INTERNATIONAL INVESTMENT

INTERNATIONAL EDITIO

SPECIAL REPORT: INHERITANCE TAX

HOW GOOD ADVICE PROTECTS THE NEST EGG

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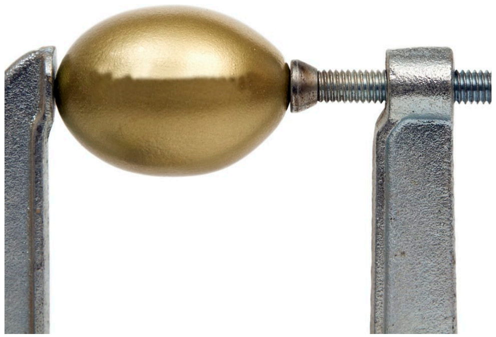
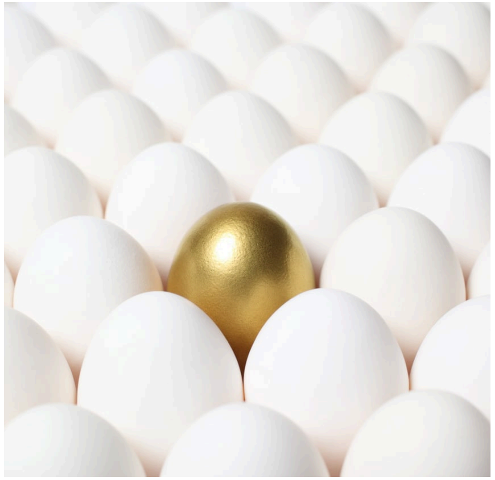


INTERNATIONAL NEWS

Round-up of the latest news from around the globe with an emphasis on IHT and retirement



BRITONS FAILING TO PLAN FOR IHT

Advanced planning could save UK citizens 40% on IHT bills, so why are so many seemingly happy to hand a windfall to the taxman?

A SIGH OF RELIEF

SPONSORED FEATURE: Utmost Wealth Solutions' Simon Martin discusses IHT exemptions

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PROFESSIONAL SERVICES

Some of the biggest players in offshore financial services

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INTRODUCTION

Gary Robinson introduces our latest special report

“WHEN DISCUSSING INHERITANCE TAX, JUST LIKE THE FORMER US PRESIDENT BENJAMIN FRANKLIN TOLD US MANY YEARS AGO, IF YOU ‘FAIL TO PREPARE, THEN PREPARE TO FAIL’ ”

– Gary Robinson, Head of Video & Ezines, International Investment

PREPARING FOR IHT SUCCESS

Welcome to another special report, this time discussing inheritance tax and how, just like the former US president Benjamin Franklin told us many years ago, if you "fail to prepare, then prepare to fail".

But when you add cross-border tax issues into the IHT mix it is even more complex and this is where the true value of financial advice comes into play.

We spoke with no less than six of the international financial services world's best known names, who reveal tips and observations about the IHT minefield. In this 'Expert's View' segment you can hear from AES International, deVere, The Fry Group, Guardian Wealth and Holborn Assets,

Elsewhere, Canada Life International's Francesca Gandolfi and Kim Jarvis list the top five most common IHT queries from advisers and our reporter Pedro Gonçalves examines the reasons behind the surge in IHT payments and how to mitigate this.

We also bring a pick of the latest UK and international news and feature Simon Martin, Technical Services Manager at Utmost Wealth Solutions, who asks us to consider the various IHT exemptions and reliefs that are available and how these can be best utilised.

INTERNATIONAL NEWS

Round-up of the latest news from the globe, with a special focus on IHT and retirement

SOUTH EAST ASIA

HOLBORN ASSETS EXPANDS IN ASIA WITH NEW OFFICE IN VIETNAM

Holborn Assets, one of the world's largest independent financial advisory firms has announced that it is expanding its Asian footprint with a new office in Vietnam's commercial capital of Ho Chi Minh.

The new operation, which will based in the heart of the financial district, will be headed up by industry veteran Andrew Menzies, formerly of Globaleye, as country manager.

Riyad Adamou, chief commercial officer, commented on the opening: "We are delighted to finally be able to make the announcement and welcome Andrew Menzies and his team to the Holborn Assets Family.

"This is the tenth office Holborn Assets has opened in the last 18 months and our fifth in Asia. It is an incredibly exciting time to be part of the company. Our expansion has always been about bringing in the best talent in the industry and once again we have proved we are able to do just that."

Menzies added: "My team and I are delighted to officially become part of Holborn Assets. It is a fantastic company and their ambitions for Vietnam, the region and the company as a whole are incredibly exciting, the opportunity to be part of that was something we couldn't turn down."

Riyad Adamou, Holborn Assets

Menzies joins with a team of eight wealth mangers with the office in the iconic Bitexco Financial Tower, the city's tallest building.

Holborn Assets CEO Bob Parker said: "We had identified Vietnam as a strategic location almost two years ago, so after many months of hard work it is great to finally get this over the line.

"We see Vietnam as a key location for Holborn and we will be growing the team to 20 wealth managers by year end. This operation was a key part of our three-year strategic plan as part of our wider policy of vertical integration and lateral expansion, we intend to continue on this path and look forward to making further announcements of new offices and divisions in the very near future." **CCI**


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UNITED KINGDOM

IHT RECEIPTS JUMP 44.4% TO RECORD HIGH OF £5.4BN

HMRC's IHT receipts have seen an increase of around £160m in just a year to a record high of £5.4bn in the 2018/19 tax year, up 3.1% this March from £5.2bn in the previous fiscal year, the latest figures show.

“It is another record year for the amount paid in inheritance tax," Neil Jones, wealth management and tax specialist at Canada Life said in a statement.

“This continues a consistent, long term trend of increases that shows little sign of slowing down,” he added.

Inheritance tax saw a hike in March 2019, a 44.4% increase from the previous month, and the government is at a loss for the reason behind it. “March 2019 is also particularly high though it is too early to determine the cause for this,” HMRC said.

“Taking money from a grieving family who are burdened with the loss of a loved one and sorting their affairs, sounds like something a villain from a Dickensian novel would do,” Rachael Griffin, tax and financial planning expert at Quilter said.

“Unfortunately, it's a very real activity in the modern day and one that is reaping more and more revenue for the government.

“We may see the tax take fall somewhat next month as on April 6th the government increased the residence nil-rate-band (RNRB) to £150,000, which gives people an additional threshold before IHT becomes due on their estate and which they say will remove some of the IHT sting.

“However, research from Big Window for Quilter shows that despite the residence nil rate band being in effect since 2017, just 41% of people are aware of this complicated part of the inheritance tax landscape. Further to this, under half of respondents were aware of other fundamental inheritance tax rules such as the £3,000 gifting limit (46%) or the £325,000 nil-rate-band (43%),” she added.

Canada Life underscores that effective planning helps reduce the amount of IHT payable.

“Just as consistent is that a lot of these payments are preventable. Death and taxes may be the only two certainties in life, but with careful planning around the former, some of the latter is unnecessary. It's crucial to use any reliefs, exemptions and allowances,” Neil Jones said.

“Starting any planning early is essential and there's a range of trusts available that can enable clients to make sure more of their money goes to beneficiaries whilst reducing the amount of tax payable when they die. Some of these trusts work on a seven year, rolling basis, so even though they've been able to - tax efficiently - pass on money once, they can do it again.”

Quilter is still concerned that there isn't enough public awareness on how to deal with such a complicated tax such as IHT.

“The very fact that people have to be asked which, of numerous complex allowances are available to them is a terrible sign itself. And it is made worse by the woefully low proportion that are aware of them. Government claims that it has given the public all the tools it needs to navigate this tax system, but it is as complex as assembling flat pack furniture with instructions written in a foreign language.

“Families are increasingly becoming more complex and we need a tax regime which functions with this in mind. The RNRB depends on a number of factors, including your marital status and who inherits the family home.

“These kinds of rules should be rethought so people have the freedom to gift to whoever they want and are not constrained by antiquated societal rules. A simple IHT regime gives people far greater opportunity to best plan their estates and make the most difference to future generations,” Rachael Griffin said. **PHG**

UNITED KINGDOM

INHERITANCE TAX PLANNING ALLOWS SUPER-RICH TO PAY HALF AS MUCH AS PAID BY SMALLER ESTATES

The UK's super-rich are paying just half the effective inheritance tax rate of many smaller estates, according to an analysis of HMRC data by Canada Life.

Estates worth £10m or more paid an average of 10% tax to the exchequer in the 2015-16 tax year compared with an average 20% tax paid by estates worth £2m-£3m, according to figures released by HMRC.

The data comes from HM Revenue & Customs inheritance tax forms for the 2015/16 tax year.

