

Taxation of High Net Worth Individuals

Statistics of HNWI Income





STATISTICS OF HNWI INCOME

Rachel Saw

IBFD

OECD freely authorises the use of this material for non-commercial purposes. All requests for commercial uses of this material or for translation rights should be submitted to OECD.Statistics@oecd.org.

The opinions expressed and arguments employed herein are those of the author and do not necessarily reflect the official views of the OECD or of the governments of its member countries.



Definitions

- Who is a High Net Worth Individual?
- 2007 definition: a **HNWI** was an individual with investable finance in excess of US\$1 million
- Traditionally, many HNWIs live in the USA, Asia is getting more and more important
- Increased attention for HNWIs



Definitions

	<i>Liquid Income</i>
Affluent/sub-HNWI	100,000 - 1,000,000
HNWI	1,000,000 - 5,000,000
Very HNWI	5,000,000 - 50,000,000
Ultra HNWI	More than 50,000,000

3



Why Focus on HNWIs

- Revenue Contribution to states
- Complexity of arrangements
- Ease and access to Aggressive Tax Planning
- Integrity

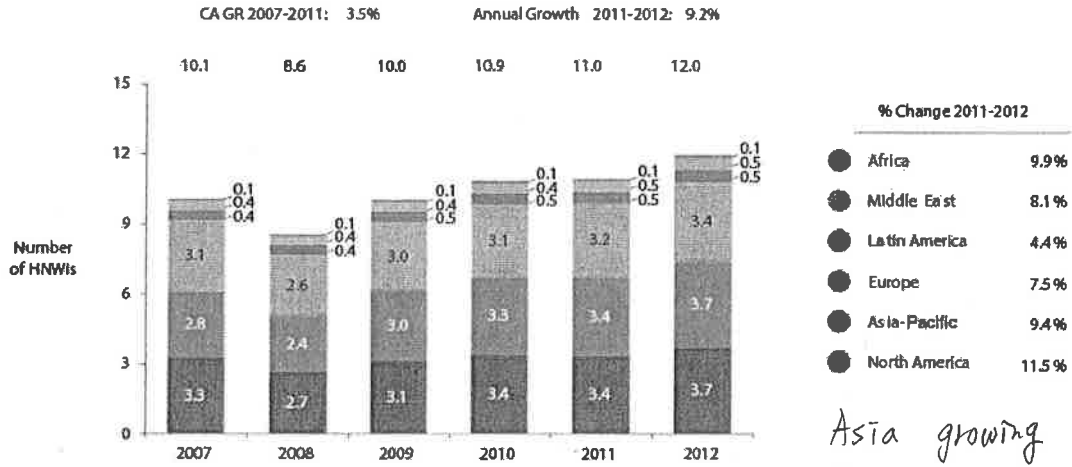
4



HNWI Population (Global)

HNWI Population, 2007 – 2012 (by Region)

(Million)



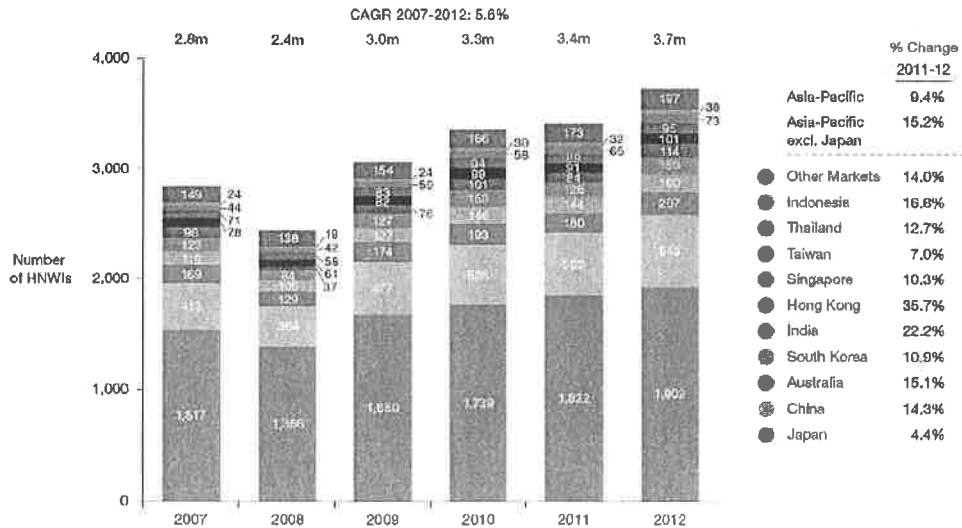
Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013



