Friends Provident International

UK IHT for a individuals with UK situs assets

For financial advisers only.

This guide looks at how an individual who holds UK situs assets could use a life insurance policy or capital redemption policy to reduce a potential UK inheritance tax (IHT) liability.

Investing in an asset that is situated in a different jurisdiction to where an investor is resident or domiciled can sometimes have unexpected consequences. Such assets are known as 'situs assets' and could give rise to a potential IHT liability in the country where they are situated.

What is a UK situs asset?

For the purposes of UK IHT, all assets are potentially within scope if they are UK Situs (place they are located), this includes shares unless they are excluded property. In relation to a share (i.e. inscribed and registered security), its location is the place where the title of ownership must be registered.

What is the current UK IHT situation?

An individual that is treated as a UK long term resident is subject to UK IHT on their worldwide estate regardless of where they are physically resident. An individual that is not treated as a UK long term resident is generally only subject to UK IHT on their UK situs assets.

Where IHT is applicable it is levied on death at a standard rate of 40% on the value of the chargeable estate that exceeds the available nil rate band.

How could transferring UK situs shares to a policy of life assurance or capital redemption help?

An in-specie transfer of UK situs shares into a policy could reduce or eliminate any liability to UK IHT for individuals that are not treated as a UK long term resident, which could otherwise be assessable on the deceased's estate. An in-specie transfer is not a gift for UK IHT purposes and therefore there are no IHT implications upon disposal.

Once the shares have been transferred into the policy they are held in the name of the insurance company. The policyholder is deemed to have relinquished all their legal and beneficial rights to those assets. Therefore, the value of these assets are not assessable to UK IHT.

Other considerations

Whilst the transfer of the UK assets into the policy would be a disposal for Capital Gains Tax (CGT) purposes, CGT is not typically applicable in the UK for non-UK resident individuals unless the shares are directly or indirectly linked to UK real property or connected with a trade or business in the UK. However, CGT may still be applicable in the jurisdiction that the non-UK individual is currently resident.

Important notes

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FPITECH017c 04/25