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Inheritance tax reforms for UK non-doms

With effect from 6 April 2025, a new residence-based test has been introduced to determine an internationally mobile individual's liability to UK inheritance tax (IHT) on non-UK situated assets, replacing the previous rules based on an individual's domicile status. The inheritance tax (IHT) reforms are summarised below. Please see our other articles for more information on the changes made to the income tax and capital gains tax regime for non-doms, and for the changes made to the taxation of trusts.

The rules prior to 6 April 2025

Prior to 6 April 2025, an individual's liability to IHT was based on their domicile status and the situs of the assets held.

- An individual who had a domicile in the UK (ie a domicile of England and Wales, of Scotland or of Northern Ireland) was within the scope of IHT in respect of their worldwide assets.
- An individual who had a domicile outside the UK, was only subject to IHT in respect of their UK situs assets (and indirect interests in UK residential property).

Once a taxpayer had been UK tax resident in 15 out of the previous 20 tax years, they were deemed domiciled for UK tax purposes and therefore within the scope of IHT in respect of their worldwide assets.

The new rules from 6 April 2025

Residence based test

From 6 April 2025, the test to determine whether non-UK situated assets are within the scope of IHT is 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 (eg death or transfer into trust) occurs. At this point, a 'long-term resident' is liable to IHT in respect of their worldwide assets.

For individuals below the age of 20, the test is modified such that an individual will be a long-term resident if they have been UK tax resident during at least 50% of the tax years since their birth.

The domicile status of the individual is no longer relevant, and therefore the concept of a 'formerly domiciled resident' (someone born in the UK with a UK domicile but who has subsequently acquired a domicile of choice elsewhere) has similarly been abolished.

An individual's residence status for the purposes of establishing whether they are a long-term resident will be determined using the Statutory Residence Test.

Where an individual is UK tax resident for a tax year under the Statutory Residence Test, but also resident in another jurisdiction and 'treaty resident' in that other jurisdiction under a Double Taxation Agreement, the individual will still be treated as UK tax resident for the purpose of determining if they are a long-term resident.

When an individual comes to or leaves the UK part way through a tax year, they may qualify to split the tax year into a UK tax resident part and non-UK tax resident part if certain conditions are met. Split years are treated as full years of UK tax residence for the purposes of the long-term resident test.

In a deviation from the previous Conservative Government's announcements in March 2024, there are no references to 'connecting factors' for determining an individual's liability to IHT, rather this new test focuses solely on residence.

A long-term resident remains fully within the scope of IHT until they have been non-UK tax resident for between three and 10 consecutive tax years. This tail is 10 years if the individual was resident in the UK for 20 tax years or more and is shortened if the individual was resident in the UK for between 10-19 years, as follows:

- The tail is three tax years where the period of UK residence is between 10-13 years, or
- The tail is increased by one tax year for each additional year of UK residence up to a maximum of 10 years.

This means that an individual's long term residence status will always be 'reset' once they have been non-UK resident for 10 consecutive tax years, which aligns with the new Foreign Income and Gains (FIG) regime.

The new tests apply to UK domiciled individuals in the same way as they do for non-UK domiciled individuals. Therefore, if an individual has been non-UK tax resident for at least 10 full tax years but had not lost their UK domicile status due to continued links to the UK, they will now only be subject to IHT in respect of their UK assets.

While a corporate entity cannot itself be charged IHT, a company is treated as a long-term resident in a tax year if it is either incorporated in the UK or if it had been UK tax resident at any time during the previous tax year.

Transitional rules

Transitional rules apply to individuals who are non-UK tax residents in the 2025-26 tax year and were not UK domiciled on 30 October 2024. The IHT status of these individuals is determined under the pre-6 April 2025 tests. The new rules, being 10 years of UK tax residence in the last 20 tax years, will apply if they subsequently return to the UK.

This means that individuals who ceased to be UK resident before 6 April 2025, are subject to the following provisions:

- If they would not have been deemed-domiciled on 6 April 2025 (ie were not resident in 15 or more of the previous 20 tax years), then they will not have an IHT tail, or
- If they would have been deemed-domiciled on 6 April 2025, they will be subject to the current three-year IHT tail, regardless of the number of tax years they had been UK tax resident for prior to leaving. This therefore applies to those deemed doms whose last day of tax residence in the UK was between 6 April 2022 and 5 April 2025.

These transitional provisions do not apply to individuals who were UK domiciled under common law on 30 October 2024.

Excluded property

Excluded property is a form of property which is outside the scope of IHT.

Prior to 6 April 2025, excluded property included non-UK situs assets, holdings in authorised unit trusts, and shares in open-ended investment companies, that were held by individuals who were neither domiciled nor deemed to be domiciled in the UK. It also included foreign currency UK bank accounts held by an individual who was both non-UK resident and non-UK domiciled at the time of their death.

However, from 6 April 2025, these assets are only regarded as excluded property if held by an individual who is not a long-term resident (and non-UK resident, where relevant).

