Office for
Budget
Responsibility

30 January 2025

Supplementary forecast information release

Costing of reforms to the non-domicile regime

1.1 The OBR is releasing this information following a request for further detail in respect of the costing of reforms to the non-domicile regime, in our March and October 2024 *Economic and fiscal outlook* (*EFO*). We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

1.2 This release briefly describes the measure, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.[1] As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central.[2]

Policy description

1.3 From April 2025, a new regime will apply to the foreign income and gains (FIG) and inheritance tax (IHT) of non-domiciled taxpayers. The new regime is based on residence in the UK, rather than domicile.[3] The previous Government set out the new FIG regime in the Spring 2024 Budget, some details of which were subsequently revised by the current Government in the Autumn 2024 Budget, alongside the announcement of a residence-based regime for wealth transfers subject to inheritance tax (IHT). This release is based on the costing of reforms to the non-domicile regime as at the Autumn 2024 Budget.[4]

1.4 The new FIG regime replaces the current 'remittance basis' treatment for non-domiciled UK residents.[5] The new regime is open to those who have been non-resident in the UK for at least ten years, and for their first four years of tax residence. During this period, eligible individuals are exempt from paying UK tax on newly arising FIG, whether or not it is remitted to the UK. The new regime does not have charges.[6] Individuals who are ineligible for the new regime are subject to UK taxation at the marginal rate on all newly arising FIG,

[1] See our *Briefing paper No. 6: Policy costings and our forecast*, March 2014.
[2] This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.
[3] In general, a taxpayer's domicile is their father's permanent home country at the time of their birth. For more information see HMRC, *Guidance note for residence, domicile and the remittance basis: RDR1*, October 2013. Previous reforms in 2017 also 'deemed' some individuals as UK-domiciled, see HMRC, *Changes to the deemed domicile rules from 6 April 2027*, February 2018.
[4] See the March 2024 and October 2024 *EFO* for more information. The OBR's October 2024 forecast accounted for all the changes to the non-domicile regime, but only the changes to the FIG regime since March and the IHT regime were 'scored' as new policy, as per the established costings process.
[5] See HMRC, *Remittance basis 2021 (HS264)*, July 2014. Those not on, or ineligible for, the remittance basis pay tax on the 'arising basis', i.e., the relevant marginal rate of tax in the UK subject to any reliefs.
[6] Under the current remittance basis, those resident for at least seven of the previous nine tax years pay a £30,000 annual charge, and those resident for at least 12 of the last 14 years pay £60,000.

but have been offered two transitional protections: the rebasing of offshore capital gains to 2017 prices, and a three-year Temporary Repatriation Facility (TRF) from 2025-26 to 2027-28, which allows individuals to 'designate' offshore FIG that were 'stockpiled' prior to April 2025 at a discounted 12 per cent tax rate for the first two years, and 15 per cent in the final year. The new regime extends Overseas Workday Relief (OWR) from three to four years, but with an annual cap on employment income of the lower of £300,000 or 30 per cent of total income.[7]

1.5 Under current IHT rules, non-domiciled taxpayers are only liable for IHT on assets located in the UK. The new IHT regime applies from April 2025 to individuals who were resident in the UK for at least ten of the last twenty years before their death, with individuals remaining in scope for IHT charges for up to ten years of non-residence. Individually held offshore assets for those resident at death will be subject to IHT at 40 per cent – after applying any relevant reliefs and exemptions – while offshore assets in excluded property trusts (EPTs) will be brought into the scope of IHT and treated in line with other trusts, subject to a 6 per cent charge on ten-year anniversaries or when assets exit the trust.[8]

Data

1.6 Given their nature and their current treatment in the UK tax system, there is less data on non-domiciles and their income and wealth compared to other UK taxpayers, making the tax base for this measure very uncertain. Data on the size of the non-domiciled population, including on FIG remitted to the UK, come from HMRC self-assessment returns.[9] This provides a back series of the number of individuals on the remittance basis, though individuals can choose to opt in or out of the remittance basis in a given year based on their financial needs or preferences. Estimates of UK tax paid by this group are derived from wider self-assessment data, up to 2022-23.[10]

