Guide to Estate and Inheritance Tax Planning

FORTH CAPITAL

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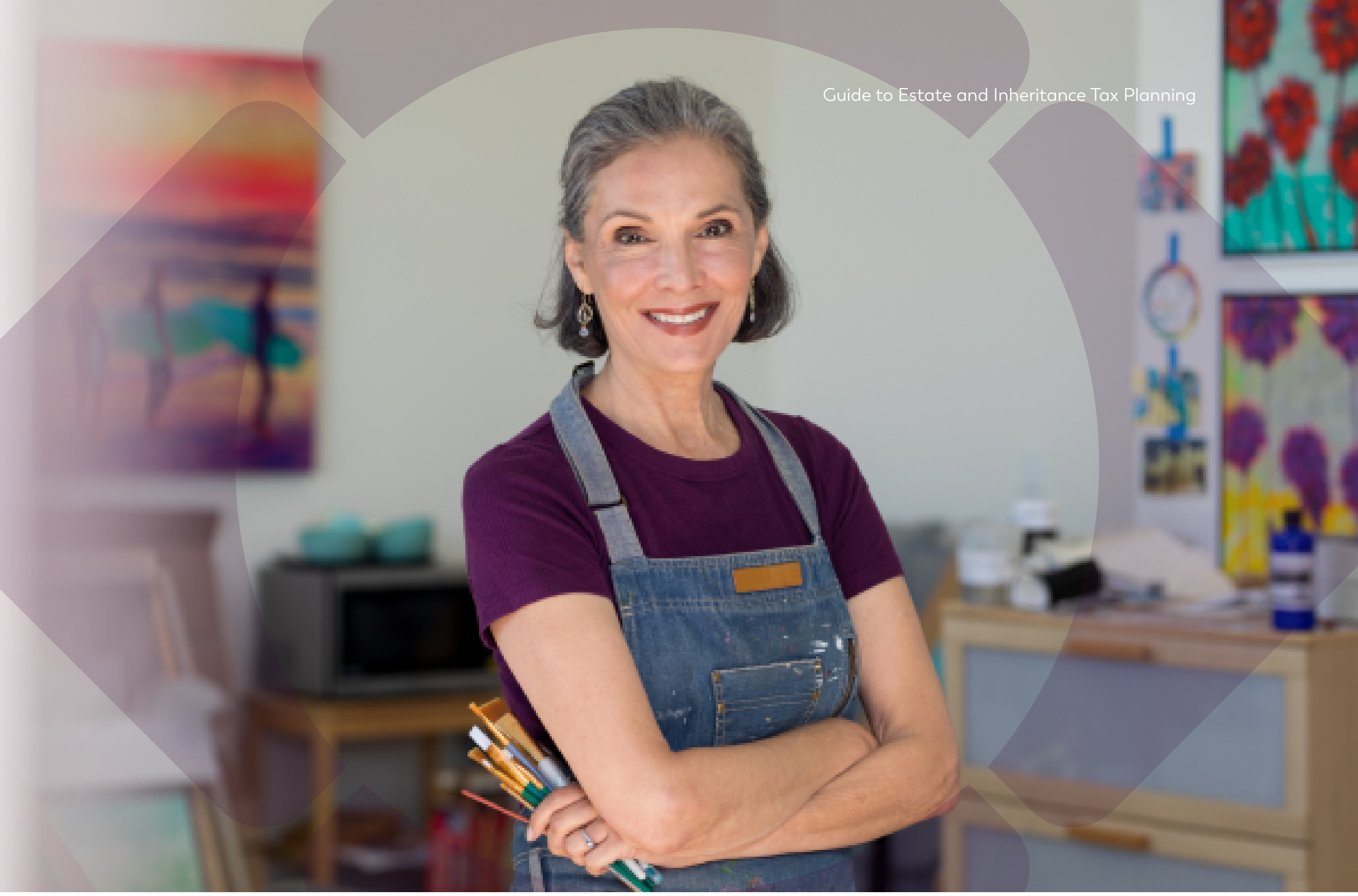


