



IHT SPECIAL:

REFORMING THE GOLDEN GOOSE

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A special edition devoted to IHT



INTERNATIONAL NEWS

Product, economic, company and jurisdiction news updates from around the globe



A TAXING REVIEW

Utmost's Simon Martin on the current status of IHT in Britain



HANDS OFF!

You may not be able to avoid paying IHT, but you do have some control over how much you pay



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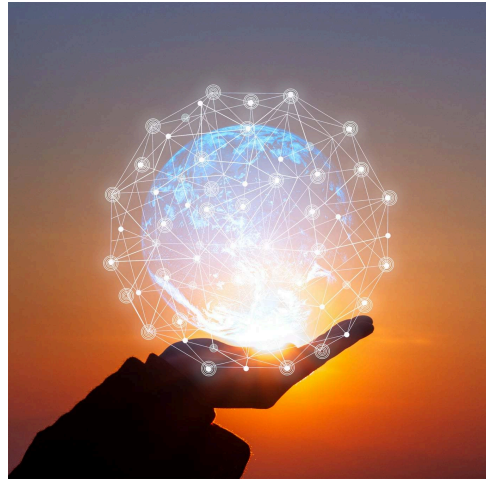


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Professional services

Some of the biggest players in offshore financial services

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A hand is shown opening a small, dark wooden treasure chest. The chest is filled with numerous gold coins, some of which are spilling out. Several stacks of gold coins are also visible on the surface next to the chest. The background is a dark, textured wall.

INTRODUCTION:

Inheriting, a mess



THE NIL-BAND RATE IS INCREASINGLY BEING CALLED INTO QUESTION, WITH MANY IN THE INDUSTRY CALLING FOR A COMPLETE OVERHAUL

– Christopher Copper-Ind, Publisher, *International Investment*

INHERITING, A MESS

Around the world, inheritance is becoming an increasingly taxing issue. More and more people in Britain are finding that their estates fall above the inheritance tax threshold, or nil-rate band, of £325,000.

The nil-band rate is increasingly being called into question, with many in the industry calling for a complete overhaul. Upon publication of the British government's receipts, Laura Suter, personal finance analyst at AJ Bell, commented: "Freezing rate bands is an age-old government trick to boost receipts as asset values rise and more people are dragged into paying tax."

In this special edition devoted to the subject, several voices from within the industry are calling for reform of IHT in Britain.

Writing for *International Investment*, Utmost's Simon Martin believes, "Anyone who has studied this piece of legislation will no doubt agree that the rules here are incredibly complicated." And Neil Jones from Canada Life International, argues that if the British government doesn't take action on the nil-rate band, then the market will.

Elsewhere, Pedro Gonçalves takes a wider look at IHT updates from around the world. And Tim Searle, from Globaleye, looks at how changes to UK property taxes are affecting nationals from the GCC.

NEWS: GLOBAL UPDATE

Round-up of the latest news from around the world

SPAIN

SPANISH COURT THROWS OUT SPAIN'S HIGHER IHT FOR NON-EEA RESIDENTS

Spain's highest court has ruled a long-standing and controversial Spanish practice of charging non-residents of Spain a higher rate of inheritance tax to be discriminatory and therefore unlawful, potentially setting the stage for those who have paid the higher rate to file claims for refunds, according to reports.

The practice is not acceptable even if the non-residents of Spain live in a third country that is not part of the European Union, according to the ruling, by the Tribunal Supremo (Spanish Supreme Court), last month.

As a result of this landmark case, non-EEA citizens who have paid Spanish inheritance tax in the last four years are expected to now be able to apply for a refund.

According to an analysis of the judgment by Antonio Barber, a Madrid-based tax partner with the Barcelona-based Cuatrecasas law firm, the

practice of charging non-residents of Spain more comes from a traditional Spanish “regional inheritance taxation system”, under which Spanish regions have been entitled to apply tax breaks and reductions when the deceased person

lived in their region.

The unfair tax treatment of non-Spanish residents attracted the attention of EU authorities some years ago, and eventually ended up in an EU Court





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of Justice judgment in 2014 that the regional tax differences had resulted in what Barber called “an unjustified breach” of EU regulations. It was this ruling that has now been upheld, and which now also applies to non-EEA residents.

Barber predicted that the judgment would have a “huge impact” on Spain’s current inheritance and gift tax rules, as it would not only force the Spanish authorities to amend their current legislation, but “opens the door for taxpayers to claim refunds of all taxes paid under the discriminative rules in the past four years, the standard term of the statute of limitations for taxes”.