The law says that estates should pay 40% tax on assets above £325,000 – or above £450,000 if the family home is given to children or grandchildren. But Neil Jones, the market development manager at Canada Life, said the richest of the rich often did not pay anywhere near that rate because they had access to “a myriad of potential solutions in an adviser's kitbag to help mitigate IHT [inheritance tax]”.

The heirs of the late sixth Duke of Westminster paid no IHT on the bulk of his £8.3bn family fortune following his death in 2016.

“This difference in the net tax rates paid by estate is not always down to the value of the estate or the different type of assets held in an estate," Jones said. “It is often about a willingness to plan.”

Canada Life called for IHT to be simplified, warning the piecemeal nature of the regulations can make it an uneven playing field. PHG

CHANNEL ISLANDS

BANK OF BUTTERFIELD TO ACQUIRE ABN AMRO'S CHANNEL ISLANDS BUSINESS FOR £161M

The Bank of N.T. Butterfield & Son Limited has agreed to buy the Channel Islands-based banking business of ABN AMRO for approximately £161m in cash ($208m).

The bank, based in Hamilton, Bermuda, hopes that the acquisition of ABN AMRO Channel Islands will significantly expand its presence in Guernsey and Jersey.

"In ABN AMRO Channel Islands, we have found an ideal partner through which to expand our core Channel Islands banking business," Michael Collins, Butterfield's chairman and CEO, said.

"This acquisition is another important step in our strategy to grow through acquisitions in the highest quality offshore markets where we have scale and expertise. It underscores our continuing commitment to expand Butterfield's presence in the Channel Islands and the importance of these two jurisdictions to our multinational clients.

"ABN AMRO Channel Islands brings a conservative risk management culture, similar to that of Butterfield, and will contribute both management talent and sales expertise to our combined business."

Collins added. "This represents an excellent opportunity for clients and employees, and we look forward to welcoming our new colleagues to Butterfield. Together, we bring long histories of client service at the highest level."

After closing the deal, ABN Amro's Channel Islands business and employees will be integrated with the existing Butterfield Guernsey operations and operate under the Butterfield name.

Established in Guernsey for over 35 years, ABN AMRO Channel Islands offers banking, investment management and custody products to three distinct client segments, including trusts, private clients, and funds. As at December 31, 2018, ABN AMRO Channel Islands has a balanced client base with £2.9bn in deposits and £3.5bn in assets under management and custody.

The transaction is anticipated to close during the third quarter 2019, subject to regulatory and other customary closing conditions.

Butterfield reported a first-quarter profit of $52.1m this quarter. The bank said it had earnings of 96 cents per share. Earnings, adjusted for non-recurring gains, came to 95 cents per share.

The community bank posted revenue of $142.5m in the period. Its revenue net of interest expense was $131.4m, which fell short of Street forecasts.

Bank of NT Butterfield & Son shares have risen 19% since the beginning of the year. **PHG**

UNITED STATES

MOMENTUM LAUNCHES SIPP FOR US CLIENTS

Momentum Pensions has launched a self-invested personal pension plan (SIPP) designed for US tax-payers with accumulated savings in UK registered schemes.

The Momentum US SIPP (US SIPP) is aimed at individuals with a minimum of £250,000 invested in a UK pension arrangement and who are within the scope of US tax, i.e. US citizens resident anywhere outside of the US, or anyone resident in the US whether US citizens or not. Such individuals have complex filing and compliance obligations to the Internal Revenue Service which can result in penalties if not observed.

The proposition has been developed with the assistance of Buzzacott Accountants, the UK's largest single office accountancy business, which also has an expertise for the US marketplace. The US SIPP is administered by Momentum in the UK and is only available through regulated advisers in the United States and Europe, including FCA-regulated advisers in the UK, the company said. Users can access the UK's Origo platform to facilitate the transfer from their existing UK pension to the new SIPP.

Stewart Davies, CEO Momentum, said that he believes that the US SIPP is expected to relieve a "pent-up demand" globally.

"The US tax system is complex and, being based on citizenship rather than residence, is far-reaching as well," he said. "The space for US tax payers with UK pensions has been underserved over the years and this is principally because of the cost and risks associated with tax and reporting compliance.

"We are expecting a high level of interest given the opportunity for advisers globally, and those based in the US and regulated by the SEC." **GR**

ISLE OF MAN

EXCLUSIVE: RL360/FPI DEAL DEADLINE EXTENDED AS ALTERNATIVE PLAN WAITS IN THE WINGS

The long-running discussions relating to the regulatory rubber-stamping of the £340m (US$444m) deal between Aviva and RL360 parent International Financial Group Ltd (IFGL) over the purchase of Friends Provident International (FPI) has been extended.

Originally the long stop date extended from January to 31 March, but having failed to complete in time the date has been extended. It is understood that the new deadline could now be May, or possibly longer, with the Hong Kong regulator providing the main stumbling block.

A spokesperson for RL360 parent International Financial Group Ltd (IFGL) confirmed that the regulatory extension has been granted and said: “We are continuing to work with Aviva to see the conclusion of this deal,” but refused to comment any further on the matter.

International Investment can also exclusively reveal that in a dramatic twist, should the deal between Aviva and IFGL not be completed, then an alternative plan – involving a possible consortium bid led by Nigel Green, CEO and founder of international financial services giant deVere Group is being readied.

A spokesperson for DeVere Group, said: “We hope that the acquisition of FPI by RL360 is successful as we believe that they will prove to be a powerful partnership to further enhance future client offerings.

“Should the purchase not go through, like many others, we would be interested in considering the proposition as part of our ongoing and ambitious horizontal and vertical growth programme.”

As reported in July 2017 Aviva agreed to sell Friends Provident International (FPI) to RL360

Nigel Green, de Vere Group: possible suitor for FPI

parent International Financial Group Ltd (IFGL) for £340m ($444m), but the rubber stamping of the deal has proven more troublesome that was originally hoped.

The deal was seen as a coup for the Isle of Man firm after months of speculation and the £340m ($444m) purchase price, is however, significantly lower than the £576m ($750m) that some industry sources predicted in 2017.

Once regulatory approval has been attained the acquisition will comprise £310m in cash receivables and a £30m deferred consideration in the form of preference shares in IFGL, the company said at the time

FPIL said that it had £7.6bn in funds under management at the time that the deal was originally announced and its addition to IFGL will take the group's combined assets to £15.9bn and its policies to 250,000.
‘Important milestone'

David Kneeshaw, IFGL's chief executive, who has refused to comment on any speculation or rumours surrounding the deal said at the time that the deal was originally announced: “Welcoming FPIL to the IFGL Group's already impressive stable fits with our stated long-term goal of high-quality acquisitions to complement our existing international business.

“FPIL's strong franchise and its branch structure make the business an ideal fit with IFGL and we see significant opportunities for the businesses to work together and grow.” **GR**

INTERNATIONAL

GLOBAL PENSION ASSETS DOWN 3.5% IN 2018: STUDY

Global pension fund assets fell 3.5% to $40.1trn at the end of 2018 from $41.56trn the previous year, the third worst showing in 20 years, according to a report from Willis Towers Watson Investments, an advisory, broking and solutions firm.

The US is the largest pension market followed, at significant distance, by Japan and the UK. Together they account for over 76% of all pensions assets.

The report, which covers 22 major pension markets, also found that for the first time, defined-contribution (DC) plan assets overtook defined-benefit (DB) assets in the seven largest markets – Australia, Canada, Japan, Netherlands, Switzerland, the UK and the US. This was an extension of the trend of the past ten years where DC assets grew faster than DB assets.

During the last ten years, the fastest growing pension markets have been Australia (10.2%), Chile (10.2%) and Hong Kong (8.5%) in USD terms. France and Japan have had the slowest rates of growth in USD terms since 2008 (0.1% and -0.7% respectively).

DC plan assets accounted for over 50% of pension assets in the seven biggest markets last year, according to the study released on February 11 by the Thinking Ahead Institute, a not-for-profit group that's part of Willis Towers Watson.

Roger Urwin, the institute's global head of investment content, said in the report that "…2018 was the third worst year for pension asset growth in the last 20 years but it would have been quite a lot worse without the contribution from private markets that produced important risk diversification".

According to the study, equities allocations in the

"2018 WAS THE THIRD WORST YEAR FOR PENSION ASSET GROWTH IN THE LAST 20 YEARS BUT IT WOULD HAVE BEEN QUITE A LOT WORSE WITHOUT THE CONTRIBUTION FROM PRIVATE MARKETS"

Roger Urwin, Thinking Ahead Institute

seven largest markets dropped to 40% from 60% over the past two decades as pension funds put more money into alternative assets. The seven largest markets (the P7) comprises 91% of total pension assets.

