Non-doms: basics and case for reform

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What are 'non-doms'?

Being non-domiciled, or 'non-dom' for short, means living in the UK but claiming that your permanent home ('domicile') is abroad. Non-doms can live in the UK all year round and may already have lived in the UK for several years; what's important for tax purposes is that they can plausibly assert that they plan to move to a different country eventually. While domicile is a common law concept, individuals can only get the tax benefits of non-dom status if they claim it on their tax return. They are not obliged to do this, even if they genuinely think that their permanent home is abroad: claiming non-dom status is always a choice.

What tax advantages do non-doms have?

Non-doms are entitled to claim the 'remittance basis' of taxation, which means that their foreign income and capital gains are only liable to UK tax if they are brought in ('remitted') to the UK. In practice, people who use the remittance basis hardly ever make any taxable remittances, so this rule effectively works like an exemption from UK tax on any income or gains made on assets that are held abroad.

Assuming that the individual spends most of their time in the UK and is not tax resident anywhere else, it will also usually be the case that they have no Income Tax or Capital Gains Tax to pay in the country where the asset is located, either.[1] In other words, non-doms can often get their foreign investment income and gains completely tax free.

Another major benefit of non-dom status is that, when they die, non-doms are only required to pay Inheritance Tax on their UK assets. Any assets held abroad are exempt from Inheritance Tax, and again, in practice will often not be taxed by any other country either. In fact, non-doms can even avoid paying UK Inheritance Tax on their UK assets (other than residential property) so long as they hold these via an offshore company.

By contrast, all other UK residents (who do not claim non-dom status) must pay full UK tax on all of their worldwide income and gains, and Inheritance Tax on their worldwide assets. The fact that they keep assets abroad will not (legally) help to reduce their tax liability.

Are there any costs to claiming non-dom status?

There is no cost or downside to claiming non-dom status for tax purposes, providing that the individual is eligible. However, there are some downsides to claiming the remittance basis (which is optional for non-doms):

(a) losing the Personal Allowance and Annual Exempt Amount (Capital Gains Tax allowance);
(b) paying an annual charge of £30k after living in the UK for at least 7 years (of previous 9 years), increasing to 60k after 12 years (of previous 14 years);

[1] Two exceptions are where withholding taxes apply, or the individual is a US citizen.

(c) legal and administrative complexity resulting in additional effort and tax advisor fees

For these reasons, claiming non-dom status is only advantageous to people who have substantial wealth abroad. While there are likely millions of people living in the UK who could claim that their permanent home is overseas, only about 55,000 of these claimed non-dom status for tax purposes in 2020-21. Our research shows that amongst those with (reported) incomes less than £100,000 per year, only 0.3% ever claimed non-dom status. This figure was over 20% for individuals with income between £500,000 and £1m, and over 40% for individuals receiving over £5m.

How has the non-dom regime been reformed in the past?

Over the previous 15 years (starting in 2008), the non-dom regime has been reformed several times. Some of the most important changes include: removing the personal allowance and Capital Gains Tax allowance for remittance basis users; introducing a charge to access the remittance basis; tightening of the remittance rules; introducing 'Business Investment Relief' (which allows some remittances to be made tax free); and removing access to the remittance basis for taxpayers born in the UK to UK parents, and to taxpayers who have spent at least 15 of the previous 20 years in the UK. However, throughout this period the fundamental features of the regime – based on domicile status and distinguishing between UK and foreign investments – has remained the same.

How many non-doms are there and how much tax do they pay in the UK?

The table below shows the number of individuals who claim non-dom status and use the remittance basis. It also reports how much tax these individuals pay in the UK, summing up Income Tax (IT), Capital Gains Tax (CGT), and National Insurance Contributions (NICs).

Table 1: Headline statistics on non-doms and remittance basis users

	Number of individuals	**UK tax paid (IT, CGT, NICs)**
Resident non-doms	54,600 (2020-21) 62,900 (2019-20)	£7.8bn (2020-21) £7.8bn (2019-20)
Of which: Remittance basis users[2] (RBUs)	44,400 (2019-20)	£6.4bn (2019-20)
RBUs with unremitted income and gains below £2,000	18,500 (2019-20)	£1.1bn (2019-20)
RBUs with unremitted income and gains above £2,000	25,900 (2019-20)	£5.3bn (2019-20), of which £3.8bn in IT, £190m in CGT, and £1.3bn in NICs

Source: HMRC Official Statistics on non-domiciled taxpayers (2022). Link: https://www.gov.uk/government/statistics/statistics-on-non-domiciled-taxpayers-in-the-uk [accessed on 5 November 2022].

Additionally, in 2019-20, 2,000 individuals – who had been resident in the UK for at least 7 years – were paying a charge of either £30,000 or £60,000 to access the remittance basis. Receipts from the remittance basis charge totalled £75m.

[2] The most recent HMRC statistics on remittance basis users are based on tax year 2019-20.

How much investment income and gains do non-doms have abroad?

Only remittance basis users with unremitted income and gains of more than £2,000 benefit significantly from being taxed on the remittance basis. Our research shows that this group of 26,000 individuals report £0.3bn in investment income and £0.7bn in capital gains in the UK in 2017-18.[3] We estimate that the same individuals have £4.6bn in unreported income and £6.3bn in unreported gains. Income and gains held overseas, escaping UK tax, exceed UK reported income and gains by more than ten times. Bringing these investment returns into the UK tax system could raise £3.2bn in revenue.

Why should the non-dom regime be reformed?

1. **Fairness:** people who live in the UK should pay full UK tax. It is unfair to have special rules for a small minority. This is also not a tax break that benefits all new arrivals to the UK: in practice it only helps those who hold large amounts of wealth abroad.

2. **Investment in the UK:** the current regime encourages non-doms to invest their money anywhere *except* the UK, because this is the best way for them to minimise their tax bill using the remittance basis. This perverse incentive is bad for the UK economy.

3. **Retaining top talent in the UK**: the tax benefits of non-dom status are only available to people who claim that their permanent home is abroad. People who arrive in the UK planning to settle here permanently are not eligible. The non-dom regime effectively says to talented foreigners: “come here for a few years, but then go back home”.

4. **Tax revenue:** if the UK abolished the non-dom regime altogether, and taxed non-doms the same as other UK residents, it would raise £3.6bn in additional Income Tax and Capital Gains Tax revenue every year (Advani, Burgherr and Summers, 2022, uprating from 2018 to 2022). This is after taking into account the very small number of non-doms who would leave, and the other strategies that they might use to avoid tax. Abolishing the non-dom regime would also raise additional revenue from Inheritance Tax, although there is no estimate of how much.

[3] Advani, A., Burgherr, D., and Summers, A. (2022) ‘Reforming the non-dom regime: revenue estimates’, CAGE Policy Briefing 38. Link: https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/bn38.2022.pdf