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Reforming the non-dom regime: revenue estimates

CAGE Policy Briefing no.38

September 2022

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UKRI Economic and Social Research Council

Reforming the non-dom regime: revenue estimates

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Published by

CAGE Warwick

LSE International Inequalities Institute

warwick.ac.uk/cage

lse.ac.uk/International-Inequalities

This research was funded by the Economic and Social Research Council (ESRC) through the CAGE Research Centre at Warwick (ES/L011719/1), 'Top Flight' New Investigator Grant (ES/W001683/1), and by LSE International Inequalities Institute, LSE Law, and Warwick Economics. This work contains statistical data from HM Revenue and Customs (HMRC) which are Crown Copyright. The research data sets used may not exactly reproduce HMRC aggregates. The use of HMRC statistical data in this work does not imply the endorsement of HMRC in relation to the interpretation or analysis of the information. The authors thank John Barnett, Emma Chamberlain, Dan Neidle, Lindsay Pentelow and Nimesh Shah for advice and insight. Correspondence to a.advani.1@warwick.ac.uk and a.d.summers@lse.ac.uk.

This briefing summarises new research on the untaxed offshore income and capital gains of the UK's 'non-doms' – individuals who are resident in the UK but who claim on their tax return that their permanent home ('domicile') is abroad. It also estimates the tax non-doms would pay if the regime were abolished or more restricted by years of residence in the UK. We use de-identified, confidential data accessed via HMRC to analyse all individuals who have claimed non-dom status between 1997 and 2018.[1]

Key findings

- **Non-doms have at least £10.9 billion in offshore income and gains**, which are neither reported to HMRC nor taxed in the UK. This equates to an average of more than £420,000 for each non-dom using the 'remittance basis' of taxation (excluding those who declare they are sheltering less than £2,000).

- **Most of these unreported income and gains (55%) belong to non-doms who arrived in the UK in the past five years**. This makes the treatment of those who have been in the UK for a relatively short period crucial to the total revenue that could be raised from a reformed policy.

- **Previous reforms that restricted access to the non-dom regime led to very little emigration.** Reforms in 2017 that were – in the words of then-Chancellor George Osborne – intended to 'abolish permanent non-dom status', led to just 0.2% of long-staying non-doms leaving the UK. Among more recent arrivals, who had been in the UK for less than three years, around 2% left.

- **Those who did leave were paying hardly any tax.** Migration responses are largest for those who reported small amounts of income and gains and were paying little UK tax, so the fiscal cost of their departure was limited.

- **Abolishing the non-dom regime would raise at least £3.2 billion**, even after accounting for emigration, other tax planning taken to reduce tax bills and the loss of revenue from the existing 'remittance basis charge' paid by some non-doms. For the abolition of the remittance basis to not raise any revenue, the migration response would have to be more than 15 times larger than we have previously observed. This figure is just for Income Tax and Capital Gains Tax; we have not attempted to quantify the additional revenue from Inheritance Tax in this study.

- **The cost of allowing individuals to retain the benefits of non-dom status for the first year when they arrive in the UK is modest**, only reducing total revenue by £210 million (7%). But maintaining the existing regime for the first three years reduces the yield by £860 million (27%) and preserving it until the fifth year of residence reduces it by £1.6 billion (49%).

[1] Editorial note: all references to years in this briefing are based on tax years, giving the later year e.g., tax year 2017–18 is given as 2018.

Introduction

In recent months, the UK's 'non-dom' tax regime has hit the headlines following revelations about the use of the regime by politicians and their families. Controversy over the tax breaks available to non-doms is not new.[2] However, this was the first time that government ministers responsible for deciding the nation's tax rules have been implicated personally, with two (ex-)Chancellors – Rishi Sunak (via his wife) and Sajid Javid – admitting to having benefited from non-dom status.

The non-dom regime has undergone several reforms over the past 15 years. Most recently, in 2017, the Conservatives introduced new rules that were stated to 'end permanent non-dom status' for long-term residents of the UK. However, these changes left untouched individuals who have lived in the UK for fewer than 15 (out of the previous 20) years.[3] Following the most recent revelations, in April 2022, the Labour Party pledged to scrap the non-dom regime if elected, although leaving open that some tax benefits could be retained for individuals up to five years after their arrival in the UK.

The case for abolishing or significantly curtailing the non-dom regime has typically been made on grounds of fairness. Whereas most residents of the UK are required to pay tax on their worldwide income and gains (and their wealth when they die), non-doms are entitled to claim the 'remittance basis' of taxation, which exempts them from UK tax on their foreign income and gains provided that these are 'unremitted' i.e., not brought into the UK. They are also not required to pay Inheritance Tax on foreign assets that they pass on. Some people regard this special tax treatment as fundamentally unfair, given that those claiming non-dom status are nevertheless entitled to live in the UK year-round, just like other UK taxpayers.

However, the 'in principle' case for equalising the tax treatment of non-doms with that of other UK residents is tempered by the concern that such a reform might not actually raise much or any additional revenue. Indeed, former Shadow Chancellor Ed Balls famously stated in an interview during the 2015 Election campaign that 'if you abolished the whole status, then it probably ends up *costing* Britain money'.[4] The thinking behind this concern is that if non-doms responded to withdrawal of their tax benefits by leaving the UK in large numbers, the loss of tax revenue from leavers could more than offset the additional revenue generated from those who stay.

Up until now, such worries have been very difficult to assess because there has been so little information available on how much money non-doms hold offshore, or how they would respond to withdrawal of their existing tax benefits. HMRC does not produce any official estimates of how much abolishing non-dom status

[2] For example, in 2010 it was reported that several sitting members of the House of Lords were claiming non-dom status. Other high-profile examples have included Mark Carney, then governor of the Bank of England, and Zac Goldsmith, then Conservative candidate for the Mayor of London.

[3] Apart from individuals who were born in the UK with a UK 'domicile of origin', who are now also deemed domiciled in the UK for tax purposes, regardless of the length of their prior residence.

[4] The Spectator (2015)

could raise. Politicians from both the Conservatives and Labour have previously suggested that the figure could be negative.[5] Other estimates have tended to range from (at least) the hundreds of millions, to the low billions.[6] Some tax analysts have concluded that the revenue effects are essentially unknowable in advance, since there are no public data on 'non-doms' overseas income and assets, or how non-doms would respond to the reform.'[7]

Our new research uses HMRC tax data to provide the most thorough and transparent revenue estimate to date. We use anonymised data collected from the tax records of everyone who claimed non-dom status at any point over the past twenty years (1997–2018), to model how much would be raised by abolishing or restricting the 'remittance basis' of taxation that is currently available to non-doms. Our figures provide a realistic estimate of the amount that would actually be raised from this reform, taking account of *both* the amount of unreported foreign income and gains currently received by remittance basis users, *and* the ways in which affected individuals would respond, including by leaving the UK or by taking other available steps to reduce their tax bill.

[5] George Osborne, Budget Speech, July 2015 (Osborne, 2015); Ed Balls, interview with BBC Radio Leeds, January 2015 (BBC, 2015); David Gauke (Gauke, 2022).

[6] Neidle (2022); Jolyon Maugham cited in Swinford (2015).

[7] Adam (2015)

How we estimate unreported income and gains

Non-doms who claim the remittance basis of taxation – 'remittance basis users' (RBUs) – are exempt not only from paying UK tax on their unremitted foreign income and gains, but also from reporting these sums to HMRC.[8] This poses a major challenge for anyone (including HMRC or HM Treasury) seeking to predict the revenue effects of reforming the non-dom regime, because HMRC do not collect any data directly on the income and gains that are exempted under the current rules.[9] Consequently, at present the only way to estimate these unreported income and gains is to do so indirectly.

Our approach involves statistically predicting how much additional taxable income and gains each RBU would report to HMRC if they were taxed on the same basis as other UK residents who are domiciled in the UK ('UK doms').[10] To do this, we use HMRC tax data covering everyone who filed a self-assessment tax return to compare RBUs with the UK doms who look most like them based on characteristics that we can observe.

