

## New non-domiciles opportunity for mixed funds



### What is it?

The delayed Finance Bill 2017-19 received Royal Assent on 16 November 2017 and has now become known as the Finance (No.2) Act 2017 and has brought new rules relating to non-UK domiciled individuals. We can now be certain that the government have opened a 24-month window of opportunity for non-domiciles with mixed offshore accounts, allowing these accounts to be restructured and cleansed. The Finance (No.2) Act 2017 is enacted from 6 April 2017, therefore the 24-month window is actually just under 17 months from today. The opportunity enables funds determined to be 'capital' to be segregated from a mixed fund account into a clean nominated account and ultimately remitted to the UK without any further UK tax. The mixed funds analysis can be undertaken by all non-domiciles who have benefited from the remittance basis since 2008/09, and have mixed funds overseas.



### What is a mixed fund?

A typical example of a mixed fund is a non-UK bank account into which different types of income such as bank interest, dividends, earnings or capital have been paid during a time you were taxed on the remittance basis.

Remittances from a mixed fund are treated as being made of specific types of income or capital in a strict order, taking more recent years before earlier years. Often it means the source taxed at the highest tax rate is generally treated as being remitted first.

### What is changing?

New rules mean non-UK domiciles are able to review their accounts and segregate their clean capital, foreign income and foreign gains into separate offshore accounts. In order to freely remit from their accounts and pay the appropriate amount of tax, the non-domicile must be able to determine the exact components of their mixed fund.

This can be difficult to achieve. Overcoming this issue will require a 'construction' exercise to be carried out to identify and segregate income, capital gains and clean capital.

### What are the benefits?

A non-domiciled individual can save a significant amount of tax. If a remittance from a mixed fund is made there is potentially tax of up to 45%.

Remittance of identified clean capital out of that fund, which has been segregated through the cleansing process, could reduce that tax charge to a welcomed 0%.

For non-UK domiciles that require more funds in the UK, this is a great opportunity to bring in funds that previously could not be touched (or not without incurring a significant tax charge).

### How does this impact US citizens?

More care is required for US citizens. The remittance of taxable funds may create a double taxation issue. In cases where a US citizen would like to remit more than just their clean capital, they will need to pay the appropriate amount of tax. As the UK tax will potentially be paid considerably later than when the income and/or gain arose in the mixed fund, US citizens may not be able to utilise the full amount of the foreign tax credit.

### The Buzzacott approach

Our team of mixed fund specialists will carry out a feasibility study comprising an initial review and written advice assessing the potential to identify clean capital in an overseas account. If it is deemed beneficial to cleanse a mixed fund, we will undertake a full analysis of the accounts and transactions. As cash is required to segregate the component parts of a mixed fund, realising capital gains could incur immediate tax charges which would need to be taken into consideration as part of a feasibility study.



### How we can help

Buzzacott has in-depth experience of advising non-UK domiciles on their taxation. We have experience in everything from investment portfolios, property and businesses to onshore and offshore trusts. Our clients trust us to help them simplify complexities today and to address tomorrow's challenges.

For more information on the intricacies of this new opportunity or other non-domicile changes, please get in touch.

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