“We estimate several hundred non-EU taxpayers to be entitled to apply for a refund of inheritance taxes paid [by them] to Spain during the last four years,” he told *International Investment*.

“In many provinces of Spain, [such as] Balears and Andalusia, foreign investments in real estate are huge. Most of the investors are EU residents – who are not affected by this last judgment, as the law was amended to give them tax breaks two

years ago. But there are still quite a few investments from the US, Latin America, China, etc.”

Mark Davies, managing director of Mark Davies & Associates, a London-based tax adviser to international clients, also saw non-residents of Spain who own Spanish property or who have recently inherited it as being potentially affected by the Spanish court ruling.

“If you have inherited property and paid tax within the last four years, then you, or the estate, may be due a refund,” Davies said.

“In other cases, if you still own Spanish property, you may need to review your arrangements for dividing up your estate on your death.

“In the light of this decision, you may wish to change your will, if you made decisions to give Spanish property to Spanish heirs only to save tax.”

Santiago Lapausa, a Marbella-based tax adviser with Abogados, who specialises in international

tax matters, stressed “the importance of where the property is located” where IHT matters are concerned.

“Spain is formed of 17 different regions plus two autonomous cities that are each empowered to regulate certain taxes, and inheritance tax in particular,” Lapausa said.

“As a consequence, the tax to be paid by, say, a 30-year-old who inherits from his father €800,000, of which €200,000 corresponds to his father’s house, would be nothing in Andalucía, but it would be around €1,586 in Madrid, compared to €155,393 in Aragón, or €103,135 in Asturias.”

The recent Spanish Supreme Court ruling, he added, opens the door for non-EU residents to request the application of the regional law in situations in which it would be more favourable for them than the state law – “as it happened in 2015, for EU residents further to EU Court of Justice judgment” – and to initiate a claim.

“We helped our EU clients to claim for their tax rebate after that ruling,” Lapausa added. **HB**

JERSEY

JERSEY LAUNCHES CONSULTATION ON TAX RESIDENCY CLAIMS

Jersey officials are looking for views on their plans for what companies need to do in order to claim tax residency in the island.

Described as “high-level” proposals, it is suggested that the Tax Department would be able to identify companies carrying out “relevant activities” including banking, insurance and fund management and impose substance requirements on them, which may include having physical offices and employees based in Jersey.

Those requirements could then be enforced through a series of measures including fines and, ultimately, striking a company from the register.

The published proposals are part of a consultation, which officials say would allow the island to meet the commitments made in 2017 to the EU Code of Conduct Group on Business Taxation.



THE CONSULTATION ON THESE PROPOSALS MAINTAINS OUR LONGSTANDING COMMITMENT TO TAX NEUTRALITY

Ian Gorst, Jersey's External Relations Minister

External Relations Minister Ian Gorst said in a statement: “The consultation on these proposals represents the latest step in the evolution of the Island’s international tax policy – and maintains our longstanding commitment to tax neutrality, transparency and that regulated financial institutions have a real physical presence in the Island.

“We strongly welcome input from industry practitioners and members of the public on these proposals,” he added.

In a 54-page report published in June, the EU Code of Conduct Group for Business Taxation outlined what they wanted to see.

According to the guidance, not only should businesses prove that they are undertaking research and development, marketing and branding activities, but should also be able to

provide: detailed business plans which allow to clearly ascertain the commercial rationale of holding IP assets in the jurisdiction; employee information including level of experience, type of contracts, qualifications, duration of employment; and concrete evidence that decision making is taking place within the jurisdiction.

Such information, it explained, would help “prove that in the jurisdiction there is more than local staff passively holding intangible assets” and instead show that decisions were being made actively and regularly by “local, permanent and qualified staff.” **PG**

HOW MUCH IS BREXIT AFFECTING YOUR BUSINESS?

- ☐ A great deal
- ☐ A little but not too much
- ☐ Not at all

+ See results

UNITED KINGDOM

HMRC TAKES AIM AT BRITISH EXPATS AS IT STEPS UP TAX EVASION INVESTIGATIONS

HM Revenue & Customs is targeting the British expat community as it ramps up tax evasion investigations.

The number of serious evasion cases under investigation by the UK tax authority is up by 20%. This is part of a wider crackdown on tax avoidance by the government, which has cut the estimated amount lost from £4bn in 2012 to £1.7bn last year according to HMRC figures.

