

# Non-doms: the end of an era



The non-dom tax regime has been in place for well over a century. Rigorous independent research finally helped bring it to an end.

by Arun Advani



The UK's so-called 'non-dom' regime has been one of the UK tax system's most stubborn survivors. It allows those who live in the UK, but who can assert that their permanent home is abroad – 'non-doms' – to claim an exemption from tax on their foreign income and gains that is not available to other UK residents. This tax advantage is traceable to the very first Income Tax in 1799. Originally it applied to everyone, but it became restricted to non-doms in 1915. More than one hundred years later, after many unsuccessful attempts at reform, in March 2024 the abolition of non-dom status was announced by then-chancellor Jeremy Hunt. The change of Government brought about by the July General Election is not expected to result in any reprieve for the non-dom regime. This is the story of how the non-dom regime survived for so long, and the evidence that helped lay it to rest.

### Back from the brink

There have been many moments in the history of the non-dom regime where its future seemed under threat. The Labour Party came close to ending it in 1974; the Conservative Chancellor Nigel Lawson also made plans for abolition in 1988. Under New Labour, the regime was tightened in 2008, but the basic structure survived. On each occasion, the pattern was the same: bold ambitions followed by a late wobble inside the Treasury, driven by fears that wealthy non-doms would flee the country, leading ministers to step back from the brink.

In the run-up to the 2015 General Election, the Labour Party pledged (if elected) to scrap the non-dom regime. But the threat of tax flight loomed large. Shadow Chancellor Ed Balls was taped admitting that "If you abolish the whole status, it probably ends up costing Britain

money because some people will leave the country". Labour lost the election but won a partial reform. In the following Budget, Tory Chancellor George Osborne announced that he was 'abolishing permanent non-dom tax status', which meant removing the tax advantages for the longest stayers but retaining them for the rest.

In the years that followed, hardly a Budget went by without speculation that the regime would be curtailed further, but each time nothing happened. As Phillip Hammond, Chancellor from 2016-2019 recently revealed: "I looked at non-doms ... The Treasury's analysis when I was there suggested that we had gone about as far as we could without starting to have a negative effect". Just like every other time in the preceding half-century, worries about tax flight won the day. Public concerns about the unfairness of special rules for non-doms had little bite for so long as it seemed that there was no revenue to be gained from acting.

### Did they leave?

Osborne's reforms were partial, but they provided an ideal natural experiment. Did affected non-doms actually leave en masse, as predicted? In 2018, my research team applied to HMRC, the UK tax authority, for access to the data that would allow us to find out. Via the 'Datalab' – a secure research-facility based at HMRC's offices – we were able to analyse the de-identified tax records of everyone who had ever claimed non-dom status since 1997. As well as every detail of their annual tax return, this data allowed us to track migration in and out of the UK and to count the years that an individual had been tax resident.

First, we needed to know how much foreign income and gains non-doms held offshore. Since these sums are not required to be reported to HMRC, we developed our own estimates by comparing remittance basis users to similar 'UK doms' who were obliged to declare their worldwide income in full. This approach provided us with the first window into the scale of the income and gains that were being exempted from tax under the current regime. We estimated that in aggregate, these totalled over £10bn per year. However, not all of this would translate into additional tax

revenue: aside from tax planning, what about those who would leave?

We tackled this question that had led to so many Treasury wobbles

in the past. Osborne's reform, which took effect in April 2017, only targeted non-doms who had lived in the UK for at least 15 out of the previous 20 years. We could therefore compare their likelihood of leaving the UK – both before and after the reform – with similar non-doms who had only lived in the UK for between 10 and 14 years. The affected group were indeed internationally mobile: even prior to the reform, almost 5% left each year. As a result of losing access to the remittance basis, this emigration rate did go up – but not by much: we estimated that around an additional 6% of affected non-doms ceased to be tax resident in the UK due to the reform.

And what about the non-doms who stayed in the UK? They paid a lot more tax: we can see from their tax records that the Income Tax paid by those affected by the reform increased by over 150% on average, equating to an extra £100,000 each per year (even after accounting for the fixed charge that they no longer

## the threat of tax flight loomed large



paid). And yet, the mass exodus that advisors had warned about and which politicians of all stripes had feared, did not materialise. The modest emigration response was nowhere near enough to result in the so-called 'Laffer effect' of negative revenue that successive Chancellors and Shadow Chancellors had warned of.

