Don't get reeled in by ATED

John is a young investor with a UK property held in an offshore company that wasn't initially subject to the Annual Tax on Enveloped Dwellings (ATED). However, a combination of rising property prices and reducing ATED thresholds means that he is now caught in the ATED net. He could de-envelope the property from the offshore company but that would result in John having a UK inheritance tax (IHT) liability. However, he could insure against that using the RL360° Asset Protection Plan. Find out how below.

What's ATED?

On 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 which are valued at £500,000 or more as at 1 April 2012* (or date of acquisition) where the property is held in a corporate structure and owned or partly owned by a non-natural person, like John's UK property.

* The latest revaluation date was 1 April 2017 (and every 5 years thereafter). Other valuation dates between these fixed 5 year valuation dates can occur, please visit the HMRC website. Full details about ATED can be found at:

www.gov.uk/guidance/annual-tax-on-enveloped-dwellings-the-basics

John is 32 and travels the world but spends most of his time in Saudi Arabia.

He's recently got married and his first child is on the way. Most of his money is tied up in investments including a UK property which he owns through his offshore company ZYX Ltd.

John purchased the property in April 2013, the acquisition price being £480,000. At the time, the starting threshold of ATED was £2m, however, things are now quite different.

The table below shows the property values and the annual charge that will be applied.

John has recently had the property valued and at £519,168 it and would be subject to ATED at £3,500 per annum.

This isn't something he's keen to pay each year, not with a new baby on the way. However, he knows that if he "de-enveloped"* the property so that he owns it direct, it would result in his estate having a UK inheritance tax liability of £77,667 if he died, again, not something John wants his family to have to deal with.

Property value	2015/16 annual charge	2016/17 annual charge	2017/18 annual charge
More than £500,000 but less than £1 million	N/A	£3,500	£3,500
More than £1 million but less than £2 million	£7,000	£7,000	£7,050
More than £2 million but less than £5 million	£23,350	£23,350	£23,550
More than £5 million but less than £10 million	£54,450	£54,450	£54,950
More than £10 million but less than £20 million	£109,050	£109,050	£110,100
More than £20 million	£218,200	£218,200	£220,350

2017 property value:
£519,168 less

Current Nil Rate Band:
£325,000

Taxable value for IHT:
= £194,168 x 40% = £77,667 IHT Bill

John and his wife, who are both non-UK domiciled, visit their financial adviser to discuss their worries about future ATED charges and IHT. Their adviser suggests that they consider the following:

- De-envelope the UK property so that he owns it direct.
- At the same time as de-enveloping, he could apply for an RL360° Asset Protection Plan for life cover of £78,000 with benefit and premium indexation increasing by 5% per year. John should be the sole life assured.
- John, his wife and another person could be appointed as trustees and his wife and children as the beneficiaries.

By appointing a third trustee, this means that should both John and his wife die, the remaining Trustee can be paid the life cover and ensure that John's child or children benefit promptly.

The adviser produces some illustrations and shows John how little it would cost for life cover of this amount:

Life Cover only for £78,000 = £150 per month (**saving him £1,700 in the first year against ATED**) [1]

[1] Life Cover only for £78,000 with benefit and premium indexation at 5% each year = £150 per month increasing by 5% each year based on standard underwriting rates.

For peace of mind, John decides to act on the advice and applies for the plan.

Unfortunately, 10 years later, John dies suddenly. His wife is the Executor of his estate. The UK property is now valued at £605,000 so his estate has a UK IHT liability of £112,000.

Property value:
£605,000 less

Current Nil Rate Band:
£325,000[2]

Taxable Value for IHT:
= £280,000 x 40% = £112,000

[2] The UK IHT Nil Rate Band is currently frozen at £325,000 until the 2020-21 tax year.

The RL360° Asset Protection Plan's life cover has increased (through indexation) from £78,000 to £121,004 and RL360° pay the Trustees. John's wife (as Executor, Trustee and Beneficiary) is then able to settle the UK IHT liability.

If you have clients like John and want more information on the RL360° Asset Protection Plan, please contact 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.

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