

Inheritance tax and long-term UK residents - new HMRC guidance

Synopsis: How new long-term UK residence rules affect inheritance tax from 6 April 2025.

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Historically, the extent to which inheritance tax (IHT) has applied to an individual's estate has been based on their domicile status with UK domiciles being subject to UK IHT on worldwide assets; and non-UK domiciles being subject to UK IHT on their UK situs assets only. The concept of deemed domicile has meant that those resident in the UK over the long-term (15 out of the last 20 years) have been treated in the same way as UK domiciles for IHT purposes.

Non-UK domiciles who were resident but not deemed domiciled in the UK could settle their 'excluded property' (essentially their non-UK assets but also authorised unit trusts and OEICs) into trust prior to becoming deemed UK domicile and this excluded property would then remain outside of the UK IHT net regardless of any future changes to the settlor's domicile status.

This meant that the excluded property would not be included in the estate of the settlor (who would typically be a beneficiary of the trust) as a gift with reservation, even if they died domiciled or deemed domiciled in the UK; and the excluded property would also not be subject to IHT periodic and exit charges even if the trust was a discretionary or post-21 March 2006 interest in possession trust.

HMRC's new guidance is reproduced below. You can read HMRC's full guidance [here](#).

From 6 April 2025, the domicile and deemed domicile rules were replaced by new long-term UK resident rules. If an individual makes a transfer of assets or dies on or after 6 April 2025, their non-UK (overseas) assets may be subject to IHT if they are a long-term UK resident.

Long-term UK residents

An individual is a long-term UK resident in a tax year if they are tax resident in the UK for either...

- the previous ten consecutive years;
- a total of ten years or more within the previous 20 years.

An individual will not be a long-term UK resident if...

- on 30 October 2024 they did not have UK domicile or deemed domicile status;
- for the tax year 6 April 2025 to 5 April 2026, they are non-UK resident; and
- they do not return to the UK.

An individual can still keep long-term UK residence for up to ten tax years after they leave the UK. This is shorter if they have not lived in the UK for all the previous 20 years.

For example, if an individual previously lived in the UK for...

- ten to 13 years, they'll stop being a long-term UK resident three years after they leave;
- 14 years, they stop being a long-term UK resident four years after they leave;
- 15 years, they stop being a long-term UK resident five years after they leave.

If they return to the UK after ten consecutive years of non-UK residence, the ten out of 20 years residence test is reset. Only the year they return and future years of residence count towards their UK residence.

An individual stops being a long-term UK resident after three years of non-residence if...

- on 30 October 2024 they had deemed UK domicile;
- for the tax year 6 April 2025 to 5 April 2026, they are non-UK resident; and
- they do not return to the UK.

IHT on overseas assets

IHT is charged on transfers of overseas assets an individual owned outright, or on death, when they are long-term UK resident.

IHT will be charged on any overseas assets in a trust that an individual has set-up or added to (even when they were not a long-term UK resident). HMRC's guidance adds that, there will be no IHT to pay on their death on trust assets that were...

- placed in the trust while the individual was non-UK domiciled;
- overseas on 30 October 2024; and
- overseas on the date of the individual's death or when their rights to the trust ended.

[Although note that the trust will still be subject to the relevant property regime.]

The guidance warns HMRC to tell trustees when their long-term UK residence status changes as there may be separate trusts charges to pay. Settled assets may come in and out of charge depending on the residence status of the settlor from time to time and IHT exit charges may apply where trust assets cease to be relevant property as a result of a change in the long-term UK residence status of the settlor. For example, if someone who was non-UK domiciled when they established the

trust (pre-April 2025) but later became UK deemed domicile, ceases to be a long-term UK resident post 5 April 2025, an IHT exit charge will apply.

A similar situation could arise where an individual, who established e.g. a discretionary gift trust holding an offshore (international) bond at a time when they were both UK resident and domiciled, ceases to be a long-term UK resident because they retire abroad.

More information

Please see...

- [how IHT works — when someone living outside the UK dies](#);
- long-term UK residence in HMRC's [IHT Manual](#);
- [Trusts and IHT](#).

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