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PARAPLANNERS ASSEMBLY

INHERITANCE TAX AND THE LONG-TERM RESIDENT RULES

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LEARNING OBJECTIVES

By the end of the session, delegates will be able to:

- Understand the post April 2025 changes to :
 - › Inheritance Tax (IHT), and
 - › The taxation of non domiciles
 - › How trusts can help to mitigate IHT liabilities
- Discuss and explain these with a client in a clear and concise way.
- Apply this knowledge to appropriate, individual, client scenarios.

AGENDA

The session will last for c. 50 minutes plus Q&A

During this session, we will examine the changes announced in the Budget particularly to the taxation of UK resident non-domiciles.

- › CHANGES TO INHERITANCE TAX (IHT)
- › EXCLUDED PROPERTY TRUSTS
- › A NEW ERA FOR TRUST PLANNING
- › PENSION DEATH BENEFITS
- › TRUST PROTECTION
- › ABOLITION OF THE REMITTANCE BASIS
- › SUMMARY AND OPPORTUNITIES



CHANGES TO INHERITANCE TAX (IHT)

DOMICILE – RULES PRIOR TO 6 APRIL 2025

WHICH ASSETS ARE SUBJECT TO IHT?

UK DOMICILE	UK-DEEMED DOMICILE	NON-UK DOMICILE/ NON-DEEMED DOMICILE
UK SITUS ASSETS	UK SITUS ASSETS	UK SITUS ASSETS ONLY
NON-UK SITUS ASSETS	NON-UK SITUS ASSETS	

CHANGES TO IHT FROM 6 APRIL 2025

A NEW BEGINNING?

A complete change!

1. Domicile, deemed-domicile and formerly UK domicile no longer relevant for IHT from 6 April 2025
2. Assets subject to UK IHT will be determined by the situs of the assets and tax residency of the owner or deceased
3. A simpler (?) and fairer residence-based tax system (linked to the Statutory Residence Test)
4. Major changes to APR and BR and shares designated as “not listed” on the markets of recognised stock exchanges, such as AIM shares
5. The NRB and RNRB have been frozen until 2029/30.
6. From April 2027, pensions will be in scope of Inheritance Tax for any unused pension funds or death benefits. This will include a defined contribution scheme whether in drawdown or not. What does this mean?

CHANGES TO IHT FROM 6 APRIL 2025 CONTD.

A NEW BEGINNING?

Significant changes to the IHT regime

The Government will introduce new legislation that removes the concept of 'domicile' for IHT and move to '**a simpler and fairer residence-based tax system**' (linked to the Statutory Residence Test).

1. The test for whether non-UK assets are in scope for IHT depends on whether an individual has been resident in the UK for at least 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises.
2. The time an individual remains in scope after leaving the UK will be 10 years maximum but will be shortened where they have only been resident in the UK for between 10 and 19 years.

UK INHERITANCE TAX FROM 6 APRIL 2025

THE NEW BASIS



UK RESIDENT FOR LESS THAN 10 OUT OF THE LAST 20 YEARS

UK assets assessable to UK IHT

Non -UK assets not assessable to UK IHT

UK RESIDENT FOR 10 YEARS OR MORE OUT THE LAST 20 YEARS

UK assets assessable to UK IHT

Non -UK assets assessable to UK IHT

The time an individual remains in scope after leaving the UK will be shortened where they have only been resident in the UK for between 10 and 19 years.

UK INHERITANCE TAX FROM 6 APRIL 2025

LEAVING THE UK



Residents between 10 and 13 years will remain in scope for 3 tax years.