1.7 Remittance basis users are in general not required to submit information on FIG not remitted to the UK. Information on non-domiciles' offshore FIG is based on Automatic Exchange of Information (AEOI) agreements, specifically Common Reporting Standard (CRS) and Foreign Account Tax Compliance Act (FATCA) data,[11] with individual-level microdata for 2021-22 that also relates individuals to their income and gains from trusts. HMRC has matched this data to self-assessment returns among those ineligible for the new

[7] The Government amended these transitional protections in the Autumn 2024 Budget as compared to Spring 2024: a proposed 50 per cent reduction in tax on FIG arising in 2025-26 was scrapped; the rebasing year for offshore capital gains was changed from 2019 to 2017; and the TRF was extended for a year, changed to a 'designation' basis and opened to a broader range of offshore FIG. More information on these changes, and the changes to Overseas Workday Relief, is available in HMRC, *Reforming the taxation of non-UK domiciled individuals*, October 2024.

[8] More information is available in HMRC, *Reforming the taxation of non-UK domiciled individuals*, October 2024. In practice, only a small number of *individuals* who are non-domiciled but UK resident will face a new IHT liability (while a small number of UK-domiciled but non-resident individuals will no longer have a liability). The 6 per cent charge on EPTs is a 'maximum', and the effective rate of tax will rise over time until it reaches this rate. Certain exclusions apply for some assets in EPTs before April 2025.

[9] See HMRC, *Statistical commentary on non-domiciled taxpayers in the UK*, July 2024. This includes data on remittance basis charges.

[10] Data on the cost to the Exchequer of OWR are held by HMRC.

[11] CRS is an OECD initiative, while FATCA is a US equivalent. See HMRC, *IEIM402340 - Reportable Information: Reportable Jurisdictions*, April 2016. This covers a large number of jurisdictions, but not all.

FIG regime, and scaled up the data to account for any unmatched observations.[12] To model the new FIG regime, HMRC split this population into non-domiciles without trusts (in the last five years of data), non-domiciles with trusts and deemed domiciles; the AEOI data was also used to estimate the extent of 'stockpiled' offshore FIG eligible for the TRF, and the tax base of EPTs now eligible for IHT.

1.8 To model the impact of a residence-based IHT regime for individually held assets, HMRC conducted a sampling exercise of 2020-21 and 2021-22 IHT data, as non-domiciled death estates are required to report their domicile status and the value of their foreign assets. This was cross-referenced against residency information sourced from self-assessment data.

Modelling

Static costing

1.9 The reforms to the non-domicile regime affect the OBR's income tax (IT), NICs, capital gains tax (CGT) and IHT forecasts. The various components of the reforms have been modelled additively, with some adding to receipts and others reducing receipts. These can broadly be grouped into the new FIG regime, the TRF and the new IHT regime.

1.10 The baseline population of non-domiciled taxpayers has been projected forward based on trends in the latest outturn data, assumed to decrease by 1.5 per cent a year. Applying the stricter requirements of the new FIG regime to this population, HMRC estimated that by 2025-26, around 14,200 non-domiciles will be eligible for the new regime, while 7,100 will be ineligible for the new regime, alongside around 600 'deemed' domiciles whose offshore trusts are made tax liable by the reforms.[13]

1.11 The static costing of the new FIG regime consists of the following components:

- the yield from remittance basis users ineligible for the new FIG regime – specifically the IT and CGT paid on the 'arising basis';
- the loss of tax receipts on remitted FIG from remittance basis users eligible for the new FIG regime – in the counterfactual without the measure, these individuals would have continued to pay tax on FIG remitted to the UK, which is no longer required under the new regime;
- the loss of remittance basis charges from a subset of current remittance basis users – as the new FIG regime does not have charges; and
- a net loss of revenue from changes to OWR.