More precisely, our approach comprises three main steps:

(1) **Estimate the lower bound** – we first calculate the sum of investment returns that the RBU reports in the UK and the amount of investment income and gains that the RBU would need to have in order to make it worth them losing their UK personal allowances and/or paying the Remittance Basis Charge (the lump sum that non-doms must pay to use the Remittance Basis after they have been resident in the UK long enough). Of course, this provides a minimum amount, and most RBUs will have significantly more.

(2) **Identify similar UK doms** – second, we identify a group of UK doms who all reported *at least* as much in total investment income and gains as the RBU's lower bound (computed in Step 1), *and* who look most similar to the RBU based on reported earnings, local area house price, age, sex, and industry.

(3) **Impute investment income and gains** – finally, we impute to the RBU the average investment income and gains reported by the comparable UK doms. We also use the taxes paid by those UK doms to estimate the amount of additional tax that the RBU would pay if they were not able to use their non-dom status.

Full details of our methodology can be found in Appendix B of Advani et al. (2022c).

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[8] They may however be required to report these sums to other tax authorities. For example, US citizens (or green card holders) who are resident in the UK and claiming non-dom status are still required to report their worldwide income and gains to the US tax authority, even though they do not need to fully report these sums to HMRC.

[9] HMRC does currently receive some limited data on foreign income and gains for non-doms (whether or not remitted to the UK) via the Common Reporting Standard (CRS) regime. This covers interest paid into bank accounts, and return on assets in financial accounts holding shares. However, as far as we are aware, HMRC has not yet processed this data for the purpose of estimating (a lower bound on) non-doms' unremitted foreign income and gains. Such processing will now become necessary as a result of HMRC's recent pledge to release statistics on offshore evasion using CRS data (because non-doms' unremitted income and gains will need to be excluded from these estimates). Consequently, it is to be hoped that HMRC will publish its estimates of unremitted foreign income and gains using CRS data in due course.

[10] We exclude RBUs who tick a box to declare that their unremitted income and gains is less than £2,000.

What does this tell us, and what does it miss?

The measure of unreported income and gains obtained by our approach is effectively the amount of investment income and gains that we predict RBUs would report if they were taxed for all purposes on the same basis as UK doms. It assumes that RBUs' total investment income and gains is similar to that of UK doms who have similar reported earnings, have similar demographic characteristics, and live in areas with similar house prices. The location of this investment income and gains may well be different – RBUs are likely to invest less of their money in the UK due to the perverse incentives created by the remittance basis – but our approach estimates the worldwide investment income and gains of RBUs (by comparing to UK doms), and then subtracts their observed returns from UK investments that are already taxed.

Since this measure is derived from the investment income and gains actually reported by similar UK doms, it already incorporates several types of behavioural response used by UK doms. In particular, responses such as retaining profits in a company, using tax-exempt investment schemes (e.g. ISAs and VCTs) or engaging in evasion are effectively already 'built in' to our measure because these behaviours have the effect of reducing the reported income and gains of the UK doms who we are comparing the RBUs to.

Likewise, the measure of additional tax obtained by our approach already incorporates the strategies that UK doms use to reduce their effective average tax rate (see further Advani and Summers, 2020). This is because we measure the Income Tax and Capital Gains Tax actually paid by the UK doms *after* the deduction of any reliefs (e.g., for pensions and charitable contributions, investments in EIS or VCTs etc.) and accounting for the lower rates of tax that apply to dividends and capital gains. Consequently, our measure effectively anticipates that RBUs would also resort to these alternative strategies for minimising their tax bill if they no longer had access to the current benefits of non-dom status.

The only behavioural response that is not already incorporated in our measure is migration, since (by construction) our comparison is with UK doms who are resident in the UK. To address this, we estimate the emigration response separately based on evidence from past reforms to the non-dom regime, and use this information to make an adjustment to our measure of missing income and gains. This allows us to derive a headline estimate of the revenue effects on Income Tax and Capital Gains Tax of abolishing or restricting non-dom status that is as close as possible to the full dynamic (i.e., post-behavioural) yield.[11]

We discuss a series of caveats regarding how we measure offshore income and gains in Appendix A. These all relate to areas where we have little information, and so we assign zero values in the absence of any obviously better alternative. In these respects, we are likely to underestimate the potential yield from abolishing or restricting non-dom status, although we cannot quantify by how much. A further important caveat is that our analysis only covers income and capital gains; we make no attempt to estimate the unreported foreign assets that are currently exempted

[11] As we explain further below, our estimate does not account for any impact on rates of immigration by new arrivals to the UK.

from Inheritance Tax. Bringing these assets into tax would further increase the total yield from abolishing the non-dom regime, although again (pending further work) we are unable to quantify by how much.

How we estimate migration responses

To estimate the migration effect that would be caused by abolition or reform of the remittance basis, we look at past reforms to non-dom status. In particular we focus on the 2017 'deemed domicile' reform. This reform had the effect of 'deeming' non-doms to be treated as if they were UK domiciled for tax purposes, if they were born in the UK with a UK domicile of origin (Condition A), or if they have spent more than 15 of the last 20 years in the UK (Condition B).

Our main estimates are based on the Condition B reform, which removed access to the remittance basis for the affected taxpayers. We look at the impact of the reform on those who were in the UK prior to the reform and had resided there for at least 14 of the past 20 years. Among this population, we estimate the share of individuals who left in subsequent years, after losing their ability to claim the remittance basis. To account for the likelihood that some people would have left anyway, we attribute to the reform the difference in the leaving rate for these RBUs relative to the leaving rate for RBUs who had spent only 11-13 years in the UK before the reform, so were not immediately affected by it. We verify that prior to the reform these groups had similar propensities to migrate from the UK. (See Advani et al., 2022c, Section 4 for details.)

To study whether the emigration response varies by length of time in the UK, we also provide estimates using the Condition A reform. This affected all UK-born, UK-domicile-of-origin RBUs, regardless of the length of time they had spent in the UK. For these individuals to have non-dom status, they must have acquired a 'domicile of choice' in another country, involving a substantial time spent living abroad, before more recently returning to the UK. We investigate the rate at which these individuals left the UK after they lost access to the remittance basis. To account for the likelihood that some of them would have left anyway, we attribute to the reform the difference in the leaving rate for these UK-born RBUs relative to foreign-born RBUs who arrived in the UK at a similar time. Again, we verify that prior to the reform these groups had similar propensities to migrate from the UK. (See Advani et al., 2022c, Section 4 for details.)

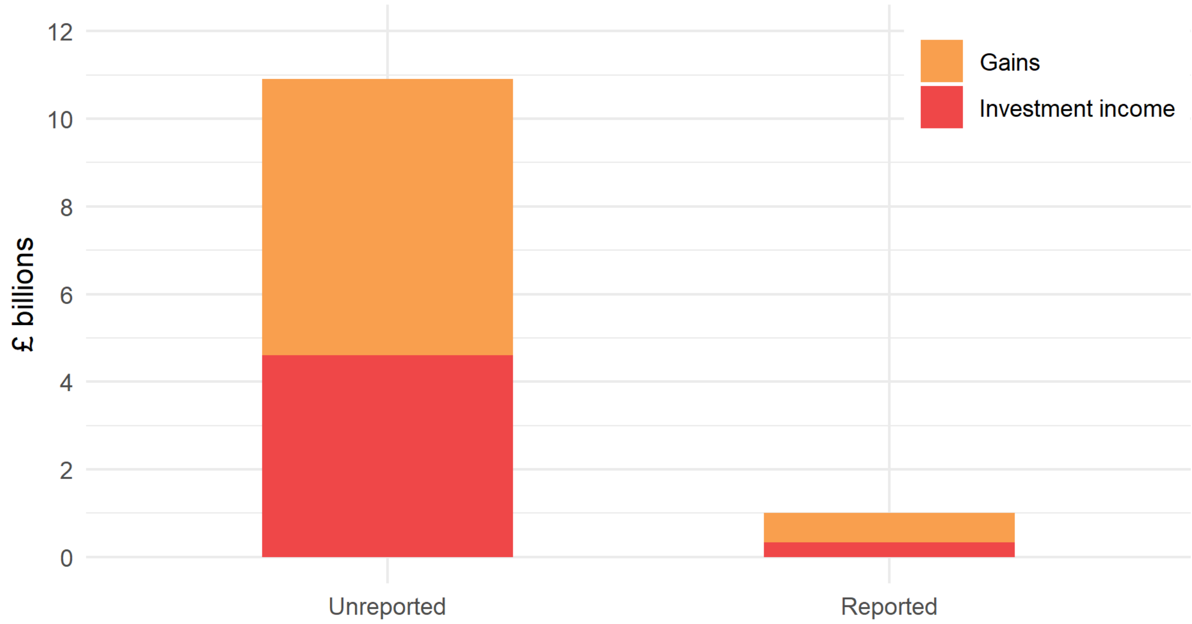
We use this analysis of the emigration response to previous reforms to adjust our estimate of the revenue that would be raised from abolishing the non-dom regime entirely (or restricting it to a more limited number of years residence). The resulting estimates effectively take account of all possible behavioural responses, except for the impact on rates of immigration by (would-be) new arrivals. Looking at the (small) variation in responsiveness by length of time in the UK is suggestive that any immigration response is also likely to be small, given the limited size of the emigration response even for very recent arrivals.

