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INHERITANCE TAX AND THE STATUTORY RESIDENCE TEST

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The purpose of this guide is to explain how Inheritance tax is charged in the United Kingdom following changes in the 2024 Autumn Budget.

You should pay particular attention to text marked with this icon.

The information in this guide is based on our interpretation of current legislation and HM Revenue & Customs' (HMRC) practice as at 1 December 2024. This may change in the future. The tax treatment of bonds may also change and is dependent on individual circumstances.

UWS PR 0105 | 01/25

UK INHERITANCE TAX – CHANGES IN THE 2024 AUTUMN BUDGET AND 'LONG-TERM RESIDENCE'

The 2024 Autumn Budget confirmed that a person's liability to UK Inheritance Tax ('IHT') will no longer be dependent on their domicile. Instead, from 6 April 2025 a person's exposure to IHT will be linked to their previous UK tax residence status as determined under the UK's Statutory Residence Test ('SRT').

From 6 April 2025, if a person has been UK tax resident for at least 10 of the last 20 tax years immediately before their death then their worldwide estate will be liable to UK Inheritance Tax. Conversely, if a person has not been UK tax resident for at least 10 out of the last 20 years then their exposure to IHT on death will be limited to UK situs assets only. Note for the purposes of this test, split-tax years still count as a full tax year. The SRT is covered in detail on pages 9 to 11 of this guide.

Note we will refer to this '10 out of 20 year rule' as 'Long-Term Residence' and refer to a person who meets this rule as being 'Long-Term Resident' throughout this guide.

DOMICILE EXPLAINED AND THE PRE-6 APRIL 2025 POSITION

Domicile is a legal concept under common law with the term itself deriving from the Latin word 'domus', which means 'home'. A person's domicile will still dictate a person's exposure to UK IHT prior to 6 April 2025.

There are various types of domicile under UK law although, unlike residence, a person can only be legally domiciled in one country at any particular time. Unlike Long-Term residence, a person's domicile can be difficult to determine, and a person can hold onto a UK domicile despite leaving the UK to live overseas. Under the pre-6 April 2025 rules, various types of domicile existed and in some cases, it may be difficult to ascertain a person's domicile at any time. The change to a residence-based system for IHT purposes removes this uncertainty.

EXAMPLE 1

Fred was born in the UK and has been UK resident all his life, he has no intentions of leaving the UK to live abroad. Fred will have a UK Domicile of Origin and, if he dies before 6 April 2025, his worldwide estate will be subject to UK IHT as Fred is UK domiciled. Similarly, providing Fred is still UK tax resident at his death, his estate will also be subject to IHT on his death under the new rules as he will be a Long-Term Resident. The changes in the 2024 Autumn Budget have had no impact on Fred's exposure to UK IHT.

EXAMPLE 2

Sonia moved to the UAE in 2012 and has lived there ever since. Nevertheless, when taking legal advice in early 2024, she was advised that she remains UK domiciled due to her substantial ties to the UK, including a residential property in London. However, from 6 April 2025 the changes will mean that her exposure to IHT will be solely based on her tax residency status alone. As Sonia is no longer considered to be Long-Term Resident, she will only be liable to IHT on her UK situs property should she die after 6 April 2025- which would include her house in London. The changes in the 2024 Autumn Budget change Sonia's exposure to UK IHT.