Every year of residence above this increases the time in scope

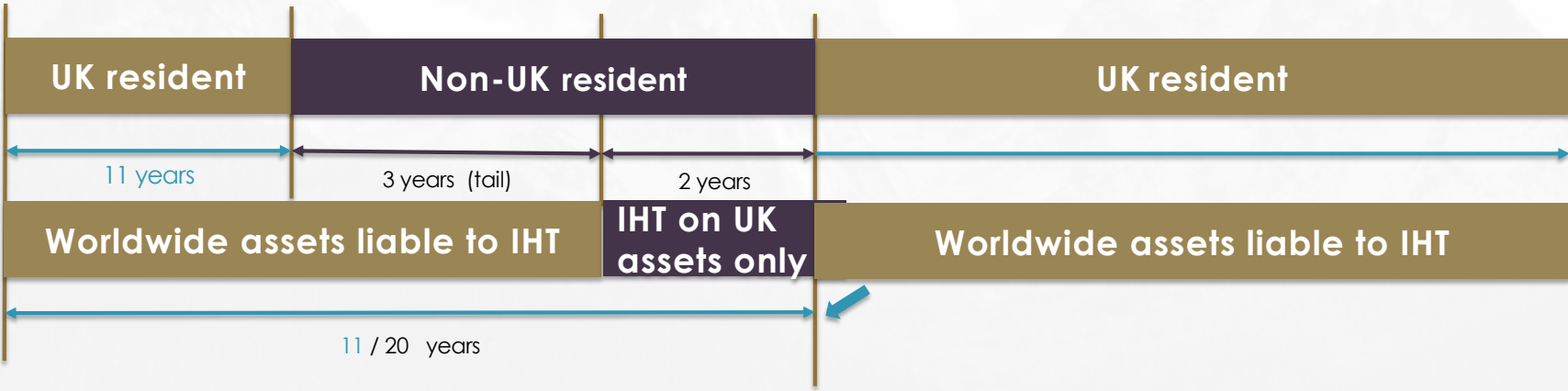
*E.g. A person resident for 15 out of 20 tax years on leaving, would remain in scope for 5 years.
A person resident for 17 out of 20 tax years on leaving would remain in scope for 7 tax years.*

An individual will not be treated as long-term resident for IHT purposes in the year following 10 consecutive years of non-residence, even if they return to the UK.

THE TEST IS EFFECTIVELY RESET

UK INHERITANCE TAX FROM 6 APRIL 2025

LEAVING AND RETURNING TO THE UK



UK INHERITANCE TAX PRE 6 APRIL 2025

CASE STUDY 1



- › Edward is 60 years old, widowed, **UK domiciled**
- › **Claims NRB and TNRB of £650,000**
- › **Can't claim RNRB or TRNRB > threshold**
- › Has an IHT liability on his assets of **£3,200,000**



UK Asset Value	Asset type	Overseas Asset Value
£1,000,000	House/Villa	£1,000,000
£200,000	ISA	
£500,000	Other Assets	£500,000
£1,700,000	Total £3,200,000	£1,500,000

UK IHT liability £2,550,000 x 40% = £1,020,000

UK INHERITANCE TAX FROM 6 APRIL 2025

CASE STUDY 2



- › Edward is 60 years old, widowed, **not long term UK resident**
- › **Claims TNRB and TRNRB of £650,000**
- › **Can also claim RNRB and TRNRB of £350,000**
- › Has a an IHT liability on his assets of **£1,700,000**





UK Asset Value	Asset type	Overseas Asset Value
£1,000,000	House/Villa	£1,000,000
£200,000	ISA	
£500,000	Other Assets	£500,000
£1,700,000	Total £3,200,000	£1,500,000

UK IHT liability £700,000 x 40% = £280,000

UK INHERITANCE TAX FROM 6 APRIL 2025

CASE STUDY 2 Cont...

- › Edward is 60 years old, widowed, not long term UK resident
- › **Claims TNRB and TRNRB of £650,000**
- › **Can also claim RNRB and TRNRB of £350,000**
- › Has a potential IHT liability on his assets of £1,000,000



UK Asset Value	Asset Type	Overseas Asset Value
£1,000,000	House/Villa	£1,000,000
£200,000	ISA	
£500,000	Other Assets	£1,200,000
£1,000,000	Total £3,200,000	£2,200,000

UK IHT liability NIL

UK INHERITANCE TAX FROM 6 APRIL 2025

WHAT ABOUT GIFTS MADE AFTER LEAVING THE UK?



