

Mobility Matters

The U.K.'s New Foreign Income and Gains Regime: Navigating the Changes with Effect from 6 April 2025

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The concept of domicile has formed an integral part of the U.K.'s tax system since the 18th century, determining the extent to which certain non-U.K.-domiciled individuals (Non-Doms) are subject to income tax, capital gains tax, and inheritance tax. However, this is changing, with the abolition of domicile and the remittance basis of taxation (the Non-Dom regime) and, in its place, the introduction of the Foreign Income and Gains (FIG) regime, with effect from 6 April 2025.¹

This new regime represents a fundamental shift in how the U.K. will tax certain individuals' foreign income and gains, posing challenges for internationally-mobile employees and for global mobility professionals who oversee expatriate assignments. As the FIG regime replaces the long-standing remittance basis for Non-Doms, both individuals and organisations will need to reassess their tax strategies and policies so that they are not caught flat-footed by the changes.

Background: The Non-Dom regime and its challenges

Broadly, a Non-Dom is someone who was not born in the U.K. and who has not lived and does not intend to live in the U.K. on a long-term or indefinite basis, and instead has stronger ties to another country. For centuries, this Non-Dom regime has been a cornerstone of the U.K.'s approach to taxing such individuals. Under this regime, individuals who are U.K. residents but not domiciled in the U.K. could benefit from the "remittance basis" of taxation. This allowed them to pay U.K. tax only on their U.K. income and gains, and on foreign income and gains only when they were brought into the United Kingdom.

Despite its benefits as a means of attracting individuals and businesses to the U.K., the Non-Dom regime has faced criticism for its perceived inequality of taxation between domiciled and non-domiciled residents. It has been perceived as a tool for tax avoidance by wealthy individuals, leading to calls for reform. The government has responded by abolishing the Non-Dom rules and, in their place, introducing the FIG regime, with the aim of creating a more equitable, modern tax system while maintaining the U.K.'s attractiveness as a destination for international talent.

In many respects, the changes are welcome, bringing long-overdue simplification to the U.K.'s taxation of internationally-mobile individuals. However, as is often the case with such

fundamental changes to an established tax regime, there will be winners and losers, which underlines the importance for individuals, advisers, and mobility professionals of keeping abreast of the changes and planning accordingly.





The replacement of the Non-Dom rules with the FIG regime

The FIG regime marks a significant departure from the Non-Dom rules. Under FIG, the concept of domicile is abolished with the following effects:

01 Eligible individuals will be taxed in the U.K. only on their U.K.-sourced income and gains. There will be no requirement to keep non-U.K.-source income and gains outside the U.K. once FIG relief has been claimed; instead, such sums may be brought into the U.K. without any further tax consequences.

02 The FIG regime will be available for the first four tax years of U.K. residence from arrival, but only to those who have been nonresident in the U.K. for the previous 10 tax years before arrival. The question of whether or not an individual is resident or nonresident will be determined solely by reference to the U.K.'s "Statutory Residence Test"—the concepts of split-years or treaty residence will have no bearing on eligibility.

03 A similar relief for employment income arising in respect of overseas workdays, known as "Overseas Workday Relief" (OWR), will be available for the first four tax years of U.K. residence, subject to the individual being eligible for FIG. Going forward, OWR will be subject to an annual cap of the lower of £300,000 or 30 percent of qualifying employment income per annum.

04 Transitional rules will apply to individuals who are currently taxed under the remittance basis but who may not be eligible for the new FIG regime, and who consequently will be taxed on their worldwide income for a U.K. tax year as it arises (commonly known as the "arising basis") from 6 April 2025. These measures include:

- ▶ The "Temporary Repatriation Facility" (TRF) – a facility to designate qualifying foreign capital for remittance to the U.K. at a preferential tax rate of 12 percent for the tax years 2025–2026 and 2026–2027, rising to 15 percent in the 2027–2028 tax year (with minor amendments expected to be made before the measure passes into law, with a view to making the TRF simpler and more attractive);
- ▶ An opportunity to rebase the value of qualifying foreign assets for U.K. capital gains tax purposes to their market value as of 5 April 2017 (CGT rebasing), applicable to those assets held on 5 April 2017 and disposed of after 6 April 2025;
- ▶ Transitional rules to support continuing eligibility from 6 April 2025, for those who are part-way through their current three-year window for claiming OWR.



Separately, the U.K.'s inheritance tax regime will also move from a domicile to a residency basis from 6 April 2025. The main consequence of this change is that individuals will be regarded as "Long-Term Resident" in the U.K. once they have been resident for 10 out of the last 20 U.K. tax years, resulting in their worldwide assets being subject to U.K. inheritance tax should a chargeable event occur. Moreover, they will remain subject to inheritance tax on this basis for a "tail" of between 3 and 10 years after breaking U.K. residence, depending on the number of years spent as U.K. resident prior to departure. The risk of becoming Long-Term Resident has consequently prompted some Non-Doms to re-evaluate their plans for remaining in the United Kingdom.