[12] There is significant uncertainty around this assumption. Individuals may have deliberately structured their affairs to make this kind of matching exercise impractical or stockpiled FIG outside the remit of AEOI agreements, or may simply not hold significant offshore FIG. HMRC also applies a 32.5 per cent gain to value rate to scale down FIG labelled as 'proceeds', which may be recorded at full sale prices rather than at the taxable capital gain.

[13] The remaining non-domiciled taxpayers in outturn are either non-resident in the UK for tax purposes, or non-domiciled but already on the 'arising basis' of taxation, and as such unaffected by the reforms to the remittance basis.

1.12 The static yield from remittance basis users ineligible for the new regime is modelled based on the observed average FIG in 2021-22 among non-domiciles with and without trusts, and 'deemed' domiciles. This splits out income, which is liable for self-assessed IT, and gains, which are liable for CGT. FIG is assumed to grow with the OBR's world equity prices forecast, and is subject to an effective average tax rate of 30.7 per cent.[14] This accounts for the vast majority of yield from the reforms outside the TRF window and in the medium term, reaching around £9.5 billion at the forecast horizon.[15]

1.13 This yield is offset by three losses. Lost tax receipts on remitted FIG from individuals eligible for the new regime are modelled based on observed average remitted FIG for 2022-23, grown with world equity prices and taxed at around 50 per cent.[16] Lost remittance basis charges are 'backed out' based on outturn data and the assumed decrease in the baseline population of non-domiciles, reducing yield by around £80 million a year. And the changes to OWR reduce the static yield by a further £100 million a year, based on growing the current cost of OWR with the OBR's wages and salaries forecast and assuming it is used by a larger population of individuals.[17] Altogether, the static yield from the new FIG regime at the forecast horizon is around £9 billion, almost entirely explained by the tax liability on those ineligible for the new regime.

1.14 The TRF raises no revenue in the static costing, as by design it requires individuals to opt in.

1.15 The static costing of the new IHT regime consists of:

- the yield from charges on offshore assets held in EPTs, which are being brought into the scope of taxation; and
- the net yield from moving to a residence-based IHT regime for individually held assets.

1.16 The tax base for offshore assets in EPTs is based on AEOI data on average trust size for 2021-22, grown with the OBR's world equity prices forecast and multiplied by the number of taxpayers with offshore EPTs (around 600 in scope in 2025-26). The static yield is then estimated as a yearly tax charge on this tax base, starting at 0.06 per cent in 2025-26, rising to 0.3 per cent at the forecast horizon, and eventually rising to 0.6 per cent a year, equivalent to a 6 per cent ten-year periodic charge. As such the static yield rises over the forecast to around £430 million in 2029-30. The residence-based IHT regime for individually held assets adds a very small amount to this yield, based on the net yield modelled via the HMRC sampling exercise detailed above.[18]

---

[14] This is taken from the effective tax rate on total remuneration among higher earners in Advani, A., and A. and Summers, *Raising money from "the rich" doesn't require increasing tax rates*, June 2020, adjusted to account for the increase in the main rate of CGT.

[15] The October 2024 costing of the further reforms to the non-domicile regime includes additional yield from the FIG regime in 2025-26 only. This is explained by the current Government's decision to scrap the 50 per cent reduction in tax on FIG arising in that year for those ineligible for the new regime that was proposed by the previous Government.

[16] The effective average tax rate including NICs is 50.3 per cent. This is higher than the 28 per cent for those ineligible for the new regime because it relates to voluntary onshoring to the UK under the remittance basis rules.

[17] The population of those eligible for the new FIG regime is wider than those who explicitly opted in to the remittance basis. The changes announced in October 2024 are assumed to be revenue neutral compared to March 2024 by design.

[18] The small yield from non-domiciled taxpayers who are UK resident at the time of their death slightly outweighs the small loss from UK domiciled taxpayers who are non-UK resident when they pass away.