Britons living abroad are now on the HMRC's radar as it made 1,006 requests to foreign authorities, resulting in £5.7m of tax revenue recovered last year.

Since 2010 an EU directive has meant that member states are obliged to assist each other with cross-border tax collection. HM Revenue &

Customs currently has 3,809 cases involving unpaid tax allegations of more than £50,000. The government wants the number of serious tax evasion investigations to reach 5,000 or more.

The UK recently joined the Common Reporting Standard, a network of tax authorities tipping each other off about wealthy investors with undeclared offshore cash and assets. A move that might help explain the sudden increase in investigations.

British expats have been urged to ensure that their tax affairs are in order as many may not realise they have UK tax liabilities and risk fines. **CCI**

For more on this and other stories, visit:
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A TAXING REVIEW

Simon Martin, technical services manager at Utmost, sets out the current status of IHT in Britain



A TAXING REVIEW

Simon Martin, technical services manager at Utmost, sets out the current status of IHT in Britain.

Back in January of this year, the chancellor, Phillip Hammond, sent a letter to the Office of Tax Simplification (OTS). In the letter he acknowledged the OTS's interest in the Inheritance Tax system in the UK and asked them to conduct a review.

This letter led to a publication by the OTS in February stating they will be conducting a review of the UK inheritance tax (IHT) system. The OTS intends to publish a report in the autumn with their findings and potential recommendations for simplification. The publication makes it clear that their review will focus on several areas of the IHT system including:

- IHT return submissions;
- Gifting rules;
- Complexities arising from IHT reliefs;
- Distortion of taxpayers' decisions because of IHT rules;
- Perception of complexity of IHT rules amongst taxpayers, practitioners and industry bodies.

Firstly, let's be clear on one point, IHT is not a big

earner for the UK Treasury in comparison with taxes such as Income Tax, National Insurance, VAT and Corporation Taxes – which accounted for more than 82% of total taxes in 2016/17. In comparison Inheritance tax accounted for less than 1% of the capital taxes which in turn made up only around 5% of the total tax take in 2016/17.

Looking at these figures alone, and concentrating on loss of tax, some people may argue IHT could be removed entirely, especially if it was deemed the cost of collecting and administering it was deemed considerable by HMRC .

However, I believe this very unlikely given the political message it would potentially relay. Furthermore, replacement systems to tax inheritance and wealth, such as those adopted in some European countries, would probably require equally complex legislation.

Given the focus is on simplification 'starting again' doesn't seem like a viable solution.

There is no clear indication of what may happen

following the review, but it's more likely that we see adjustments to the current IHT system. There are many areas I think could be looked at.

THE RESIDENCE NIL-RATE BAND

Anyone who has studied this piece of legislation will no doubt agree that the rules here are incredibly complicated, especially in relation to the so called 'downsizing provisions'. Rules need to be understood by the public when reviewing their estate planning and by the legal and tax profession assisting them.

Tax rules that are overly complicated create unfairness in the tax system when people inadvertently fall foul of the small print. I can certainly see lots of issues in this area and it seems very odd, to me at least, that a rule exists which provides potentially more IHT relief on death depending on whether someone has ever been a home owner.

Increasing the nil-rate band would have been much simpler course to meet their manifesto pledge of a £1m nil-rate band, but of course this could also benefit those wanting to gift during



ONE OF THE MAIN ISSUES WITH ANY CHANGE IS HOW THE CHANGE WORKS WITH THE EXISTING RULES

Simon Martin, Utmost

their lifetime! Still, this could have been perhaps countered by, for example, a (small) increase in the number of years required for the gift to become exempt rather than a raft of new and incredibly complex legislation.

REVIEW OF THE EXEMPTIONS AND RELIEFS

The value of the small gifts exemptions should certainly be looked at and this would be a good opportunity to review these thresholds based on current value of money.

I note the OTS paper mentions the 'regular gifts out of income' exemption and it will be interesting to see what approach is taken here. Under current rules given in s21 IHTA 1984 gifts need to meet three rules to be exempt:

- It needs to be made out of normal expenditure of the transferor,
- It needs to be made out of income;
- After the gift is made the gift should not reduce the transferor's standard of living.

Evidencing these conditions, especially the final

condition, can be difficult and it requires good record keeping on behalf of the taxpayer. I can certainly see some changes in this area as I strongly suspect the time taken for HMRC to check this exemption is also considerable.

BUSINESS PROPERTY RELIEF

Business Property Relief (BPR) is there to protect small businesses from the impact of IHT where a significant shareholder dies – although it possible for a shareholder to benefit from BPR even where their death would have no impact upon the future of the company. I wonder if we may see a tightening of the qualifying requirements for BPR?

