

December 2024

TAX MESSAGE

UK Tax Changes Affecting Non-Doms in and from Hong Kong

Moore Hong Kong is a member of the Moore Global network. This article was written by our network firm, Moore Kingston Smith, in the UK.

The UK government's recent [Autumn Budget](#) introduces significant changes to the tax rules for non-UK domiciled individuals (non-doms), many of whom have connections to Hong Kong. These changes, effective from 6 April 2025, could have substantial implications for Hong Kong residents with UK ties and UK residents with a Hong Kong background, including property ownership, income, and trusts.

What key points have now been confirmed for affected individuals?

Income tax and capital gains tax

For non-doms, the current rules which allow them to be taxed on the remittance basis each tax year will end on 5 April 2025. This means that from 6 April 2025, non-doms who continue to be tax-resident in the UK will be taxed on their worldwide income or gains as they arise – unless they qualify for the new regime that will 'replace' the existing non-dom regime.

[The 'replacement' regime](#) will be based on UK tax residence and is being referred to as the foreign income and gains (FIG) regime. The FIG regime will provide 100% relief on new foreign income and gains arising from 6 April 2025 for some individuals who are 'recent arrivers' to the UK; a recent arriver for this purpose is someone who has been non-UK tax resident for the ten consecutive tax years immediately prior to the tax year of their arrival in the UK. The FIG regime can then be claimed by the individual for up to four consecutive tax years from the first tax year of arrival in the UK. It can also be claimed by individuals who were UK-resident for no more than three tax years prior to 6 April 2025 and had a continuous ten-year period of non-residence prior to the first tax year of arrival in the UK.

The FIG regime can apply equally to UK-domiciled individuals who meet the above requirements and is not limited to non-doms. So, UK individuals who are returning to the UK after the requisite period of absence may also be able to benefit from this new regime.

A wide range of foreign income and gains can be relieved under the FIG regime, including dividends from foreign companies, rental income from foreign property, gains on the sales of shares in foreign companies and gains on foreign residential property.

The draft legislation creates three separate claims for relief under the FIG regime, with different provisions applying to each. The three claims are for:

1. Relief on foreign income;
2. Relief on foreign employment income; and
3. Relief on foreign gains.

The relief on foreign employment income is a broad continuation of the existing overseas workday relief (OWR) available for certain employee earnings. Such earnings will not be taxed in the UK, during the four-year FIG regime, to the extent that the earnings relate to duties carried on outside the UK. However, the amount that can benefit from relief under the FIG regime will be capped for each qualifying tax year to the lower of 30% of the qualifying employee earnings or £300,000.

Inheritance tax

Currently non-UK situated personal assets of non-doms are not within the scope of [inheritance tax](#) in the UK unless they become deemed domiciled in the UK for UK tax purposes.

From 6 April 2025, non-UK situated personal assets of individuals (including non-doms) will be within the scope of UK inheritance tax if they have been UK tax resident for at least ten of the 20 tax years immediately preceding the tax year under consideration. Such individuals are being referred to by the government as “long-term residents”. Domicile for UK inheritance tax purposes will therefore largely be irrelevant; however, this will not affect the operation of existing inheritance tax treaties the UK has with a few countries.

Once an individual is long-term resident in the UK, their non-UK assets will continue to be within the scope of UK inheritance tax even if they cease to be UK tax-resident for an extended period – the so-called inheritance tax ‘tail’. The length of the tail will vary depending on how long the individuals have been long-term resident in the UK:

Number of tax years of UK residence in prior 20 tax years	Number of tax years of non-UK residence required to lose the 'tail'
0 to 9	0 (not long-term resident)
10 to 13	3
14	4
15	5
16	6
17	7
18	8
19	9
20	10

After ten consecutive tax years on non-UK tax residence, the individual can return to the UK and will no longer be long-term resident for inheritance tax purposes.

What about overseas structures (e.g. investment companies) or trusts (and other similar arrangements) that have been made by affected individuals?

Income tax and capital gains tax

For settlor-interested trusts, from 6 April 2025, under existing anti-avoidance legislation that applies to trusts (and similar structures), all foreign income and gains within such trusts will no longer be protected from being taxed on the settlors as they arise – unless the new FIG regime applies to the settlor. Similarly, capital gains in such trusts will be attributed to the settlor and taxable on them as they arise from 6 April 2025.

For other overseas arrangements and companies, if the wide-ranging ‘transfer of assets abroad’ anti-avoidance legislation applies, from 6 April 2025 any foreign income and gains received by such entities will effectively be ‘looked through’ and taxable on the UK-resident individuals who funded the structures – unless the new FIG regime applies to those individuals.