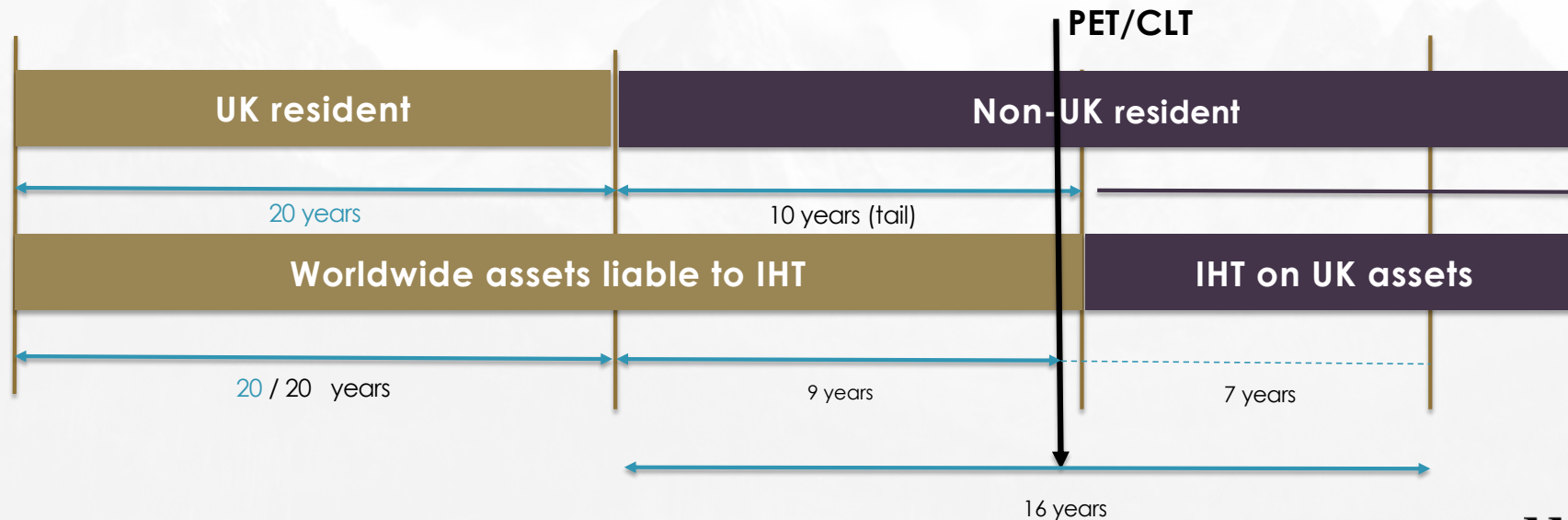
A lifetime transfer of excluded property remains out of scope for IHT **BUT...**

A lifetime transfer by a long-term resident which did not comprise excluded property at the time it was made, will be chargeable at death rates if the transferor dies within 7 years. This is regardless of whether the individual is long-term resident or has ceased to be long-term resident by the time of their death.

UK INHERITANCE TAX FROM 6 APRIL 2025

EXAMPLE OF GIFTS REMAINING IN SCOPE

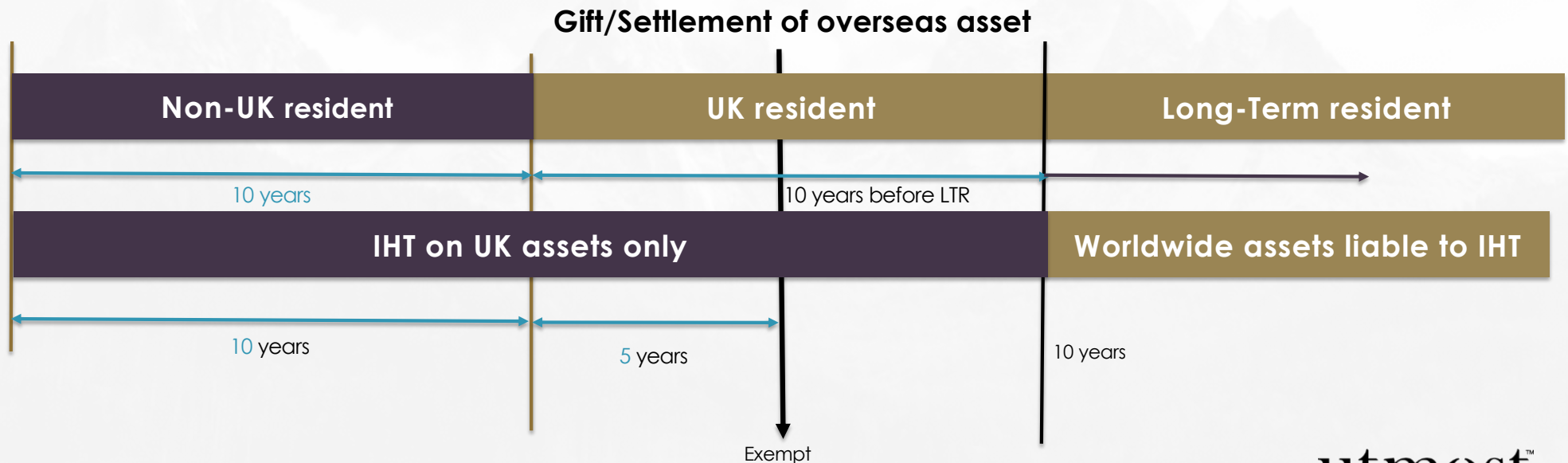
1. Person has been resident for 20 consecutive years and thus has a 10 year tail (maximum tail as have been resident > 19/20 tax years)
2. If they make a gift in year 9 of non-residency, a PET is triggered
3. If they die before spending 16 years outside the UK, the PET becomes chargeable!