Furthermore, from 6 April 2025, interests in national savings certifications and premium savings bonds, which were previously regarded as excluded property if held by an individual who is domiciled in the Channel Islands or the Isle of Man, are no longer regarded as excluded property, irrespective of whether the individual is regarded as a long-term resident or not.

There is no change to the treatment of Free of Tax to Residents Abroad (FOTRA) securities, as for most excluded property status of such securities was already determined exclusively based on the individual's tax residence status.

Lifetime gifts

Where an individual makes a lifetime gift to another individual, they should only be within the scope of IHT if they die within seven years of the gift. From 6 April 2025, where an individual is not a long-term resident at the date of a non-UK gift, the gift remains outside the scope of IHT, even if they die within seven years at a time when they are a long-term resident. Similarly, gifts made by long-term residents are within the scope of IHT, even if they cease to meet the criteria by the date of their death.

From 6 April 2025, if a donor is a long-term resident at the time of their death, and they have reserved a benefit in a gift of non-UK situs property immediately prior to the date of their death, the property is included in the donor's estate under the Gift with Reservation of Benefit (GWR) provisions and their estate is subject to IHT at 40%. This applies regardless of whether the gift was made when they were a long-term resident or not.

Similarly, if a settlor of a trust has an interest in the settled property, the property comprised in the settlement is subject to IHT under the GWR provisions if the settlor is a long-term resident at the time of their death.

This is no different to the way that the pre-6 April 2025 GWR provisions were applied to a gift of non-UK situs property by a non-UK domiciled donor, who had reserved a benefit in the gift immediately prior to their death and had since become (and still remained) UK domiciled or deemed to be UK domiciled at the time of their death.

Similarly, if a settlor of a trust can also benefit from said trust, the property comprised in the settlement is subject to IHT under the GWR provisions if the settlor is a long-term resident at the time of their death. For the avoidance of doubt, this does not apply to excluded property comprised in a settlement by 30 October 2024, where the settlor was non-UK domiciled when the property first became comprised in the settlement. Please refer to our briefing on the changes made to the taxation of trusts for more details.

Spousal and civil partner exemption

Under the rules prior to 6 April 2025, transfers between UK domiciled spouses or civil partners were exempt from IHT. Where an individual was UK domiciled and their spouse/civil partner was non-UK domiciled, transfers in excess of £325,000 were within the scope of IHT unless the spouse/civil partner elected to be treated as deemed to be domiciled for IHT purposes. Once an election had been made, the individual was deemed to be domiciled in the UK for IHT purposes only until they had been non-UK resident for four consecutive tax years.

From 6 April 2025, the election rules are amended such that a spouse that is not a long-term resident can elect to be treated as a long-term resident. This election lasts until the individual has been non-UK resident for 10 consecutive tax years. Therefore, an even greater amount of care and consideration is needed before a decision to make such an election is made.

Elections made prior to 30 October 2024 remain in place, with the spouse making the election being treated as deemed to be UK domiciled for IHT purposes until 5 April 2025, and then treated as a long-term resident from 6 April 2025, and until they have been non-UK tax resident for four consecutive tax years.

Elections made on or after 30 October 2024 and before 6 April 2025, are subject to the new rules from 6 April 2025.

Once the election has lapsed, the electing spouse's IHT position is determined as normal in accordance with the long-term residence test.

UK double tax treaties

The UK's 10 IHT double tax conventions remain intact with no changes to the treaties nor to how they operate. However, HM Revenue & Custom has published guidance to say that from 6 April 2025, where a double tax convention operates by reference to whether the UK treats a person as UK domiciled for IHT purposes, a person will be treated as UK domiciled if they are a long-term UK resident.

Where a person has made a spousal or civil partner domicile election or long-term UK residence election, it is disregarded when applying any of the double tax conventions.

Other changes to IHT

As well as the above changes, at the Autumn Budget 2024, the Chancellor announced significant changes to both Agricultural Property Relief (APR) and Business Property Relief (BPR). APR applies to land and property used for agricultural purposes while BPR applies to business assets, including partnership interests and shares in unquoted companies, providing they are not mainly carrying on investment activities.

In addition, pension funds which have not been drawn down or converted into an annuity by an individual are currently exempt from IHT on death, as are death benefits from pension schemes. From April 2027 pension funds and death benefits will be aggregated with an individual's estate and subject to IHT on a taxpayer's death.

More information on these other changes to IHT can be found here.

How we can help

These reforms are wide reaching and significantly impact the inheritance tax position of internationally mobile individuals. We urge any individuals impacted to review their affairs and start conversations with their advisors sooner rather than later.

We provide advice and support to individuals with international tax complexities. We're also part of Nexia, a global network of independent accounting and consulting firms that operate internationally in over 122 countries. This means we can provide you with multi-jurisdictional support to find the right solution.

If you'd like to understand more about this topic and the options available to you, please get in touch.

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