How much unreported income and gains do non-doms have?

We estimate that the total unreported income and gains of non-doms claiming the remittance basis is at least £10.9 billion, of which £4.6 billion is unreported income and £6.3 billion is unreported gains.[12] This equates to an average of more than £420,000 per RBU, across the approximately 26,000 RBUs who report having unremitted income or gains over £2,000.[13]

Total investment income and gains reported in the UK by this group is just £1 billion.[14] Accordingly, on average, RBUs have over ten times more income and gains offshore than they report in the UK. Almost two-thirds (64%) of RBUs report no UK investment income at all. This is perhaps unsurprising given the disincentives created by the remittance basis, which taxes returns on UK investment but not on foreign investment, thus strongly discouraging investment in the UK.

Figure 1: Aggregate investment income and gains for RBUs, unreported and reported, 2018



Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Remitted foreign-source investment income and gains are included in reported income. Offshore income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). Reported income and gains are directly observed in the administrative tax data.

Source: Authors' calculations based on HMRC administrative datasets.

[12] Accounting for statistical uncertainty, we can be sure with 95% probability that the true value lies within £10.86bn and £10.94bn, and with 99.9% probability that it lies between £10.84bn and £10.97bn.

[13] Late filing and tax return amendments by some non-doms mean that our count of remittance basis users is 1.9% below HMRC's published number of remittance basis claimants in 2018 (HMRC, 2021a). We therefore scale up our aggregate numbers to account for these RBUs, assuming that on average they are the same as those we observe.

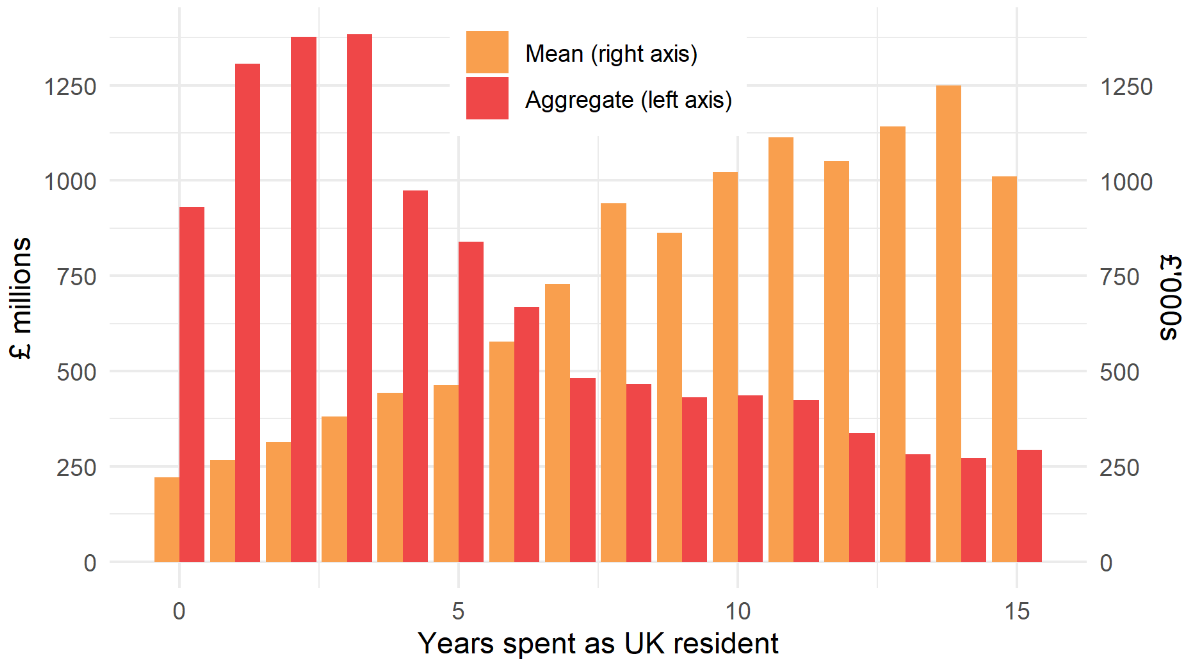
[14] This comprises both income and gains from UK investments, plus foreign investment income and gains that are remitted to the UK and reported to HMRC.

Most unreported income and gains go to recent arrivals

Unreported income and gains are higher for RBUs who have been in the UK for relatively longer, with an average of £1.1m in unreported income and gains for those who have been in the UK for between 10 and 14 years, compared with an average of 'only' £310,000 for those in the UK for less than five years (Figure 2).

However, the number of RBUs who have been in the UK for less than five years (19,400) is more than ten times larger than the number who have been in the UK 10–14 years (1,600). Consequently, most of the unreported income and gains comes from those who have been in the UK only a short period of time. Roughly £6 billion (55%) of all unreported income and gains comes from those who have been in the UK for less than five years.

Figure 2: Average and aggregate unreported income and gains of RBUs by length of time in the UK, 2018



Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Offshore income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). The number of years spent as UK resident is measured drawing on several administrative tax datasets.

Source: Authors' calculations based on HMRC administrative datasets.

This makes the treatment of those who have been in the UK for a relatively short period crucial to the total revenue that could be raised from reforming the non-dom regime. It also makes it important to understand whether the responsiveness to tax reform varies by length of time in the UK.

Some of the non-doms with the highest unreported incomes and gains have the lowest reported UK incomes

It may seem self-evident that unreported income and gains would tend to be larger for those with more taxable income in the UK. However, in fact we observe a U-shaped pattern (Figure 3), whereby unreported income and gains actually increase for those with very low or zero UK taxable income.

RBUs with high UK reported income *are* most likely to also have high unreported income and gains. The top two percentiles of UK RBUs (around 500 people, equal to 0.001% of the adult population) have on average £2.9 million in unreported income and gains each. Across the top decile (2,500 people) the average is £1.4 million.

However, the 6% of RBUs with zero UK-reported income have unreported income and gains totalling £450,000 on average. High unremitted income and gains is common more widely across RBUs with the lowest UK incomes: average unreported income and gains in the bottom decile of UK income (£460,000) is higher than for any decile other than the top. Despite their low UK incomes, these RBUs are living in high house price areas and are willing to pay a large lump sum in tax (the remittance basis charge).[15] The implication is that they have substantial overseas wealth, and live off 'clean capital' (foreign-held assets) transferred to the UK from an overseas account or sustained transfers from non-UK resident family members.

