

Trusts - IHT planning

Post spring budget 2024

For Financial Advisers only

Introduction

The purpose of this document is to highlight the announcement in the UK Spring Budget 2024 that the current rules applying to non-UK domiciled individuals will come to an end.

Subject to consultation, the UK government will also look to change the current inheritance tax (IHT) rules from a domicile-based system to a residence-based system from 6 April 2025.

Domicile-based system

Under the current domicile-based system an individual who is UK domiciled or deemed UK domiciled is subject to IHT on their worldwide estate. An individual who is non-UK domiciled is only subject to IHT on their UK situs assets.

Residence-based system

Following the implementation of a residence-based system all UK residents will be subject to IHT on their worldwide estate if they are UK resident for 10 years or more. Under the current rules, the requirement is for a person to be UK resident for 15 out of the last 20 years and so IHT planning will need to be considered much earlier. In addition, the expectation is that a person leaving the UK will remain subject to UK IHT for the first 10 years of non-UK residence and so planning may also be required to mitigate the IHT risk for leavers as well as arrivers.

How will the proposed changes impact the IHT treatment of our Trusts?

- **Loan Trust** – No changes
- **Gift Trust** – No changes
- **Discounted Gift Trust (DGT)** – No changes

The most significant impact will be on our Excluded Property Trust (EPT).

Currently, non-UK situs assets such as IOM Investment Products that are settled into an EPT by non-UK domiciled individuals are excluded property and will not be subject to IHT should the individual later become deemed UK domiciled.

The UK government have confirmed that non-UK assets that are settled into a trust by a non-UK domiciled settlor prior to April 2025 will not be within the scope of the UK IHT regime.

However, non-UK assets settled into a trust by an individual, currently non-domiciled, on or after 6 April 2025, and for any additional settlements into an existing trust, the new residence-based rules will apply and the trust will no longer provide a comprehensive shelter for IHT.

Non-UK domiciled individuals who will or may move to the UK, either temporarily or permanently may wish to consider the use of an EPT before 6 April 2025 when it is expected that the new residence based rules apply.

Information on our EPT and a copy of the deed can be found on our [website](#).

Important notes

For financial advisers only. Not to be distributed to, nor relied on, by retail clients.

This document is based on our understanding of HM Revenue and Customs (HMRC) practice and may be subject to change.