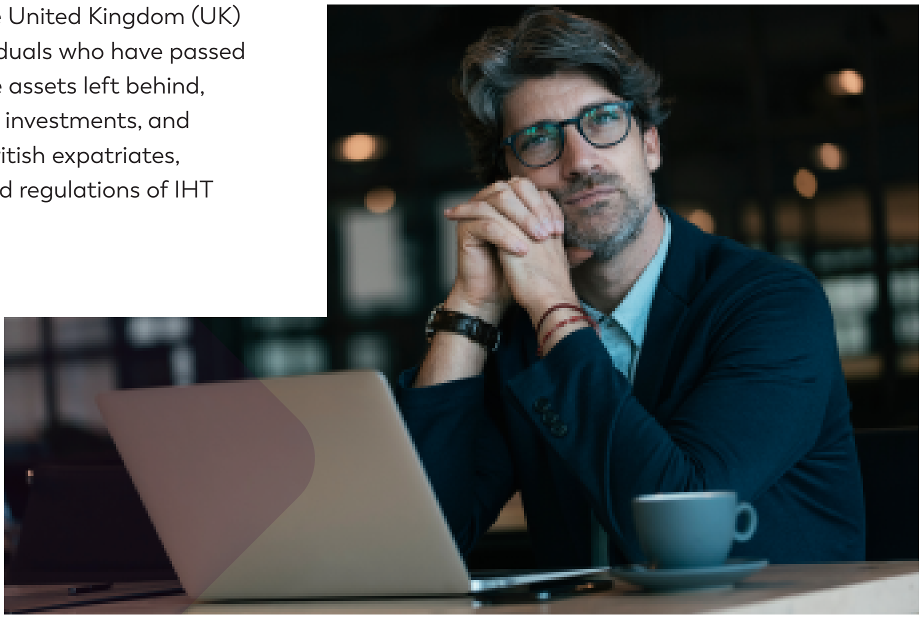
Introduction

Some British expats presume that they are no longer liable to UK inheritance tax (IHT) because they are not tax resident in the UK, but that's not the case, which can risk leaving their heirs an unexpected tax bill. Planning for the future can be stressful, but it is often the best way to ensure you can reduce the potential tax implications for your loved ones.

This guide will give you an overview of IHT and estate planning, but it does not replace the need for financial advice. Our dual-qualified advisors are experts in estate planning and can provide you with tailored advice on your specific circumstances, wherever you are in the world.

Inheritance Tax

Inheritance Tax (IHT) in the United Kingdom (UK) is a tax on estates of individuals who have passed away. It is applicable to the assets left behind, including property, savings, investments, and personal belongings. For British expatriates, understanding the rules and regulations of IHT can be a complex process.



Resident versus domicile

For UK expats, the domicile status of an individual plays a crucial role in determining their IHT liability. If the individual is UK domiciled but not resident in the UK, they will still be liable to IHT. If they are non-domiciled but have UK assets, the UK assets will be liable to IHT.

