

Labour will abolish the non-dom rule

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On Monday [I noted](#) that in my opinion the abolition of the domicile rule would be the biggest single contributor to tax justice in the UK. I learned tonight that they have plans to do just that. After eight years of campaigning on this issue my wish will be granted: if we have a Labour government the domicile rule will go. As they have said tonight

* Labour will abolish the non-dom loophole so that everyone who comes to the UK and makes the UK their permanent home pays tax in the same way from April 2016.

The significance of this cannot be overstated. For over a hundred years the UK has run a two tier tax system. That tax system meant that those who could claim the UK was not their permanent home could get away with only paying tax on their UK income and gains and on any income they brought to the UK from abroad. What this, inevitably, meant was that those who had wealth and who were not domiciled could hold that wealth outside the UK and not be taxed on it if it was, for example, located in a tax haven.

This change does then means four things. First, it means that a nail has been put in the coffin of the UK tax haven. That is because non-doms could be resident here and pay tax on only a part of their income, which was an advantage simply not available in any other equivalent country around the world. This will now end. The UK will no longer be a tax haven for this reason.

Second, and by obvious corollary, the UK will no longer be supporting the tax havens who picked up the business of holding the offshore funds for the UK non-doms. That is also good news.

Third, and more important than either of those, everyone in the UK will now be equal in UK tax law. It has been staggering that this has not been the case for so long, and vital that it becomes so for three reasons. First, it means the wealthy do not get an undue tax advantage. Second it means that the well advised cannot now abuse the tax system in this way. And third it means people coming from elsewhere to the UK will be on a level playing field with all those already here, which social justice demands.

Finally, this means that the businesses owned by non-doms cannot access cheaper capital than those owned by domiciled people. The result is a level playing field for UK owned businesses that means that this change should be widely welcomed by the business community.

The inevitable question that will arise in the right wing press will, however, be about whether this will result in three things. The first is an exodus of wealthy non-doms. The second is a collapse in London house prices as a result. And the third is a collapse in tax revenues. Let me deal with these issues.

Some non-doms will no doubt leave. But when I say 'some' I mean a handful. First that is because there is nowhere else for them to go that is equivalent: London is the place to be and be seen and this rule change will not alter that. Second, despite the threats on previous residence rule changes and on higher tax rates almost no-one ever moves for tax purposes. Quality of life is more important than that, especially if you are already very wealthy. And third, the UK still has favourable taxes compared to most places even if they have to be paid in future. So only a very few will go, and we will not miss them.

Second, if house prices fall at the top end that is good news for most Londoners who are priced out of the housing market and who are my real concern.

And as to tax revenues? First, let's note these people do not make major tax payments now. By definition they underpay tax at present. So in principle revenues have to increase unless non-doms flood to the door. They could, of course become non-resident and achieve that apparent impression of leaving but the direct tax effect will be small as a result of that precisely because they pay so little now. And because they could become very easily non-resident but still keep their homes here and so still spend considerable sums in London if in the UK in total less than 90 days a year if they also have a home elsewhere (as, by definition, they really should) then the indirect tax effect on VAT, etc., will also be small, precisely because many of this group will already spend large parts of the year outside the UK.

So, my estimate of tax to be raised is not as high as it was in 2007, when [I thought it could be £4.3 billion](#), because the rules have been tightened since then, some money has been raised by the non-dom levy since that time and because I think it likely that those rule changes will have reduced abuse but I am equally sure that the revenue raised will run to hundreds of millions and maybe exceed a billion pounds a year. I cannot see how that cannot be the case.

But I stress, whilst that money is very useful this change is not all about cash. It is about creating justice, a level playing field and a single tax system in the UK that ends part of our tax haven status. And for all those reasons I think this is an enormously welcome election promise.