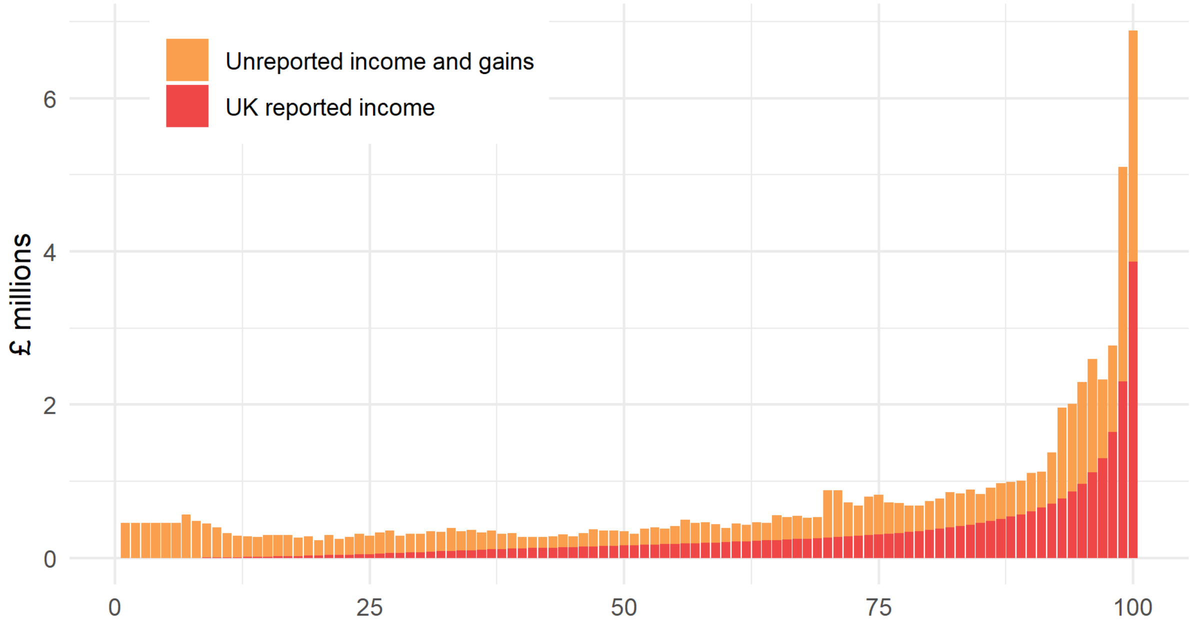
It is also important to emphasise that our findings rely on a lower bound for the number of RBUs with zero reported income and gains because non-doms who have no UK-source of income and no remittances are not technically required to file a tax return at all (unless they are liable to pay the Remittance Basis Charge).[16] Since we have no way of knowing how many such individuals – who we call 'ghost doms' – there are, we are unable to account for them in our estimates.[17] It is very unsatisfactory that these individuals are permitted by law to remain entirely off HMRC's radar, given that they may have very large unreported income and gains and represent a significant compliance risk with respect to their domicile status and remittances.

[15] See also Advani et al. (2022a,b) for more discussion of these groups.

[16] Section 809E, Income Tax Act 2007. See also HMRC guidance at HMRC (2022).

[17] There were 650 individuals who did file a tax return claiming non-dom status, but not claiming the remittance basis, and who reported zero income and gains. These individuals would also be within the scope of Section 809E, allowing them to use the remittance basis despite not having made a claim. If the unreported income and gains of these individuals were similar to those who reported zero income and gains but did claim the remittance basis (even though not formally required to do so), this would increase aggregate unreported income and gains of non-doms by £290m to £11.2bn.

Figure 3: U-shape in unreported income and gains by UK income, 2018



Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). UK reported income is directly observed in the administrative tax data. We show unreported income and gains as well as UK reported income separately for each percentile bin of the distribution of UK reported income of RBUs. About 6% of RBUs have zero UK reported income so they are combined in the bottom bin. Unreported income and gains are shown stacked on top of UK reported income.

Source: Authors' calculations based on HMRC administrative datasets.

How much do higher taxes lead non-doms to leave the UK?

To investigate the concern that non-doms would leave the UK in large numbers if their tax benefits were removed, we analyse the responses to previous reforms that effectively abolished non-dom status for a subset of non-doms. In particular, we focus on the 2017 reform that, in the words of then-Chancellor George Osborne, abolished 'permanent non-dom tax status'. This reform removed access to the remittance basis for those who were born in the UK with a UK domicile (Condition A), and those who had lived in the UK for at least 15 of the past 20 years (Condition B).

We might have expected that these reforms would lead to large numbers of affected non-doms leaving the UK. Certainly, this is what tax advisors and other industry groups were saying at the time. Given that non-doms are already (by definition) connected to another country besides the UK, it is reasonable to think that they may be more mobile than other groups. And the additional tax implied by removal of the remittance basis was potentially very large: we estimate that affected individuals each had an average of £560,000 in offshore income liable to be brought into tax if they stayed. Even at the effective tax rates typically paid on this income, which are some way below the headline rate (Advani and Summers, 2020), this would imply a tax bill of almost £120,000.

However, we find that the 2017 non-dom reforms resulted in hardly any additional emigration. The baseline level of migration amongst non-doms is high: around 10% of those unaffected by the reform leave. Yet we estimate that the Condition B reform only led to an additional 0.2% of the affected RBU population leaving. Statistical uncertainty means we cannot rule out that this effect is actually zero. We *can* rule out that it is more than 3.2%. These results are striking, since the reform led to a large tax increase for those affected, reducing the share of income they could keep by 8.8%.

Although the Condition B reform left in place a major loophole,[18] we do not think that this can fully explain why migration responses are so low. We observe that reported incomes for this group grew substantially – by more than 60% on average. Tax paid grew by almost 150% on average. Hence even though the loophole will have been used by some non-doms covered by Condition B, it does not seem to have been used to 'wipe out' all of the additional tax owed.

Another possibility is that migration for this group was low because they had spent so much time in the UK that they were now settled and unlikely to ever leave (albeit this contradicts their claim to be non-domiciled in the first place). To investigate this, in Advani et al. (2022c) we study the effects of the Condition A reform, which removed access to the remittance basis for UK-born individuals with a UK domicile

[18] The loophole relates to the use of offshore trusts (known as 'trust protections'). Individuals who anticipated losing non-dom status as a result of the Condition B reform were able to move assets into a non-resident trust prior to becoming deemed domiciled. They could then continue to shelter the income and gains from these assets provided that they were kept within the trust, even after becoming deemed domiciled. These trust protections were not available to non-doms covered by Condition A.

of origin. These RBUs did not have access to the above loophole. They were also affected regardless of length of time lived in the UK, allowing us to study the effect on recent arrivals as well as long-stayers. Consistent with our results on the impact of Condition B, we find small migration responses for RBUs who had returned to the UK within the previous six years.

Which non-doms would leave?

In terms of the tax revenue implications, it is important to know not only how many people leave, but also how much UK tax they were paying before the reform. Using the Condition B reform, we see that RBUs who paid little UK tax before the reform were more likely to emigrate in response to the reform than those who were already paying more tax. Those who are paying relatively more tax already are also more likely to be working, typically in industries that pay more in the UK than elsewhere (Advani et al., 2020), which makes it much harder for them to move and maintain their income, even in the face of large tax changes. This finding also means that the tax loss from emigration of RBUs is small because those emigrating were, on average, not paying much tax in the UK before the reform anyway.

How much revenue would be raised by abolishing or reforming the remittance basis?

Abolition of the remittance basis

The revenue effects of abolishing the remittance basis depend on the additional tax revenue received from taxing previously unreported income and gains for those RBUs who stay in the UK, less the existing tax paid by RBUs who leave in response to the reform.

The loss of existing tax revenue means that even with only a small number of RBUs leaving, the revenue effects of the reform could be negative. It is this worry that has historically led some to predict that abolition of the remittance basis could end up costing the exchequer in tax revenue.

Our approach to estimating the tax that would be paid, like our approach to estimating unreported income, matches RBUs to similar UK doms. To the extent that RBUs who lose access to the remittance basis would engage in the same types of planning behaviours as UK doms, the effects of this planning are covered in our estimates. The gap between headline and effective rates in Table 1 demonstrates the effects of planning on the amount of tax that is received in practice.

Using the results on how RBUs responded to increases in their tax bill based on previous reforms, combined with the change in tax bills that would occur for remaining RBUs if the remittance basis were to be abolished for them, we estimate the number of RBUs would fall by just 0.3% (77 individuals) under abolition. As above, these individuals tend to pay lower levels of tax in the UK.

Table 1: Additional revenue from Income and Capital Gains Tax, 2018

	Unreported income and gains	Additional tax Headline rate	Additional tax Effective rate	Current tax paid
RBUs	*10.90bn*	*3.33bn*	*3.26bn*	*3.74bn*
Of which:				
Stayers	*10.84bn*	*3.31bn*	*3.24bn*	*3.73bn*
Leavers	*0.07bn*	*0.02bn*	*0.02bn*	*0.01bn*

Additional effective tax = effective rate for stayers – current tax for leavers = £3.23bn

Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Offshore income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). The headline rates applied to income and gains are 45% and 20%, respectively. Additional tax under the effective rate is estimated using the same approach as for offshore income and gains. Current tax is directly observed in the administrative tax data. To estimate separate figures for stayers and leavers, we compute the change in the net of average tax rate at the individual level and apply our headline migration elasticity estimate of 0.02 (see Advani et al., 2022c for details).