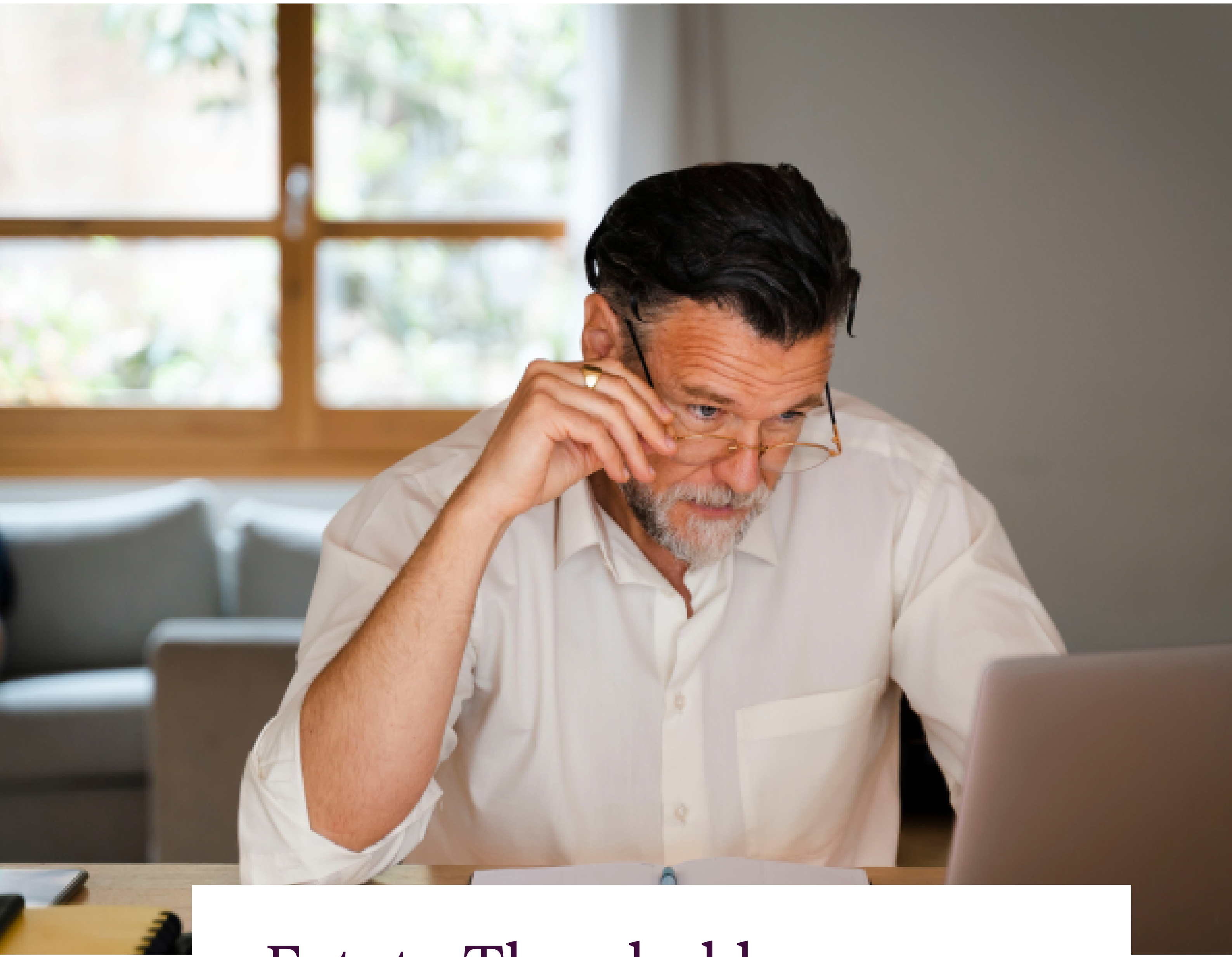
The only way to avoid UK IHT liability on your assets abroad would be to give up your UK domicile status – which for UK nationals is not as easy as it sounds. To change or lose a domicile and acquire a new 'domicile of choice' all ties to the UK must be cut. These ties can be as basic as a bank account, golf club membership or even a library card, and a commitment to remain a long-term/permanent resident abroad must also be evidenced.

The hard work done to acquire a new domicile can also be undone very quickly. For example, by moving to a third country, losing the acquired 'domicile of choice' will lead to your domicile status reverting to your initial 'domicile of origin'. Additionally, if you decide to be buried in the UK, this will also trigger UK inheritance tax.

Deemed domicile

Many of our clients whose 'domicile of origin' is not the UK, have left the UK with no intention of returning and are surprised to learn that their UK domicile has been retained. For inheritance tax purposes, this 'deemed domicile' acquired by living in Britain for a period, will continue for an additional three years beyond the date at which you acquire a new domicile of choice. During the 'deemed domicile' period it is important to seek advice on any tax planning steps so as not to fall foul of any unintended UK taxes whilst still deemed UK domicile.

Domicile status can be confusing, so it's always best to discuss your specific circumstances with your financial advisor to ensure that you fully understand what you're liable for.



Estate Threshold

The first £325,000 of an individual's estate is exempt from IHT. This is referred to as the 'nil-rate band' and is the amount an individual can leave to their beneficiaries without incurring an IHT liability. This figure increases to £500,000 if you own your home and pass your estate onto your children (called the residence nil-rate band). If you share your estate with your partner or spouse, together you can pass up to £1 million onto your children before IHT is due.

The Government's nil-rate band has remained frozen at £325,000 since the 2009/2010 tax year and it is set to stay the same until 2028.

Trusts

Setting up a trust can be an effective way to mitigate IHT, as assets held in trust are typically outside of an individual's estate. This means that the assets in the trust are not subject to IHT when the individual dies.