LEAVING THE UK AND LONG-TERM RESIDENCE

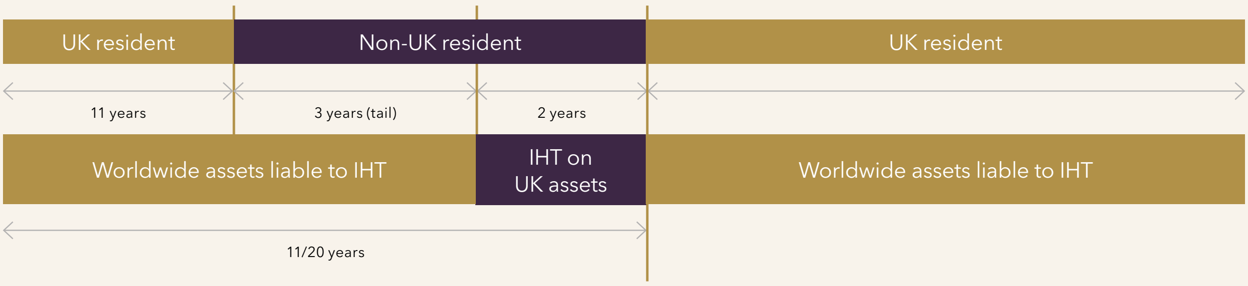
Under the new residence-based IHT rules, a person will remain UK Long-Term Resident for 10 years after they leave the UK if they have been continually UK tax resident for 20 tax years or more. However, for people who have been resident for less than 20 of the previous 20 UK tax years, the length of time required to fall out of scope is tapered as shown in the table below.

Any retained connections with the UK are no longer relevant under the residence-based system, making the residence-based approach much clearer and simpler to understand when compared to the pre-6 April 2025 domicile-based approach.

NUMBER OF TAX YEARS RESIDENT IN THE UK IN THE 20 YEARS BEFORE LEAVING	LENGTH OF TIME TO FALL OUT OF CHARGE
10 to 13	3 Years
14	4 Years
15	5 Years
16	6 Years
17	7 Years
18	8 Years
19	9 Years
20+	10 Years

EXAMPLE 3

John was UK resident for 11 tax years and then lived overseas for 5 tax years before returning to the UK. John's residence status can be shown using the chart below:



As John was tax-resident for 11 years before leaving the UK, he remained liable to IHT on his worldwide assets for 3 full tax years after becoming non-UK resident. He then had two years where he was liable on his UK assets only due to not being Long-Term Resident. Upon his return to the UK he then became liable to UK IHT on his worldwide assets, due to the fact that he was resident in more than 10 of the last 20 years on his return. This example shows how a person's UK IHT liability can change over time under these new rules.

UK INHERITANCE TAX - GIFTS TO INDIVIDUALS AND SETTLEMENTS INTO TRUSTS

MAKING GIFTS TO INDIVIDUALS

From 6 April 2025 a person's previous UK tax residence, rather than their domicile, determines their liability to UK IHT. Where a person is Long-Term Resident (see page 3) at the time a gift is made then they will be subject to IHT if they are not covered by any exemptions, such as the annual or spousal exemption. Gifts to individuals will be regarded as Potentially Exempt Transfers ('PETs') and the gift could fall back into charge for IHT should they die within 7 years of making the gift. Note IHT Taper Relief may be available to the transferee to reduce any IHT payable. However, note that prior to 6 April 2025 the domicile rules will still determine whether someone is in scope for UK IHT when making gifts.

EXAMPLE 4

On 10 November 2025 Charlie makes a gift to his son for £10,000 to help purchase a house. Charlie has already used his annual exemption for the year and at the time of the gift Charlie has been resident for 12 of the last 20 tax years. This gift to his son would be a PET and would be subject to IHT should Charlie not survive 7 years from the date of the gift. Note this gift would still remain chargeable to IHT even if Charlie was no longer Long-Term Resident in the future.

MAKING GIFTS INTO TRUST

If a person settles a trust when Long-Term Resident, then this will be considered a transfer of value for IHT purposes if not covered by any exemption. Where the transfer is to an absolute trust (sometimes referred to as a 'bare' trust) this would be considered a PET whereas a lifetime transfer to any other trust would usually be a chargeable transfer ('CLT').

EXAMPLE 5

Janice has been UK tax resident for 15 of the last 20 tax years and makes a gift to a discretionary trust on 1 August 2025.

As Janice is considered Long-Term Resident at the time she makes the settlement into trust, then this would be a CLT at the time of the gift. Janice may be liable for IHT on the transfer at the time of the gift it if it exceeds her available nil rate band. Further, additional tax may be due should Janice die within 7 years of making the gift.

