Steve owns residential property in the UK. Non-UK residents are subject to UK Capital Gains Tax on the sale of their residential property. As property owners must obtain a valuation for their property, they could be surprised at its value and their exposure to UK Inheritance Tax whilst owning it. Find out how using the RL360° Asset Protection Plan could help.

Steve is a 55-year-old UK national working in the oil and gas industry in South East Asia. He has been in the region for a number of years and has a Filipino wife.

He owns a residential property in the UK as well as an investment property in London which is rented out. Both properties were bought over 15 years ago. He also has a 19-year-old son and a 21-year-old daughter in the UK from a previous marriage.

He plans on working offshore for another 5 years before retiring back to the UK with his wife.

The value of his UK properties has risen significantly in recent years, especially the investment property.

As he is not a UK resident, he had to get the residential property valued to ascertain the base cost for the **Non-resident Capital Gains Tax Charge introduced in 2015.**

The combined valuation is £900,000.

His surprise at the valuation has prompted him to think about his UK Inheritance Tax (IHT) liability.

His adviser explains that even though his wife is not UK domiciled she could elect to become UK domiciled meaning that she could receive all of the property free of UK IHT.

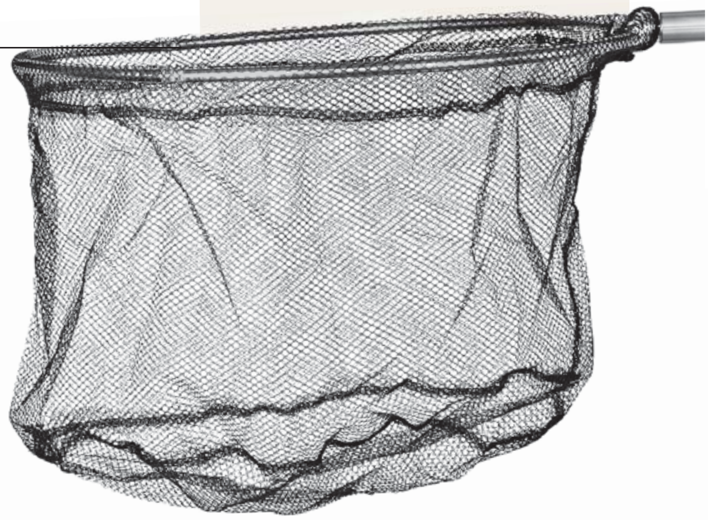
Steve explains that he wants his children to inherit the UK residential and investment properties as he has already bought a house in his wife's name in the Philippines and any other liquid assets will be left to her too.

Also, his wife has made it clear that she is likely to return to the Philippines soon after his death and doesn't want a UK domicile election to remain with her for the next 4 years.

CGT charge on non-UK residents with UK residential property

- Started April 2015
- Applies to post April 2015 increase only
- Property owners must provide April 2015 valuation plus sales details to HMRC when property is sold
- Professional valuation encouraged to prevent protracted negotiations with HMRC when agreeing taxable gain
- HMRC have to be notified even where there is no capital gain
- **Exemptions for personal private residence but 90 days occupation in the UK required... possible impact on non-resident status**

Don't get caught in the IHT net



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Objective

- Steve wants to ensure that his children can inherit both properties without difficulty and therefore needs a mechanism for paying the IHT bill allowing them to obtain UK probate.

IHT liability today

Combined property value:
£900,000

Current Nil Rate Band:
£325,000

Residence Nil Rate Band (RNRB):
£100,000

Taxable value for IHT:
= £475,000 x 40% = £190,000

Solution

Steve decides to take out an Asset Protection Plan in trust, with £400,000 cover, to allow for increases in property prices, with his children as the trustees.

Outcome

- Steve dies 4 years later whilst UK resident.
- The value of his estate at that time is £1,200,000 and it includes the UK properties and an Isle of Man bank account worth £140,000.
- Up to £325,000 can be left to his wife free of IHT, so the bank accounts would be covered by this.
- The IHT liability on the remaining £1,060,000 would be £224,000.*

  * Value of properties of £1,060,000, minus the IHT NRB of £325,000, minus the RNRB of £175,000 for 2020-2021 = £560,000 x 40% = £224,000.

The value of the Asset Protection Plan is paid out to his children without the need for Probate as it is held in Trust. The children then pay his IHT bill, obtain Probate and then transfer the properties into their names in accordance with their fathers will.

Important notes

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

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 May 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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