There are a number of trusts that can be used as part of your estate planning, but to identify the structure that would work best for you and for your beneficiaries, one of our qualified advisors can discuss your specific circumstances and aims as part of an initial consultation.

Gifts

The UK operates a seven-year gift rule, which states that if an individual gives away an asset more than seven years before they pass away, it will be exempt from IHT. This can be one of the most effective ways to mitigate IHT, as making gifts during your lifetime can reduce the value of your estate and potentially reduce your IHT liability. However, if an individual gives away an asset within 7 years of their death, the value of the asset will be included in their estate for IHT purposes.

If the individual were to pass away within 7 years of giving a gift, inheritance tax would be paid on a reducing scale. Gifts given up to 3 years prior to death are taxed at 40%, and gifts given between 3 and 7 years prior to death are taxed on a sliding scale known as 'taper relief'.

The following gifts can be given in the 7 years prior to death without any IHT needing to be paid:

- Each year you can give up to £3,000 to anyone you like. You can also use the previous year's exemption if you didn't make use of it at the time. If, for example, your granddaughter was buying her first home, you and your spouse could potentially give her £12,000 for her deposit at once – assuming neither of you gave £3,000 away the previous year.
- If you have extra income that you don't require, you can make regular gifts to others. It's important that you keep a record of these.
- You can give your children up to £5,000 for their wedding and up to £2,500 to your grandchildren. Few people realise they can also give wedding gifts of up to £1,000 to others.
- Any donations made to charities or political parties are inheritance tax free, whether you give them in your lifetime or your will. This includes property, shares and land.
- You can reduce the rate of IHT for your whole estate to 36% by leaving at least 10% of your net estate to charity in your will.

Family Investment Company

Sometimes outright gifts to family members might not be appropriate. However, holding investments in a separate company – a 'Family Investment Company' (FIC) – might be a good alternative option.

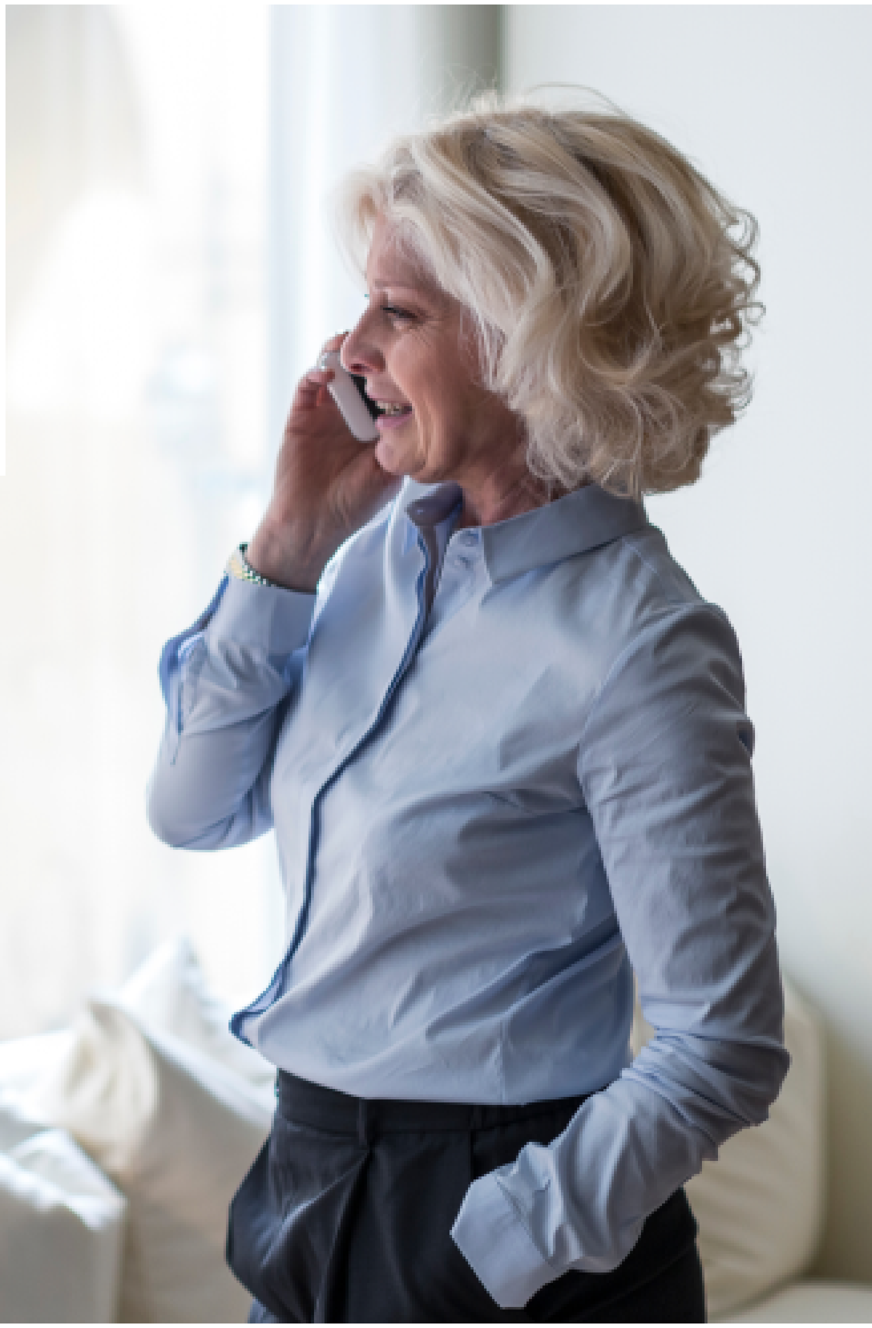
An FIC enables you to benefit from lower tax rates on investment income and gains. The timing of tax liabilities on the distribution of funds to shareholders can also be managed.