RELEVANT PROPERTY CHARGES[1] – CHANGES FROM 6 APRIL 2025

Relevant property trusts (discretionary trusts) can be subject to ongoing charges:

1 Where property leaves the settlement ('exit charges') AND

2 Every ten years ('referred to as principal charges' or 'Periodic charges')

A pre-6 April 2025 discretionary trust is in scope for these charges if the settlor was UK domiciled at the time of settlement. If they are non-domiciled at the time of settlement only UK property within the trust will be in scope for relevant property charges.

Under the post-6 April 2025 rules, whether a discretionary trust will be in scope for such charges will be dependent on the settlor's Long-Term Residence status at the time of that charge. Here it makes no difference whether the settlor can benefit from the trust or not, neither does the domicile status of the settlor. This means that, under the new rules, the trust can come in and out of charge depending on whether the Long-Term Residence of the settlor changes.

When calculating these charges, the charges will follow the date of the original settlement, but the trust will be deemed relevant property only from the 6 April 2025 and thus any charges will be apportioned accordingly.

EXAMPLE 6

Marie made a settlement into a discretionary trust on 6 April 2020 when UK domiciled. On 6 April 2030 the trust will have a periodic charge and therefore the trustees will need to determine whether Marie is Long-Term Resident at this date as the settlor of the trust. The trustee determines that Marie is a Long-Term UK Resident at this date and therefore the trust will be subject to a periodic charge. As Marie was UK domiciled when the settlement was made, the period prior to 6 April 2025 is also in scope (based on domicile rules) and therefore the full value of the trust is used to calculate the charges at 6 April 2030.

LEAVING THE UK – EXIT CHARGES[1]

From 6 April 2025, once a settlor is no longer considered Long Term Resident an exit charge will apply. Importantly this exit charge will apply regardless of the fact the trustees are not distributing property.

EXAMPLE 7

Marie in the example above leaves the UK in December 2030. The Trustees determine that Marie is no longer Long-Term Resident from tax year 2034/35 and thus an exit charge will be applicable at this time.

[1] The calculation of these charges is beyond the scope of this document. Please refer to our technical briefing 'calculating and reporting periodic charges' for more details of how these charges are calculated.

UWS PR 0105 | 01/25

EXCLUDED PROPERTY – GENERAL RULES

EXCLUDED PROPERTY

Excluded property is defined in s6 of Part 1 Inheritance Tax Act 1984 (IHTA '84). Property becomes excluded property if it meets the general condition in s6 (1) IHTA '84 in that:

› The property is situated outside the UK

› The person beneficially entitled to the property is not a Long-Term Resident (UK domiciled prior to 6 April 2025)

Certain types of UK property can also be excluded property if held by a non Long-Term Resident. For example, UK authorised unit trusts or shares in an open-ended investment company are excluded property if the person beneficially entitled to it is an individual who is not a long-term UK resident.

Decorations or awards can also be excluded property irrespective of a person's tax residence status and the types of awards that qualify are listed in s6 (1BA) IHTA '84.

For these purposes the UK includes England and Wales, Scotland and Northern Ireland and this is covered in the manual RDRM20060 issued by HMRC.

Where property is situated for legal purposes is a complex matter and will depend on the nature of the property itself. There are broadly two types of property in UK law, Real Property and Personal Property. Personal Property is then further broken down into Choses in Action and Choses in Possession as outlined in the table below:

REAL PROPERTY			This will include property (bricks and mortar), i.e. freehold land.
PERSONAL PROPERTY	CHOSES IN ACTION		This is intangible property i.e. property that cannot be seen or touched and would include the likes of debts, shares, insurance contracts etc. The person has simply a right in law but cannot physically see his/her property.
	CHOSES IN POSSESSION	CHATTELS REAL	Leasehold land and buildings.
		PERSONAL CHATTELS	Any other Chose in Possession and will include tangible property which can be physically seen and touched such as cars, boats, jewellery, furniture etc.

