Nasser and his family live in Qatar. He owns a UK property via an offshore company and he's been reading about the recent changes to the Annual Tax on Enveloped Dwellings (ATED). He wants to take action to avoid paying further ATED but doesn't want to make the mistake of leaving his family to soak up a UK inheritance tax bill should he die. Find out how the RL360° Asset Protection Plan can help.

Background

On the 1 April 2013, the UK government introduced a new tax known as ATED (Annual Tax on Enveloped Dwellings). This tax is payable each year for residential properties valued over a certain amount where the property is held in a corporate structure and owned by a non-natural person. Originally this only applied to properties valued at £2 million of more as at the 1 April 2012 (or date of acquisition), however this now affects properties valued over £500,000. The charge can range from £3,500 to over £220,000.

Nasser is 44 years old. He has a wife, Maryam, and two teenage children, Amir and Aisha, and they all live in Qatar, where Nasser works as a dentist.

His wife doesn't work and his two children are studying hard so they can attend university in London.

For the past 6 years, he has owned a 3 bedroom apartment in London which he inherited from his late father who was a property developer. At 1 April 2012 the apartment was valued at £2,250,000 and Nasser currently owns the property through a BVI Company of which he is the sole shareholder. He has no other assets in the United Kingdom (UK).

Under the current rates of ATED, Nasser is liable to pay £23,550 each year as a tax charge for owning the property in this corporate structure, this is an **annual charge**, on top of the ongoing corporate service provider fees.

In addition, if his BVI Company sold the property, there would be Capital Gains Tax (CGT) of 28% with no indexation allowance, on the growth of the value of the property from the 6 April 2013.

If he "de-enveloped"* the property so that he owned it directly there would be no annual tax charge but owning it direct would result in Nasser having a UK Inheritance Tax (IHT) liability. The current UK IHT charge is 40% on estates worth more than £325,000 (Nil Rate Band), the Residence Nil Rate Band (RNRB) does not apply as the value of the property exceeds the RNRB threshold. Nasser quickly works out that his estate could potentially have an IHT bill of £770,000.00

Property value:
£2,250,000 less:

Current Nil Rate Band:
£325,000

Taxable value for IHT:
£1,925,000 x 40% = £770,000

Financial planning that absorbs a UK inheritance tax liability

You can count on us

RL 360°

Running out of options?

Nasser doesn't want to pay the annual tax charge of £23,550 anymore and he doesn't want to sell the property either. He wants his family to be able to use the property as and when they like and for his children to be able to live there, especially should when they go to university in London.

So what can Nasser do?

He asks his adviser if there is any way that he can avoid the £23,550 per year tax charge whilst at the same time undertaking sufficient planning to cover the IHT liability?

Thankfully his adviser has come across this issue before and suggests that Nasser does the following:

1. Nasser de-envelopes his property so that he owns it direct.
2. He applies for an RL360° Asset Protection Plan which provides a lump sum on Nasser's death sufficient enough to cover the potential IHT liability, and which is written into a suitable trust to avoid the proceeds of the product being payable into his estate.
3. When Nasser creates the trust, he and his wife are appointed as trustees and his wife and children are the beneficiaries.

How does this help?

Should Nasser die, the plan would pay out the amount of life cover to the Trustees allowing his family to pay the UK IHT bill without having to use any of their other assets.

Nasser decides that this is what he wants to do and chooses life cover of £1 million to allow for expected increases in property values.

Nasser is pleased to learn that the level of life cover chosen will cost him as little as £994[1] per month which is significantly less than the £23,550 annual tax charge.

[1] based on standard underwriting rates

If Nasser were to die in 10 years' time and his IHT liability increase (due to an increase in the property value), his plan would still cover the tax bill.

For example:

Estimated property value in 10 years:	£2,800,000 less:
Estimated Nil Rate Band in 10 years:	£ 350,000[2]
Taxable value for IHT:	£2,450,000 x 40% = £980,000
RL360° Life Cover payable:	£1,000,000
Balance:	£ 20,000

The £20,000 balance can be distributed to the beneficiaries by the Trustees.

[2] Current IHT NRB frozen at £325,000 until 2020-21 tax year, then assumes a 1% increase per year for 6 years

Do you have a client like Nasser? You can get more information on RL360°'s Asset Protection Plan by contacting your Regional Sales Office.

Important notes

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

* Please note that professional advice should be sought prior to de-enveloping the property to ascertain whether there will be any costs involved in doing so.

The RL360° Asset Protection Plan is a combination of RL360°'s LifePlan and one of RL360°'s trusts. RL360° Asset Protection Plan is not available to UK residents.

Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and Her Majesty's Revenue and Customs' (HMRC) practice as at June 2017. You should note however, that we cannot take upon the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.

Issued by RL360 Insurance Company Limited. Registered Office: RL360 House, Cooil Road, Douglas, Isle of Man, IM2 2SP, British Isles. Telephone: +44 (0)1624 681681. Telephone calls may be recorded. Website: www.rl360.com. RL360 Insurance Company Limited is authorised by the Isle of Man Financial Services Authority. Registered in the Isle of Man number 053002C.

LP047c 07/17

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