Behavioural response

1.17 The behavioural response to the measure is highly uncertain, given the wide range of channels through which individuals can respond, and the degree to which decisions made by a small number of individuals could influence the yield. The costing of the FIG regime accounts for two top-down behavioural responses:

- Some non-domiciled taxpayers ineligible for the new regime will exit the UK (or UK tax residency) in response to the measure. This is modelled as a 12 per cent and 25 per cent decrease in 2025-26 in the population of non-domiciles without trusts, and non-domiciles with trusts and deemed domiciles respectively.[19] The higher migration assumption for those with trusts reflects a greater new tax liability they are likely to face. This reduces yield from the new FIG regime proportionally.

- Non-domiciled taxpayers ineligible for the new regime are assumed to restructure their affairs to mitigate some of the new tax liability. This is modelled as a 30 per cent reduction in yield from the FIG regime for 'tax planning', broadly in line with previous measures affecting a similar population.

1.18 The potential 'tax base' for the TRF is estimated based on AEOI data for 2021-22,[20] and uprated with the OBR's world equity prices forecast, reaching £360 billion in 2025-26. The key behavioural assumption is the degree of take-up: it is assumed that 35 per cent of eligible individually held assets and 50 per cent of assets held in trusts will be 'designated' for the TRF, with designations spread over the three years the TRF is in operation.[21] The yield during the TRF is therefore the 12 per cent tax rate charged on these designations for the first two years, and the 15 per cent tax rate in the final year.[22] This yield is offset by a small amount by a loss in receipts on FIG that would have otherwise been remitted to the UK, both during the operation of the TRF and for the two years after.[23] In total, the TRF is estimated to raise £4.4 billion in 2025-26, £9.2 billion in 2026-27 and £2.5 billion in 2027-28, constituting a small loss of receipts thereafter.[24]

---

[19] Therefore around 100 non-domiciles with trusts, who are ineligible for the new regime, and 900 without trusts migrate in response to the measure, as well as around 200 deemed domiciles. This is lower than the migration response assumed for the costings of previous reforms, in part reflecting HMRC's evaluation of the 2017 deemed domicile reform, and subsequent academic evidence that tax is not a generally a first-order driver of location decisions among high-net worth individuals with personal and professional connections to an area. See Friedman, S., et al., *Tax flight? Britain's wealthiest and their attachment to place*, January 2024.

[20] Specifically, HMRC has matched this data to the non-domiciled population, and estimated what proportion of offshore FIG they hold is both 'stockpiled', i.e., already realised, and 'clean', i.e., accumulated before an individual was UK tax resident, such that it would be eligible for the TRF.

[21] For individuals, 30 per cent of designations are assumed to take place in 2025-26, 60 per cent in 2026-27 and 10 per cent in 2027-28. For trusts the equivalent figures are 20 per cent, 50 per cent and 30 per cent. The profile reflects both the time required for non-domiciles to organise their affairs and decide on a suitable designation, and the relative disincentive to designate in the final year of the TRF when the tax rate is higher.

[22] For now this has been classified under other IT, but it is ultimately expected to constitute a new, time-limited self-assessed tax head.

[23] Individuals ineligible for the new FIG regime pay tax on newly arising FIG, including FIG remitted to the UK, under the 'arising basis', facing the full marginal rate of tax subject to any reliefs. While the TRF is open, the loss in receipts is equivalent to the difference in the effective tax rate paid, and in the years after is equivalent to the full tax that would have been paid, i.e., it is assumed some remittances are brought forward due to the attractiveness of the TRF.

[24] The additional revenue 'scored' for the TRF in October 2024 relative to March 2024 reflects a reprofiling of receipts due to the change to a three-year FIG, the increase in take-up due to the more attractive 'designation' basis, the broader range of assets eligible for the TRF in October compared to March, and an updated, higher estimate of the share of 'clean' capital in the tax base.