Source: Authors' calculations based on HMRC administrative datasets.

The additional effective tax revenue from a reform which abolished the remittance basis would therefore be £3.23 billion, comprised of £3.24 billion in additional tax from RBUs who remain in the UK and the loss of £8 million in existing tax from RBUs who choose to leave. Subtracting the £70 million of lost remittance basis charge receipts leaves a total fiscal impact of £3.16 billion in additional revenue. If we use our upper bound for the expected emigration responses (7.5% of RBUs leaving), we obtain a lower bound for the fiscal impact of £2.4 billion.

This rise in revenue from abolition is consistent with HMRC's official non-doms statistics, which in discussion of the previous reforms state:

> *Despite the decrease in the number of non-domiciles [in response to recent reforms] this did not result in an overall fall in revenue to the exchequer, with those becoming domiciled continuing to pay tax in the UK, and the tax received from new non-domiciles offsetting those that no longer pay tax in the UK.* (HMRC, 2021b)

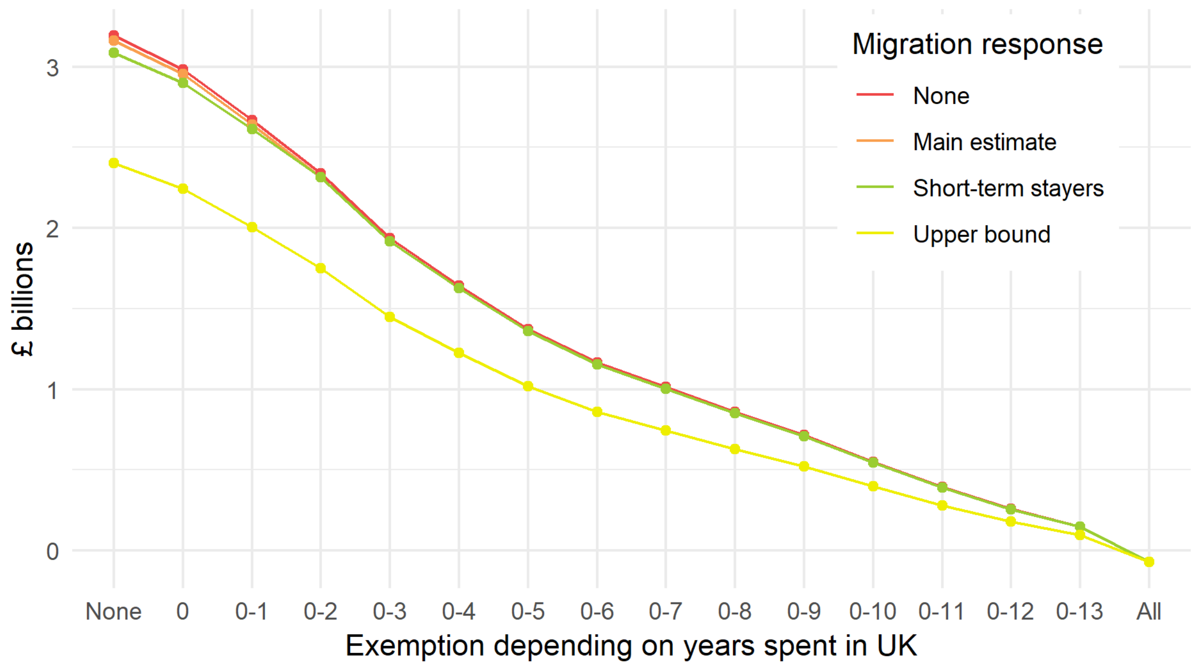
Restriction of the remittance basis

If instead of complete abolition, the remittance basis were retained for individuals during the first few years after arrival, this would substantially reduce the amount of revenue raised. The cost of keeping the remittance basis for individuals in their first year of tax residence in the UK is relatively modest, reducing the total yield by £210 million (7%) (Figure 4). But maintaining it for individuals until their third year of tax residence reduces the yield by £860 million (27%) and maintaining it until their fifth year reduces it by £1.6 billion (49%).

It is worth noting that these yield reductions were not a foregone conclusion. If the migration responses for those who have spent only a little time in the UK were very large, it could be that for these groups removal of the remittance basis did have negative yield, and hence retaining it for a few years would increase revenue. This is not what we find.

This loss of revenue does not necessarily make it a bad idea to retain a preferential regime for some years. The best tax system is not the one that raises the most money from RBUs, but one that taxes them consistently and fairly. It might be appropriate to reduce the administrative burden of reporting offshore income and gains for new arrivals while they get their affairs in order, especially since they may initially still be tax resident and filing taxes abroad. This could be achieved by exempting offshore income and gains for the first year after arrival, perhaps subject to a cap, to limit the extent to which individuals can receive very large benefits from the regime.

Figure 4: Additional revenue raised by abolishing or limiting the remittance basis, before and after accounting for emigration



Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Additional revenue is computed using our measures of unreported income, gains, additional tax, and current tax, and accounting for the impact of the migration response by applying the migration elasticity to the individual-level change in the net of average tax rate. The different lines assume different migration elasticities: 'none' sets the elasticity to 0; 'main estimate' is based on an elasticity of 0.02; 'short-term stayers' incorporates our elasticity estimate of 0.2 for individuals who have arrived within 3 years and sets it to 0.02 for all others; 'upper bound' assumes an elasticity of 0.5 (see Advani et al., 2022c for details of elasticity estimation). Exemption from the policy means retaining access to the remittance basis without having to pay a remittance basis charge.

Source: Authors' calculations based on HMRC administrative datasets.

Conclusion

Our study provides the first detailed estimates of the unreported income and gains of the UK's non-dom population, using evidence from tax records to move beyond back-of-the envelope calculations.

We find that total offshore investment income benefitting from the remittance basis amounts to £4.6 billion, with a further £6.3 billion in offshore gains. Together, the additional tax that would likely be paid on this by non-doms, were they to remain in the UK, is £3.26 billion.

Studying past reforms to the non-dom regime, we see that very few non-doms have responded by leaving the UK. This is true even where access to the remittance basis has been completely removed, as under George Osborne's 2017 reforms. Our estimates suggest that abolition of the remittance basis would lead to 0.3% of RBUs (77 people) leaving as a result of the reform.

After accounting for this limited migration response, including the loss of existing tax paid by non-doms who leave, the additional tax that would be received is £3.23 billion. The net additional revenue to government, after also accounting for the loss of the remittance basis charge receipts, is £ 3.16 billion. Based on the upper bound for the expected migration effects, we can rule out increases in receipts of below £2.4 billion.

These findings allow us to rule out the concern – previously raised by Labour and Conservative politicians alike – that abolishing the non-dom regime would 'cost Britain money'. For the reform not to raise any revenue, the migration response would have to be more than 15 times larger than the emigration response that we observe following the 2017 reforms. There remains uncertainty over the precise extent of any immigration response and the wider economic impacts associated with abolishing or restricting the non-dom regime, but these would need to be very large to outweigh the revenue gains under even our upper bound (for migration) estimate. Objections to restriction or removal of the remittance basis cannot therefore be based on their fiscal effects.

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Appendix A: Caveats in our estimates of non-doms' unreported income and gains

Further details of our methodology are available from Advani et al. (2022c). This section highlights specific issues that we are aware of that could affect the accuracy of our estimated total revenue from abolition or restriction of the remittance basis. In almost all cases, these issues lead us to likely underestimate the revenue that would be raised because they relate to potential income and gains, or tax, that we have no way to measure, so we do not include it.

Population

The population for which we impute unreported income and gains comprises all individuals who (1) claimed the remittance basis on SA109; and (2) did *not* declare that they had unremitted income and gains of less than £2,000. For this population, our approach has the effect of imputing *all* of the investment income and gains that are missing, relative to the UK dom comparison group. This could include not only any unremitted income and gains that arose to the individual personally, but also any undistributed income and gains arising within a non-resident trust of which the non-dom is a settlor and/or beneficiary, if such sums would be immediately taxable in the case of an equivalent UK dom.