HNWI Population (APAC)

FIGURE 1. Asia-Pacific HNWI Population, 2007 – 2012 (by Market)

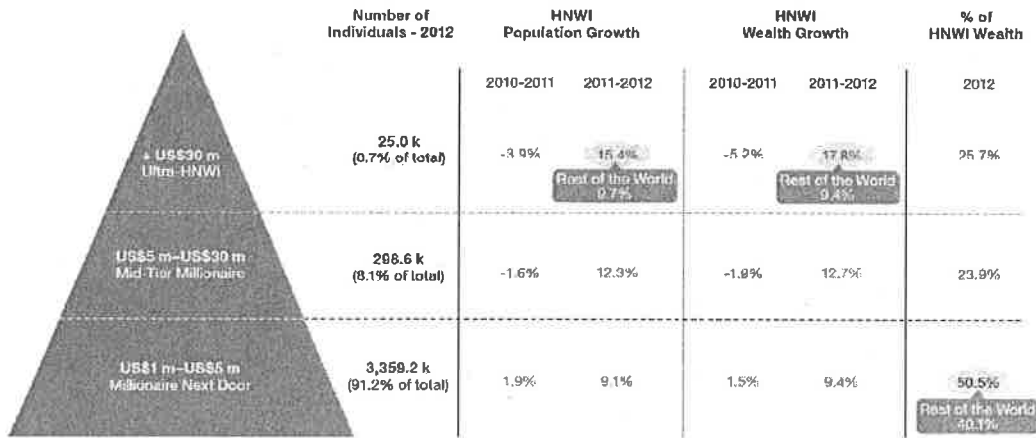
(000s)



Note: Chart numbers and quoted percentages may not add up due to rounding; Other Markets include Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam
Source: Capgemini Lorenz Curve Analysis, 2013



FIGURE 4. Composition of Asia-Pacific HNWI Population (by Wealth Bands), 2012



Figures with significant difference from rest of the world average

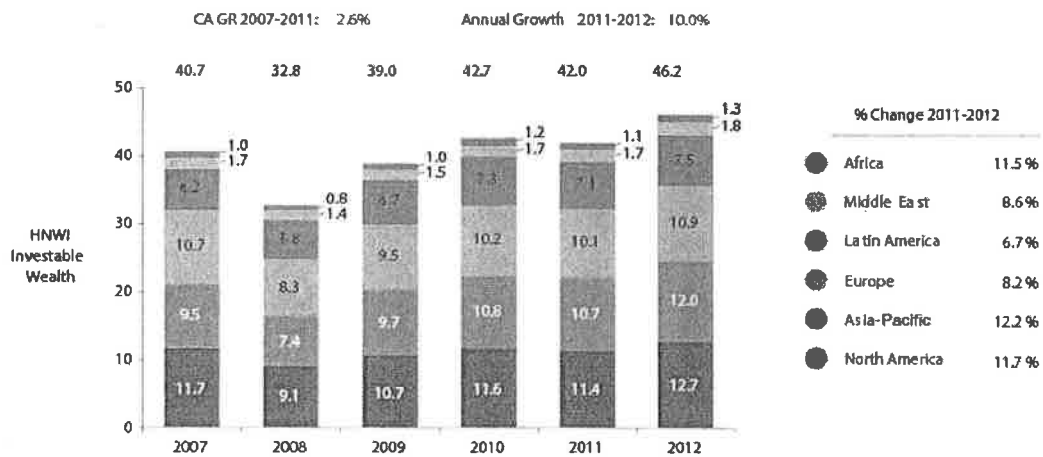
Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013



HNWI Wealth Distribution (Global)

HNWI Wealth Distribution, 2007 – 2012 (by Region)

(US\$ Trillion)