RELEVANT PROPERTY TRUSTS

This is an area that certainly needs some attention. The rules here are incredibly complicated following amendments to cover anti-avoidance. HMRC have already published two consultations in which they try and come up with alternative calculations. A previous idea was that a person can only have one settlement nil-rate band during their lifetime and perhaps we will see this developed?

I suppose one of the main issues with any changes here is how the change works with the existing rules. Clearly, any new rule that doesn't operate retrospectively will not create simplification, as you will end up with two sets of rules in force.

Conversely, any new rule that comes into play retrospectively has to be fair and work within the parameters of the planning that has been put in place. Let's not forget here that trusts are commonplace in areas such as will drafting – so any change that is retrospective will be problematic (and costly) if it would mean many people would need to review their wills. Lessons should be taken from the changes to trusts announced in the 2006 Finance Act whereby the industry had to lobby for significant changes – such as the introduction of the Immediate Post Death Interest Trusts.

A REQUEST FROM THE AUTHOR

As somebody who has studied UK tax legislation over the last 20 years I'm going to be bold here and make a request. What the UK tax system needs, in my view, is a period of increased stability.

Whilst I understand that changes to the rules are sometimes necessary, continually changing tax legislation leads to confusion and misunderstandings by practitioners and clients alike as they adapt to the new rules.

I think the OTS should reflect on the changes made in the pension system at A-day as a good example.

We were promised simplification but what got instead was an equally complicated system we all had to learn again. During this period of 'bedding in' the advice process becomes difficult and clients are at greater risk of receiving incorrect advice.

Simplification needs to be balanced with anti-avoidance, and if the current rules need to be complicated then, in all likelihood, I would suggest any replacement rules will end up needing to be equally complicated.

I would hope that lessons from the past are learnt here and any simplification is simply tweaking the current rules to make them clearer and fairer rather than any radical changes.

HANDS OFF!

Pedro Gonçalves explains that, while paying some IHT may be unavoidable, there is some choice as to how much needs to be paid



HANDS OFF!

When it comes to taxes, not even death stops the taxman from collecting. With inheritance tax, if you do not plan ahead, it may very well be that the HMRC might end up as the biggest sole beneficiary of the inheritance, ahead of your family. *Pedro Gonçalves* explains what steps can be taken to prevent this from happening

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, 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 (see boxes). 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's earned, tax is paid at the time, so with inheritance tax you're actually paying tax a second time.

The Office for Budget Responsibility forecasts the government will raise £4.8bn from the death tax this year.

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.

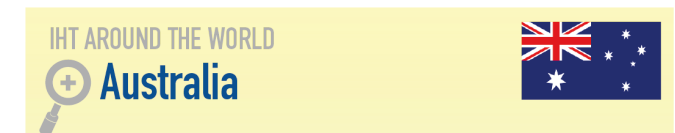
To tackle this, the government revealed in 2015 that this duty would be scrapped when parents or grandparents pass on a home worth up to £1m

(£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 main residence band.

Introduced in the 2017/18 tax year this main 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 what you'll get on top of your existing allowance.

For this tax year it's starting at £125,000 (meaning





a total allowance of £450,000), rising by £25,000 each year till it reaches £175,000 (meaning a total allowance of £500,000) in 2020.

So now the maximum that can be passed on tax-free is £900,000 for married couples or those in a civil partnership, £450,000 for others. For singles, this is made up of the existing £325,000, plus the extra £125,000. For couples, when the first one dies their allowance is passed to the survivor, so that £450,000 is doubled to £900,000.

In 2020, the tax-free amount will rise to £1m for couples (made up of £325,000 x 2 plus £175,000 x 2) and £500,000 for singles (made up of £325,000 plus £175,000), as the main residence allowance rises.

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

So currently everyone is entitled to leave an estate valued at up to £325,000 plus the main residence band of £125,000 giving a total allowance of £450,000. 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 £450,000 and 40% on the remaining £50,000. A total of £20,000 in tax if you're not leaving anything to charity.

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

HOW DO YOU ADVISE ON IHT TAX MATTERS?

- ☐ All in-house
- ☐ Some in-house, some via a specialist
- ☐ All out-sourced

+ See results



HOW TO SAVE THOUSANDS IN INHERITANCE TAX

If death and taxes are certain for everyone, how much you actually pay is completely up to you.