2018 was the third worst year for P7 in the last 20, but the 5 year 2.9% pa and 10 year 6.5% pa are more revealing of the longer term pattern. These seven markets accounted for 91% or $36.55trn of global pension assets last year, led by the US with a 61.5% share, or $24.71trn.

“Pension funds continue to face a range of issues over the next five to ten years.

“These include the shifting focus in pension design towards a DC model, the growing impact of evolved regulations and further integration of ESG, stewardship and long-horizon investing,” Urwin said.

He added that in spite of the fact that DC pension assets surpassed DB assets, “DC is still weakly designed, untidily executed and poorly appreciated”. **PHG**

ITALY

GENERALI PLEDGES €1BN FOR NEW ITALIAN BOUTIQUE

Italian giant Generali plans to launch a boutique asset-management company named ThreeSixty Investments and aims to invest €1bn (£863m) in the firm's first fund.

ThreeSixty Investments will be a partnership between Generali, which will hold a majority stake, and many professional investment managers, including former CEO of Pioneer Investments Giordano Lombardo.

Mauro Ratto, senior investment professional, expert in fixed income and emerging markets strategies; Diego Franzin, senior investment professional, expert in equity strategies; and Robert Richardson, experienced executive in the asset management industry, will also hold a minority stake of the new venture.

The new boutique, headquartered in Milan, will focus on multi-asset strategies for private and institutional clients and will run its strategy and operations independently.

Giordano Lombardo, CEO of ThreeSixty Investments, said: “We believe that the future of active asset management lies in a new, integrated approach, beyond the distinction between traditional and alternative assets. Our aim is to align completely to the goals of investors, integrating all sources of return in a common total return framework.”

A Reuters report outlined that the Italian superpower has been on the lookout for growth opportunities across Asia, Europe and the USA. It is said to have set aside around four billion euros for acquisitions and growth.

The company is also said to be on track to achieve the targets it originally outlined for 2021. PHG

MIDDLE EAST

ZURICH PAYS MIDDLE EASTERN CUSTOMERS OVER $100M IN CUSTOMER BENEFITS OVER THREE YEARS

Zurich Middle East has paid out $102m (AED375m) in customer benefits over the past three years, a 27.5% increase compared to the previous period, the company has revealed.

The insurance giant has released its 2019 Customer Benefits Paid Report which shows that cancer (47%) and heart attack (38%) remains the top two health concerns in the Middle East for both life and critical illness claimants.

Cancer is the primary cause of critical illness benefits paid to women (81%) while heart attack is the primary cause of critical illness claims from men (56%). Accidents are among the primary causes of death among men in the UAE, Bahrain and Qatar (12%).

There is a prevalence of health risks within the region and they are occurring at an increasing rate and many claimants are underinsured. As many as 88% of customers who suffered a critical illness had coverage of $200,000/AED735,000 or less.

Against the backdrop of the Middle East's relatively young population, health eventualities are occurring at a relatively young age. The average age of Zurich customers claiming critical illness benefit is 48 years, while life claimants are aged 50, highlighting the need for early protection and preventative measures.

With critical illness claimants being only 50 years on average, this amount is not enough to cover key needs such as family income replacement and post-operative care expenses, highlighting the importance of having adequate levels of financial protection at the outset.

"FINANCIAL PROTECTION IS PARAMOUNT, PARTICULARLY IN A REGION LIKE THE MIDDLE EAST WITH A SIGNIFICANT PROPORTION OF WORKING FAMILIES WITH DEPENDENTS"

Walter Jopp, Zurich Middle East

"As the region remains underpenetrated, it is key for insurance providers to take ownership to raise attention, and build consideration about the prevalent health risks in the region," said Walter Jopp, CEO of Zurich Middle East.

"Financial protection is paramount, particularly in a region like the Middle East with a significant proportion of working families with dependents. The financial impact must be considered if the key income earners are unable to work.

"Our role at Zurich is to make people in the region aware of these facts. It is also important for us to listen to our customers, share their claims stories and create solutions and services based on their needs. Our website, social media and blog content emphasise the importance of both protection and prevention as we are passionate to spread this important message to our community.

"Zurich continues to be the only Middle East life insurance provider to issue yearly claims statistics specific to the region. We are proud to report that we paid out 93% of life cover customer benefits and 94% of critical illness customer benefits." **PHG**

CHINA

FOREIGN INSURERS EYE CHINA'S PENSIONS BUSINESS

As Beijing opens up to overseas companies, foreign insurers – including Generali and Prudential – have entered into early talks with authorities to enter China's private pensions sector.

Hong Kong-based AIA Group and Manulife Financial are also gearing up for the $1.6trn pensions business in China, people with knowledge of the matter said.

Beijing gave approval to the first foreign joint-venture firm to establish a pensions insurance business last month and two of the people said China has been running pilot projects in three provinces involving foreign firms. Those projects end later this year.

Foreign insurers would compete with eight established Chinese pension insurance firms that dominate the potentially lucrative market, where the fast-greying population is set to produce 250 million people older than 60 by 2020.

"The average longevity of people in China is increasing but the pension market remains under-penetrated," Prudential Asia Chief Executive Nic Nicandrou told Reuters.

In May, Heng An Standard Life, a joint venture between Standard Life Aberdeen and Tianjin TEDA International, became the first foreign joint-venture entity to receive regulatory approval by China to establish a pensions insurance company.

China's pensions assets, including those managed by the state, grew by 20% in 2017 to 11trn yuan ($1.64trn) and are expected to more than quadruple by 2025, consultancy KPMG said in a report this year. PHG

INTERNATIONAL INVESTMENT

HMRC BENEFITS FROM BRITONS' FAILURE TO PLAN FOR IHT

Pedro Gonçalves examines the reasons behind the surge in IHT payments and what can be done to mitigate this

HMRC PREPARES FOR RECORD WINDFALL AS BRITONS FAIL TO MAKE ADEQUATE PLANS TO DEAL WITH IHT

When it comes to taxes, not even death stops the taxman from collecting. Once seen as tax targeting the rich, rising house prices have dragged thousands more into the IHT net, leading to a record £5.2bn haul for HMRC in 2017/2018.

With inheritance tax, advanced planning could save you up to 40%. If you are not fond of the idea of HMRC receiving a large chunk of your estate, *Pedro Gonçalves* explains what steps can be taken to prevent this

This March, HMRC reported a staggering 44.4% increase in Inheritance Tax (IHT) receipts to £5.4bn, compared to the previous month. That is up £200m on the previous year and £600m more than the £4.8bn collected in the year ending April 2017.

This represents a new high in terms of annual revenue for the government and as a proportion of the GDP.

However, the figure is predicted to soar in the next years as increasing numbers of middle-class, home-owning families find themselves swept into the tax-paying threshold. HMRC is preparing for a windfall with estimates that death taxes are set to double to £10bn by 2030.

“Taking money from a grieving family who are burdened with the loss of a loved one and sorting their affairs, sounds like something a villain from

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a Dickensian novel would do. Unfortunately, it is a very real activity in the modern day and one that is reaping more and more revenue for the government," Rachael Griffin, tax and financial planning expert at Quilter, said.

Canada Life wealth management and tax specialist Neil Jones argued a lot of the payments were preventable, explaining: "Death and taxes may be the only two certainties in life but, with careful planning around the former, some of the latter is unnecessary.

"Starting any planning early is essential and there are a range of trusts available that can enable clients to make sure more of their money goes to beneficiaries while reducing the amount of tax payable when they die."

Sarah Coles, personal finance analyst at Hargreaves Lansdown added: "In many cases the taxman hasn't had to increase taxes in order to take more of our money. He just waits for our incomes to rise and asset values to increase, and he's set for a tax bonanza.

"Given that the taxman is so skilled in the art of taking as much of your money as possible, it's up to us to ensure we're not paying more than our fair share. It's essential we take advantage of as much of our allowances as we can, from ISAs and LISAs to pensions. So, you can enjoy the fruits of your labours, without the taxman taking a bite."

"TAKING MONEY FROM A GRIEVING FAMILY WHO ARE BURDENED WITH THE LOSS OF A LOVED ONE AND SORTING THEIR AFFAIRS, SOUNDS LIKE SOMETHING A VILLAIN FROM A DICKENSIAN NOVEL WOULD DO. UNFORTUNATELY, IT IS A VERY REAL ACTIVITY IN THE MODERN DAY AND ONE THAT IS REAPING MORE AND MORE REVENUE FOR THE GOVERNMENT,"

Rachael Griffin, Quilter

Advance planning could save up to 40% on death duties. As taxpayers paid a total of £5.2bn in IHT in 2017-18 around £2bn could have been saved with the right advice to navigate the IHT rules. This amounts to £81,600 if an estate is eligible for IHT.