There are three types of individual who can derive a tax benefit from non-dom status (relevant to Income Tax or CGT) but who are excluded from our analysis:

(1) **Remittance basis users with unremitted income and gains of less than £2,000** – non-doms are not required to make a claim for the remittance basis if their unremitted income and gains is less than £2,000 (s809D, Income Tax Act, 2007). In practice, some of these individuals do claim the remittance basis on SA109 anyway; others do not file SA109 at all. We exclude all individuals with unremitted income and gains less than £2,000 regardless of whether or not they filed SA109. The exclusion of their unremitted income and gains will not have a significant impact on our revenue estimates because (by definition) the foregone tax is limited to £900 per individual. However, the effect of excluding these individuals from our analysis altogether is also that we do not make any estimate of their undistributed income and gains arising within non-resident trusts, which could be more significant.

(2) **Remittance basis users with no remittances and no UK income ('ghost doms')** – non-doms are not required to make a claim for the remittance basis if: (1) they have no UK income or gains; and (2) they did not make any remittances; and (3) they are not liable to pay the Remittance Basis Charge (s809E, Income Tax Act, 2007). Where such individuals choose to claim the remittance basis on SA109 anyway, and do not declare that they had unremitted income and gains less than £2,000, they are included in our analysis. However, those who do not file SA109 are excluded from our analysis. These individuals could potentially have high levels of unremitted income so their exclusion could be significant if there are a large number of them or their unremitted income and gains are very large.

(3) **Non-doms who do not use the remittance basis but who benefit from a non-resident trust** – even without using the remittance basis, non-doms can derive a benefit from non-dom status, compared with the tax position if they were UK domiciled, as the settlor/beneficiary of a non-resident trust. They benefit from obtaining the tax-free 'roll-up' of investment returns within the trust i.e., the gross investment returns can be invested without tax, which over time leads to large compounding benefit, provided that the relevant sums are not distributed to them. The trust benefit is less attractive than the remittance basis because individuals are unable to spend the undistributed income or gains anywhere in the world. However, there are likely to be specific cases where this benefit, and the associated tax foregone, is large.

Estimating the lower bound

To estimate a lower bound on the amount of unremitted income and gains (Step 1, 'How we estimate unreported income and gains'), we take into account that: (1) the individual's unremitted income and gains must be at least £2,000; (2) claiming the remittance basis normally entails loss of the UK personal allowance, and the value of this allowance depends on the amount of taxable income that the individual has); (3) for long-term residents aged 18 or over, claiming the remittance basis incurs payment of the Remittance Basis Charge, and the amount of the charge depends on the length of prior residence. We do not take account of the loss of the Annual Exempt Amount for CGT, or the fact that some individuals are able to retain their allowances as a result of the provisions of a relevant double tax treaty.

When grossing up the Remittance Basis Charge to estimate the amount of unremitted income and gains that would (if not claiming the remittance basis) yield an equivalent tax charge, we assume that the individual would otherwise be paying tax at the marginal Income Tax rate on savings income (i.e., 45% for those with total income over £150,000). However, if the marginal income that would otherwise come into tax is dividend income or capital gains, which are taxed at a lower rate, then this assumption will cause us to underestimate the actual minimum amount of income and/or gains sheltered by the remittance basis. Similarly, if at the margin the individual would otherwise make use of other additional tax reliefs if not claiming the remittance basis, then they may require a greater 'minimum' amount of income and/or gains to make loss of the personal allowance or payment of the Remittance Basis Charge worthwhile. Our estimate of the lower bound income they have will then be too low.

Identifying similar UK doms

To identify similar UK doms (Step 2, 'How we estimate unreported income and gains'), we select individuals who have never claimed non-dom status and who have at least as much investment income and gains as the lower bound estimated for the non-dom. From this group, we then identify the individuals who look 'closest' to the non-dom on the basis of their: reported earnings; local area house price; age; sex; and industry. This approach should be effective in estimating the missing investment income and gains of the non-dom unless such income and gains are correlated with characteristics other than those listed above.

The most difficult cases for our approach are where the non-dom has low or zero earnings (i.e. non-investment income, coming from employment and/or unincorporated businesses). The pool of UK doms with low or zero earnings is obviously very large and mostly contains low-wealth individuals who are likely to be a poor match for non-doms with low or zero earnings. This problem is mitigated by two main features of our approach: (1) our restriction of the UK dom pool to individuals with at least as much investment income and gains as the lower bound estimated for the non-dom; and (2) the inclusion of local area house price.

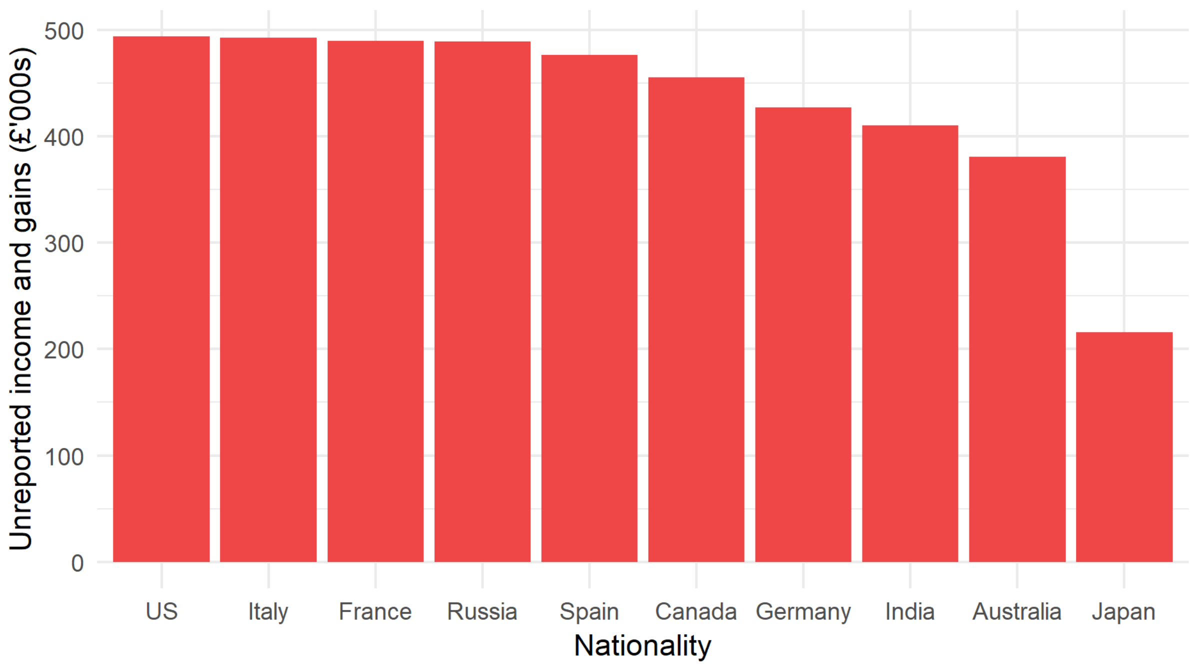
We also note that, all else equal, one might expect a non-dom to have more wealth than an equivalent UK dom because non-doms will have benefited from the tax-free roll-up of their investment returns over the period in which they have previously claimed the remittance basis (i.e. this has the effect of compounding the gross rather than net return). However, to some extent this factor will be accounted for within our approach to the extent that it manifests in non-doms living in more expensive local areas.

Appendix B: How much unreported income and gains do non-doms have – additional results

Unreported income and gains by nationality

Figure A1 shows mean unreported income and gains for the ten countries with the largest number of RBUs in 2018. There is some heterogeneity by nationality, although RBUs from most of the top ten countries have unreported income and gains between £380,000 and £500,000. RBUs from the US have the highest estimated unreported income and gains among the top ten countries, at £490,000. But even at the lower end of the range, unreported income and gains are considerable: Japanese RBUs receive an average of almost £220,000 in unreported income and gains. RBUs who are from the UK (not shown below) have an average of £460,000 in unreported income and gains.

