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GUIDE TO UK INHERITANCE TAX FOR EXPATS

Inheritance tax is the tax which is paid on an estate when the owner of that estate dies. Depending on certain criteria, the tax may also be payable on gifts or trusts made during that person's life.
Typically, inheritance tax is paid by the executor using funds from the estate of the deceased. Trustees with assets in a trust are usually responsible for the payment on inheritance tax in that trust and sometimes people may have to pay inheritance tax on gifts received. However, the payee of inheritance tax is dependent on a number of factors, and each circumstance may affect who should pay the inheritance tax owed.

Are British expats and non-residents liable for UK inheritance tax?

Even if you are an expat living outside of the UK, you will still be subject to inheritance tax in the UK if you are deemed to be of a UK domicile status. If you are UK domicile and your estate is valued at over £325,000 your estate will be subject to inheritance tax - 40% on the amount over the threshold. Since 2007, this threshold has increased to £650,000 for married couples and civil partners, providing the executors transfer the first spouse/partners unused inheritance tax threshold to the second partner when they die.
It is essential to understand that being classed as non-resident in the UK for tax purposes, as your domicile is unlikely to have changed, you will still be liable for UK inheritance tax.
If you have a non-domicile status in the UK, only UK based assets will be liable to inheritance tax in the UK.

Mitigating UK inheritance tax as an expatriate

Inheritance tax is commonly defined as a tax on people who fail to plan their estate tax efficiently. With careful planning, it is possible to legally avoid a significant amount of inheritance tax in the UK.
In a nutshell, there are two primary methods for expats to legitimately avoid UK inheritance tax and ensure you can pass on as much as your estate to your heirs as possible.
Firstly, and most difficult, is to change your country of domicile away from the UK.
Secondly, and you can protect your estate from inheritance tax by moving them into tax efficient financial structures.

Changing your country of domicile

While there is no single legal definition of your country of domicile, it will often be established according to three factors:

- where you were born,
- if you have assets in that location,
- and where your father was born.

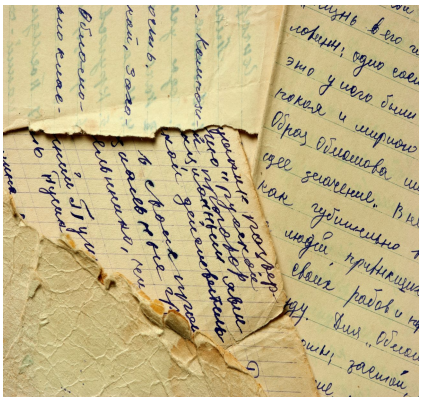
When it comes to determining your country of domicile, the tax man will interpret the conditions and draw their own conclusion about whether you are still domicile in the UK.
Due to inheritance tax being such a major revenue earner for the UK government, changing your domicile can be a difficult and stressful process - and even then your efforts may not be considered enough.
Changing your domicile tax status requires much more than simply showing that you now live abroad, you also have to be able to prove that you have no intention of returning to your original country of residence. You can attempt this in a number of ways, including:

- Relinquishing your UK passport,
- Severing all links with social organisations and join new organisations in your country of residence,
- Purchase property in your country of residence and selling all your UK based property,
- Closing UK bank accounts.

However, as it is the preserve of the UK tax man when it comes to determining whether your country of domicile has changed, this is the less recommended of the two approaches. Of course, you may also then be subject to inheritance tax in your new country of domicile.

Protecting your assets from inheritance tax

Avoiding inheritance tax can be a very complex process if you decide to proceed without any advice or assistance and therefore you should always seek advice from a tax adviser who will be able to talk you through each of your options.



If you believe your estate is worth more than £325,000 (and considering the rise in UK house prices the number of people reaching this threshold is growing by the week), through the use of a number of tax efficient financial structures you can not only avoid inheritance tax but also potentially increase the final value as well. For example, setting up trusts for life assurance payouts, payment of gifts (one off or regular) and transferring your pension funds to a QROP can help you mitigate inheritance tax liabilities.

SUMMARY

Inheritance tax is no longer the 'voluntary' tax it was once considered. However, careful planning to ensure you take advantage of all the allowances and reliefs available could save you a lot of money relatively easily. It is never too early to start.

We hope you found the information in this guide useful and informative. If any of the points are of interest, or you would like to discuss your own situation in more detail, please get in touch.

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