It is perhaps one of the most prevalent misconceptions about financial advice – that individuals need a significant amount of assets before seeking the advice of an estate planning adviser becomes worthwhile.

IT IS NOT JUST MILLIONAIRES PAYING DEATH TAXES

Gone are the days when inheritance tax was only a concern for the wealthy. Huge numbers of middle-class people in London and the South East are being hit by inheritance tax, even though it was meant to hit the super-rich.

Rising property prices combined with a freeze on the inheritance tax allowance has led to the number of properties qualifying for the costly tax – homes valued at £325,000-plus – to increase by 50% over the past five years.

In the UK, when you die, the government assesses how much your estate is worth. It then deducts your debts from this to give the value of your estate.

Assets include any cash in the bank, investments,

HOW TO SAVE THOUSANDS IN INHERITANCE TAX

Inheritance tax can cost hundreds of thousands in the event of your death, yet it is possible to legally avoid huge swathes of it, or possibly pay none at all.

- **Gifting assets.** Transfers of assets to younger relatives made seven years or more before death are not usually taxed. So, anyone who has a buy-to-let property, for example, can put it in the name of one of their children, if they do not need the income from it to support their retirement, in enough time for the seven-year exemption to apply.
- **Gifting money.** Beyond property, you can give cash or shares to your family at least seven years before you die.
- **Buying AIM shares.** The UK government has attempted to use the tax system to subsidise investment in businesses that would otherwise struggle to raise funding. To this end, it has made shares in companies listed on the Alternative Investment Market (AIM), exempt from inheritance tax when bequeathed.
- **Trusts.** Putting money or assets into a trust can protect it from liability for IHT. The government says that if you die within seven years of a transfer into a trust, the estate will pay the death duty at the full rate of 40%. If a payment is made into a trust during one’s lifetime, and you do not die within seven years, a charge of 20% is payable.

All the above solutions were simplified and are not a comprehensive list.

It is always worth talking to a specialist about your specific case.

properties or businesses owned, vehicles and payouts from life insurance policies.
Your estate will owe tax at 40% on anything above the £325,000 inheritance tax threshold.

Inheritance tax is one of the most controversial fiscal policies. Some countries simply do not apply it. The idea is that without it you perpetuate inherited wealth, so the rich stay rich generation after generation.

Inheritance tax aims to redistribute income so some of the money goes to the state to be distributed for the benefit of all. Critics argue that when money is earned, tax is paid at the time, so with inheritance tax you are actually paying tax a second time.

Critics are also keen to highlight that the UK's wealthiest individuals and families with the largest estates on death are paying half the effective inheritance tax (IHT) rate of many smaller estates.

With house prices – usually someone's most valuable asset – increasing over the years, many more people that would not be considered rich have been caught by the inheritance tax threshold.

To tackle this, the government revealed in 2015 that this duty would be scrapped when parents or grandparents pass on a home worth up to £1m (£500,000 for singles). This is being introduced gradually until April 2020.

However, it is not as straightforward as it seems. The current allowance whereby no inheritance tax is charged is on the first £325,000 (per person) of someone's estate.

Couples can leave a home worth £650,000 without it attracting inheritance tax (singles £325,000). Above the threshold, the charge is 40%. This remains unchanged. What has changed is the introduction of a residence inheritance tax (IHT) nil rate band (RNRB).

Launched in the 2017/18 tax year this residence allowance is only valid on a main residence and where the recipient of a home is a direct descendant (as children, step-children and grandchildren). This is gradually being phased in and is in addition to the existing allowance.

This additional allowance gave homeowners an extra £125,000 when passing their house to their children or grandchildren. This RNRB rose to £150,000 for 2019/2020 and will rise to £175,000 in 2020/2021, after which it will rise in line with inflation.

RNRB ALLOWANCES

Tax year	Resident Nil Rate Band (£)	Nil rate band (£)	Combined allowances (£)
2018/19	125,000	325,000	450,000
2019/20	150,000	325,000	475,000
2020/21	175,000	325,000	500,000

At its simplest, in 2020/21 when the full RNRB is in play, a married couple would not pay IHT on £325,000 + £175,000 = £500,000 x 2 spouses = £1m where the RNRB applies.

On properties worth between £1m and £2m, inheritance tax will be paid as normal on the amount above the tax-free amount.

For the tax year 2019/20 everyone is entitled to leave an estate valued at up to £325,000 plus the main residence band of £150,000 giving a total allowance of £475,000. For estates under this the beneficiaries will not pay any inheritance tax.

If you leave behind assets worth £500,000, your estate pays nothing on the first £475,000 and 40% on the remaining £25,000. A total of £10,000 in tax if you are not leaving anything to charity.

For the above example, all sums double in the case of a married couple or in a civil partnership.

THE NEED FOR PROPER PLANNING

As the middle-class gets caught in the IHT net, the UK's super-rich are paying just half the effective inheritance tax rate of many smaller estates, according to an analysis of HMRC data by Canada life.

"THERE IS A MYRIAD OF POTENTIAL SOLUTIONS IN AN ADVISER'S KITBAG TO HELP MITIGATE IHT AND SOME SMALLER ESTATES CAN CERTAINLY BENEFIT FROM THESE TO REDUCE THE TAX PAYABLE"

Neil Jones, Canada Life

The figures, provided as part of a freedom of information request, show that estates worth £10m or more pay 10% IHT on average, around half the rate paid (20%) paid by estates worth between £2m and £3m.

The difference is down to what it calls 'deep inconsistencies' in the way different assets are taxed for inheritance purposes, which in turn leads to similarly sized estates paying significantly different rates of tax.

According to the analysis, the main reason for this is the fundamentally different asset composition for estates of different sizes. Larger estates typically have a much smaller percentage of their value in UK residential property (10%), which does not have high levels of tax efficient exemptions, and a much higher amount in securities (40%) which can attract 100% tax relief.

Neil Jones, from Canada Life, said: "This difference in the net tax rates paid by estate is not always down to the value of the estate or the different type of assets held in an estate.It is often about a willingness to plan.

"There is a myriad of potential solutions in an adviser's kitbag to help mitigate IHT and some smaller estates can certainly benefit from these to reduce the tax payable and increase the wealth being passed on to future generations.

"There is also a more fundamental issue of being willing to create an estate planning strategy. It's still somewhat taboo to talk about death and certainly many clients, and even advisers, undoubtedly find it difficult to introduce it, but it needs to be talked about."

Jones also argued that some aspects of inheritance tax are ripe for reform, pointing out that as it currently stands, some forms of equities bought just two years before death attract 100% inheritance tax relief.

"In our view, IHT needs to be simplified. The basic principle is simple however the piecemeal nature of the regulations can make it an uneven playing field. It will be interesting to see the second paper from the Office of Tax Simplification, looking at reliefs, when it is released in the spring and what it recommends," he said.

WHAT IF I AM AN EXPAT?

Just because you live abroad does not mean you are exempt from IHT. Unlike any other tax, UK IHT follows you around the world, regardless of where you may reside. That is because it is based on your domicile, not residence. The reason why understanding domicile is an important element of estate planning.

The basic rule is that a person is domiciled in the country in which they have their home permanently or indefinitely. Therefore, you can live abroad for many years and still remain domiciled in the UK.

Other countries have similar versions of inheritance tax, so depending on where you moved, inheritance tax may be payable twice, although in most cases the UK would give credit for the tax paid overseas. If the HMRC deems you as UK-domiciled, all your foreign assets are liable for IHT.

To acquire a domicile of choice, you must be physically present and a tax resident in your new country, have formed the intention of living there permanently and not foresee a return to the UK. You will also need to sever as many ties as possible with the UK. Even stating that you do wish to be buried in your homeland will count against our case. It takes at least three years to shed UK domicile for IHT purposes. You will be deemed domiciled in the UK for IHT if you were UK domiciled at any time in the previous three years, or were UK resident for any part of 17 of the last 20 tax years.

A financial adviser will help you establish your domicile status and show you what steps you can take to avoid these taxes for your heirs.

Families have also been caught sleeping on inheritance tax as they postpone seeking financial advice.

The lack of awareness around IHT in the UK has increased in the last year, with half (50%) of liable over-45s admitting to be unaware their main property could be subject to IHT.

According to Canada Life's latest edition of its annual report on IHT, the proportion unaware their main property may be subject to IHT has risen sharply from a third (36%) a year ago. Canada Life surveyed 1,002 UK citizens, holding assets exceeding £325,000.

The lack of knowledge extends beyond property to other assets. Over three fifths (62%) do not think that their pension savings are subject to IHT, compared to 57% a year ago. Two thirds (66%) are not aware that agricultural land is subject to IHT, a significant increase from 57% last year.