UK INHERITANCE TAX FROM 6 APRIL 2025

EXAMPLE OF GIFTS OUT OF SCOPE

1. An individual will not be treated as long-term resident for IHT purposes in the year following 10 consecutive years of non-residence, even if they return to the UK.
2. If they then return to the UK, make gifts in year 5 of their UK residency, the gift is exempt.



(2)

EXCLUDED PROPERTY TRUSTS

EXCLUDED PROPERTY TRUSTS SETTLED BEFORE 30 OCTOBER 2024

APPLICABLE RULES

- › Only relevant for non-UK domiciled clients that settled trusts prior to 30 October 2024
- › The client must have been non-UK domiciled when the trust was established
- › The trust must not have included any UK-based assets (note special treatment for authorised unit trusts/OEICs)
- › For these trusts the value of the investment held subject to the trust will not be included in the taxable estate of the settlor for IHT purposes. There will also be no gift with reservation of benefit even if the settlor becomes domiciled or long-term resident.

EXCLUDED PROPERTY TRUSTS SETTLED BEFORE 30 OCTOBER 2024 APPLICABLE RULES CONT..

- › Even if the settlor subsequently becomes UK domiciled (to 5 April 2025) or long-term resident (from 6 April 2025) they can benefit without infringing the GWR rules
- › The excluded property status from 6 April 2025 will depend on the long-term residency status of the settlor. **Importantly, under transitional rules the GWR provisions do not apply even if the settlor can benefit.**



SUCH TRUSTS CAN ALTERNATE BETWEEN EXCLUDED AND RELEVANT PROPERTY

Important: Should a settlor of a relevant property trust become non-long-term resident, the trust will become excluded property and **an exit charge** will result!

EXCLUDED PROPERTY TRUSTS SETTLED AFTER 30 OCTOBER 2024

APPLICABLE RULES

- › Only relevant for **non-UK domiciled for trusts settled after 30 October 2024 or non-long-term residents if settled after 5 April 2025**
- › The trust must not include any UK-based assets (although note special treatment for authorised unit trusts/OEICs)
- › From 6 April 2025 the excluded property status will not be fixed at the time the assets are added to the settlement
- › **Instead, assets comprised in a settlement will only be excluded property (and so not subject to IHT charges) at times when the settlor is not long-term resident(LTR)**
- › Further, if a settlor created a settlement from which they can benefit from 30 October 2024, even if the property was settled when they were not long-term resident (from 5 April 2025), the property comprised in the settlement which is, or represents, the gifted property will be chargeable under the GWR rules if they are long-term resident at their death (or when the reservation ceases within 7 years of death).

EXCLUDED PROPERTY TRUSTS FROM 6 APRIL
COMPARISON CHART OF TREATMENT OF EXISTING AND NEW TRUSTS

Trust established	GWR	IHT If settlor dies before 06 April 2025	IHT If settlor dies after 06 April 2025
Pre-30 October 2024	No GWR if property not added.	Trust remains excluded property.	IHT based on the long-term residency of the settlor – either relevant property and subject to periodic and exit charges or excluded property.
Post 30 October until 05 April 2025	GWR if the settlor can benefit. Transfers of value (PET/CLT/Exempt) based on the settlor’s domicile.		As above
Post 06 April 2025	As above but transfers to trust based on the settlors’ long-term residence.		As above

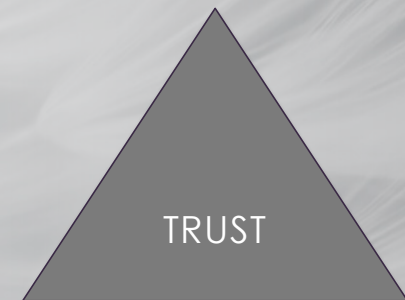
TRUST TREATMENT FROM 6 APRIL 2025

DEATH OF THE SETTLOR

Residents between 10 and 13 years will remain in scope for 3 tax years.