Real property will usually be situated where it is physically located, but the matter is much more complicated for other types of property. For assets such as insurance bonds (which are Choses in Action) they are usually located where the company (the debtor) is resident, although different rules may apply where overseas branches of a UK company are used. A life insurance bond issued by a company in the Isle of Man or Ireland is therefore situated in the Isle of Man or Ireland which are outside of the UK. Similarly, a bank account (which is a debt and therefore a Chose in Action) would usually be situated at the branch of the bank where the account is kept.

EXAMPLE

Tilly has a Spanish domicile of origin and is currently living in Dubai and has been resident there for over 15 years. She is considering moving to the UK with her current employer who has offered her a position in Manchester. Whilst in Dubai she decided to take out a life assurance bond issued by an overseas life company.

If she moved back to the UK prior to 6 April 2025 the bond will be excluded property if she remains non domiciled, as this is non-UK situs property held by a non-domiciled individual.

However, from 6 April 2025 the overseas property will be subject to IHT if Tilly becomes Long Term Resident. As Tilly has been overseas resident for 15 years prior to moving to the UK, the overseas insurance bond will remain excluded property for ten years.

EXCLUDED PROPERTY TRUST CHANGES

EXCLUDED PROPERTY TRUSTS BEFORE 6 APRIL 2025

Before 6 April 2025 it was possible to settle overseas assets into trust and for these to then remain outside of the scope of IHT even if a person became UK domiciled in future. These were colloquially referred to as 'Excluded Property Trusts'.

Importantly, these excluded property trusts were not defined by the terms of the trust itself, but by the nature of the property settled into the trust at outset and the domicile of the person making the settlement.

The conditions of an excluded property settlement were previously set out in s48(3) IHTA 1984 which stated that where a person settles non-UK property into a trust when they were non-UK domiciled the trust would be excluded property. The settlor could also benefit from the trust without breaching the gift with reservation of benefit rules.

CHANGES FROM 6 APRIL 2025

The rules were changed in the Autumn Budget 2024 for trusts established post 6 April 2025.

From 6 April 2025 it will no longer be possible to settle an exclude property trust so that assets remain outside the scope of the UK IHT where the settlor is Long-Term Resident. Instead, trusts settled by non-domiciles will come into scope as per the rules described on page 6, with the trust being subject to IHT based on the settlor's Long-Term Residence.

TRANSITIONAL RULES FOR TRUSTS SETTLED PRIOR TO 30 OCTOBER 2024 – GIFT WITH RESERVATION OF BENEFIT

Furthermore, for trusts settled post 30 October 2024 the trust will be brought into the gift with reservation rules if the settlor can still benefit and is Long-Term Resident. Trusts established before 30 October 2024 do not need to remove the settlor to avoid a gift with reservation of benefit.

COMPARING THE PRE AND POST 6 APRIL 2025 REGIME

Under the pre-6 April 2025 regime, the trust's exposure to IHT was determined at outset and dependent upon the domicile of the settlor and the location of the assets settled into trust. If the settlor was non-UK domiciled, then settlements of overseas assets always remained excluded property unless they were transferred out of trust to the UK resident settlor or beneficiary.

However, the test for domicile meant that it was often difficult to determine whether a person was UK domiciled without taking legal advice. The post-6 April rules abandon the concept of domicile and bring in the concept of Long-Term Residence. However, instead of fixing the nature of the trust at the outset, the new rules mean a trust can come in and out of charge to UK IHT if the Settlor's Long Term Residence changes.

SETTLOR DEATH AND LONG-TERM RESIDENCE

The post-6 April rules look at the settlor's Long-Term Residence to determine the trust's exposure to IHT charges. Where the settlor dies as a non Long-Term Resident, the trust will not be in scope for UK IHT (unless a further settlement is made into trust by someone else). Likewise, if the settlor dies when Long-Term Resident the trust will always be in scope.