“IHT ignorance is rising at an alarming rate in the UK, and there is no indication that this will stop anytime soon,” Jones said.

For Dave Elzas, founder and CEO of Geneva Management Group, it is imperative that there is planning and that Britons use all the tools available to do it properly.

“Ultimately, if you have access to expertise, why not use it? It’ll save you worry in the here and now and prevent unnecessary stress for your beneficiaries in the future,” he said.

Canada Life figures also show that the majority (71%) of the UK population is unaware of the threshold they are taxed – set at £325,000. Confusion also persists around the nil rate band and the rate at which assets above the threshold are taxed (40%). The percentage who do not know what this rate is has remained broadly the same year-on-year (54% vs 55%).

Four in five (80%) over-45s believe the current IHT rules are too complicated, up slightly from 77% last year.

In January 2018, the Chancellor ordered a wide-ranging review of the inheritance tax system by the Office of Tax Simplification to investigate whether the current rules create any distortions to taxpayer decisions.

A report presented by the Office of Tax Simplification (OTS) to Parliament in November said Britain’s inheritance tax system was “complicated and confusing” and needed to be overhauled dramatically.

Paul Morton, tax director at the OTS, said: “The overall picture we gathered from people’s responses is that IHT is seen very much as an administrative burden.

“The overarching point that emerged is that IHT returns must be made even when there is no tax to pay. Returns are submitted in relation to about half of all UK deaths, even though IHT is payable on less than 5% of deaths.”

The OTS has suggested inheritance tax forms need be simplified, and that the claims process should be moved online to reduce levels of complexity.

Pedro Gonçalves is financial correspondent at *International Investment*.

A SIGH OF RELIEF

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A SIGH OF RELIEF

When discussing lifetime inheritance tax (IHT) planning, the more complicated trusts and IHT mitigation schemes available in the market can play an important role in a well-rounded approach to that planning.

However, to ensure IHT planning is carried out efficiently, it's important to also consider the various IHT exemptions and reliefs that are available and whether these can be utilised. *Simon Martin*, Technical Services Manager at Utmost Wealth Solutions, discusses some exemptions

The annual exemption – s19 IHTA 1984

The IHT annual exemption is currently £3,000 per annum and, if it has not been used in a previous tax year, it can be carried over one tax year with the current year's allowance utilised first. If the annual exemption is not utilised in the tax year, or the following tax year, it is wasted. Making use of a client's annual exemption each year is therefore a very simple strategy to reduce exposure to IHT.

The annual exemption is allocated to lifetime gifts in chronological order, i.e. in the order in which they are made. It is also important to understand that the annual exemption is still notionally allocated to potentially exempt transfers (PETs) such as lifetime gifts to children, even though such gifts are not chargeable to IHT at the time of transfer.

For this reason, when making both PETs and chargeable transfers in the same tax year, chargeable transfers should be ideally made first to reduce any potential immediate charge to IHT. If a PET is made first then this will effectively waste the exemption if the donor survives the seven years that are needed for the gift to fall out of cumulation. This can be important where the settlor is considering the use of trusts and making gifts in the same tax year.

The spousal exemption – s18 IHTA 1984

Transfers between married couples or civil partners are fully exempt. However, where the transferee is a non-UK domiciled the exemption is limited to £325,000. This limit was altered, amongst other changes, in the Finance Act 2013 and some readers may recall the previous limit was just £55,000. A non-domicile may make an election to be treated as UK domicile for the purposes of IHT under s267ZA IHTA 1984 and this election can be back-dated by 7 years (although currently restricted to 6 April 2013 when the changes came into place). The election can also be made within 2 years of death by the Personal

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"Gifts which are made out of a person's surplus income are exempt if they are regular and the transferor is left with sufficient income following the gift to maintain their standard of living. This exemption is often discussed by advisers and can certainly be of significant benefit when considering IHT planning"

Simon Martin, Utmost Wealth Solutions

Representatives (PRs). The election once made is irrevocable although would fall away once the person becomes non-UK resident for four consecutive tax years.

This election may be very useful if the UK domiciled spouse/civil partner has significant wealth as it would allow the couple to equalise their estates. Following death, the use of the election may also be favourable for a non-UK domiciled individual – especially where they may be intending to permanently leave the UK anyway, thus 'shaking off' their election.

Gifts for the maintenance of family – s11 IHTA 1984

Another exemption that is quite interesting is the gifts for maintenance of family under s11 IHTA 1984. Any gifts that are made for the 'maintenance' of a family member can be fully exempt. This would include gifts made for the maintenance of a person's spouse or civil partner. It could also include gifts for the maintenance, education and training of a dependent child (including an illegitimate child, step child or adopted child).

Furthermore, gifts made for the care and maintenance of a dependent relative are also covered under this exemption. You may note here that this exemption is slightly different when applied to a dependent relative, as it introduces the concept of care and maintenance s11(3) IHTA.

Definitions of "maintenance" and "care" are not actually given in the legislation itself but HMRC practice notes do provide some additional commentary. They state that maintenance can be considered as "maintaining the beneficiary in the condition of life which is appropriate to a dependant of the transferor".

This would include, for example, paying for the food and clothing of a child. They also confirm that, for the purposes of the providing care and maintenance for a dependent relative, "care" would include providing reasonable provision for care services whether privately or in an institution.

This would suggest reasonable payments to cover care home costs would perhaps be within scope of s11 – although this is clearly quite a subjective point!

Gifts not intended to confer gratuitous benefit – s10 IHTA 1984

Clearly, just spending money is a simple way of reducing your estate.

Transactions between ‘unconnected’ parties are not considered to be transfers of value.

For example, if a person buys a speedboat from someone else then this would simply be a commercial transaction with no associated gift – i.e. the person gives cash and receives the speedboat in return (and perhaps a Bullseye tankard and some darts under the seat?!).

Where persons are deemed ‘connected’ then the transaction must be at arms-length; that is to say the monies transferred must reflect the open market value. Any difference between the amount exchanged and the true commercial value would be considered to be a transfer of value if it is in excess of any annual exemptions.

> **“While appropriate consideration of the various reliefs may address the IHT concerns of many, there are other options, including trust-based arrangements, that can help mitigate IHT beyond the scope of the reliefs’**
>
> **Simon Martin, Utmost Wealth Solutions**

Small gifts exemption – s20 IHTA 1984

Unlike some of the other exemptions, this is a ‘stand-alone’ exemption. In other words, it cannot be used in conjunction with other exemptions, such as the annual exemption or gifts in consideration of marriage exemption. Under this exemption a person is able to make transfers of up to £250 a year to any number of people and they are fully exempt.

However, if the gift exceeds £250 then the relief is not available. This exemption could be quite useful for grandparents as it can allow them to make gifts to all their grandchildren each year. For example, if a person had 10 grandchildren then they could gift £2,500 each year under this exemption alone.

Gifts to charities, registered clubs, political parties, housing associations or for national purpose – s23-25 IHTA 1984

There are numerous exemptions in IHTA 1984 for gifts to various types of organisations. These can be very useful, but it’s very important to make sure the gift qualifies under the relevant section.

The case of Arron Banks demonstrates this quite well. Arron Banks made a significant donation to UKIP in the tax year 2014/15 and claimed this was exempt under s24 IHTA 1984 – i.e. it was a gift to a “political party”. HMRC argued that this failed the definition under s24(2) which required that at the last general election either: at least two members were elected to the House of Commons; or one member was elected to the House of Commons and not less than 150,000 votes were given to candidates who were members of that party.

At the time UKIP had two MPs but both had been elected in bi-elections – so the test had failed. A case was filed on the grounds of human rights but the case was rejected.

The court was not able to re-write legislation and, whilst the drafting was perhaps dated, updating this is a matter for parliament not the courts.

Regular gifts out of income exemption –s21 IHTA 1984

Gifts which are made out of a person's surplus income are exempt if they are regular and the transferor is left with sufficient income following the gift to maintain their standard of living.

This exemption is often discussed by advisers and can certainly be of significant benefit when considering IHT planning.

Under this exemption people with significant excess income can potentially gift this income away each year and thus reduce their exposure to IHT.

However, where this exemption is used for significant gifting the estate will not qualify as an 'excepted estate' whereby only a short IHT form (IHT205) is needed.

In other words, the PRs on death will need to fill in the longer IHT400 death form. Here they will need to use form IHT403 to detail any gifts made prior to death including gifts made using this exemption which exceed £3,000 p.a. As a result, the PR's may need to be able to evidence any information provided on form IHT403 if questioned by HMRC so clearly accurate records would need to be kept on both the gifts themselves and the spending pattern of the transferor. Otherwise, should this exemption be challenged, it may be rather difficult for the PR's to demonstrate the very subjective third arm of the test, i.e. that the transferor was left with sufficient income to maintain their standard of living.

