

Assets in the UK and Inheritance Tax - Planning Opportunities Available for Certain Individuals

It is important that UK inheritance tax is taken into careful consideration, in particular by individuals who have assets in the UK. This Information Note examines how, with careful planning, some UK inheritance tax obligations can be mitigated for certain individuals.

By **Paul Webb**, 11th July 2025

Background

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This Information Note examines how, with careful planning, some UK inheritance tax obligations can be mitigated for certain individuals.

What is UK Inheritance Tax?

UK inheritance tax (IHT) is a tax on money or assets held at death, and on some gifts made during a lifetime (most importantly those gifts made less than 7 years prior to death).

A certain amount can however be passed on tax-free. This is known as the 'tax-free allowance' and/or the 'nil rate band'.

Each individual has a tax-free inheritance tax allowance of £325,000. This allowance has remained the same since 2010/11.

On death, inheritance tax in the UK is at a rate of 40%.

Additional Nil Rate Allowance

Individuals, with an estate value greater than their tax-free allowance of £325,000, due to the value of their home, may be able to take advantage of an additional tax-free allowance known as the residence nil rate band (RNRB).

This additional tax allowance is worth up to £175,000 (2025/26), and is available when an individual's main residence is passed to their children or grandchildren.

Does UK Inheritance Tax Apply to a Non-UK Tax Resident?

Inheritance tax applies not only to the UK residents but also to non-UK residents.

However, the scope of IHT is limited in case of non-residents. For non-residents, inheritance tax is normally chargeable only on assets situated in the UK which would include UK land and buildings, UK shares and securities, UK bank accounts etc. Non-residents are not typically chargeable to UK IHT on their non-UK assets unless they have become long term UK tax resident (i.e. they have been tax resident in the UK for at least 10 out of the last 20 tax years)

From 6 April 2025 an individual who has become long term UK tax resident will be subject to UK IHT on their worldwide assets (subject to the operation of a limited number of estate duty treaties).

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.

An individual's long term residence status will 'reset' once they have been non-UK resident for 10 consecutive tax years.

As is often the case, a complex set of laws is best considered through explanatory examples.

Explanatory Examples

Tom is an Australian citizen, he was born in Australia and has always lived and worked there. He is no long term resident in the UK and has a net worth of £5m. He is divorced with one child aged 19.

Tom's child, Harry, chooses to study at a university in the UK and Tom is aware that UK real estate has, over the last few years, shown some good returns.

Tom purchases a property in his sole name, mortgage free, near to his son's university in the UK for £500,000, for his child to live in while studying in the UK.

Planning opportunity – 1

Even though Tom is not UK tax resident, any assets that he has in his own name situated in the UK are subject to UK inheritance tax on his death. If Tom dies while owning the property, leaving his whole estate to Harry, there will be a tax liability of £70,000 on his death. This is 40% of the value of the property above the £325,000 nil rate band, assuming that Tom has no other UK assets.

- Tom could have considered purchasing the property jointly in the name of himself and his son. Had he done so, on his death, the value of his UK asset would have been £250,000. This is below the nil rate band threshold and therefore no UK inheritance tax would be payable.

Planning opportunity – 2

Tom is getting close to retirement and decides to move to the UK to be with his child, who has settled in the UK after finishing university. He sells his Australian home but keeps his Australian bank accounts and other investments and is still considering that he may return to Australia at some point in the future. He sends £1m over to a newly opened UK bank account before moving to the UK, to live on, once in the UK.

- Tom would be better advised to remit these funds to a tax neutral, sterling jurisdiction, such as the Isle of Man. If Tom was to die before becoming long term resident for UK inheritance tax purposes, these funds would then be outside the inheritance tax net.
- By structuring such an account correctly, Tom could tax advantage of the UK's Foreign Income and Gains (FIG) regime and thereby avoid any obligation to pay income tax on the funds for up to 4 years of residence. Please contact Dixcart to take advice on this topic, prior to moving to the UK.

Planning opportunity – 3

Tom dies having lived in the UK for 25 years of his retirement. He leaves his whole estate to his son. As Tom was long term resident at death, his entire worldwide estate, not just his UK situated assets, will be subject to UK inheritance tax at 40%, except for the nil rate band at the time of his death. If his estate is still worth £5m, the inheritance tax payable will be £1.87m at current rates and nil rate band.

- Before Tom became long term resident in the UK, he could have arranged for any non-UK assets he still had, to be transferred to Harry. This would place those assets outside his UK estate for UK inheritance tax purposes.

Summary and Additional Information

UK inheritance tax is a complex issue. In particular for individuals with assets in the UK. Careful consideration and advice need to be taken regarding the best manner to structure the holding of these assets and drafting of UK Wills to ensure your wishes are reflected accordingly.

Advice should be taken as early as possible and should be reviewed regularly, to allow for any changes in the law and/or family circumstances.

If you require additional information on this topic, please contact the Dixcart office in the UK: advice.uk@dixcart.com

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