

Long Term Residence & UK IHT

OCTOBER 2025

Long-Term Residence and Inheritance Tax (IHT): Key Changes from April 2025

The Shift to a Residence-Based IHT System

From 6 April 2025, UK inheritance tax (IHT) rules underwent a fundamental shift. Instead of focusing on an individual's domicile status, the new system determines liability based on UK residence history.

Under the new rules, an individual will be subject to IHT on their worldwide assets once they have been UK tax resident for at least 10 out of the previous 20 tax years. These individuals are referred to as long-term residents (LTRs). UK situs assets continue to be subject to UK IHT regardless of an individual's domicile or residence.

The IHT "Tail" — Continued Exposure After Leaving the UK

Even after leaving the UK, LTRs will remain within the IHT net for several years. Depending on how long they lived in the UK before departure will determine the length of their "tail":

Years of residency	IHT Tail
10-13 years	3 years
14 years	4 years
15 years	5 years
16 years	6 years
17 years	7 years
18 years	8 years
19 years	9 years
20 years +	10 years

After a full 10 consecutive years of non-residence, individuals will no longer be classed as LTRs for IHT purposes. Whilst this timeline may not be such a shock for British individuals who historically had to establish a domicile outside the UK to be outside IHT on foreign assets, for previous non-doms, this is a big shift. Before they only had to be non-resident for three years to fall outside IHT, but this could now increase to 10 years.

Trusts and Inheritance Tax

The new rules will also affect trusts. Historically, whether a trust was subject to IHT was based on the domicile of the settlor at the time the trust was settled. From April 2025, the trust's exposure to IHT will be based on the long-term residence of the settlor. Key points are as follows:

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OCTOBER 2025

- Trust assets may face IHT charges of up to 6% at each 10-year anniversary or when assets leave the trust (known as an Exit Charge) if the settlor is a LTR and regardless of the situs of assets
- If a settlor ceases to be a LTR, this can itself trigger an IHT exit charge on trust assets
- Grandfathering provisions were introduced for certain trusts created before 30 October 2024, which mainly protect against the gift with reservation of benefit rules, discussed in more detail below

Gift with Reservation of Benefit (GROB) Rules – Offshore Trusts

The Gift with Reservation of Benefit (GROB) rules are anti-avoidance rules that can mean the value of assets remain in a donor's estate for IHT, even when gifted away. The key changes are as follows:

- Previously, foreign assets placed into excluded property trusts by non-doms were typically outside the GROB rules
- From April 2025, if the settlor is a LTR and retains a benefit (e.g. remains a beneficiary), the gifted property may remain within their estate for IHT purposes
- Transitional relief applies: foreign assets settled into trusts before 30 October 2024 will not be caught by GROB, provided grandfathering conditions are met

Transitional Rules for Non-Doms

For non-domiciled or deemed domiciled individuals who are non-UK resident in 2025/26, special transitional rules apply. Instead of being subject to the new IHT tail of up to 10 years, they will still be subject to the historic rules, whereby they would lose their deemed UK domicile after three years.

Why These Changes Matter

The move to a residence-based IHT system brings clarity in relation to exposure to IHT, and has also opened up a wider range of options when considering succession planning particularly for long-term British expats.

For those who were previously non-dom and remain in the UK, or have not left prior to the 2025/26 tax year, particularly those with trusts, then consideration should be given as to how their worldwide IHT exposure can be managed.

Professional advice is essential to manage exposure, particularly for those with cross-border estates or long-standing trusts.

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