Reliefs

Various other reliefs are available to reduce the IHT liability on gifts made during lifetime. These include relief for transfers in respect of either business property or agricultural property. Relief here can be as high as 100% of the value transferred and thus it is important to make sure, where possible, the transfers are made to otherwise chargeable persons or into trusts where the transfer is considered a chargeable transfer for IHT purposes. Where business property is transferred to, say, a UK-domiciled spouse, business property relief may effectively be wasted as this could have otherwise qualified as an exempt transfer under the spousal exemption.

While appropriate consideration of the various reliefs may address the IHT concerns of many, there are other options, including trust-based arrangements, that can help mitigate IHT beyond the scope of the reliefs. Help is available in the market to assist with these more complex scenarios.

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TOP 5 ADVISER IHT QUERIES

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THE TOP 5 ADVISER INHERITANCE TAX QUERIES

Inheritance tax (IHT) is clearly one of the most pressing concerns among advisers. Here, *Francesca Gandolfi* and *Kim Jarvis* list the most common queries from advisers, including crucial information on exemptions, periodic charges, and the 14-year shadow

1. TRANSFERABLE NIL RATE BANDS.

If, on first death, everything is left to the surviving spouse/civil partner, does the survivor now have a lifetime gift threshold of £650,000?

Unfortunately the answer is no, as any available transferable nil rate band (TNRB) can only be used against the IHT arising on the death of the surviving spouse – it is not eligible to be used by the surviving spouse/civil partner for lifetime gifting.

There is also a lot of confusion around transferring the residence nil rate band (RNRB), which was introduced in April 2017. The RNRB is transferable between spouses/civil partners on death, much like the standard nil rate band (NRB). It is the unused percentage of the RNRB from the estate of the first to die which can be claimed on the second death. If the first death occurred before April 2017, on the survivor's death there will be a 100% RNRB available irrespective of whether the first death owned residential property. However, if the first death's estate was greater than £2m, then the RNRB would be tapered.

Remember that nil rate bands transfer as percentages not amounts, ensuring that the NRB at the time of the second death is increased by the proportion of the NRB unused on the first death. For example, Janet died in 2008/09 when the NRB was £312,000. She left £156,000 to the children and everything else to her husband John who subsequently died in 2018, when the NRB was £325,000. As 50% of Janet's NRB was unused John's personal representatives can increase his NRB by 50% to £487,500. John's personal representatives would also be able to claim 100% of Janet's RNRB as her estate was less than £2m.

2. PERIODIC CHARGES.

What should be included at the tenth anniversary and what nil rate band needs to be used?

The answer depends on the type of trust. Calculating the value of a trust is relatively

straightforward if you are dealing with a discretionary gift trust, however it is a little more complicated for gift and loan trusts and discounted gift trusts.

Under a gift and loan trust, any outstanding loan due back to the settlor needs to be deducted from the value of the trust as the trustees have an outstanding liability that needs to be taken into account when calculating the net value of the trust.

For a discounted gift trust, if the settlor is still alive, the trustees have an obligation to provide the regular payments to them and the actuarial value of this commitment should be deducted from the value of the trust.
When looking at what distributions need to be factored into the periodic charge calculation, these refer to the distributions to beneficiaries.

If the trust allows reversions back to the settlor and these are correctly carved-out in the trust at outset, they will not be treated as distributions (for example, discounted gift trusts and flexible reversionary trusts). Likewise, neither will any loan repayments made to a settlor under a gift and loan trust be treated as a distribution.

Whether a ten-yearly anniversary IHT charge is payable or not, the reporting requirements apply where the value of the trust is over 80% of the available NRB (currently £260,000). The trustees may therefore have an obligation to report the trust to HMRC even though no tax charge arises.

The trustees then need to consider the NRB available to the trust. The amount available will be the NRB at the tenth anniversary less any chargeable transfers made by the settlor in the seven years before this trust was created. From this you can see that the trustees will need to be aware of previous transfers made by the settlor and that these gifts can have an impact for the lifetime of the trust.

Let us consider an example:

- In January 2013 Lisa made a gift of £400,000 to her daughter. As this is a potentially exempt transfer (PET) no tax is payable.
- In January 2017 Lisa sets up a discretionary trust with a gift of £200,000. Lisa regularly used her £3,000 annual gift exemption. This is a chargeable lifetime transfer (CLT).
- As the CLT is below the available nil rate band no tax is payable.
- Lisa sadly dies in January 2019.
- In January 2027 the trustees must calculate whether a periodic charge is due. The trust value has grown to £250,000 and the NRB has increased to £350,000.
- As Lisa died within seven years of the PET, the PET failed and became chargeable. As the failed PET was £400,000 the available NRB at the ten-yearly anniversary (2027) is zero.
- Therefore a periodic charge will be payable in 2027 on the trust of 6% x £250,000 = £15,000.

As more discretionary trusts approach their tenth anniversary, questions around how the periodic charge is calculated have increased.

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3. 14 YEAR SHADOW.

When does the shadow take effect?

The 14 year shadow is only an issue if, on death, the total of the CLTs and PETs made in the previous seven years exceeds the available nil rate band, meaning that tax is payable.

For those considering making a PET and a CLT at or around the same time, it is logical to make the CLT before the PET as this can impact the periodic charges. However, when making a PET the donor should also be wary of any CLTs made in the previous seven years, and this is where professional advice is paramount.

Let's consider two clients, Bert and Eric. Both die on 6 April 2022, when the NRB is £370,000, with estates valued at £500,000 each. Both had made gifts in the previous seven years:

- Bert made a £200,000 outright gift to his daughter on 6 April 2015 and then a £200,000 gift into a discretionary trust on 6 April 2018.
- Eric also made the same gifts but he settled the £200,000 into the discretionary trust on the 6 April 2015, with the outright gift to his daughter on the 6 April 2018.
- Both are divorced so when calculating the tax payable on the estates they have one NRB. Bert and Eric's 2015 gifts can be ignored as they survived seven years, but the 2018 gifts need to be considered. Both use up the NRB first, meaning that the estate has a NRB of £170,000 (£370,000 - £200,000). This results in £330,000 being taxable at 40%, giving an IHT liability on both estates of £132,000.

But if both estates have the same tax liability where does the 14 year shadow come in?

Now we need to consider the tax on Eric's 2018 failed PET. In considering the tax on the estate, we have to look back at the history of gifts in the seven years before death. However, when looking at the tax on a failed PET, we have to go back seven years from the date of the PET; and Eric had made a CLT within this seven year period.

Even though it was made more than seven years before death, the CLT now needs to be taken into account in calculating the tax on the failed PET. Consequently, the failed PET has to be placed on top of the previous CLT, meaning that there is an extra liability of £7,200 ((£200,000 + £200,000) - £370,000 x 40% x 60%).

Although, taper relief is available here, the point is that CLTs made in the seven years before PETs can continue to have an impact.

4. WHAT IS THE DIFFERENCE IN DOMICILE AND RESIDENCE?

Domicile should not be confused with residence. It is, in simple terms, the country in which you have your permanent home. If you leave the UK, you do not automatically change your domicile and you will still be treated as UK domiciled for the next three calendar years for the purposes of IHT.

If you are from a foreign country and have come to live in the UK, you are treated as 'deemed domiciled' and charged to IHT once you have been resident here for at least 15 out of the last 20 tax years.

If you are not domiciled, or deemed domicile, in the UK, IHT will only be levied on your UK assets if their value exceeds the nil rate band threshold.

5. WHAT EXEMPTIONS AND RELIEFS ARE AVAILABLE?

There are a number of exemptions and reliefs available to individuals bother during their lifetime, and on their death, including:

- Transferable nil rate band – if all assets pass from one spouse/civil partner to another on death, any unused portion of the nil rate band of the first to die also transfers, leaving the surviving spouse/civil partner a potential £650,000 nil rate band.
- Spouse or civil partner exemption – assets passed between spouses/civil partners during their lifetime are not counted as gifts when valuing an estate.
- £3,000 annual exemption – a person can give away £3,000 in any one tax year free from IHT. This can be carried forward but only by one year, and only where the full allowance is used for the current year.
- Charity exemption – donations to registered charities are not counted as gifts when valuing an estate.
- Small gift exemption – a person can make outright gifts of up to £250 in total, to each of any number of people in one year, and these will be exempt from IHT. The total of any one person's allowance cannot form part of any larger gift.
- Other exempt gifts include cash or gifts for weddings or civil partnership ceremonies. On these occasions parents can each make gifts worth £5,000, grandparents £2,500 and anyone else £1,000 and these will be exempt from IHT.
- Regular gifts out of income may also be exempt from IHT.
- Business and agricultural property relief – if an individual own shares in a trading company, company property (provided they are a majority shareholder) or agricultural property, this relief may reduce their inheritance tax liability.