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

JUST BECAUSE YOU LIVE ABROAD DOES NOT MEAN YOU ARE EXEMPT FROM IHT. UNLIKE ANY OTHER TAX, UK INHERITANCE TAX FOLLOWS YOU AROUND THE WORLD, REGARDLESS OF WHERE YOU MAY RESIDE. THAT'S BECAUSE IT IS BASED ON YOUR DOMICILE, NOT RESIDENCE

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.

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's because it is based on your domicile, not residence. That is why understanding domicile is an important element of estate planning.

Living outside the UK does not automatically protect you. 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. This is the case for expats in Spain or Portugal. 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 inheritance tax purposes. You will be deemed domiciled in the UK for inheritance tax 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.



THE NIL-RATE BAND: TIME FOR A CHANGE

Canada Life International's Market Development Manager Neil Jones argues that the UK government needs to do something about the nil-rate band or the market will do it for them

FIX THE NIL-RATE BAND OR THE MARKET WILL FIND ITS OWN SOLUTIONS

Canada Life International's *Neil Jones* sets out the case for IHT reform

While the Government ponders inheritance tax (IHT) simplification, consider this: it's been almost ten years since the nil-rate band was changed, staying at £325,000 since 2009.

Some would argue that if it's not broken, don't try and fix it; which ignores the fact that we are in a very different world than that of 10 years ago. To state the obvious, the size of many people's estates has grown dramatically, and – victim of their own success – the amount of IHT being paid has substantially increased.

In fact, according to HMRC statistics the number of people with estates worth over £1m has almost doubled in the last ten years alone, while the nil-rate band allowance continues to plod on at the same level. Where are IHT tax revenues coming from?

House price growth has perhaps been overemphasised as the source of this wealth. Even if growth slowed to zero on all forms of capital, families whose income exceeds their outgoings would still be accumulating wealth. Capital growth hasn't slowed to zero of course, and the fact that we've had a bull market for around a decade

will only have increased wealth.

As a consequence, the Government's revenues from IHT are predicted to grow in an almost linear fashion. Where is this growth likely to come from? Well, hands up those with estates worth over £1m.

According to HMRC, they already pay around three times as much IHT in total as all the estates worth under a million pounds, up from twice as much in 2009.

Why reform the system?

But isn't more IHT a good thing? Greater revenue for the Government to go on schools, hospitals etc.

Fair point, but think about this: is it right that, after working all their lives and paying taxes, taxpayers' estates probably need to be broken up on death to pay another tax?



THE REALITY IS THAT THE MARKET IS FINDING WORKAROUNDS TO THE LIMITATIONS OF THE NIL-RATE BAND. TRUSTS ARE A PARTICULARLY COMMON SOLUTION

Neil Jones, Canada Life International

Or to make a perhaps more practical argument, every year the nil-rate band allowance does not increase it becomes more and more irrelevant.

What's the answer? Indexing the nil-rate band to inflation, as is planned to happen from April 2021, would at least be a start; better would be to link it to average estate size.

Root and branch change to the entire IHT system is also feasible, even potentially desirable.

Ways to reduce the IHT burden

IHT has a number of exemptions, perhaps the most useful being the normal expenditure exemption. This allows regular gifts to be made out of income and, provided that the gifts do not reduce the donor's usual standard of living, there is no limit to the amount that will be immediately exempt.

There is no need to wait for seven years and the amount that can be given away each year can increase as excess income increases. But what if gifts have to be made from capital, not income?

The nil-rate band is available during lifetime, not just on death. With forward planning, it can effectively be recycled by gifting capital every seven years. Using this strategy can remove a great deal of wealth from the estate very tax efficiently. But, in an uncertain world, can taxpayers afford to give assets away?

The reality is that the market is finding workarounds to the limitations of the nil-rate band. Trusts are a particularly common solution. Used the right way, these can often serve two masters – potentially allowing access to capital while creating a timetable to have funds outside the estate within a set period.

With an increasing lifespan, many clients are right to be wary of entirely signing away their estate beforehand, no matter the IHT efficiencies.

Discounted gift trusts, flexible reversionary trusts and gift and loan trusts all offer some trade-off between IHT efficiency and access. Depending on the clients' needs, these can help ensure an IHT strategy that suits those needs.

With the nil-rate band fixed until April 2021 at the earliest and IHT receipts at a record high, more and more clients are looking for other solutions. The good news is that there are other options.

Using certain kinds of bonds, clients can have the flexibility to access their capital without incurring any charges, while retaining the discounted gift trust option as well as access to funds.

