



Confirmed reform to inheritance tax for UK long term residents

Published on Alvarez & Marsal | Management Consulting | Professional Services

(<https://www.alvarezandmarsal.com>)

November 29, 2024

THE 2024 AUTUMN BUDGET ANNOUNCEMENTS CONFIRMED THAT THE PROPOSED REFORMS TO UK INHERITANCE TAX WILL APPLY TO NON-UK ASSETS, INCLUDING ASSETS IN NON-UK TRUSTS. THESE RULES WILL COME INTO EFFECT FROM 6 APRIL 2025.

INHERITANCE TAX AND NON-UK ASSETS

From 6 April 2025, an individual's exposure to inheritance tax will no longer depend on their domicile status. Instead, there will be a new concept of a "long term resident" for IHT purposes.

- An LTR is an individual who has been resident in the UK for at least 10 out of the previous 20 tax years.
- An LTR will be subject to IHT on their worldwide assets. In contrast, someone who is not an LTR will only be subject to IHT on their UK assets.
- An individual will automatically cease to be an LTR if they have been non-resident for ten consecutive tax years, and this will reset the 20 year lookback period. The ten-year "tail" after leaving the UK will be shortened if the individual has been resident for less than 20 years. For someone who has been resident for 13 years or less, they will remain an LTR for 3 full tax years after leaving the UK. This tail will increase by one year for every additional year of UK residency. If an individual then returned to the UK they may become an LTR again if they meet the 10 out of 20 year test.
- The LTR regime will apply equally to UK and non-UK domiciled individuals. Therefore, any UK domiciled individual who does not meet the LTR test will only be subject to IHT on their UK situs assets.
- There is a transitional provision for those who are non-resident in the year 2025/26. Those individuals will only be considered LTR if they meet the following two conditions:
 - UK resident for 15 out of the previous 20 years; and
 - UK resident in the current year or one of the three previous years.

IMPACT ON TRUSTS

Historically the IHT status of a trust was determined by the status of the settlor at the time of settlement. From 6 April 2025, the status of a trust will mirror the current status of the settlor.

- Any trust settled by a UK LTR, will be fully subject to UK IHT, with a potential tax charge on settlement, and ongoing periodic

(10-yearly) and exit charges.

- Where a trust is settled by a non-LTR with non-UK assets, the trust will be an “excluded property trust” and the assets in the trust will not be subject to UK IHT, however this treatment will not be fixed and will cease when the settlor becomes an LTR.
- Where a settlor becomes an LTR at that point the trust will be considered relevant property and will potentially be subject to periodic and exit charges.
- Where an LTR settlor is able to benefit from the trust, even as a discretionary beneficiary, the assets of the trust will also form part of the settlor’s estate and there would be an IHT exposure on death of up to 40%. This will not apply to non-UK assets settled before 30 October 2024.
- Where an LTR settlor leaves the UK and ceases to be LTR, the non-UK assets of the trust will cease to be relevant property. At that point there will be an IHT exit charge at a rate of up to 6%.
- The Government has also announced wide reaching changes to the taxation of non-UK domiciled individuals with the introduction of a new 4 year Foreign Income and Gains regime. Going forward, settlors may be subject to tax on trust income and gains on an arising basis once they have been UK resident for more than four tax years.

DOWNLOAD THE PDF HERE

Source URL: <https://www.alvarezandmarsal.com/insights/confirmed-reform-non-uk-domiciled-tax-system-trusts>

Authors:

Anthony Whatling
Alexander Marcham
Jonathan Brecker
Tanya Watson
James Arrowsmith