

INSIGHTS

Budget 2026 – Spotlight for offshore trustees

No significant changes, but as ever contained in the fine print, are some alterations that offshore trustees and advisers should be aware of.



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With the UK Government's Personal Tax Offshore Anti-Avoidance Legislation Review ongoing, and with material legislation changes not expected until at least 2027/28, the 2026 Budget contained relatively few measures affecting offshore trustees and advisers.

However, there were some noteworthy announcements concerning;

1. Protected Cell Companies,
2. A new CGT relief for temporarily UK resident trusts,
3. IHT restrictions on certain debts of trusts,
4. UK income tax rates for rental profits and savings income.

TRIDENT TAX

Protected Cell Companies

Under the Capital Gains Tax (CGT) attribution provisions that apply to non-UK resident close companies (where corporate gains are not protected by the CGT Motive Defence), there was ambiguity in the legislation related to protected cell companies and other structures.

The CGT attribution provisions treated a participator (e.g. an individual, trust or other entity) as having received a proportion of a gain that arose within a company in reference to the participator's interest in that company. Attribution, however, only took place where a participator was entitled to more than 25% of the gains arising at company level.

For protected cell companies and other similar structures then, in theory it was possible for a participator to be entitled to 25% or more of the gains arising in a cell, but less than 25% of the gains of the company as a whole, therefore avoiding the effects of the CGT attribution provisions.

The s.3 TCGA 1992 legislation will be amended and clarified such that from 28 October 2026, attribution will take place on a cell by cell basis where;

- the cell would be a close company if it were resident in the UK,
- the participator is entitled to more than 25% of the gains arising in the cell.

Not a Budget 2026 announcement, but worth highlighting again that there are already anti-avoidance provisions related to protected cell companies for share disposals after 29 November 2025, where a cell holds an interest in UK land. These provisions can result in a UK CGT charge for the shareholders.

CORPORATE DIRECTORS OF PROTECTED CELL COMPANIES OR SIMILAR STRUCTURES AND TRUSTEES WITH STRUCTURES THESE ENTITIES SHOULD REVIEW THEIR POSTION TO UNDERSTAND WHETHER THIS CHANGE WILL IMPACT;

- **THE WAY THAT PARTICIPATORS ARE TAXED ON GAINS ARISING AT CELL LEVEL,**
- **THE WAY THAT TRUST STOCKPILED GAINS POOLS ARE COMPUTED.**

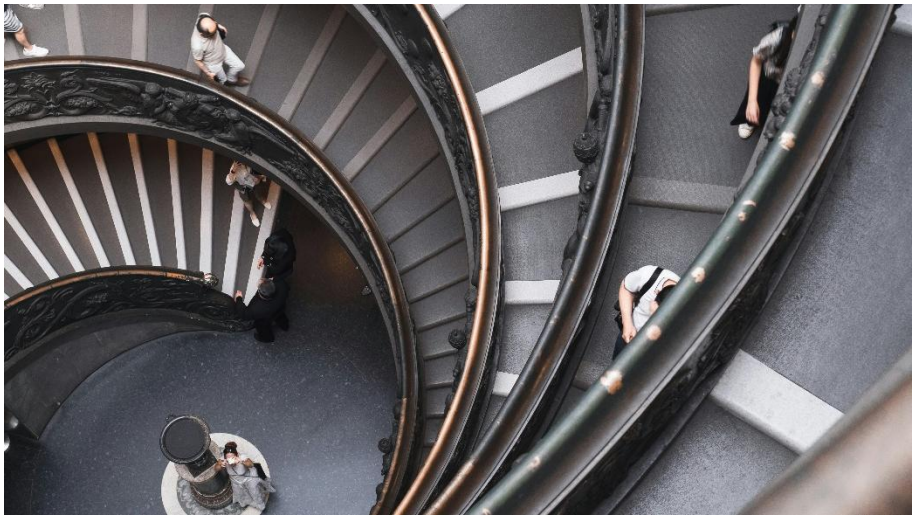
New CGT relief for temporarily UK resident trusts

Whether a Trust is UK tax resident (and therefore is within the scope of UK income tax and CGT) or not depends on a number of factors; including the residence status of the trustees, and in certain cases the residence and domicile status of the settlor.

Where a Trust is UK tax resident, but becomes non-UK tax resident, for tax purposes there is a deemed disposal of all trust assets at market value and therefore a CGT exit charge to the extent that gains arise because of the deemed disposals.

A new relief has been announced for trusts which become UK tax resident, but cease to be UK resident either later in the same tax year, or in the following tax year. It is understood that the relief will prevent the CGT exit charge from arising.

The policy paper published following the Budget explains that the new relief will *"help trustees move to the UK sooner than otherwise would have been the case, helping the UK become a leading destination for globally mobile talent."*



In addition to enabling trustees to relocate temporarily to the UK without the barrier to entry of a CGT exit charge on Trust assets, it is anticipated that the new relief should apply to trusts who inadvertently or accidentally become UK tax resident for example on death of a current trustee.

Draft legislation has not yet been published, and therefore further detail is to follow regarding the qualifying conditions, operation of the relief and whether a claim will be required, however we understand that it will be introduced in the Finance Bill 2026/27.

THIS APPEARS TO BE A WELCOME RELIEF FOR TRUSTEES. IT ALSO HIGHLIGHTS THE IMPORTANCE FOR PROFESSIONAL TRUSTEES OF UNDERSTANDING WHERE OTHER NAMED TRUSTEES ARE TAX RESIDENT, AS IT COULD IMPACT THE TAX RESIDENCE STATUS OF THE TRSUT ITSELF

Inheritance Tax (IHT) restrictions on certain debts

For trusts that are within the relevant property regime for UK IHT purposes, there are changes effective from 28 October 2026 aimed at ensuring liabilities relating to trust property are consistent with the wider IHT regime, countering the artificial suppression of the value of assets.

The changes include;

1. Statutory provisions and clarification on liabilities incurred by trustees when valuing relevant property assets.

2. Provisions that seek to ensure trustees are subject to the same restrictions in the deductibility of liabilities as individuals where borrowed funds are linked to excluded property or property that qualifies for an IHT relief.

3. Restriction in the deductibility of liabilities where assets are settled into trust (reducing the value of an individual's IHT estate) and the trust borrows using value derived from those same assets.

These changes will be relevant for interest in possession trusts and trusts within the relevant property regime who have borrowings.

IN ADVANCE OF AN IHT EVENT, THERE WILL BE MERIT IN TRUSTEES REVIEWING, EXISTING LOAN AND BORROWING ARRANGEMENTS WHERE AN IHT DEDUCTION FOR THAT DEBT IS EXPECTED TO BE AVAILABLE.

UK income tax rates for rental profits and savings income

It is worth highlighting that the rates of income tax that will apply for Trustees on rental profits and savings income will be increased to 49% from 6 April 2027.

THIS WILL IMPACT;

- UK resident trusts,
- Non-UK resident trusts with UK rental income, and those with UK savings income which is not disregarded because there is a UK tax resident beneficiary.

Please contact us now to discuss how these provisions impact your Trusts and structures.

Want to know more?



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