THE FLEXIBLE CHOICE

Canada Life's flexible Select Account gives clients the flexibility to access their capital without incurring any charges, all within a competitive and transparent charging structure.

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- **Phased investment option to help smooth risk**
- **A range of trust options, including Discounted gift trust**
- **Transparent charges**
- **A range of flexible adviser charging options.**



THE EXPERTS' VIEW

Some of the world's leading financial advice firms explain to Gary Robinson how they approach planning for IHT liabilities and what they see as the major issues for 2018 and beyond



RISING TO THE CHALLENGE

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

Many of the world's key international advisers help clients from a host of different countries protect against potential future financial pitfalls that can often sit cross a number of borders. One common message emerges – that failing to plan, is planning to fail.

International Investment caught up with seven well-known and firmly established international financial advisers to find out their IHT advice essentials.



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 – the new rules on UK residency and UK domicile plus the new rules on

enveloped dwellings in the UK have made this a very complex market – it was already niche and thus very few advisers focus on it.

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)
- Offshore Pension Trusts (e.g. QNUPS)

Wide ranging advice such as:

- Potentially Exempt Transfers (PETs)
- Chargeable Lifetime Transfers (CLTs)
Above must have regard to seven year rule and taper relief. Watch out for gifts with reservation – if you still enjoy the ‘gift’ on death it will remain part of your estate
- 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?

All forms of cross-border financial advice are challenging due to the complexities of dealing

with each jurisdictions' different tax regimes and regulatory landscapes, combined with the personal situation of each individual client.

However, rules on IHT may be one of the most complex areas of all and they change frequently, making it essential for international advisers to ensure that they are always fully up-to-date with the technicalities.

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?

The type of financial products will, of course, depend on the circumstances of the individual client.

Typically, assets or money are placed into a trust in order to protect them from IHT liabilities.



TIM SEARLE

Chairman Globaleye

How challenging is IHT advice for an international adviser?

It 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.

What type of products do you utilise to help clients with IHT liabilities?

The first is to not have one so we commend clients should enjoy themselves and blow it! But seriously, 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.

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

Tim Searle, Globaleye

HUW WEDLOCK

**Director
The Fry Group – Asia**

How challenging is IHT advice for an international adviser?

When it comes to working with British expatriate clients, the largest challenge is domicile status. Since it drives the extent of UK inheritance tax liabilities for any given client, determining this and developing advice around this is hugely important.

From a client's perspective, the earlier the client has received an informed judgement on their domicile position, the better, since the later that IHT planning is left, the harder it is 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.



What type of products do you utilise to help clients with IHT liabilities?

It won't be a surprise that one of the largest products and services that we offer in this space is a very solid understanding of tax domiciles and planning around liabilities. Solid liability planning can form the foundation of the advice we give our clients.

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 a lot of their wealth, then what a trust solution would look like. Typically, most clients seek an approach 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 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 it's the one area that we often work on the most. However, other common cross border issues include finding legal services in local markets that

can draft your will properly and understand the nuances of British IHT liabilities.

Additionally, currency can be a challenge since the executor of the estate may need to convert non GBP assets to sterling in order to pay HMRC.

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're 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 a 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.

Understanding both local laws as well as domicile is important with regards to IHT planning.



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

CLIENTS CAN RUN INTO DIFFICULTIES IF HOLDING ASSETS OR BUSINESS INTERESTS IN DIFFERENT JURISDICTIONS WHICH HAVE FORCED HEIRSHIP RULES AND NO FORMAL DOUBLE TAXATION AGREEMENT WITH THEIR COUNTRY OF DOMICILE. FOR THIS REASON, IT IS PRUDENT TO MAKE WILLS IN EACH COUNTRY WHERE A CLIENT WILL HOLD PROPERTY OR ASSETS

Julian Vydelingum, AES International

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.

What are the common cross-border difficulties for clients looking to reduce IHT liability?

Clients can run into difficulties if holding assets or business interests in different jurisdictions which have forced heirship rules and no formal double taxation agreement with their country of domicile. For this reason, it is prudent to make wills in each country where a client will hold property or assets.

What regions cause more IHT issues traditionally for clients?

Individuals who are UK-domiciled or non-UK domiciled individuals who are intending to settle in the UK have seen a number of changes in recent years which have had a significant impact on the potential IHT they could incur. These changes include an amendment to the number of years in which an individual will be deemed to be UK domiciled for IHT purposes and an amendment to IHT legislation extending IHT to offshore structures such as offshore companies or trusts which hold an interest in UK residential property. On top of this, the freezing of the nil rate band at £325,000 since 2010 has meant that more and more UK domiciled individuals are being caught in the IHT net due to rising prices across virtually all asset classes.



