

The Residence Dilemma: Why UK Inheritance Tax Follows You Abroad

One of the most persistent misconceptions among internationally mobile families is that leaving the UK ends their UK inheritance tax exposure. For many families, it does not, at least not immediately, and not in the way most people assume. Understanding how the rules actually work is one of the most important conversations in cross-border wealth planning, and one of the most frequently left too late.

How the Residence-Based System Works

Under the residence-based system introduced in April 2025, UK inheritance tax exposure is determined by residence rather than domicile (albeit it does exist in some legacy trust cases). Individuals who have been UK-resident for at least 10 of the previous 20 tax years are treated as long-term residents and become subject to UK IHT on their worldwide assets.

The detail that catches most families out is this: the rules do not simply switch off the moment you leave. If you have been UK-resident for 10 years, you are already within scope for the following year, regardless of where you are living. Year 10 of UK residence pulls year 11 into the regime automatically, even if that entire year is spent outside the UK. For those looking to avoid becoming a long-term UK resident, they must consider becoming non-resident in Year 9 (or from the start of year 10). For families with significant assets, the timing of departure relative to this threshold is a material financial decision.

The IHT Tail

The exposure does not end at year 11. The residence-based system includes a tail period during which deemed long-term resident status continues for IHT purposes after departure. The length of that tail depends on how many years of UK residence preceded it.



| 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 |

For a family who has been UK-resident for 20 years, leaving the UK does not end their worldwide IHT exposure for a further decade. Planning around this tail is not optional. It is central to any serious cross-border succession strategy.

UK Situs Assets: The Exposure That Never Leaves

While the tail period governs exposure on worldwide assets, it is important to understand that UK situs assets, property, certain investments and other assets physically or legally located in the UK, remain within the scope of UK IHT regardless of the owner's residence or the length of time since departure. For families who retain a UK property, UK situs investments or maintain other UK-connected assets after leaving, the IHT exposure on those assets is not time-limited. It is permanent.

This distinction matters enormously for planning. A family that has exited the tail period and believes their UK IHT exposure has ended may still carry a significant liability on assets they have retained in the UK. That liability requires its own solution, separate from the planning that addresses the tail.

Using Life Insurance to Address the Exposure

For families sitting inside the IHT regime, structural planning around trusts and asset location takes time to implement and time to take effect. Life insurance provides an immediate and practical solution that can be put in place while that longer-term work is carried out.

For families leaving the UK with a long tail in-front of them, a life insurance policy written in trust can cover the worldwide IHT exposure for the duration of the tail period. Arranging this before departure, while the individual is still UK-based and the full range of providers remains accessible, is considerably more straightforward than attempting to do so from abroad.

For families retaining UK situs assets after departure, it may be that a whole of life policy written in trust is the appropriate solution here, providing permanent cover for a liability that does not diminish over time.

It might be that a combination of term and whole of life policies are needed to cover the specifics of an individual's case.

A Multi-Year Process, Not a One-Off Event

UK inheritance tax planning for internationally mobile families is a multi-year process. The conversations that make the most difference are almost always the ones that happen earliest, it may be that immediate action is not required, but it ensures that at points that planning is likely required (in advance non-residence/before 10 years of residence), the plans are in place to put into action.

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