<table>
<tr><th>TRUST ESTABLISHED</th><th>GIFT WITH RESERVATION ('GWR') IF SETTLOR INCLUDED AS A BENEFICIARY?</th><th>IHT IF SETTLOR DIES BEFORE 6 APRIL 2025</th><th>IHT CHARGES IF SETTLOR LEAVES THE UK AFTER 6 APRIL 2025</th><th>IHT CHARGES IF SETTLOR DIES AFTER 6 APRIL 2025</th></tr>
<tr><td>Pre-30 October 2024</td><td>No, if they were non-domiciled at the time the assets were settled into trust.</td><td>Trust remains excluded property.</td><td rowspan="3">Exit charges will apply if the settlor's residence status changes from being Long-Term Resident to no longer being Long-Term Resident due to leaving the UK.

The charges would be apportioned from 6 April 2025 and, where there is more than one settlor, would need to be apportioned.</td><td rowspan="3">IHT based on the Long-Term Residence of the settlor at their death so either:

1 Always Relevant property (subject to periodic and exit charges)

or

2 Always Excluded property.</td></tr>
<tr><td>Post 30 October until 5 April 2025</td><td colspan="2">GWR if the settlor(s) can benefit and is (or becomes) Long Term Resident on/after 5 April 2025. Transfers of value (PET/CLT) still based on the settlor's domicile.</td></tr>
<tr><td>Post 6 April 2025</td><td colspan="2">GWR if the settlor can benefit and is Long-Term Resident.

Transfers to trust are chargeable if the settlor(s) is/are Long-Term Resident(s).</td></tr>
</table>

UWS PR 0105 | 01/25

THE UK STATUTORY RESIDENCE TEST

The statutory residence test was first introduced in the Finance Act 2013 (FA 2013) and is a fairly complex set of rules to establish UK residence. The rules are contained in Schedule 45 of FA 2013 and are different depending on whether a person is leaving or arriving in the UK. The rules are designed so it is harder for a person to lose their UK residence status than it is to acquire a UK residence in the first place.

FIRST TEST - AUTOMATIC RESIDENCE TEST (REF SCHEDULE 45 PART 1 FA 2013)

The starting point is to ask whether a person is 'automatically an overseas resident'. A person will be 'overseas resident' where one or more of the following conditions apply:

› **They were resident in the UK in one or more of the last three tax years** before the tax year in question **and have been resident in the current tax year for fewer than 16 days**

› **They were not resident in the UK in one or more of the last three tax years** before the tax year in question **and have been resident in the current tax year for fewer than 46 days**

› **They work abroad for sufficient hours** (average of 35 per week), are resident for fewer than 91 days and, of these days, **fewer than 31 days are UK working days (work for more than three hours a day**).

If a person meets any of these conditions, they are not UK tax resident for the tax year in question. If they don't, then the next point to establish is whether a person is automatically UK resident. Broadly, a person will be automatically UK resident where:

› **They spend at least 183 days** in the tax year resident in the UK

› **They have a home in the UK** and meet the conditions in respect to this home as given in s8 Schedule 45 FA 2013. These conditions broadly require them to have a home in the UK for 91 consecutive days or more, of which 30 days fall within the tax year in question and the person is present in that home for 30 days or more in that tax year. It also requires that, where a person has a home overseas, they are present in that for less than 30 days in the tax year

› **They carry out full time work in the UK** assessed over a period of 365 days and broadly require the person to work for 35 hours or more a week over this period.

If a person meets any of these conditions, they are UK resident for the tax year in question. If they don't satisfy any of these rules, then we need to refer to the final rule. This rule looks at the number of days spent in the UK and compares these to certain 'UK ties'.

SECOND TEST – THE 'SUFFICIENT TIES' TEST

The second test looks at how many 'ties' a person has and then applies a day counting rule against the number of ties. The more days a person has spent in the UK the fewer ties they require to be considered UK resident. Conversely, for a person leaving the UK the more ties they have the more foreign days they require to be considered non-resident.

