Technical

Friends Provident International

Using Term Assurance to protect against UK 'Tax Tail'

For financial advisers only

New rules

In April 2025, the concept of Domicile as it applies to UK Inheritance Tax (IHT) was abolished and replaced by a new residence based system.

Anyone who is treated as a UK Long Term Resident is subject to UK IHT on the value of his or her worldwide estate. The definition of a UK Long Term Resident is someone who has been tax resident in the UK under the statutory residence test for 10 out of the last 20 years.

If caught, that person will be subject to UK IHT on their worldwide assets, not just those situated in the UK.

Everyone has an IHT free amount called the Nil Rate Band (NRB) which is currently £325,000. Where a persons total assets exceed this, unless they are able to take advantage of the available exemptions/reliefs, IHT is charged at 40% on the amount which exceeds the NRB.

Tax Tail

Individuals who are UK Long Term Resident and emigrate to another country, will now remain within the scope of IHT for up to 10 years as follows:

Tax years UK Resident out of the previous 20	IHT Tail (Years)
10-13	3
14	4
15	5
16	6
17	7
18	8
19	9
20+	10

Protecting your estate against IHT

Term Assurance is a very simple and cost effective product which could be used to mitigate a potential IHT liability should an individual pass away during the period of time that they remain linked to the UK.

Case study

James has been resident in the UK for the last 18 years and has recently moved to Dubai. He plans to remain there for the foreseeable future.

He has worldwide assets valued at £800,000 which if he were to pass away during the next 8 years would result in the following IHT liability:

£800,000 less £325,000 X 40% = £190,000

To avoid the executors of his estate having to fund the tax liability from his assets, James decides to take out an FPIL IPME+* with an 8 year term insuring his life for £250,000 to protect against the value of his assets increasing during the next 8 years. The policy is written into an FPIL simple free trust structure to avoid the value falling back into his IHT assessable estate.

* Please refer to the full product terms and conditions.

Outcome?

The executors of James' estate would be able to cover his IHT liability should he pass away whilst still retaining UK Long Term Residence Status. As the policy is written into a simple trust structure, there is no requirement for the estate to obtain probate before accessing the policy death benefit. This enables any IHT liability to be settled quickly and efficiently without having to first obtain probate for other assets which could be a lengthy process.

Key IHT Figures

£325,000	The nil-rate-band (NRB), up to which no IHT is chargeable.
40%	The amount that IHT is payable above the NRB.
6 Months	The period in which the IHT bill must be paid.

Important notes

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The tax treatments and information contained in this document are based on our understanding of current tax law and HM Revenue and Customs (HMRC) practice and may be subject to change in the future.

FPITECH023a 05/25