Example:

- A person resident for 15 out of 20 tax years on leaving would remain in scope for 5 years.
- A person resident for 17 out of 20 tax years on leaving would remain in scope for 7 tax years.

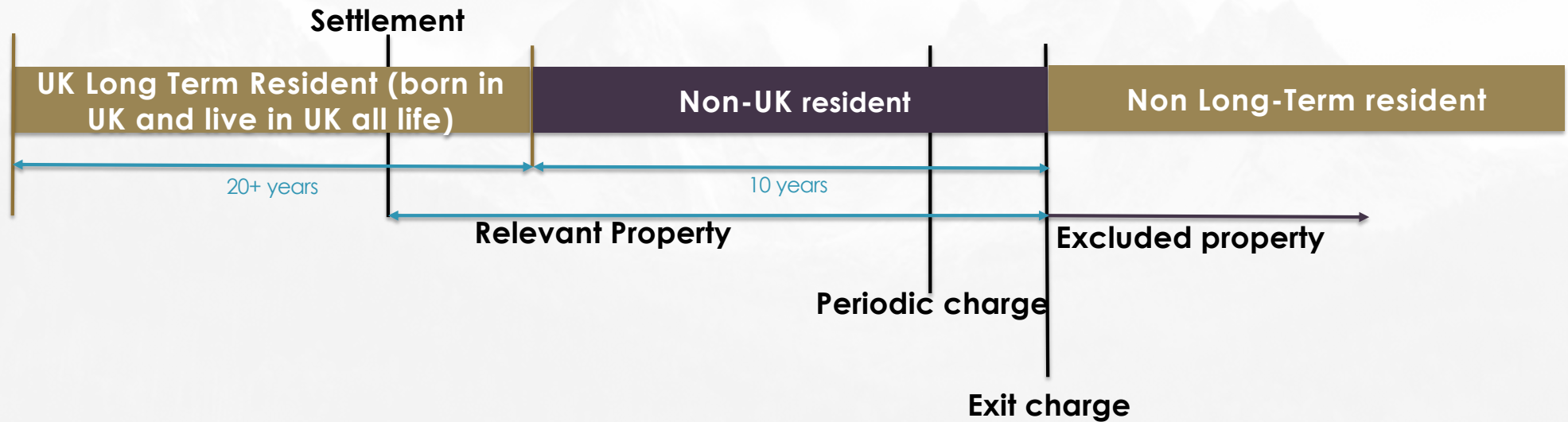


1. If that **person dies whilst still a LTR** (i.e. no longer living in the UK but still in the 'tail' period, then the trust will **remain a relevant property trust**
2. If they **die outside the 'tail' period**, then the trust **will remain excluded property**.

TRUST TREATMENT FROM 6 APRIL CONTINUED

TRUST EXCLUDED/RELEVANT PROPERTY

1. An individual will be treated as long-term resident for IHT purposes if UK resident for 10 years or more out the last 20 years
2. The tax treatment of any settlements made is dependant on the settlor's long term residency.



UK INHERITANCE TAX

TRUST EXCLUDED/RELEVANT PROPERTY

1. An individual will not be treated as long-term resident for IHT purposes in the year following 10 consecutive years of non-residence, even if they return to the UK.
2. If they then return to the UK, make gifts in year 5 of their UK residency, the gift is exempt.



(3)

A NEW ERA FOR TRUST PLANNING?

TRUST BASED IHT SOLUTIONS

RETURNING TO THE UK WHILST NON LONG-TERM RESIDENT

DISCRETIONARY
TRUST (DT)

(INCLUDING
LOAN TRUSTS)

REVERSIONARY
INTEREST TRUST (RIT)

DISCOUNTED GIFT
TRUST
(DGT)

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REVERSIONARY INTEREST TRUST

RETURNING TO THE UK WHILST NON LONG-TERM RESIDENT

How to mitigate IHT without losing flexibility in changing circumstances?