1.19 The costing of the IHT regime for offshore EPTs also accounts for similar migration and tax planning behavioural responses as the FIG regime. The static yield from the residence-based IHT regime for individually held assets is scaled down to account for greater use of spouse exemption – this halves the yield, which remains very small.

Table 1.1: Key parameters

Parameter	Value	Description
FIG regime[1]		
Non-domiciles eligible for new regime	14,200	Individuals eligible for the new regime in 2025-26.
Non-domiciles ineligible for new regime	7,100	Individuals ineligible for the new regime in 2025-26.
of which:		
Non-domiciles with trusts	200	Individuals likely to face a larger tax liability.
Non-domiciles without trusts	6,900	Individuals likely to face a smaller tax liability.
'Deemed' domiciles in scope	600	Individuals 'deemed' UK-domiciled in a prior reform whose trusts are in scope of the measure, in 2025-26.
Annual change in stock of non-domiciles (per cent)	-1.5	The baseline change in the non-domicile population, based on the trend in outturn.
Tax rate on newly arising FIG if eligible for the new regime (per cent)	0	Those eligible for the new FIG regime do not pay tax on newly arising FIG for their first four years of tax residence.
Tax rate on newly arising FIG if ineligible for the new regime (per cent)	30.7	Those ineligible for the new regime pay tax on the 'arising basis'. The effective average tax rate is derived from the literature.[2]
Migration response (per cent)	12-25	The lower figure is for those without trusts, the higher figure is for those with trusts, including deemed domiciles.
Tax planning response (per cent)	30	The yield lost through tax avoidance.
TRF		
Tax rate on designations to the TRF (per cent)	12-15	A reduced rate of 12 per cent in 2025-26 and 2026-27, and 15 per cent in 2027-28, on stockpiled offshore FIG 'designated' for onshoring at a future date.
Potential TRF tax base for individually held assets in 2025-26 (£ billion)	320	Assets eligible for 'designation' via the TRF for future onshoring. This is highly uncertain.
Potential TRF tax base for assets held in trusts in 2025-26 (£ billion)	40	Assets eligible for 'designation' via the TRF for future onshoring. This is highly uncertain.
TRF take-up for individually held assets (per cent)	35	Proportion of assets 'designated' in the TRF over its three years of operation. This is highly uncertain.
TRF take-up for assets held in trusts (per cent)	50	Proportion of assets 'designated' in the TRF over its three years of operation. This is highly uncertain.
IHT regime		
Pre-death size of EPT tax base in 2025-26 (£ billion)	128	Wealth held in EPTs eligible for ten-year periodic IHT charges under the new regime.

[1] HMRC hold more detailed information on the average tax liability on FIG and UK income for non-domiciled taxpayers.

[2] See Advani, A. and Summers, A., Raising money from "the rich" doesn't require increasing tax rates, June 2020. This has been adjusted to account for the increase in the main rate of CGT.

Note: All figures rounded. Some totals may not sum due to rounding.

Source: OBR

Table 1.2: OBR parameters used in this costing

	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
World equity prices growth (per cent)	18.2	4.2	4.2	4.4	4.4	4.4
Wages and salaries (£ billion)	1,415	1,492	1,532	1,571	1,616	1,666

Source: OBR

Interactions with other measures

1.20 The increase in the main rate of CGT announced in the October 2024 Budget mechanically increases the yield from this measure by a small amount, as those ineligible for the new FIG regime pay a higher tax rate on some disposals. The migration behavioural response was also revised up slightly – from 11 to 12 per cent for those without trusts, and from 24 to 25 per cent for those with trusts – to account for the additional tax liability and incentives from the wider package of capital tax measures in the October 2024 Budget, particularly on IHT. This has a small negative impact on yield.