The leaver and arriver tables are contained in s18 and 19 of Schedule 45 FA 2013. Firstly, we will look at people arriving in the UK which is shown below:

People arriving in the UK

DAYS SPENT IN THE UK	NUMBER OF TIES IN THE UK REQUIRED
46 days or less	Non resident
46-90 days	4 ties
91-120 days	3 ties
121-182 days	2 ties
183 days	Automatically UK resident

Secondly, the table below looks at those leaving the UK:

People leaving the UK

DAYS SPENT IN THE UK	NUMBER OF TIES IN THE UK REQUIRED
16 days or less	Non resident
16-45 days	4 ties
46-90 days	3 ties
91-120 days	2 ties
121-182 days	1 tie
183 days	Automatically UK resident

As the tables above demonstrate, it is more difficult to lose UK tax residency than it is to be considered UK resident under the Statutory Residence Test.

There are then five ties which are assessed against these day counting rules.

TIE	BRIEF DESCRIPTION
FAMILY (s32 Schedule 45 FA 2013)	Partner or children are resident in the UK.
ACCOMMODATION (s34 Schedule 45 FA 2013)	Has a permanent place to live in the UK.
WORK (s35 Schedule 45 FA 2013)	Works for 40 days or more in the UK during tax year.
90 DAY (s37 Schedule 45 FA 2013)	Was present in the UK for more than 90 days in either of the two previous tax years.
COUNTRY (LEAVERS ONLY) (s38 Schedule 45 FA 2013)	Spends more days in the UK in the tax year than any other country.

WHAT COUNTS AS A 'DAY' FOR THESE TESTS?

A day under these tests is counted if the person is present in the UK at midnight. However, there are some exceptions to this rule, such as where a person lands in an airport and their presence at midnight is purely on the basis of transit.

There is also a deeming rule to stop people commuting into the UK to avoid the "at midnight" test. Here a person will be deemed to be resident for the days if they meet all the following conditions:

a. They were in the UK but not present at midnight for at least 30 days

b. They had at least three ties (as outlined on the previous page) in the tax year

c. They had been resident in at least one of the last three tax years.

SPLIT YEARS

It is possible for a person to be deemed UK resident for only part of the tax year. In these circumstances they are only liable to tax on the UK resident part of the tax year. Split year cases are given in s43-45 of Schedule 45 of FA 2013 and are broadly listed below:

Leaving

Case 1 – Starting full time work overseas

Case 2 – Accompanying a partner overseas who is starting full time work

Case 3 – Ceasing to have a home in the UK.

Arriving

Case 4 – Starting to have a home in the UK only

Case 5 - Starting full-time work in the UK

Case 6 – Ceasing full-time work abroad and coming to the UK

Case 7 – Returning to the UK with a partner who was working overseas previously

Case 8 – Starting to have a home in the UK.

UWS PR 0105 | 01/25

STATUTORY RESIDENCE TEST FLOW CHART

Start

My client has been present in the UK for less than 16 days in the current tax year and they have been resident in the UK for one or more of the three previous tax years.

YES → YOUR CLIENT IS NON-RESIDENT

NO

My client has not been resident in the UK for any of the three previous tax years and they have been present in the UK for less than 46 days in the current tax year.

YES → YOUR CLIENT IS NON-RESIDENT

NO

My client works full-time overseas. In the current tax year, they have been present for less than 91 days in the UK and have worked for fewer than 31 days in the UK where they work for 3 hours or more.

YES → YOUR CLIENT IS NON-RESIDENT

THESE THREE QUESTIONS ARE KNOWN AS THE 'AUTOMATIC OVERSEAS TESTS'

NO

My client has spent 183 days or more in the UK in the current tax year.

YES → YOUR CLIENT IS UK RESIDENT

NO

My client has a home in the UK and has spent 91 consecutive days in that home, of which 30 days have been in the current tax year.

YES → YOUR CLIENT IS UK RESIDENT

NO

My client works full-time in the UK.

YES → YOUR CLIENT IS UK RESIDENT

THESE THREE QUESTIONS ARE KNOWN AS THE 'AUTOMATIC UK TESTS'

NO

Your client does not meet either of the conclusive automatic tests and need to determine if they are an arriver to the UK or a leaver from the UK and whether they are considered resident or not.

