Briefing: exit taxes

October 2024

Overview:

- Capital gains tax has increased substantially in recent years with an almost 50 per cent rise between 2019-20 and 2023-24 in receipts, increasing from £9.8 billion to £14.5 billion.
- Calls have recently been made for the introduction of an exit tax. Generally, this applies to the realised gains of assets of an individual upon leaving a country and changing where they are resident.
- International experience shows the complexity of implementing an exit tax, with little consistency of rules and susceptibility to being changed regularly.
- Some British Overseas Territories and other tax havens would likely benefit from a UK exit tax, but this would be to the disadvantage of future foreign direct investment into the UK.
- The chancellor in the October 2024 budget should commit to not introducing an exit tax during the rest of this parliament and lay out plans to reduce taxes on capital.

UK taxation of capital and proposals for an exit tax:

- In 2023-24, HM Revenue & Customs collected £14.5 billion in capital gains tax (CGT). This is a 48 per cent increase in receipts from 2019-20, the last pre-pandemic year. In the last full financial year of this parliament (2028-29), receipts are currently forecast to be £23.5 billion.[1]
- Increases to the main rates of CGT are being considered for October's upcoming budget. Depending on the type of increase, this could lead to a reduction in receipts. For instance, if the higher rate increased from 20 per cent to 30 per cent, this would result in revenue being £2 billion lower in 2027-28 than current forecasts.[2] This excludes any dynamic or second-order effects of an increase, such as firms hiring at a slower pace than planned, or delayed or cancelled investments in plant, property and equipment.
- The Centre for the Analysis of Taxation recently suggested that at least £500 million is foregone annually by HM Revenue & Customs because of no exit tax. This is calculated as the proportion of CGT not applied to the business shareholdings of those who leave the UK (with an estimated £5.1 billion in net shareholding value outflows in 2023-24).[3]
- The chancellor purportedly has no plans for an exit tax in the October 2024 budget[4] and is considering changes to reliefs, the main rates and treatment of carried interest to increase receipts from CGT.

Exit taxes, capital controls and the non-dom regime:

- Exit taxes effectively function as a form of capital control. This is because they may limit both domestic citizens' ability to acquire assets in other countries (by disincentivising their departure from the UK) and inhibiting foreigners' ability to place assets into the UK and changing their residency to it (since an exit tax would be calculated as an additional business cost when realising gains).

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[1] Office for Budget Responsibility, *Public finances databank – September 2024*, 23 September 2024, obr.uk/download/public-finances-databank-september-2024/?tmstv=1729597303, (accessed 22 October 2024).

[2] HM Revenue & Customs, *Direct effects of illustrative tax changes bulletin (June 2024)*, 28 June 2024, www.gov.uk/government/statistics/direct-effects-of-illustrative-tax-changes/direct-effects-of-illustrative-tax-changes-bulletin-june-2024, (accessed 22 October 2024).

[3] Advani, A. et al, *Business owners who emigrate: Evidence from Companies House records*, Centre for the Analysis of Taxation, 2024.

[4] Parker, G. et al, Rachel Reeves rules out 'exit tax' for wealthy people leaving UK, *Financial Times*, 9 October 2024.

- The current tax treatment for UK resident non-domiciled individuals (non-doms) ends in April 2025. Proposed by the Conservative party in March 2024 and confirmed by the Labour government in July 2024, this will mean that the remittance regime will be replaced with a residence-based test. Under the new regime and after a four-year period, worldwide gains and income will be taxed in accordance with normal rules for UK residents.[5]
- Though not all non-doms will be paying UK income tax, many will be among the highest earners: the top one per cent of earners paid 28.4 per cent of all income tax in 2023-24.[6] Advisers to ultra-high net worth individuals have seen a higher number of actual or planned departures before the end of the 2024-25 tax year because of concerns around a proposed exit tax.[7]

International comparisons:

- The Centre for the Analysis of Taxation argue that if the UK were to introduce an exit tax, this would be analogous to many other OECD countries. This includes Australia, Canada, the US, France, Germany and Japan. Italy is the only other G7 member with no exit tax.[8]
- There is no uniform definition of an exit tax in the above countries. The US system requires a minimum net worth of $2 million on the date of expatriation, a minimum average annual net income tax payment ($190,000 in 2023) and certification of no outstanding federal tax liabilities for five years priors.[9] France requires residency for at least six years (of the previous ten) for an exit tax to be applied, as well as additional rules on the total value of equities held (€800,000), whether a stay of payment can apply, and tax relief in certain circumstances.[10] The French parliament is currently seeking to make the regime more punitive for those who choose to leave.[11]