Final costing

1.21 At the forecast horizon the reforms to the non-domicile regime raise £4.5 billion, almost all of which is from the new FIG regime, alongside a small but growing portion of revenue from the new IHT regime. The profile of yield in the short term is dominated by the TRF, which raises a peak of £9.2 billion in 2027-28. Virtually all the medium-term revenue from the reforms is from the original reforms to the FIG regime announced in March 2024,[25] with the further reforms in October 2024 – particularly to the TRF – adding to short-term yield. It is unclear how the yield will evolve in the long term: inflows to the TRF may be 'additional' to the forecast, or may to some extent constitute disposals that would otherwise have been made and paid at the full rate of CGT or IT at a later point in time.

1.22 This policy costing was assigned a 'very high' uncertainty rating in both March and October 2024.[26] There is significant uncertainty around the size of the tax base and the behavioural response to this measure, which is contingent on decisions made by a relatively small number of wealthy individuals.

[25] As set out in paragraph 3.56 of our October *EFO*, the March 2024 costing of the initial reforms to the non-domicile regime was revised up to account for the latest information on the stock of non-domiciled individuals and modelling improvements around the TRF tax base (including an upward revision to the share of 'clean' capital eligible). The OBR's October 2024 forecast for world equity prices was also more optimistic, increasing yield further.

[26] See the 'Policy costings uncertainty ratings database – October 2024' spreadsheet at OBR, *Policy costings*, November 2024.

Table 1.3: Costing of reforms to the non-domicile regime

	£ billion					
	Forecast					
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Updated March 2024 costing[1]						
Static costing	0.0	0.0	-5.7	-8.3	-8.3	-8.5
of which:						
FIG regime	0.0	0.0	-5.7	-8.3	-8.3	-8.5
TRF	0.0	0.0	0.0	0.0	0.0	0.0
IHT regime	0.0	0.0	0.0	0.0	0.0	0.0
Post-behavioural costing	0.0	0.1	-5.5	-7.2	-4.3	-4.4
of which:						
FIG regime	0.0	0.1	-2.7	-4.4	-4.4	-4.5
TRF	0.0	0.0	-2.8	-2.8	0.1	0.1
IHT regime	0.0	0.0	0.0	0.0	0.0	0.0
October 2024 costing[2]						
Static costing	0.0	0.0	-4.7	0.2	-0.5	-0.8
of which:						
FIG regime	0.0	0.0	-4.6	0.4	-0.2	-0.4
TRF	0.0	0.0	0.0	0.0	0.0	0.0
IHT regime	0.0	0.0	-0.1	-0.2	-0.3	-0.3
Post-behavioural costing	0.0	0.0	-4.1	-5.9	-2.6	-0.1
of which:						
FIG regime	0.0	0.0	-2.4	0.5	0.2	0.1
TRF	0.0	0.0	-1.6	-6.4	-2.6	0.0
IHT regime	0.0	0.0	-0.1	-0.1	-0.1	-0.2
Combined March and October 2024 costing[3]						
Static costing	0.0	0.0	-10.4	-8.1	-8.8	-9.3
of which:						
FIG regime	0.0	0.0	-10.3	-7.9	-8.5	-8.9
TRF	0.0	0.0	0.0	0.0	0.0	0.0
IHT regime	0.0	0.0	-0.1	-0.2	-0.3	-0.3
Post-behavioural costing	0.0	0.1	-9.5	-13.1	-6.8	-4.5
of which:						
FIG regime	0.0	0.1	-5.1	-3.9	-4.2	-4.4
TRF	0.0	0.0	-4.4	-9.2	-2.5	0.1
IHT regime	0.0	0.0	-0.1	-0.1	-0.1	-0.2

[1] The recosting of the reforms announced in March 2024. This revenue is in the October 2024 forecast baseline.
[2] The costing of the further reforms announced in October 2024, 'scored' as new policy.
[3] All revenue from the reforms to the non-domicile regime in the OBR's October 2024 forecast, whether baseline or new policy.
Note: This table uses the convention that a negative figure means a reduction in PSNB. Post-behavioural costing includes the Scottish and Welsh BGA.
Source: OBR