John Doe

Consider John Doe, a U.K. resident who is domiciled in the United States. John arrived in the U.K. on assignment on 30 July 2020. Under the Non-Dom regime, John could keep his foreign investment income outside the U.K. tax net as long as he didn't remit it to the United Kingdom. John will not be eligible for the new FIG regime as the 2025–2026 tax year will be his fifth year of residence in the U.K.—as such, his foreign income and gains will become subject to U.K. tax on the arising basis from 6 April 2025.

John must now evaluate his future U.K. tax position and consider whether the TRF or CGT rebasing would be of benefit to him. Looking to the longer term, he may also need to consider the new inheritance tax provisions for long-term residents and whether this will have a bearing on when he plans to leave the country. This shift underscores the importance of early preparation and consultation with tax advisers to navigate the complexities of the new regime.

Jane Doe

Jane Doe arrived in the U.K. on 1 July 2024 (during the 2024–2025 U.K. tax year), having not been resident in the U.K. for the previous 10 U.K. tax years. She is non-U.K.-domiciled and is eligible for OWR and can claim it for the 2024–2025, 2025–2026, 2026–2027, and 2027–2028 U.K. tax years (so for four tax years in total, utilising the transitional measures under the new regime from April 2025). Jane has an annual income of £100,000 and expects to spend approximately 30 percent of her time working outside of the United Kingdom.

Jane's period of OWR straddles the old and new rules. For the 2024–2025 U.K. tax year, OWR is claimed under the old rules and so 30 percent (£30,000) of her income will need to be paid to a qualifying non-U.K. bank account and will need to be kept outside of the country. However, for the 2025–2026 U.K. tax year onwards, OWR can be claimed under the new rules, which means that income relating to the OWR claim can be paid in or remitted to the U.K. (i.e., the full £100,000). It should be noted that this is a simplified example, and there is likely to be income that relates to the pre-6 April 2025 period, which is nevertheless paid in a later year, so care should be taken to make sure any such amounts are not inadvertently remitted to the U.K. by being paid into a U.K. account.

A practical tip would be to keep the pre- and post-6 April 2025 income separate. Jane may also consider the TRF for any OWR relating to the pre-6 April 2025 period, and the broader application of the FIG reliefs to foreign income and gains arising during the 2025–2026, 2026–2027, and 2027–2028 tax years.





Implications for tax, human resources, and global mobility directors

Tax, human resources, and global mobility directors will need to consider the FIG regime's impact on their business's current Non-Dom workforce in the U.K. (both assignees and locally hired staff), as well as a re-evaluation of assignment policies going forward.

For Non-Doms currently working in the U.K. and claiming the remittance basis, the loss of this advantageous treatment and a shift to worldwide taxation on an arising basis is likely to affect their net income and gains. Employee communications exercises to apprise individuals of the changes (whether via email, intranet, webinar, or in-person) have been at the forefront of many businesses' thinking in recent months, with KPMG client service teams supporting them throughout this process.

Looking to the future, businesses are also now considering questions around the timing and duration of future U.K. assignments, to make optimal use of the new four-year FIG regime. Questions around the availability of the TRF and CGT rebasing have been raised by existing Non-Doms in the U.K. as well as whether the TRF charge will be covered by an employer's tax-equalisation policy. In other cases, businesses may be supported with comparative tax analyses where a group of employees is considering relocating to another country in response to the loss of the remittance basis in the United Kingdom (something KPMG has been doing for our clients).

Clearly, there is much to think about in the months to come, and employers will need to keep abreast of newly published HMRC guidance as it is published when the new rules come into effect on 6 April 2025.



Conclusion: Preparing for the FIG regime

From a legislative perspective, the proposed measures are currently going through the U.K.'s parliamentary processes, before passing into law at the start of the 2025–2026 U.K. tax year. Supporting guidance for taxpayers and advisers is also expected to be published by HMRC around this time.

The introduction of the FIG regime represents a major shift in U.K. tax policy, with the government aiming to create a fairer system while maintaining its competitive edge. However, as is evident from the above, the implementation of the regime poses challenges for affected individuals and their employers.

Early preparation is key. Engagement with advisers, proactive communication with affected employees, and a thorough review of international assignment policies are important steps towards helping ensure that all parties are prepared when the new rules take effect. By taking these steps, individuals and organisations can navigate the challenges of the FIG regime and position themselves to make best use of the new reliefs and transitional measures coming in from April onwards.



To learn more about the KPMG Global Mobility Services practice, please visit: read.kpmg.us/GlobalMobilityServices.

Footnote:

¹ HM Treasury, "Policy paper: Changes to the taxation of non-U.K. domiciled individuals" (updated 8 August 2024) at: <https://www.gov.uk/government/publications/2024-non-U.K.-domiciled-individuals-policy-summary/changes-to-the-taxation-of-non-U.K.-domiciled-individuals>.

Also see "Technical Note: Reforming the taxation of non-U.K. domiciled individuals" at: https://assets.publishing.service.gov.uk/media/672105124da1c0d41942a8a8/Reforming_the_taxation_of_non-U.K._individuals.pdf.

Also see *GMS Flash Alert 2024-215*, 31 October 2024, a publication of KPMG.

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