

Residence-Based Regime for UK Inheritance Tax and Foreign Income and Gains

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By **Paul Harvey**, 7th February 2025

As part of its wide-ranging changes to the current non-domicile (non-Dom) regime, the UK government is set to introduce a residence-based regime for both Inheritance Tax and Foreign Income and Gains with effect from **6th April 2025**.

This is a major shift from the historic domicile-based regime and presents both challenges and opportunities for individuals who may already be UK tax resident or considering taking up residence in the UK post April 2025 who would previously have taken advantage of the non-Dom regime.

One possible mitigation strategy is to use an Isle of Man (IoM) company to hold non-UK property related investments, ensuring that the situs of the investment remains outside the UK.

Residence-based regime for Inheritance Tax

The most significant change is that from 6 April 2025, the test for whether **non-UK assets** owned by UK resident individuals will be subject to IHT will be whether the individual is deemed as "Long Term Resident". A long-term resident being an individual has been resident in the UK for 10 of the proceeding 20 years prior to the tax year in which the chargeable event arises.

New Foreign Income and Gains (FIG) Regime

An additional change is that with effect from 6 April 2025 the UK's new FIG regime which will replace the existing remittance basis of taxation currently available to Non-Dom's, providing **100% relief on FIG for new arrivals** to the UK for their first four years of tax residence, provided they have not been UK tax residents in any of the **10 consecutive years** prior to their arrival.

Why Use an Isle of Man Company?

The Isle of Man offers a robust and internationally recognised jurisdiction, adhering to the highest international standards. Key benefits of using an IoM company for newly arrived UK resident include:

1. **Succession and Estate Planning:** Investments held through an IoM company, including UK situs non-property investments, fall outside **UK inheritance tax (IHT)** until the individual is deemed "Long Term Resident."
2. **Non-UK Situs for Investments:** A properly structured IoM company is considered non-UK situs, meaning its assets are not directly held by UK individuals. This can potentially mitigate UK tax exposure under the new FIG regime for the first 4 years of residence. This presents planning opportunities for individuals who do not intend to remain in the UK in the longer term
3. **Favourable Tax Environment:** The Isle of Man has a **0% corporate tax rate** on most income, **no capital gains tax**, and **no withholding tax on dividends**, making it an attractive jurisdiction for investment holding structures.
4. **Investor Confidentiality:** The Isle of Man maintains a high level of investor privacy and protection, making it an appealing choice for high-net-worth individuals and family offices.

Conclusion

The increasingly mobile nature of HNW individuals means that using an Isle of Man company can provide significant tax efficiencies by ensuring that investments remain non-UK situs, thereby reducing exposure to UK taxation in the short to medium term.

However, as always careful structuring and professional tax advice are imperative to when considering any structuring.

If you would like to talk to us about how an Isle of Man Company might be appropriate for you or your clients, please contact us: advice.iom@dixcart.com.