Figure A1: Unreported income and gains by nationality



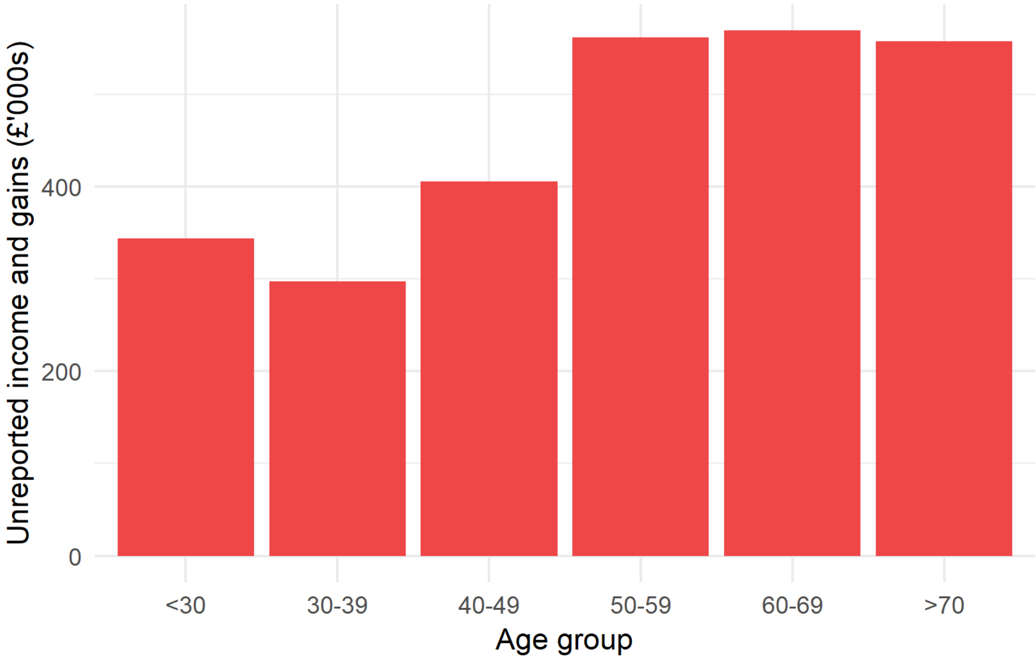
Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). Nationality as reported in Migrant Worker Scan (administrative microdata on migrant workers), supplemented by information from tax form SA109. For individuals reporting both a UK and foreign nationality, we use the foreign nationality. This figure focuses on the top ten countries with the largest number of RBUs.

Source: Authors' calculations based on HMRC administrative datasets.

Unreported income and gains by age

Figure A2 shows mean unreported income and gains for RBUs in different age categories. Unreported income and gains are generally higher among older RBUs, who have had the longest to accumulate wealth and invest in assets which produce this income and gains.

Figure A2: Unreported income and gains by age



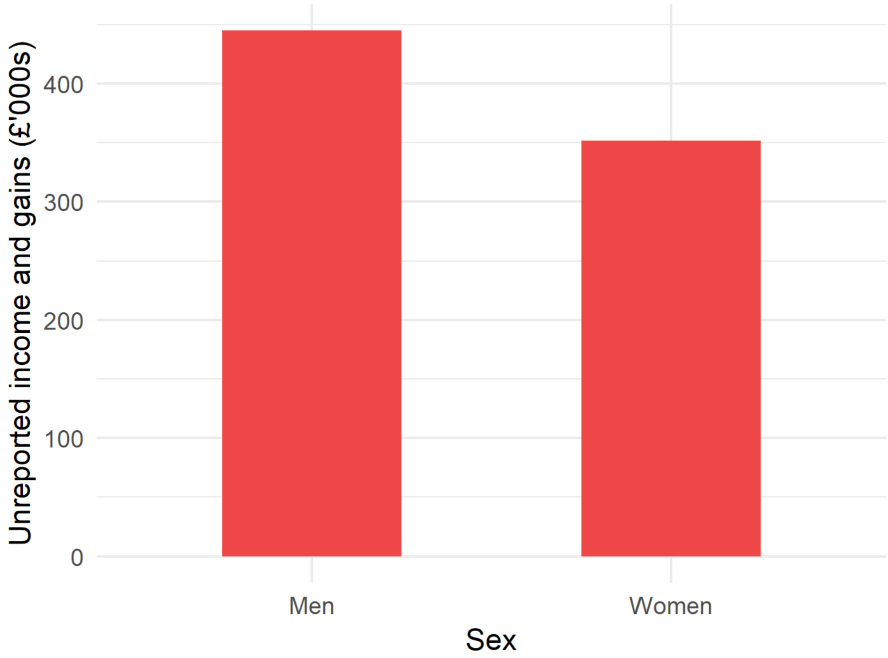
Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income is exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above).

Source: Authors' calculations based on HMRC administrative datasets.

Unreported income and gains by sex

Figure A3 shows mean unreported income and gains for male and female RBUs. On average, male RBUs have 25% more unreported income and gains than female RBUs (£440,000 versus £350,000). This largely reflects the difference in their earned incomes in the UK.

Figure A3: Unreported income and gains by sex



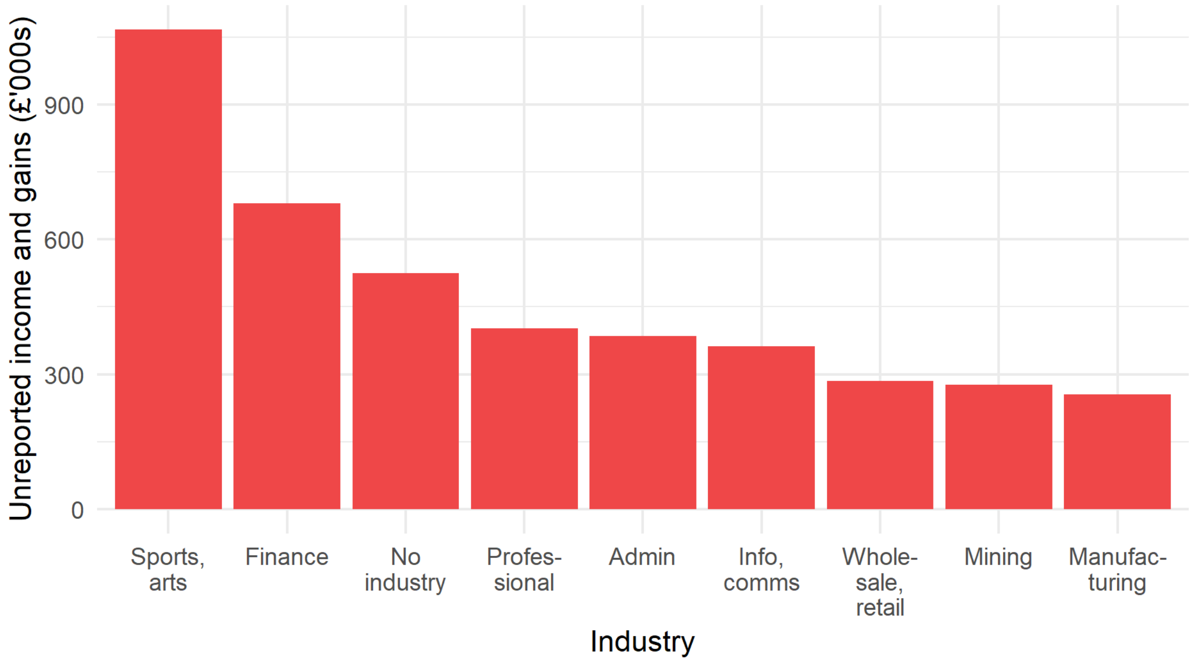
Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). Sex is defined by taking the most frequent value reported in the data for each individual.

Source: Authors' calculations based on HMRC administrative datasets.

Unreported income and gains by industry

Figure A4 shows mean unreported income and gains by industry for the nine largest industry groupings employing RBUs, as well as for RBUs with no earned income, who therefore have no industry. Sports stars and film stars have the highest incomes of any non-doms (Advani et al., 2022a,b). They also have the highest estimated unreported income and gains (£1.1 million). Those working in Finance and those with no earnings also have particularly high unreported income and gains, although at £680,000 and £530,000 respectively this is considerably less than that of sports and film stars.

