

Domicile

Domicile and residence can each have a significant impact on how much UK tax you must pay, or indeed if you must pay UK tax at all. Both terms are used for tax purposes and have little to do with citizenship or nationality.

Domicile and tax

Domicile is the country you regard as your natural home. You can only have one domicile at any time. Your domicile can be of origin, choice or dependency. The most common type is domicile of origin. This is the country which was your father's domicile and where you either live or intend to return to at some point in the future.

Domicile is particularly relevant for **inheritance tax**. A British domiciled person is liable to pay inheritance tax on their entire estate wherever it is in the world. A 'non-dom' is liable to pay inheritance tax only on their UK property. There is also a £325,000 limit on the amount a non-dom spouse can inherit free of inheritance tax.

Domicile is also relevant for calculating **income tax and capital gains tax** on a UK resident non-dom's overseas income and gains. Unless they choose to pay tax on all overseas income and gains as they arise, they must elect for the remittance basis and usually pay an annual charge of either £30,000, £60,000 or £90,000 depending on how long they have been resident in the UK. This may be mitigated if they remit income to the UK for commercial investment in a UK business.

Domicile example

If you decide to move to Spain to live there permanently, factors that will help establish whether you now have a Spanish domicile could include:

- whether you can speak Spanish
- if you associate with Spanish nationals rather than just British expatriates
- if you wish to be buried in Spain
- if you are no longer a member of British organisations and no longer own property in Britain.

Reform to the taxation of non-UK domiciled individuals

From April 2017:

- Non-domiciled individuals will be deemed UK domiciled for income tax and capital gains tax purposes if they have been a UK resident for 15 of the past 20 years, or if they were born in the UK with a UK domicile of origin. Deemed UK domicile has been a feature of IHT for many years, with long term residents deemed UK domicile for IHT purposes when they have been resident for 17 out of 20 years. This reduces to 15 years in 2017. For IHT purposes, once UK-deemed domicile has applied, it continues to apply for 4 years after the taxpayer leaves the UK (previously 3 years).
- Inheritance tax will be charged on UK residential property when it is held indirectly by a non-domiciled individual through an offshore structure, such as a trust or a company
- It is intended to make it easier for non-domiciled individuals who are taxed on the remittance basis to bring offshore money into the UK to invest in UK businesses and to claim business investment relief.

Contact us

This is a very broad summary of detailed and complex regulations, which are supported by detailed guidance.

Talk to us so that we can advise on whether your circumstances are likely to establish non-UK domicile.