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 wish 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)
- 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 (the gift with reservation trap).

What are the common cross-border difficulties for clients looking to reduce IHT liability?

The main difficulty is that most clients do not understand how local tax law affects their own personal tax position both 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.

A woman wearing a black hijab and a leopard print dress is smiling and talking on a mobile phone. She is standing next to a red telephone booth with the word 'TELEPHONE' and a crown emblem on top. The background shows a brick wall and some green foliage.

THE MIDDLE EAST IN MAYFAIR

Tim Searle, CEO of Globaleye, looks at how changes to UK property taxes can affect GCC nationals



Property in the UK, particularly London, has always been popular with GCC investors for many

THE MIDDLE EAST IN MAYFAIR

Tim Searle, CEO of Globaleye, looks at how changes to UK property taxes can affect GCC nationals

years. It has remained a safe haven and an attractive destination for investors and their families from the GCC region perhaps more than any other major city.

Depending on the level of investment, well advised foreign investors would use structures to reduce their exposure to taxes.

Typically, it would be purchased using various structures such as Trusts, Special Purpose Vehicles (SPV), Private Investment Companies (PIC), or similar offshore corporate structures. For many years, this was the standard method to buy UK property but recent tax changes means this is no longer the case.

WHAT HAS CHANGED?

After the global financial crisis and some would say the advent of Brexit, the UK government sought to increase the taxes on UK property held through structures by introducing a raft of anti-avoidance measures aimed at UK property that is held indirectly.

So all the recent structures typically used by GCC

investors are now no longer suitable which means on death, the investor is liable for 40% charge.

This fee is based on the value at time of death and must be paid before the asset can be passed on to their family/estate.

WHY THE CHANGE?

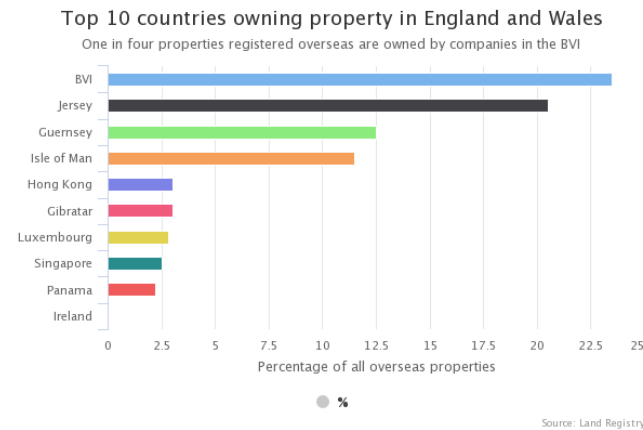
The British prime minister, Theresa May, must raise in excess of £50bn as part of the exit negotiations with the EU.

Her fragile position with UK voters means that she needs to look to other areas, non-voters for example, in order to raise the monies needed.

That said, this legislation has been raised in the past so some experts would say it was merely a matter of time before this was enforced.

HOW MANY INVESTORS WILL THIS AFFECT?

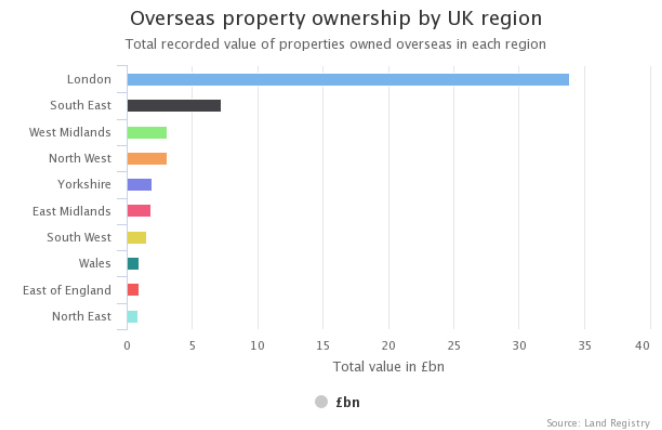
A recent report showed that close to half (44%) of all UK properties owned by overseas structures are located in London.



Of these properties, more than one in ten (11,500) properties owned by overseas companies are located in the City of Westminster and more than 6,000 properties owned by offshore structures are in the London borough of Kensington and Chelsea.

The most common jurisdictions for foreign company ownership of UK property is illustrated in the graph above.