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Lorenz Curve Analysis, 2013

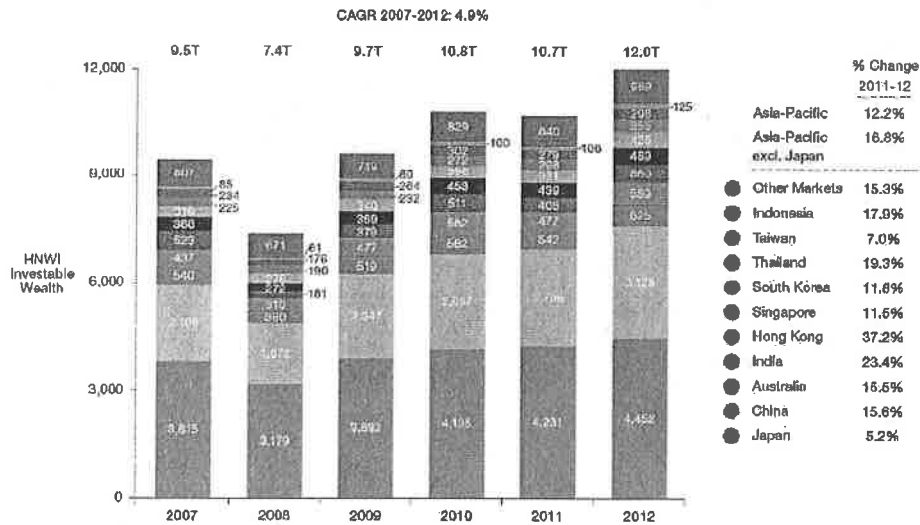
- Africa
- Middle East



HNWI Wealth (APAC)

FIGURE 2. Asia-Pacific HNWI Wealth, 2007 – 2012 (by Market)

(US\$ Billion)



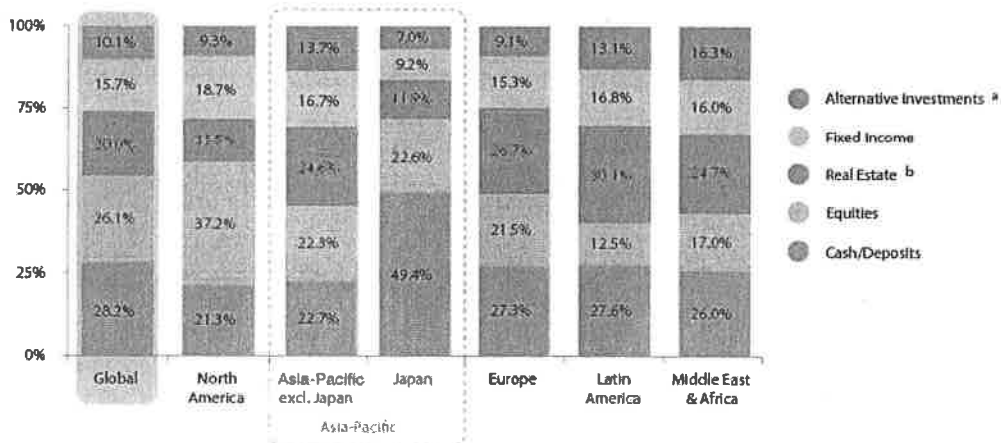
Notes: Chart numbers and quoted percentages may not add up due to rounding. Other Markets include Kazakhstan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Sri Lanka, and Vietnam
 Source: Capgemini Lorenz Curve Analysis, 2013



Financial Assets (Global)

Breakdown of HNWI Financial Assets, Q1 2013

(%)



^a Includes structured products, hedge funds, derivatives, foreign currency, commodities, private equity

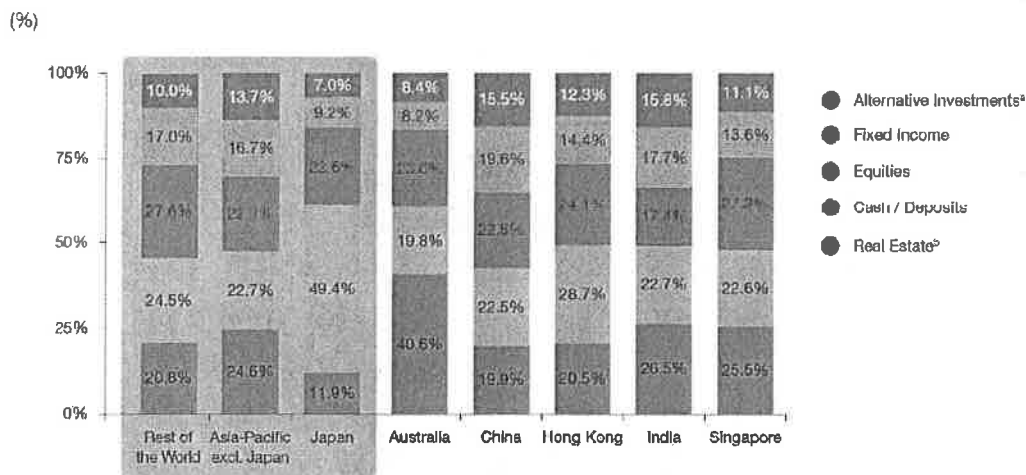
^b Excludes Primary Residence

Note: Chart numbers may not add up to 100% due to rounding

Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey 2013

Financial Assets (APAC)