Francesca Gandolfi and Kim Jarvis are Technical Managers at Canada Life International.

Canada Life has a track record of delivering estate planning solutions over more than four decades, and is recognised within the industry as a leading authority on estate planning. You can find out more about its solutions on its website.

Canada Life International

EXPERT VIEWS

Planning for any IHT liabilities is one of the most complicated challenges for financial advisers in the cross-border advice marketplace.

Gary Robinson spoke to some of the world's leading financial advisers

SIMON PARKER

Chief Operating Officer, Holborn Assets

How challenging is IHT advice for an international adviser? Looking solely at those that are UK-domiciled, the challenge is more to do with lack of knowledge – very few international advisers are Estate Planning / IHT savvy.

What type of products do you utilise to help clients with IHT liabilities? Portfolio Bonds; Discounted Gift Trusts; Loan Trusts; Whole of Life Insurance; UK Pension Trusts (e.g. SIPPs); and Offshore Pension Trusts (e.g. QNUPS).

Wide ranging advice such as: Potentially Exempt Transfers; Chargeable Lifetime Transfers (must have regard to seven year rule and taper relief); create a debt on your UK sited assets – e.g. a mortgage on your UK property; equalise your estate between husband and wife to utilise nil rate band; give annual cash gifts to family; write policies in trust to be out of your estate; make sure you have an up to date will; gifts to charities are exempt; have investments in assets that do are outside the IHT net such as UK forest.

What are the common cross-border difficulties for clients looking to reduce IHT liability? If you are UK domicile cross border is irrelevant because your estate is charged IHT on world-wide assets (non domicile is a different ball game). The advantage of non-residents is they have access to products such as QNUPS.

STEFAN TERRY

Senior Partner (Dubai), Holborn Assets

What regions cause more IHT issues traditionally for clients?
The interesting and current issue with non doms is things have changed with effect April 2017 and April 2018. The most important change is that long term non doms living in UK will be deemed domiciled UK after 15 years (previously 17 years) for income tax purposes, capital gains and Inheritance tax purposes.

Furthermore, any trusts that were created whilst a person was a non dom and non-resident UK will now be treated as if they were created by a UK dom when they return to UK.

Trusts for non doms will continue to play a big part in financial planning for instance non-UK sited assets held by trusts set up before an individual is deemed-dom for inheritance tax will remain outside the scope of inheritance tax, subject to the new rules regarding UK residential property held through overseas companies.

Non-doms who are not already deemed-dom under the new rules should consider the creation or further use of foreign trusts to hold investments.

There is lots more [to this] but you need expert tax advice.

NIGEL GREEN

CEO and founder, deVere Group

How challenging is IHT advice for an international adviser? International financial advice, by its very nature, is challenging due to the issues of working with each jurisdictions' different tax regimes and regulatory requirements, combined with the personal situation of each individual client.

However, rules on IHT are often seen as one of the most challenging areas of all – partly because they change frequently. This is why we believe that it is essential to have an expert technical team to enable international advisers to consistently keep fully abreast of all the changes and technical issues.

There is also the fact that clients, understandably, often find it extremely uncomfortable to discuss what happens in the event of their own death. This can often mean that tackling the IHT issue is left until someone has already died, which drastically reduces the options available to the loved ones.
What type of products do you utilise to help clients with IHT liabilities? There are a whole range of different structures for different countries in order to shield clients from IHT liabilities. However, there is no one-size fits all and the type of financial solution will, of course, depend on the circumstances of the individual client.

TIM SEARLE

Chairman, Globaleye

How challenging is IHT advice for an international adviser? IIt is not a challenge per se but a mind set and whether you want to explore this space since it can be a tad more complicated. this space has been typically filled by trustees and various fiduciary types but with the direction of travel on disclosure, the old tricks of trying to mitigate it are fewer. Couple this to DOTAS, GAAR and CRS the opportunities to mitigate legally are becoming slimmer and hence the combined efforts of a professional adviser, lawyer, trustee and insurance specialist are essential.

What type of products do you utilise to help clients with IHT liabilities? There are various forms of trust which can be used but these are becoming more complex and less flexible, this is particularly the case for offshore company structures.
The best way to tackle IHT, certainly in the eyes of any tax authority, is to just pay it or use an insurance policy that pays it for you.
We use innovative insurance structures alongside your property portfolio to devise cost effective solutions for this and we work with trustees to collaboratively help their clients.

What are the common cross-border difficulties for clients looking to reduce IHT liability? IHT or as I prefer to call it, death tax, varies between jurisdictions and hence there is a more planning required the more complex the estate of the client concerned.

What regions cause more IHT issues traditionally for clients? No one territory stands out; the real issue is clients understanding/accepting they have an issue in the first place. IHT is paid by those who do not trust their heirs and/or have not taken advice while they still could.

HUW WEDLOCK

Director, The Fry Group – Asia

How challenging is IHT advice for an international adviser? In the last tax year IHT receipts jumped by 44.4% to a record £5.4bn according to HMRC – a significant jump and an important source of revenue.

The UK IHT tax charge can be as high as 40% on the value of an estate above £325,000. Therefore, providing effective IHT planning is fundamental. When it comes to working with British expatriate clients, the largest challenge is domicile status.

From a client's perspective, the earlier the client has received an informed judgement on their domicile position, the better, since the later in the day that

"CROSS-BORDER DIFFICULTIES ALL REALLY STEM BACK TO DOMICILE – IHT LIABILITIES ARE DRIVEN BY YOUR DOMICILE, NOT YOUR RESIDENCY POSITION, AND FOR US, THIS IS A CORE AREA OF ADVICE. HOWEVER, OTHER COMMON CROSS BORDER ISSUES INCLUDE FINDING LEGAL SERVICES IN LOCAL MARKETS THAT CAN DRAFT YOUR WILL PROPERLY AND UNDERSTAND THE NUANCES OF UK IHT LIABILITIES"

Huw Wedlock, The Fry Group – Asia

any IHT planning is left until, the harder it becomes to get the fully-desired outcome.

This can often be compounded by other issues, such as clients with multiple families in different jurisdictions that will be included in that client's will, a further challenge that advisers might need to bear in mind when working in expat clients.

Non UK domiciles who are moving to the UK have a time limited exemption from IHT on overseas assets; careful planning can overcome that time limited exemption but early action is needed.

What type of products do you utilise to help clients with IHT liabilities?IHT advice needs to be delivered on a case by case basis – there is no silver bullet that will solve all circumstances.

At the end of the day, you broadly need to consider three main questions: how much clients will spend between now and the end of their life, if they want to insure their wealth, or if they are going to retain most of their wealth, if so a trust solution is likely to be beneficial.

Typically, most clients seek planning that will incorporate all three approaches.

Trust planning has always been a very important solution to offer. Trusts for UK and non-UK domiciles are different, and the types of trust solutions we use at The Fry Group are driven by whether or not a client needs access to capital or income from the trust; their age and health; their overall level of wealth; and their gifting history.

What are the common cross-border difficulties for clients looking to reduce IHT liability? Cross-border difficulties all really stem back to domicile – IHT liabilities are driven by your domicile, not your residency position, and for us, this is a core area of advice. However, other common cross border issues include finding legal services in local markets that can draft your will properly and understand the nuances of UK IHT liabilities. Understanding the interaction between different tax regimes is also extremely important.

What regions cause more IHT issues traditionally for clients? Generally, regions that are considered low tax.

Take some of the markets in Asia as an example, where tax is often lower. If you are working in Asia, your estate grows quickly, and this can create IHT issues for clients because of this, that might not exist otherwise.

Additionally, you often find that that clients have second or third families in different tax jurisdictions if they are expats. This can create IHT issues and detailed trust and estate planning is essential.

Finally, anywhere with rules on forced heirship can be a burden to overcome, which you typically find in markets in Islamic countries and countries governed by common law.

JULIAN VYDELINGUM

Chartered Financial Planner, AES International

How challenging is IHT advice for an international adviser? IHT and estate planning advice can be very challenging for an international adviser for a number of reasons. For instance, some expatriate clients do not intend to retire in the country they are currently residing in; therefore, they can often have difficulty quantifying how much they will need to retire on and, consequently, how much they can afford to gift or settle into trust to mitigate IHT. In addition, it is more common to meet couples with differing domiciles when working internationally, meaning additional planning considerations and finding an adviser with cross-border expertise and qualifications become increasingly important.

