

Alert

UK Investors – The New ‘Deemed Domicile’ Rules

20 July 2017

UK tax-resident investors who are not domiciled in the UK (‘UK non-doms’) should note the government’s announcement that it now intends to proceed with the changes to the UK domicile rules that were shelved earlier this year. These changes were originally part of the Finance (No. 2) Bill 2017, which was making its way through the legislative process, but were removed following the calling of the UK general election, which took place on 8 June 2017. The draft legislation will be included in a new finance bill to be introduced when Parliament returns in September but will be backdated so that the new regime becomes effective 6 April 2017.

The most important aspect of the changes for UK investors is likely to be the introduction of the new income tax and capital gains tax ‘deemed domicile’ status from 6 April 2017. This will apply to an individual from the start of a tax year where the individual has been resident in the UK in 15 or more of the previous 20 tax years. An individual who becomes deemed domiciled in this way will not be able to use the remittance basis to defer income tax or capital gains tax on their investment returns from a non-UK fund, but will be subject to tax on the income and gains which they receive from the fund as those income and gains arise.

However, one positive impact of the new regime is that UK individual investors who become deemed domiciled on 6 April 2017 as a result of the application of the ‘15 out of 20’ test, and who have paid the remittance basis charge in at least one of those earlier tax years, should be able to benefit from a rebasing to market value of fund investments (including investments in funds that do not have UK ‘reporting fund’ status) which they held on 5 April 2017.

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If you have any questions concerning this *Alert*, please contact your attorney at Schulte Roth & Zabel or the author.

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