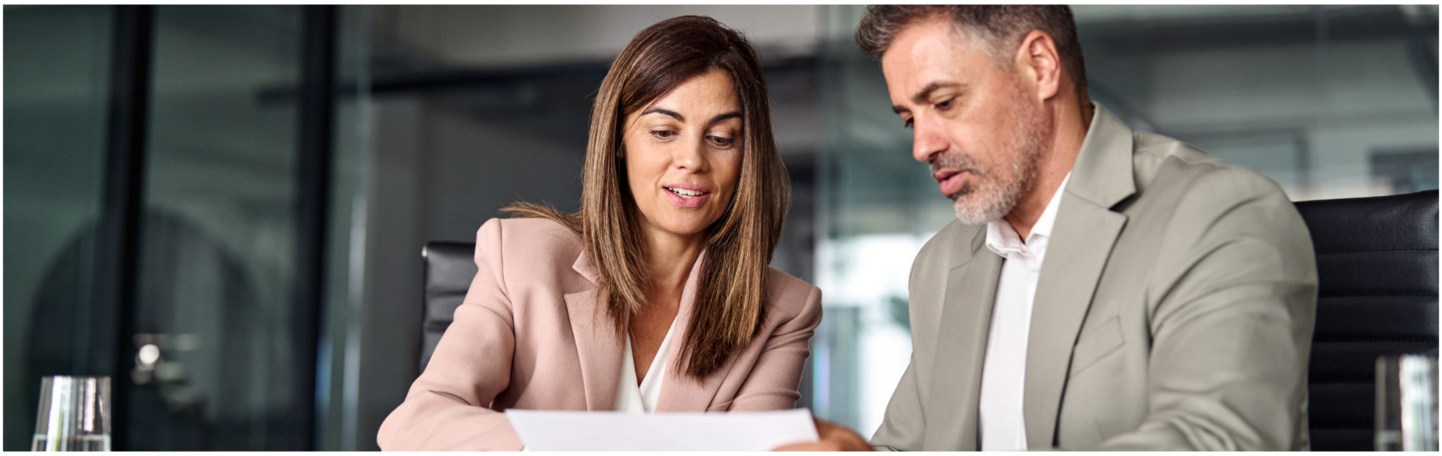
Transitionary Rules and allowances

It is acknowledged that the rule changes are significant, and that people will have historic positions based on the old rules. Therefore, there have been some transitionary rules and allowances designed to allow people to move into the new regime and not have assets "trapped" outside of the UK.

We're here to help

At Partners Wealth Management, our team of specialist advisers with international experience are on hand to provide advice and guidance. Through our Private Office, we can also help you find suitable tax and legal experts to meet your requirements, as well as other services including currency exchange or property services.

If you have any questions regarding the new rules or would like to discuss your current position, please contact us on **020 7444 4030** or email **info@partnerswealthmanagement.co.uk**.



Rebasing rule

This is only available for individuals who have been resident in the UK for more than four years and cannot claim under the new FIG regime. The opportunity to rebase any asset held since before 6 April 2017 to its value at that date would limit the taxable gain to the difference in value between then and when you sell. This will only benefit those with assets that would otherwise have a lower cost basis from before April 2017 but is worthy of consideration.

Temporary Repatriation Facility (TRF)

This is designed to be used by previous remittance basis users, who have offshore income and gains which have not had UK tax applied and would be taxed if remitted now. This facility is potentially more widely applicable and of greater interest, as it will likely benefit more people and potentially encourages them to bring funds into the UK.

Under the TRF, individuals can designate historical foreign income and gains that were not previously taxed in the UK (under the remittance basis). Doing so makes them available to be remitted to the UK at a later date without having additional UK tax applied. As a great simplification benefit, it is not required to identify if the designated funds are income, or gains or capital. This removes complexity for those that have "mixed funds" where such as determination might be impractical. Additionally, it is not necessary to sell the asset designated or immediately bring it into the UK, it simply needs to be designated via a self-assessment tax return. Note that future income or gains on the asset will be taxed based on your circumstances at that time.

In designating funds, a charge will be applied at either 12% or 15%. However, as the name indicates, the TRF is a temporary facility and the cost increases over the next three years. The facility will start on 6 April 2025 and for the 2025/2026 and 2026/2027 tax years, the 12% rate will apply. For the tax year 2027/2028, the rate will increase to 15% and after 5 April 2028, the facility will no longer be available. The government has suggested further amendments will be made, potentially extending the TRF.

Benefits gained from the TRF will be determined by an individual's circumstances and their personal financial and cash flow plans.

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