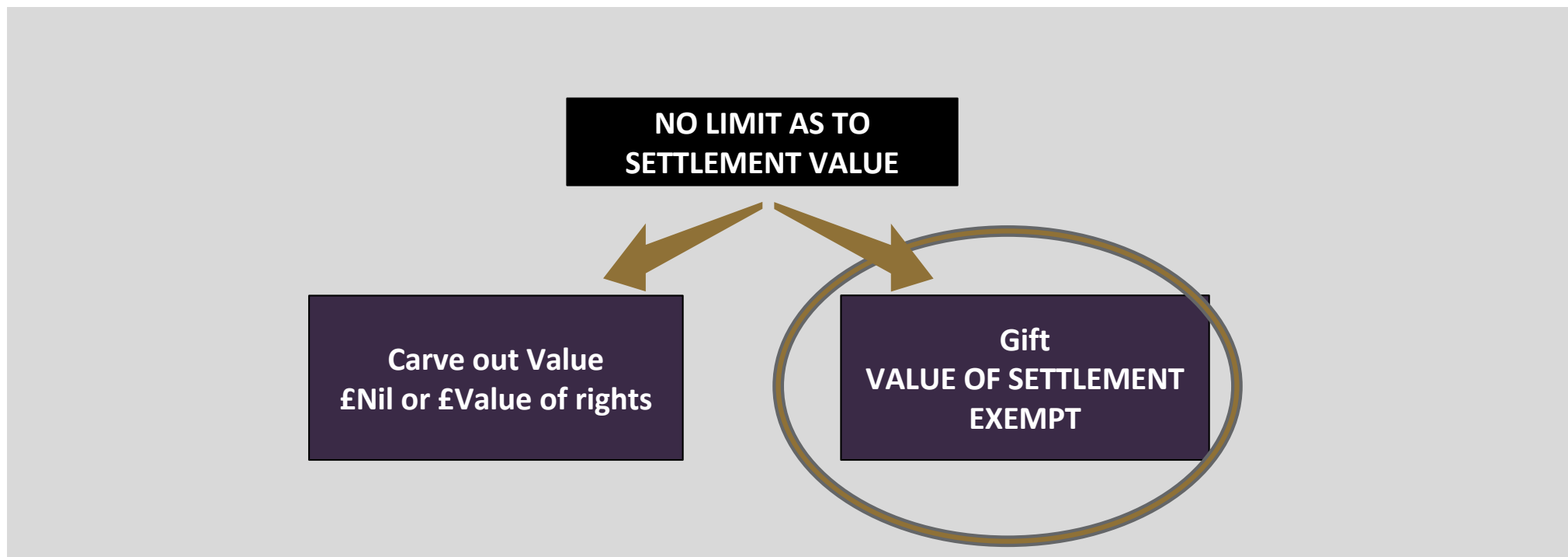
Gift Assets

But

Possible access to funds and growth if needed,
whilst maintaining IHT efficiency.

REVERSIONARY INTEREST TRUST AND DGTs

RETURNING TO THE UK WHILST NON LONG-TERM RESIDENT



TRUSTS PLANNING POST 6 APRIL 2025

FOR THOSE WHO MAY RETURN TO THE UK TO LIVE

	LONG TERM RESIDENT (LTR)	NON LONG TERM RESIDENT (NLTR)
Initial Settlement	<ul style="list-style-type: none"> • DGT – Nil rate gift planning and initial transfer of value reduced. No gift with reservation issues (GWR) • RIT – Nil rate gift planning and able to make gift and retain rights to access without GWR • DT – Nil Rate gift planning only. 	<ul style="list-style-type: none"> • Transfer into trust is exempt so no IHT benefit on initial settlement • No restriction to nil rate band
Relevant property	<ul style="list-style-type: none"> • DGT reduced by open market rights and full value for RIT and DT 	<ul style="list-style-type: none"> • Excluded property if the settlor is NLTR and will remain if the settlor dies whilst NLTR!
Amount Settlor can access	<ul style="list-style-type: none"> • DGT - Fixed withdrawals • RIT - Segments surrender scheduled at outset by the settlor • DT -(loan trust) access to capital only • DT - No access assuming settlor cannot benefit (to avoid gift with reservation) 	
Flexible access?	<ul style="list-style-type: none"> • RITs - Reversionary rights can be deferred by Settlor. • DGTs not flexible • DTs – no access 	