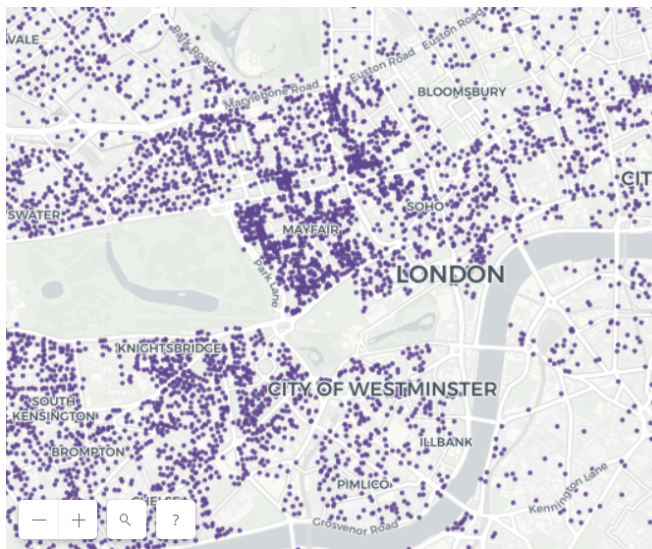
In essence, 1 in 4 UK properties owned by an offshore structure are registered in the British Virgin Islands (BVI). This jurisdiction has



traditionally been the most popular due to ease of establishment and moderate costs. Most legal advisors and fiduciary agents prefer the BVI for this reason.

The value and location of said properties owned by such structures is illustrated in the graph above right.

London remains the clear favourite for the UK property sector as one would expect and has been for many years. It continues to grab headlines with many high-profile purchases from GCC investors and is destined to continue.



Property in central London owned by offshore structures

The concentration of property in London (Zone 1) owned by offshore structures is evident from the aerial view shown above.

The new anti-avoidance rules have severely limited tax planning options for non-UK domiciled individuals, whether UK resident or non-resident, in respect of UK residential property. GCC investors need to be aware of this new legislation and the impact on their residential property portfolio.

NEW TAX RULES FOR GCC NATIONALS

From 6 April 2017, changes to tax rules would mean that non-UK domiciles owning UK property indirectly through corporate structures (purchased either before or after this date) would be liable for UK Death Tax at 40%; this is 40% of the value of the property(s) on death.

IS THERE A SOLUTION?

Working with your lawyers, family office, and/or financial advisers, collectively they can create a solution whereby the property is placed into an insurance contract with a sum assured, which would cover the potential UK Death Tax liability in the event of death.

The solution is relatively straight forward and the insurance is low cost and more than mitigates the cost of the potential tax bill.

SUMMARY

The recent tax changes have far reaching considerations for GCC nationals owning UK property. The current structuring of your UK property assets will need review since it is likely

that it no longer provides the protection from the recent death tax legislation changes.

It is recommended, if you have not done so already, you contact your lawyers, family office and/or financial advisers to ensure the best solution is achieved to protect the UK property assets effectively and efficiently from this 40% death tax.



Tim Searle is the CEO of Globaleye and has resided in the UAE for more than 20 years

Solution

The background of the entire page is a composite image. It features a world map in a light blue color against a darker blue background. Overlaid on the map are numerous strings of binary code (0s and 1s) in a light grey or white color, some of which are slightly blurred to create a sense of depth. In the foreground, a person's hand, wearing a dark suit sleeve and a blue striped tie, is pointing its index finger towards a glowing, square button. The button is light blue with a bright white light emanating from its center, giving it a three-dimensional appearance.

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.



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Profile: Investors Trust Assurance SPC (ITA) is an international insurance company licensed and regulated by the Cayman Islands Monetary Authority. ITA has gained a leadership position in the international insurance markets by specialising in the provision of investment-linked insurance products and class leading customer service. With service offices established around the world, ITA offers an array of opportunities to its policyholders by providing access to the global financial markets. ITA is constantly innovating and investing in technology giving clients online multi-language (English, Spanish, Portuguese, Chinese, Japanese and Russian) access to manage their investment-linked products.

Offering: ITA works with some of the world's top asset managers under its convenient open architecture platform. It provides clients with greater investment choices and the ability to provide for their families as well as plan for a comfortable retirement. Specialising in medium to long term unit-linked investment products, ITA is proud to offer a range of flexible, tax-efficient products, including regular and single premium annuities, designed to suit various income levels and financial planning needs.



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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.



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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.



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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