### Politics

In April 2022, the Independent newspaper revealed that the wife of then-Chancellor Rishi Sunak was claiming non-dom status and benefiting from the remittance basis. Ex-Chancellor Sajid Javid also admitted to previously having used the regime. Our recently published research provided a wider perspective on these revelations: those with incomes over £1m were almost one hundred times more likely to have claimed non-dom status than those with incomes less than £100k. Amongst the tiny elite with incomes over £5m, as many as four in ten (40%) had claimed non-dom status at some point.

Later that month, the Labour Party – not for the first time in recent memory – pledged to abolish non-dom status. But this time, by relying directly on our research, they were

able to say how much it would raise. Out of the £3.2bn that we estimated would be collected from abolishing non-dom status altogether, Labour allocated around £2bn to public spending pledges (training more nurses) and the remainder towards a new 'modern regime' to attract migrants, lasting no more than five years after their arrival.

In public at least, the government was initially sceptical. When pressed in Parliament in November 2022, the Chancellor (by now Jeremy Hunt) reiterated his concern that "These are people who are highly mobile, and I want to make sure we do not do anything that inadvertently loses us more money than we raise." He did not, however, explicitly reject

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our findings. In reply to a Freedom of Information request filed by OpenDemocracy in July 2023, the Treasury stated that it did not have any figures of its own. Many commentators, including George Osborne, said that if they were

Chancellor, they would now be looking to shoot Labour's fox.

### End-game

And so, the game of will-they-won't-they continued before each fiscal event, each time coming to nothing. Until March 2024, when without so much as a hint of irony, Chancellor Jeremy Hunt announced: "I have always believed that provided we protect the UK's attractiveness to international investors, those with the broadest shoulders should pay their fair share." He continued: "After looking at the issue over many months, I have concluded that we can indeed introduce a system which is both fairer and remains competitive with other countries."

With this, the regime that had stood for over a century largely intact, was abruptly swept away. The concept of domicile for tax purposes completely abolished, replaced with a residence test. The remittance basis – in UK tax law since 1799 – finally retired, albeit the dubious distinction between UK and foreign-source income

and gains was retained in the new system. The duration of the tax advantage cut from fifteen years to four (coincidentally the period that had been mooted by Labour).

This was not the incremental tinkering or brinkmanship that had characterised every non-dom reform for the past fifty years. It was actual structural change. The new Labour government may make adjustments at the margins, but the non-dom loophole will still be closed.

This is not to say that absolutely all was well. The 'modern' system that will take effect from April 2025 still provides a rather counterintuitive – and economically counterproductive – incentive for new arrivals to keep their

investments anywhere except the UK. The full year until implementation provides plenty of scope for current non-doms to arrange their affairs in a way that minimises the impact of losing their special status.

Perks like 'rebasings' of capital gains should have been resisted. And it seems that the Treasury could not help but give one final nod to that old chestnut, the risk of tax flight, in offering trust protections for Inheritance Tax. But in the context of the great history of Treasury wobbles on non-dom reform, this one would surely not trouble the scorers.

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### Show us the numbers

What had previously been regarded an act of economic self-harm, a measure that however fair would just end up 'costing Britain money', suddenly became not only desirable but also capable of raising substantial revenue. Within two years, the non-dom regime was dead. To be sure, our research did not kill it on its own, but the history of the regime's survival suggests that we helped overcome a major stumbling block for reform: the lack of an evidence base to test the

prevailing concerns. This shows, we hope, how rigorous independent research into the tax system can sometimes shift the political needle.

We did not set out to justify abolishing the non-dom regime: all the way along we were open to concluding that the anecdotes

of tax flight were representative and that there was no money in reform. But that is not what the data told us. In the end, the revenue estimate approved by the Office for Budget Responsibility was remarkably close to our own. It could still turn out to be incorrect, but our view is that it is just as likely to be too low as too high. At least the speculation will not last much longer, and time will tell. ◀



### About the author

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