To find out more about setting up a Family Investment Company and whether this could be the right option for you and your family, speak with one of our qualified advisors who will be glad to discuss this with you as part of an initial consultation.

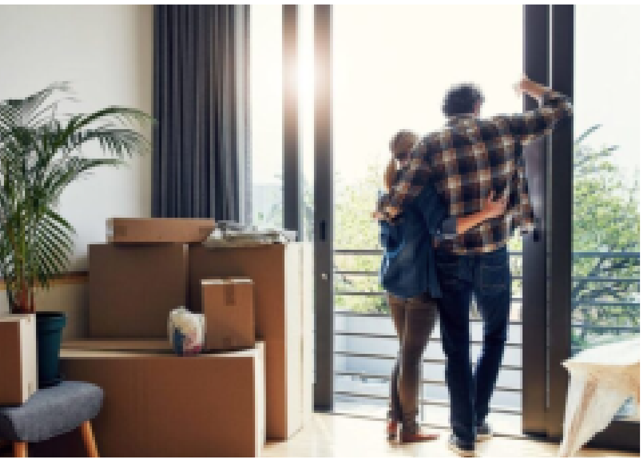
Review your will

Regularly reviewing and updating your will can help to ensure that your assets are distributed in the most tax-efficient manner. You should consider writing a will that takes advantage of the nil-rate band and other reliefs and exemptions available to reduce your IHT liability.

We can explain this in more detail and put you in touch with someone who can arrange this for you.



Preparation, planning and protecting your estate



When planning your estate, be sure to discuss your wishes with at least one family member or a close friend. You don't need to tell them the exact value of your savings and investments. Instead, talk to them about where they can find important documents – and it could be helpful to put together a folder for them to access when you pass away.

This folder could include a summary of your financial information, such as bank statements and account details. It may also be worth giving some thought to whether you would potentially want to include personal information in this folder as well, such as photographs, mementos and notes on your funeral, detailing how you would like to be remembered.

And it's important to remember that UK tax laws and regulations can be complex and may change over time, so it's important that you seek professional advice from a qualified advisor and ensure that you continue to take the most efficient steps to protect your estate and mitigate your IHT liability.

We're here to help

Few people enjoy talking about their own mortality, so it's no wonder that estate planning is something that, for many people, results in anxiety and procrastination.

By getting your affairs in order and maximising the value of the assets that you pass on to your family, you can demonstrate the same forethought, care and diligence that you demonstrated throughout your life; helping your loved ones achieve their goals and creating a lasting legacy that has the potential to be remembered for generations.

To speak with one of our expert advisors about your estate and inheritance tax planning, please don't hesitate to get in touch.

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