The anti-avoidance legislation that applies to trusts and overseas structures will be subject to a review to see if it can be simplified or improved – but any changes will be from 6 April 2026 at the earliest.

Inheritance tax

Broadly, for non-UK assets held in trusts, these assets will be brought within the scope of inheritance tax if the settlor and/or life tenant is, or becomes, a long-term resident. This will mean that an inheritance tax charge of up to 6% can apply on the value of all assets held in such trusts on each ten-year anniversary of the settlement. A tax charge can also arise on each occasion that such assets leave the trusts and settlements, e.g. on a distribution to a beneficiary.

There will be an additional occasion when an inheritance tax charge on the value of non-UK assets in settlements; this will arise if the settlor ceases to be long-term resident for inheritance tax purposes and will be a significant consideration for many trusts and their settlors to consider.

These inheritance tax charges will apply to non-UK assets held regardless of when the trusts and settlements were set up and so could affect existing settlements set up many years ago in most cases. However, there are certain grandfathering provisions for qualifying interest in possession trusts set up before 30 October 2024 and excluded property trusts where the settlor has died before 5 April 2025.

There is already anti-avoidance legislation called the gift with reservation (GWR) of benefit rules which can also deem assets held in trusts to remain within the estate of the settlor and liable to inheritance tax at up to 40%. These rules broadly apply where a settlor has transferred assets into a trust but is still able to benefit from the property in the trust, e.g. because they are beneficiaries. The rules will be extended to non-UK assets of all trusts funded by non-UK long-term residents except if they were settled and funded before 30 October 2024 (e.g. foreign property added after this date can be subject to GWR rules).

Are there any transitional rules that will apply?

Income tax and capital gains tax

Temporary repatriation facility

There will be a temporary repatriation facility (TRF), allowing former remittance basis users to designate FIGs arising before 6 April 2025 to be remitted to the UK at a reduced tax rate. The reduced tax rate will be 12% for amounts designated in the 2025/26 and 2026/27 tax years. For the 2027/28 tax year, the reduced tax rate for FIGs designated in that year will be 15%.

After the designation and payment of the TRF tax charge, the amounts can be remitted to the UK whenever suits the person.

It will also be possible to use the TRF in respect of pre-6 April 2025 FIGs within trusts and overseas structures that are matched to benefits received by individuals during the 2025/26, 2026/27 and 2027/28 tax years (unless the FIGs are attributed under certain anti-avoidance provisions).

It will not be possible to claim double tax relief in the UK on any FIGs designated under the TRF, so using the TRF may not always be the best answer and further analysis may need to be undertaken on a case-by-case basis to assess suitability.

New capital gains tax rebasing

Non-doms (apart from UK or deemed UK-domiciled individuals) who have claimed to be taxed on the remittance basis for any of the 2017/18 to 2024/25 tax years inclusive will be able to rebase any of their personally owned foreign assets for capital gains tax purposes to their market values on 5 April 2017. Such assets will need to have been owned throughout the period from 5 April 2017 until 5 April 2025 inclusive and must have been situated outside the UK throughout the period from 6 March 2024 to 5 April 2025.

Inheritance tax

For non-domiciled or deemed domiciled individuals who are non-UK residents for the 2025/26 tax year, they will only be long-term residents under the new rules if they have been UK tax-resident for at least 15 of the 20 tax years immediately before the 2025/26 tax year and for at least one of the four tax years ending with the relevant tax year.

If such individuals resume UK tax residence in future, the new long-term resident rules will apply.

Property which was excluded from inheritance tax that is comprised in a settlement funded by non-doms before 30 October 2024 will not be subject to the GWR anti-avoidance provisions.

How can Moore help?

After a long wait, we now have more certainty about how the new rules will operate and how the transitional rules may apply to those who can benefit from them.

There is a lot of additional detail in the new rules. It is not possible to cover everything in a short summary and each person's circumstances will be different. Bespoke advice and planning will be essential to determine what options are available for individuals and their family and business structures before making decisions.

If you are based in Hong Kong with UK ties or are a UK resident with a Hong Kong background and would like tailored advice on how these changes affect you, your family, or your business, please contact our advisors.

Our advisors



WINNIE TSUI
Director, Moore Hong Kong
T +852 2738 7715
E winnietsyui@moore.hk



LOREN CHAN
Director, Moore Hong Kong
T +852 2738 7734
E lorechan@moore.hk



CECILIA HUNG
Director, Moore Hong Kong
T +852 2738 7797
E ceciliahung@moore.hk



JOSEPH ADUNSE
Partner, Moore Kingston Smith
T +44 (0)20 4582 1235
E jadunse@mks.co.uk

www.moore.hk

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