What type of products do you utilise to help clients with IHT liabilities? Typically, there are a variety of solutions which can mitigate IHT depending on how much control a client is willing to retain over their capital. These include gifting or loaning money to a range of trust arrangements, using excluded property trusts for non-doms who intend to settle in the UK and drawing up a considered gifting strategy either out of normal expenditure or from capital. Insuring against an IHT liability is also something we can advise on; however, compared to markets such as the UK, there is a comparatively small selection of insurers with suitable structures for clients.

DAVID HOWELL

Joint MD, Guardian Wealth Management

How challenging is IHT advice for an international adviser? Understanding domicile and residency, and how these factors impact on UK inheritance tax, is far from straight forward. Complex estate planning advice should really be given by tax and trust professionals, and not financial advisers.

What type of products do you utilise to help clients with IHT liabilities?
We give financial planning advice, which encompasses IHT should the client which to address this, as some clients may just want their remaining estate on 2nd death to be subject to estate duties/tax.

Generally speaking, to mitigate inheritance tax the options are as follows: do nothing and don't mitigate; gift capital outright (if it is appropriate to do so); gift capital into trust (if the recipients are minors and / or vulnerable, or for 'blood-line' protection); gift out of surplus income; charitable gifting; insure against the potential liability; invest using inheritance tax efficient strategies (i.e. pension or AIM / BPR qualifying assets if applicable); and spend it!

Depending on the size of the estate, cash-flow planning can play an important role because it is essential that the donor establishes exactly how much capital (and income) really is surplus. They must also ensure that they do not continue to receive any value or utility as donors, because this will end up being discounted as a gift by HMRC for inheritance tax purposes.

What are the common cross-border difficulties for clients looking to reduce IHT liability? The main difficulty is most clients do not understand how local tax law affects their own personal tax position, locally and internationally. Whether or not a jurisdiction has a tax agreement with the UK – and time spent in that particular jurisdiction – will largely drive how they are taxed during their lifetime, and on death.

What regions cause more IHT issues traditionally for clients?
From a personal tax perspective, probably the US. As has been well documented, anybody with a US connection will probably be caught in some way by the FATCA net. As a result of FATCA, the number of financial institutions willing to advise US nationals and/or US residents has diminished significantly. The lack of expertise has made it very challenging.

DIRECTORY: PROFESSIONAL SERVICES

A listing of some of the biggest
players in offshore financial services

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Profile: Canada Life International Limited (CLI) established 30 years ago remains one of the leading offshore providers with assets under administration of £14.3bn (as at 31 March 2017). CLI is the only offshore insurer to maintain a five-star AKG Annual Financial strength rating for 14 consecutive years. Through CLI Institutional Limited, institutional and UHNW clients have a level of policyholder protection that isn't otherwise available in the UK offshore market. In 2015, CLI also completed the acquisition of Legal and General International (Ireland). This has enhanced the choice available to UK investors by providing them with a choice of jurisdictions within one compelling offshore proposition.

Offering: Canada Life International Limited (CLI) offer a wide range of regular and single premium investment bonds, tax and estate planning solutions and whole of life protection solutions. Our investment options include full open architecture, links to over 40 platforms and over 150 discretionary investment managers as well as over 150 internal linked funds. Our team of technical specialists offer more than 200 years of experience in taxation, trusts, estate planning and pensions between them. In addition, we publish and back our service standards with a no quibble, non-performance penalty system.

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Profile: Generali Worldwide is a wholly owned subsidiary of the Generali Group. Founded on the strength of this international presence and wide-ranging expertise, Generali Worldwide specialises in offering life insurance-based wealth management and employee benefit solutions to a global audience, including multinational organisations, international expatriates and local resident populations in licensed territories.
The company's head office is based in Guernsey, a premier international financial centre, and is a registered insurer under the Insurance Business (Bailiwick of Guernsey) law, 2002 (as amended). It is also an authorised insurer in the Bahamas, British Virgin Islands, Cayman Islands, Hong Kong, Jersey and Singapore.

Offering: A range of individual unit-linked regular and single premium-based savings, retirement and investment plans and an open-architecture portfolio bond along with group retirement and savings products, group life and disability and healthcare products.

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Profile: Hansard International has been providing innovative financial products and services for international clients since 1987 and forms part of Hansard Global plc, which is listed on the London Stock Exchange. We administer assets in excess of US$1bn for over 500 financial advisor businesses with over 40,000 client accounts, in over 155 countries. We are celebrating our 30th anniversary in 2017, and already planning ahead for the next 30 years.

Offering: In the ever-changing landscape of financial services, Hansard International prevails as a steady and constant presence. Whilst other providers around us have changed their name, ownership, identity and focus over the years, Hansard International has remained committed to providing innovative financial products and services for financial advisers and their international clients. This strong heritage, which is coupled with exceptional levels of service and a focus on innovation through the use of technology, makes us an exceptional proposition in our marketplace.

Investors Trust

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Profile: Investors Trust was established in 2002 as an international insurance group to provide a modernised approach with products designed to meet the demands of different markets. Over the years, Investors Trust has become a leader in the industry by continuing its focus on flexible solutions, enhanced opportunities, advanced technologies and world-class customer support.

Offering: Investors Trust works with some of the world's top asset managers under its convenient open architecture platform. Specialising in medium to long term unit-linked investment products, Investors Trust offers a broad range of flexible solutions to satisfy the individual needs of international investors. With multiple jurisdictions to choose from, Investors Trust gives investors the power to select and build a plan that fits their current lifestyle while generating wealth to reach their financial goals.

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Old Mutual International is a leading cross-border provider of wealth management solutions. Our aim is to help financial advisers manage and grow their clients' investments; not just for their own future, but for their family and the generations to come.

We are one of the few financial service providers to operate in multiple global markets, offering effective financial planning solutions to expatriates and local investors across the world including Africa, Asia, Europe, Latin America, and the Middle East.

In an ever-changing regulatory landscape, it's crucial that financial advisers stay ahead of the game. We are here to give them all the support and technical expertise they need to help them maximise opportunities for their clients.

Old Mutual International is part of Quilter, a leading provider of advice, investments and wealth management both in the UK and internationally, managing over £100 billion of investments on behalf of over 900,000 customers (as at 31 March 2018). Quilter plc, our group holding company, is listed from 25 June 2018 on the London and Johannesburg stock exchanges.

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Profile: Premier Trust offers a uniquely tailored suite of unit-linked products that grant international investors the opportunity to create a portfolio of investments in a simple and sustainable manner. Premier Trust, part of PA Group's Life and Investment division, provides clients access to some of the world's leading fund and asset managers as well as best-in-class custodians. From protecting our clients' health with worldwide coverage to helping them achieve a successful financial future, PA Group creates financial security road maps for life's most significant events. For over 18 years, PA Group has guided and protected our clients with comprehensive health and wealth accumulation solutions.

Offering: Our investment products include regular savings and lump sum premium plans with principal protection in multiple currencies (USD, AUD, EUR, GBP), as well as plan options with a broad selection of investment funds and ETFs. With a dedicated administration team and a proprietary online platform, Premier Trust delivers personalised customer service with multi-language support to advisers and clients in over 40 countries. For more information on Premier Trust's investment solutions, visit www.premiertrustglobal.com.

RL360°

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RL360° is one of the fastest growing international life companies, with offices around the globe and policyholders residing in 170 countries at all points of the compass.

We're part of International Financial Group Limited (formerly RL360 Group), which has 70,000 policyholders, in excess of US$10 billion assets under management and 335 staff.

Investing with RL360° means choosing a financially strong and uniquely structured company. We have a B+ rating from actuarial consultancy AKG, as well as 4 stars for service. And you can take great confidence from our Isle of Man location, a well-established global financial centre with an outstanding reputation for investor protection and security.

utmost™ WEALTH SOLUTIONS

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Profile: With a 25-year heritage, Utmost Wealth Solutions is a provider of award-winning offshore bonds for high-net-worth UK residents. Having recently opened a Dublin office to complement our long-established Isle of Man base, we can now offer a choice of jurisdiction in addition to a range of investment options, including a bond with full discretionary management. Recognising the complex and continually changing financial planning landscape, our highly-respected technical support can help you consider appropriate solutions for your high-net-worth clients. With £12bn funds under management and 36,000 policyholders (31 December 2016), we're here to make a wealth of difference.

Offering: Flexibility and choice are at the heart of our single premium bonds. Our Isle of Man-based Evolution offers access to a wide range of investment options. The Estate Planning Bond, also Isle of Man-based, is combined with a discounted gift trust and is designed for IHT planning. We also have two Dublin-based life assurance bonds. Selection offers access to a wide range of open architecture investment options, while Delegation provides access to all the investment flexibility offered via a discretionary fund manager. Utmost Trustee Solutions, our in-house trustee service delivers expert support in all trust administration matters

Thank you for reading

INTERNATIONAL INVESTMENT'S INHERITANCE TAX SPECIAL REPORT