Figure A4: Unreported income and gains by industry



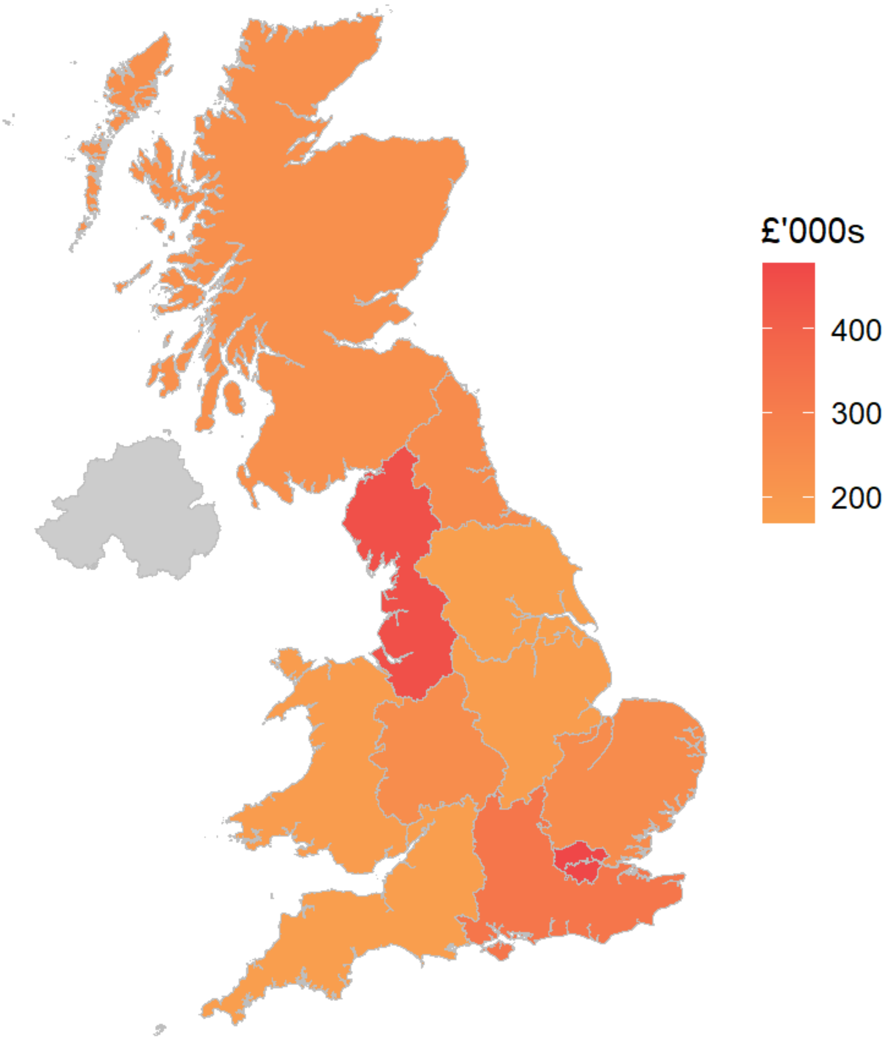
Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). Industry classification based on the Standard Industrial Classification (SIC) 2007 version. Individuals report their employer, or (in the case of self-employment or partnership income) their business description on their tax return, and HMRC convert these fields to a SIC code. We assign individuals with multiple different sources (or multiple employers) to the SIC code associated with the single largest earned income source which has a non-missing SIC code. We do not assign any industry to individuals with investment or pension income as their single largest source (except in the case of owner-managers of closely-held companies), or to people with no employment income – these individuals are labelled as 'No industry.'

Source: Authors' calculations based on HMRC administrative datasets.

Unreported income and gains by UK region

Figure A5 shows mean unreported income and gains across different regions of the UK. The average is highest in London (£480,000) where non-doms account for a sizeable share of the population in some of the areas with the country's highest house prices (Advani et al., 2022a,b). The North West follows closely behind (£450,000), reflecting the prevalence of major football clubs – and hence sports stars – in this region and the high unreported income and gains that they have. No other region has an average above £330,000.

Figure A5: Unreported income and gains by UK region



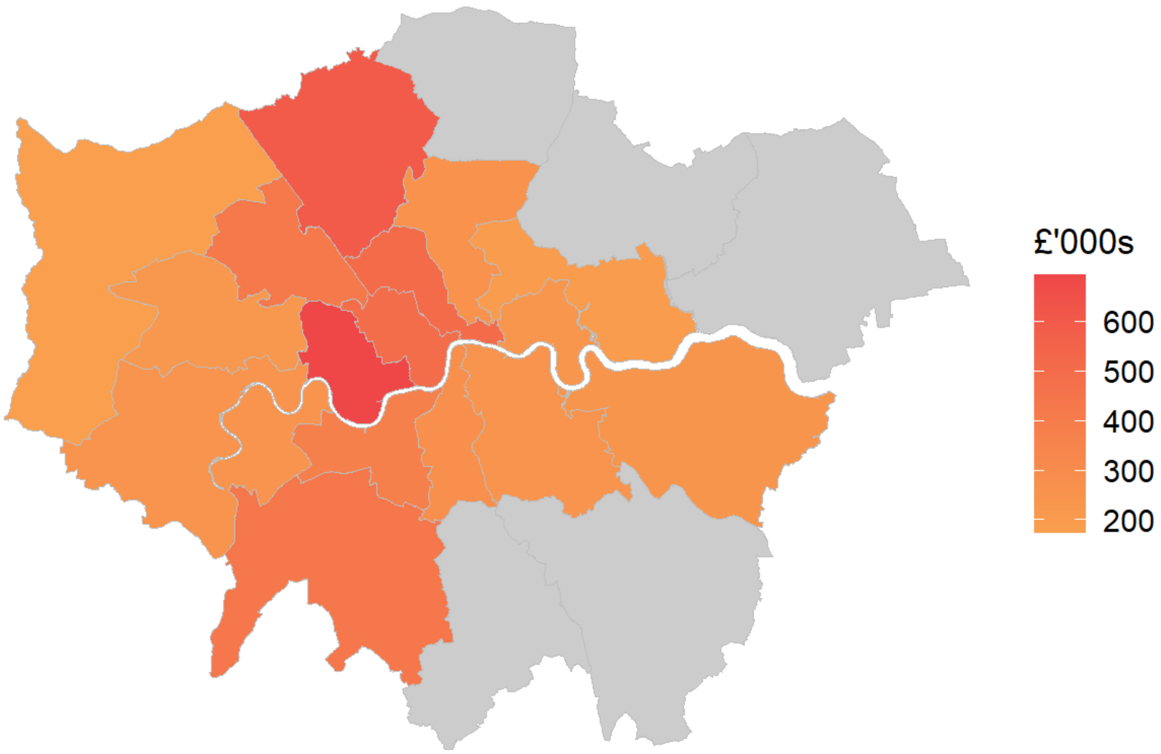
Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). Areas in the figure represent NUTS1 regions. Location is determined from the personal address reported on the tax return. Areas with fewer than 50 RBUs have been shaded grey to prevent identification of disclosive information.

Source: Authors' calculations based on HMRC administrative datasets.

Unreported income and gains by local area in Greater London

Figure A6 shows mean unreported income and gains across different areas of Greater London. The combined area with the highest average is Kensington and Chelsea, and Hammersmith and Fulham (£690,000) which is home to a large number of non-doms and has particularly high local house prices (Advani et al., 2022a,b). The only other area with an average above £600,000 is Barnet in North London (£600,000). RBUs living in Camden and City of London have high average unreported income and gains as well (£510,000).

Figure A6: Unreported income and gains by London area



Notes: Remittance basis users (RBUs) are non-doms who make a formal claim for the remittance basis on their tax return and report having at least £2,000 in unremitted income. Under the remittance basis, foreign-source investment income and capital gains are exempted from UK tax unless they are brought into the country. Unreported income and gains are estimated based on the information of UK doms with similar characteristics (see Section 'How we estimate unreported income and gains' above). Areas in the figure represent NUTS3 regions. Location is determined from the personal address reported on the tax return. Areas with fewer than 50 RBUs have been shaded grey to prevent identification of disclosive information.

Source: Authors' calculations based on HMRC administrative datasets.