

UK Inheritance tax changes following the 2024 UK Autumn Budget

New Inheritance Tax (IHT) Residence-Based Regime (Effective 6 April 2025)

1. **Current position:**
 - i. UK assets are always within the scope of UK IHT.
 - ii. Non-UK assets are within the scope of UK IHT if the individual is UK domiciled or UK deemed domicile.
2. **The IHT Scope for New Arrivals under new rules:**
 - i. Non-UK assets of new UK residents will be exempt from IHT for the first 10 years of UK residence.
 - ii. After 10 years, they will be considered Long Term Residents and UK IHT will apply to their worldwide assets.
3. **'Tail Provision' for Departing Residents:** Individuals will remain within the IHT net for a period after ceasing UK residence and the duration of this period depends on prior UK residency:
 - i. 3 years for those resident between 10 to 13 of the previous 20 tax years.
 - ii. Increases by 1 year per additional year of UK residence, up to a maximum of 10 years.
4. **Reset of Long-Term Residence:** Returning individuals who have been non-UK resident for 10 consecutive years will have their long-term residence status reset, even if they previously met long-term criteria.
5. **Long-Term Residents:** Long Term Residents will be within the scope of UK IHT on their worldwide assets.
6. **Transitional rule:** Those who are neither UK resident nor UK domiciled in 2025/26 will only be treated as long-term residents if they meet the current conditions to be deemed-UK domiciled.
7. Broadly, this requires an individual to have been UK resident for 15 of the previous 20 UK tax years and for one of the four UK tax years ending in the current tax year.
8. If those individuals resume UK residence the new IHT rules for determining long-term residence status will apply to them.

Inheritance Tax (IHT)

9. The IHT nil rate band (£325,000) and residence nil rate band (up to £175,000) remain frozen until 2030, the rates of tax remain unchanged, and the rumoured concept of a gift tax was not mentioned.
10. Changes were introduced to business relief and agricultural relief. Currently, businesses and farms, including shares in unquoted trading companies, trading partnerships and agricultural businesses meeting certain conditions can qualify for 100% relief from IHT. The aim of these reliefs is to ensure the survival of family-owned businesses and farms following the death of the owner, without the need to sell the assets to pay the IHT liability.
11. With effect from 6 April 2026, these reliefs will be reduced significantly with the 100% relief limited to the first £1m of combined value of agricultural and business property. Above that limit, relief will be restricted to 50% giving an effective tax rate of 20%.

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12. This £1m allowance will cover the value of an estate at death, failed lifetime gifts (due to the death of the donor within seven years) and chargeable lifetime transfers such as transfers into trust.
13. Assets currently qualifying for the lower 50% relief, for example personally owned assets used in the business, will continue to qualify for relief at 50%.
14. The government has confirmed that the scope of agricultural property will be extended to include land managed under environmental schemes from 6 April 2025.
15. Also, from 6 April 2026, shares held in a business quoted on the Alternative Investment Market (AIM) will not be eligible for the £1m allowance and will only qualify for relief at 50%.

Pensions

16. With effect from 6 April 2027, most unused pension funds and death benefits will come within an individual's estate for IHT purposes.
17. Currently, unused pension funds can be passed to beneficiaries without an IHT charge. Broadly, there is generally no tax on the payment of the monies to a beneficiary if the deceased was under 75 and tax will be payable at the recipient's marginal rate of income tax if the deceased was over 75.
18. As an example, Mr Smith dies at the age of 70 and has unused pension funds of £100,000.
 - i. Current rules: No IHT payable, no income tax payable by the beneficiary. The beneficiary receives £100,000.
 - ii. From 6 April 2027: IHT payable of up to £40,000, no income tax payable by the beneficiary. The beneficiary receives £60,000.

Have questions?

Please feel able to contact us if you have any questions regarding your tax affairs.

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