PENSION DEATH BENEFITS

FROM 6 APRIL 2027

PENSION DEATH BENEFITS IN SCOPE

5.52 Inheritance tax: *“unused pension funds and death benefits – The government will bring unused pension funds and death benefits payable from a pension into a person’s estate for inheritance tax purposes from 6 April 2027. This will restore the principle that pensions should not be a vehicle for the accumulation of capital sums for the purposes of inheritance, as was the case prior to the 2015 pensions reforms.”*

- › Funds passing to a surviving spouse will be exempt from the IHT charge but any remaining funds will then be subject to IHT on the survivor’s subsequent death
- › Pre and post death income tax rules remain unchanged
- › Likely double tax charges
 - IHT charge based on the full fund value immediately before death
 - Income tax charges on lump sum withdrawals in excess of the LSDBA and on lump sums and drawdown payments where death occurred after age 75.

FROM 6 APRIL 2027

PENSION DEATH BENEFITS IN SCOPE

Unless amended following consultation, pension assets to form part of the estate to determine RNRB taper >£2m. Could lead to tapering of RNRBs and higher IHT liabilities on the free estate.

Asset	Pre April 2027	Post April 2027	Increase
Property	£1,000,000	£1,000,000	
Investments and other assets	£1,000,000	£1,000,000	
Pension death benefit	N/A	£350,000	
Total	£2,000,000	£2,350,000	+£350,000
Less NRB and RNRB	£500,000	£325,000	
IHT due	£600,000	£810,000	+£210,000
		Effective tax rate	60%!

Plus income tax charges on lump sum and income drawdown payments where death occurred aged 75 or over.

FROM 6 APRIL 2027

PENSION DEATH BENEFITS AFTER AGE 75 IN SCOPE

	£
IHT due	810,000
Paid by pension (350,000/2,350,000)*810,000 (PIHT)	120,638
Pension fund after IHT paid	229,361
Tax @ 45% if paid as income (IT)	103,212
Effective tax rate (PIHT + IT)/pension fund	89.49%*

*Higher in Scotland if additional (top)rate taxpayer

	Pension	Bond
Tax relief	yes	no
Gross roll up	yes	yes
Tax on withdrawals	Taxable in full to income tax	Chargeable event gain taxable to income tax
IHT	yes	Yes, but freely assignable
Tax on death after 75?	IHT plus IT on total pension	Possibly no IHT if already gifted 7 years ago, IT on gain only.
Inter spousal transfer	yes	yes

NORMAL EXPENDITURE OUT OF INCOME

DEFINITION

S.21 (1) IHTA 1984

- i) Part of normal expenditure
- ii) From transferor's income
- iii) Transferor left with sufficient income to maintain usual standard of living

NORMAL EXPENDITURE OUT OF INCOME

CRITERIA EXPLAINED

- **Gifts must be on a habitual basis or a commitment to future gifting**
- No defined period to satisfy the condition
- **Gifts have to be made from net income and not capital**
- Income also includes non-taxable income
- Net income – it may be possible to **carry forward** unspent income from a previous year.
- **HMRC** guidance says that, without evidence to the contrary they **consider unspent income is to be treated as capital after 2 years**
- <https://www.gov.uk/hmrc-internal-manuals/inheritance-tax-manual/ihtm14250>
- **HMRC view is that unspent income cannot retain its character as income indefinitely**

NORMAL EXPENDITURE OUT OF INCOME

CLAIMING NEOI

Gifts made as part of normal expenditure out of income

Only fill in this page if you have ticked Yes to box 6 on page 1. This is a guide to the type of income and expenditure the deceased may have had so that you can show that gifts made were part of the deceased's normal expenditure out of their income. Give details of the deceased's income and expenditure for each of the years in which the gifts were made.

20	Income							
	Tax year in which gifts made <i>(for example: 6 Apr 2005 to 5 Apr 2006)</i>							
	Salary							
	Pensions							
	Interest (including PEPs and ISAs)							
	Investments							
	Rents							
	Annuities (income element)							
	Other							
	Minus Income Tax paid							
	Net Income							
21	Expenditure							
	Mortgages							
	Insurance							
	Household bills							
	Council Tax							
	Travelling costs							
	Entertainment							
	Holidays							
	Nursing home fees							
	Other							
	Total Expenditure							
22	Surplus (deficit) income for the year (Net Income minus Total Expenditure)							
	Gifts made							

IHT403

Page 6

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NORMAL EXPENDITURE OUT OF INCOME

PLANNING OPPORTUNITIES

- **Excess income settlements?**
- Regular premium whole of life plan written subject to trust?
- Additional single premiums to investment bonds under trust?