YOUR CLIENT IS A LEAVER

Next steps: count your client's UK ties and check the number of days spent in the UK[1] this tax year to determine their residency

YOUR CLIENT IS AN ARRIVER

Next steps: count your client's UK ties and check the number of days spent in the UK[1] this tax year to determine their residency

Have you been resident in the UK throughout all of the previous three tax years?

TIE (LEAVERS)	BRIEF DESCRIPTION
FAMILY	Partner or children are resident in the UK.
ACCOMMODATION	Has a permanent place to live in the UK.
WORK	Works for 40 days or more in the UK during tax year.
90 DAY	Was present in the UK for more than 90 days in either of the two previous tax years.
COUNTRY	Spends more days in the UK in the tax year than any other country.

LEAVER	NUMBER OF DAYS	ARRIVER
Always non-resident	Less than 16 days	Always non-resident
Resident only if at least 4 ties	16-45	Always non-resident
Resident only if at least 3 ties	46-90	Resident only if at least 4 ties
Resident only if at least 2 ties	91-120	Resident only if at least 3 ties
Resident only if at least 1 tie	121-182	Resident only if at least 2 ties
Always resident	183 or more	Always resident

OVERSEAS LIFE ASSURANCE BONDS

PEOPLE MOVING TO THE UK TO BECOME LONG-TERM RESIDENT AND TRUSTS

Over the last few years there have been changes to the income tax and capital gains tax treatment of overseas trusts held by non-domiciles. The Autumn Budget announced a simpler Foreign Income and Gains ('FIG') regime for persons who come to the UK (after being non Long-Term Resident), which allows their FIGS to be exempt for four years. However, for people who have unremitted pre-6 April gains, the rules are very complex and are not covered in this guide.

We strongly recommend clients with these types of trust seek specialist advice to understand the impact of the 2024 Autumn Budget changes.

USE OF LIFE ASSURANCE AND CAPITAL REDEMPTION BONDS PRIOR TO BECOMING LONG TERM RESIDENT

A somewhat simpler position occurs with the use of overseas life assurance or capital redemption bonds, as these are not income producing assets and nor do they give rise to capital gains tax on the disposal of linked assets. An overseas life assurance bond is not situated in the UK as explained on page 5 so will be excluded property until such time the policyholder becomes Long-Term Resident.

Furthermore, even if the policyholder becomes Long-Term Resident in future, overseas life assurance and capital redemption bonds are not subject to income tax until a chargeable event occurs which includes where the policy (or policy segments) are surrendered.

Life assurance and capital redemption bonds also benefit from the so called 5% rule, which allows the policyholder to take 5% of the value of the premiums paid each year without creating a chargeable event. This feature can also be very useful for policyholders who may wish to defer a tax charge until a time that they are in, say, a lower tax bracket.

The UK tax position of an overseas bond is well established within UK tax law but should the investor return overseas then, depending upon the jurisdiction in question, the investment bond may also continue to offer valuable tax and estate planning opportunities.

EXAMPLE

Graham has been tax resident in Dubai for over ten years and is moving back to be nearer his family in the UK. He will not be considered Long Term Resident until he's been resident for at least 10 out of the previous 20 tax years, so assuming he stays in the UK, he will not become Long Term Resident for 10 years.

Graham, after taking legal and financial advice, invests in an overseas bond when he arrives back in the UK. Should Graham die within the ten years of arriving in the UK the overseas bond will not form part of his estate for UK IHT purposes. Graham is also able to link the value of the bond to funds that are permissible under UK tax law, which would include collective investment type schemes and cash-type deposits.

Further, as Graham approaches the tenth year he could assign segments to his adult children. Providing these are assigned for no consideration these assignments do not create chargeable events. At this time Graham would also not be considered Long-Term Resident so the assignment would be exempt for IHT purposes. Following the assignment, Graham's children would then be taxed at their prevailing rates of tax and could benefit from the 5% rule and other reliefs such as top-slicing relief.

More information on the taxation of our policies can be found in **A Guide to Taxation for Financial Advisers** which is available from our website **www.utmostinternational.com**

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