

Pre-Budget Report 2007:

Residence and Domicile Review

1. The government has finally, after years of indicating a wish to do so, announced its proposal for changing the UK's existing residence and domicile tax legislation. The proposal includes a package of reforms which will take effect on or after 6 April 2008.
2. The proposals apply to those UK residents who are not domiciled in the UK ("non-doms").
3. The main proposal is that UK residents, who are not domiciled or not ordinarily resident in the UK and use the remittance basis of taxation on their overseas income and gains, will have to pay an annual charge of £30,000. This charge will apply if they have been resident in the UK for more than 7 years. The 7 year period runs from the individual's initial date of arrival in the UK. So for example, if an individual has been resident in the UK for 5 years at the time when the new legislation comes into force, he will only be able to claim the remittance basis of taxation for two more years before he has to pay the annual charge of £30,000. Alternatively, the tax payer can choose not to claim the remittance basis and instead be taxed on worldwide income and gains as they arise.
4. It has also been announced that the government is contemplating the introduction of a higher annual charge for those non-doms who use the remittance basis of taxation and have been resident in the UK for longer than 10 years.
5. Other proposals are:
 - to end the automatic entitlement to certain personal allowances for individuals resident in the UK who are using the remittance basis, provided that their income abroad exceeds a *de minimis* limit of £1,000 a year;
 - to ensure that when determining if an individual is resident in the UK, days of arrival and departure are counted;
 - to remove a number of anomalies in the current tax rules that afford preferential treatment to non-doms. For example, new rules will be introduced to reduce the scope for non-doms to shelter their income and gains through the use of offshore structures, such as companies and trusts, as well as extending existing anti-avoidance legislation which does not currently apply to non-doms;
 - to amend the rules that allow income earned in one year to be remitted tax free the following year in cases where the non-doms claim the remittance basis in the first year but not the second;
 - to abolish the rules in relation to cessation of source; and
 - to extend the definition of remittance in relation to relevant foreign income.
6. The government will consult on the detail of the changes and we can expect draft legislation towards the end of the year. In any event, these proposals mean that existing planning should be reviewed as a matter of urgency.

Please note that this summary is intended for general guidance only and does not constitute legal advice.

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