
BULLETIN

Mitigating UK IHT: Strategic Wealth Planning for British Expatriates

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The decoupling of UK inheritance tax (IHT) from domicile provides UK expatriates and their advisers with a world of new planning opportunities to mitigate UK tax and probate, whilst significantly enhancing their clients' financial position.

Current research confirms the scope of the issue, as UK expatriates have been found to have extensive exposure to UK situs assets. For example, UK expatriates are estimated to own £650 billion in residential property and £66 billion in individual savings accounts (ISAs) alone. Although no data is available on the value of investment portfolios, long-term life policies, or UK bank accounts, it is widely accepted that up to 73% of UK expatriates have retained UK-based accounts that receive UK investment income.

For British expatriates who are no longer UK residents, holding wealth in the UK exposes them to unnecessary taxation - whether through capital gains tax (CGT) on property sales, income tax on UK-source income, or IHT on UK situs assets. The latter are charged at rates of up to 45% and 40%, respectively.

Mitigating Tax on Expatriate Wealth

By removing assets from the UK - or exposure to UK situs assets - and placing them in a tax-neutral jurisdiction, it is possible to mitigate taxes on the one hand, and improve the efficiency of wealth management and wealth transfer on the other.

However, several matters need to be considered when extracting wealth from the UK to avoid triggering unnecessary tax or creating a new, less favourable tax position.

This article explores two strategies to remove unnecessary UK IHT exposure, generate income free of UK tax, and enable the seamless and efficient succession of wealth. Where appropriate, their application to long-term UK residents is also considered.

Qualifying Non-UK Pension Scheme (QNUPS): A One-Step Strategy

The contribution of assets into a QNUPS - or the proceeds from their sale - is generally not regarded as a chargeable transfer for UK tax purposes.

Therefore, utilising a QNUPS is particularly beneficial for expatriates, whether they are long-term UK residents or non-residents, as it enables them to move assets - UK-based or otherwise - including cash, shares, and collectives, directly into an offshore environment without triggering a UK CGT or IHT charge. This simplicity makes the process both straightforward and highly tax-efficient. Once assets are in the QNUPS, additional benefits may also be gained.

QNUPS - Key Benefits

- **Chargeable Transfers:** The contribution of assets (UK situs or otherwise) does not trigger transfer charges for UK IHT.

- **No UK CGT on Entry:** Transferring assets into a QNUPS does not trigger CGT (under Section 271 of the Taxation of Chargeable Gains Act 1992).
- **IHT Mitigation:** For non-residents, IHT removal is immediate; for long-term residents, the benefits remain in place until 2027.
- **Preserves Nil Rate Band:** Contributions do not erode an individual's UK nil rate band, freeing it for other planning purposes.
- **Tax-Efficient Growth:** Investments typically grow tax-free within the pension, while withdrawals can be optimised for local tax efficiency.
- **Succession Simplified:** QNUPS are not subject to UK probate or succession rules, which allow for the smooth and efficient transfer of wealth.
- **Flexible Structuring:** Death benefits can be paid into a trust to manage tax exposure for UK-resident beneficiaries and to support future succession planning.

Offshore Trusts: A Two-Step Strategy

For non-UK resident expatriates with UK situs assets seeking to manage wealth across generations or desiring greater flexibility than a pension offers, an offshore trust can be highly effective. The process involves two key steps:

1. **Step 1 - Remove UK Situs Assets:** Sell UK assets (e.g., property), or transfer them (if possible) to an offshore account in the expatriate's name, typically in a tax-neutral jurisdiction like Guernsey.
2. **Step 2 - Settle into an Offshore Trust:** Once no longer UK situs, assets can be settled into an offshore trust without triggering IHT charges.

Key Benefits

- **IHT Mitigation:** Non-UK assets held by a non-resident trust fall outside the scope of UK IHT.
- **Preserves Nil Rate Band:** The individual's UK nil rate band is free for other planning.
- **Tax-Efficient Growth:** Investments typically grow tax-free within the trust, and withdrawals can be tax-optimised locally.
- **Full Flexibility:** The trust can look after multiple beneficiaries, with distributions timed or structured for tax efficiency.
- **Asset Protection:** The trust protects assets from claims and political risk to safeguard wealth.
- **Returning to the UK:** Trust income may qualify for Foreign Income and Gains (FIG) relief, and IHT exemption may apply for up to 10 years.

Conclusion

The shift to a residency-based approach for UK IHT has created an ideal opportunity for expatriate advisers to reshape their clients' affairs, delivering significant and immediate savings.

Strategies involving offshore trusts and pensions further enhance a client's position, resulting in meaningful tax benefits while ensuring excellent asset preservation and protection, seamless succession, and - importantly - greater certainty and peace of mind for clients and their families.

In Case You Missed it

In case you missed it, read our article on *Succession Planning for British Expatriates: The Critical Interplay Between SIPPs, Foreign Pensions and Offshore Trusts* by clicking [HERE](#).

Contact Us

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