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TRUST PROTECTION

PROTECTED SETTLEMENTS

INCLUDING EXCLUDED PROPERTY TRUSTS

Income arising under a non-resident settlement is **protected foreign source income** if the following conditions are met – s628A Income Tax (Trading and Other Income) Act 2005 (“ITTOIA”):

- › From 6 April 2025, the protection from tax on FIG arising within settlor-interested trust structures will no longer be available for non-domiciled and deemed-domiciled individuals who do not qualify for and claim the 4-year FIG regime
- › FIG arising in the trust (whenever established) from 6 April 2025 will be taxed on the settlor on the same basis as UK-domiciled settlors, unless the settlor is eligible for and claims the 4-year FIG regime.



ABOLITION OF THE REMITTANCE BASIS

FROM 6 APRIL 2025

UK RESIDENT AND DOMICILED ARISING BASIS

ALL WORLDWIDE ASSETS ASSESSABLE TO UK IHT

ALL UK INCOME AND GAINS
ASSESSABLE TO UK TAX



ALL NON-UK INCOME AND GAINS
ASSESSABLE TO UK TAX



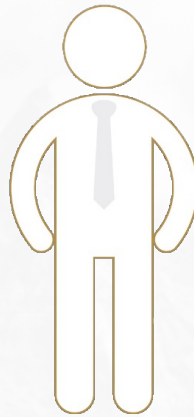
Income is taxed as it arises – income received in a tax year is taxed in that tax year.

UK RESIDENT AND NON-DOMICILED – PRE APRIL 2025

REMITTANCE BASIS

UK ASSETS ASSESSABLE TO UK IHT

ALL UK INCOME AND GAINS
ASSESSABLE TO UK TAX



NON-UK ASSETS NOT ASSESSABLE TO UK IHT

NO UK TAX LIABILITY ON NON-REMITTED
INCOME AND GAINS



NON-UK INCOME AND GAINS ASSESSABLE
ONLY IF REMITTED

UK-resident but non-domiciled individuals can make an election such that their non-UK income and gains are only taxed in the UK if, and when, they are remitted to the UK.

CHANGES TO THE NON-DOM REGIME

WHAT HAPPENS FROM APRIL?

A complete change of the remittance-based regime from 6 April 2025

1.

Remittance basis no longer available from 6 April 2025.

2.

A new taxation regime for FOREIGN INCOME AND GAINS (FIG) for individuals.

3.

No UK tax liability on FIGs for the first 4 years of a person's UK residency IF they have been non-UK resident for the last 10 consecutive years.

Note: Residency will be determined by the statutory residence test.

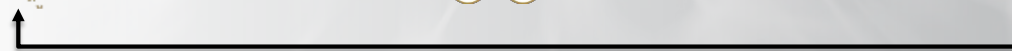
UK RESIDENT FOR FOUR YEARS OR LESS*

WHAT ARE THE TAX IMPLICATIONS FOR INCOME AND GAINS?

ALL UK INCOME AND GAINS
ASSESSABLE TO UK TAX



ALL NON-UK INCOME AND
GAINS FREE OF UK TAX



TAX CHARGED ON ANY REMITTANCE OF PRE 2025 FIGS

* Assumes 10-year consecutive non-resident criteria is satisfied.

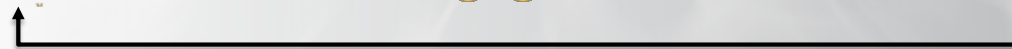
UK RESIDENT FOR MORE THAN FOUR YEARS

WHAT ARE THE TAX IMPLICATIONS FOR INCOME AND GAINS?

ALL UK INCOME AND GAINS
ASSESSABLE TO UK TAX



ALL NON-UK INCOME AND
GAINS TAXABLE TO UK TAX



TAX CHARGED ON ANY REMITTANCE OF PRE 2025 FIGS

UK RESIDENT FOR MORE THAN FOUR YEARS*

AN EXAMPLE

Tax year



A person resident in 2022/23 will only be able to claim the relief for 2025/26, as there is only one year of relief left.

A person resident in 2021/22, or earlier, cannot claim the relief.

* Assumes 10-year consecutive non-resident criteria is satisfied



Thank you

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