British Overseas Territories and movement of capital:

- With the ending of the non-dom regime, possibilities of higher CGT and a more restrictive inheritance tax system, options for UK residents and non-domiciled investors will become starker. It is already forecasted to be a record year of dollar millionaires leaving the UK in 2024, with an estimated net outflow of 9,500 (compared to 16,500 between 2017 and 2023).[12]
- British Overseas Territories – of which some can be defined as tax havens – will likely become a more appealing destination for high-net-worth individuals and their assets because of the above UK tax regime changes. Tax havens are countries which offer foreign individuals and firms low or no tax liability on deposits in a politically stable environment.[13]

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[5] Kelly, A., & Bijoux, L., *Abolishing non-dom status – what happens now?,* BDO, 2 August 2024, www.bdo.co.uk/en-gb/insights/tax/private-client/abolishing-non-dom-status-what-happens-now, (accessed 23 October 2024).
[6] HM Revenue & Customs, *Table 2.4 Shares of total Income Tax liability*, 27 June 2024, assets.publishing.service.gov.uk/media/6679827af09ee01a050e7317/Table_2.4_Shares_of_total_Income_Tax_liability.ods, (accessed 23 October 2024).
[7] Khan, A., *UNHWs leaving UK amid Labour exit tax concerns*, FT Adviser, 21 October 2024, www.ftadviser.com/your-industry/2024/10/21/uhnws-leaving-uk-amid-labour-expat-exit-tax-concerns/, (accessed 24 October 2024).
[8] The London School of Economics and Political Science, *UK should have an "exit tax" like Australia and Canada*, 8 October 2024, www.lse.ac.uk/News/Latest-news-from-LSE/2024/j-October-2024/uk-capital-gains-exit-tax, (accessed 22 October 2024).
[9] Internal Revenue Service, *Expatriation tax*, 26 August 2024, www.irs.gov/individuals/international-taxpayers/expatriation-tax, (accessed 23 October 2024).
[10] République Française, *Do I have to pay an "exit tax"?,* 22 April 2021, www.impots.gouv.fr/international-particulier/questions/i-am-leaving-france-do-i-have-pay-exit-tax, (accessed 22 October 2024).
[11] Lilley, Z., *Moves to strengthen France's 'exit tax': who would this affect?,* The Connexion, 18 October 2024, www.connexionfrance.com/practical/moves-to-strengthen-frances-exit-tax-who-would-this-affect/684550, (accessed 23 October 2024).
[12] Amolis, A., *London's Wealth Exodus*, Henley & Partners, 2024, www.henleyglobal.com/publications/henley-private-wealth-migration-report-2024/londons-wealth-exodus, (accessed 23 October 2024).
[13] Investopedia, *Tax Haven: Definition, Examples, Advantages, and Legality*, 4 December 2023, www.investopedia.com/terms/t/taxhaven.asp, (accessed 23 October 2024).

- If an exit tax were introduced in the UK (and not implemented immediately after being announced) this would likely have the effect of capital flight to low or no tax jurisdictions. Such a time lag has been pre-empted before. For instance, the Japanese government's exit tax on foreigners leaving was effective five years from the date of the law passing. This was different from the original proposal which did not include that time period.[14]
- Additionally, an exit tax could serve as a disincentive for offshore capital to be moved into the UK. The time horizon for wealthy individuals' investments – especially in private markets – can be significant. The possibility of an additional tax on top of CGT upon leaving the UK would stymie capital arriving into the UK in the first instance.

Recommendations:

- No attempts should be made to introduce an exit tax affecting both UK citizens or those who are UK resident for tax purposes. A commitment should be made that it will not be introduced for the remainder of this parliament (until 2029 at the latest).
- Taxes on capital should be reduced and simplified. The ambition should remain to reduce CGT and then abolish it.

[14] Tax Insights from Global Mobility, *Japan: Application of exit tax to foreigners delayed for five years*, PwC, 2015.