FIGURE 12. Breakdown of HNWI Financial Assets, Q1 2013



^a Includes structured products, hedge funds, derivatives, foreign currency, commodities, and private equity

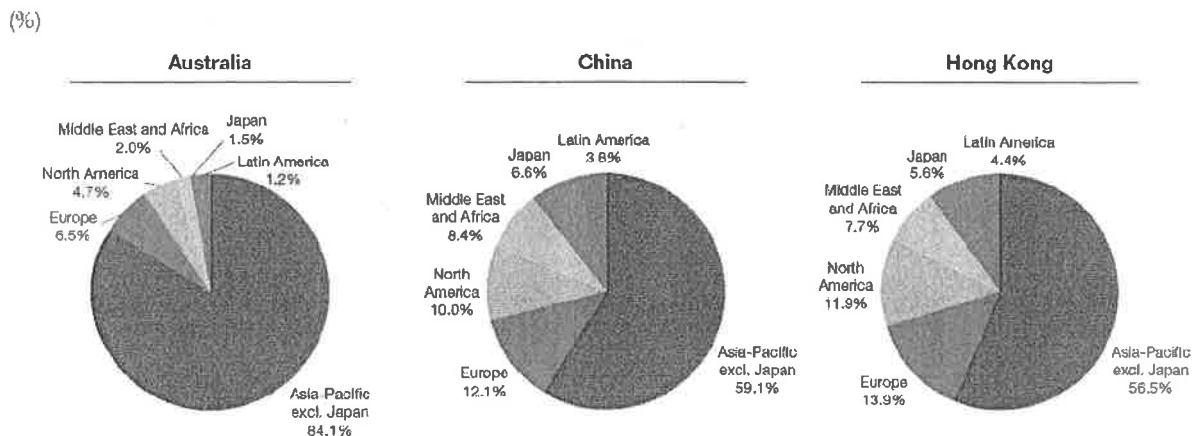
^b Excludes primary residence

Note: Chart numbers may not add up to 100% due to rounding. Asia-Pacific (excluding Japan) refers to Australia, China, India, Hong Kong, and Singapore. Rest of the World refers to all countries covered in the Global HNWI Insights Survey 2013 except those in Asia-Pacific

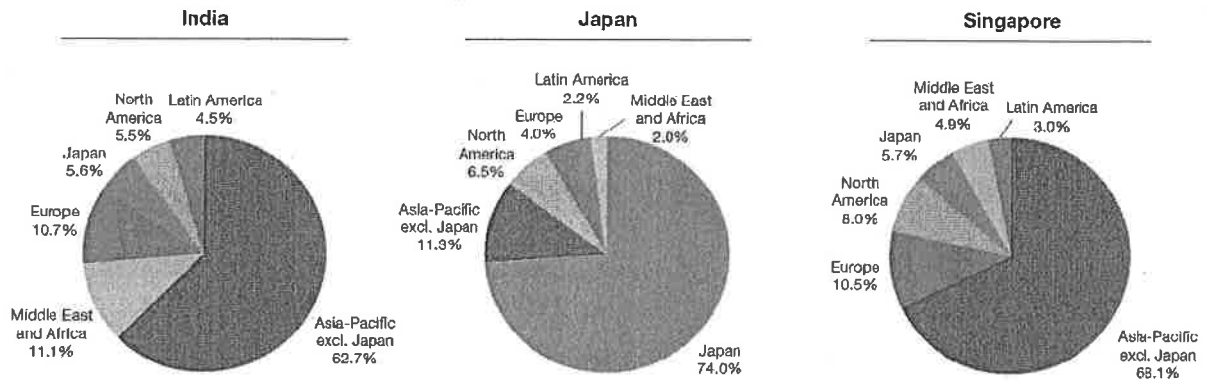
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey 2013

Wealth allocation

FIGURE 13. HNWI Geographic Wealth Allocation by Country, Q1 2013



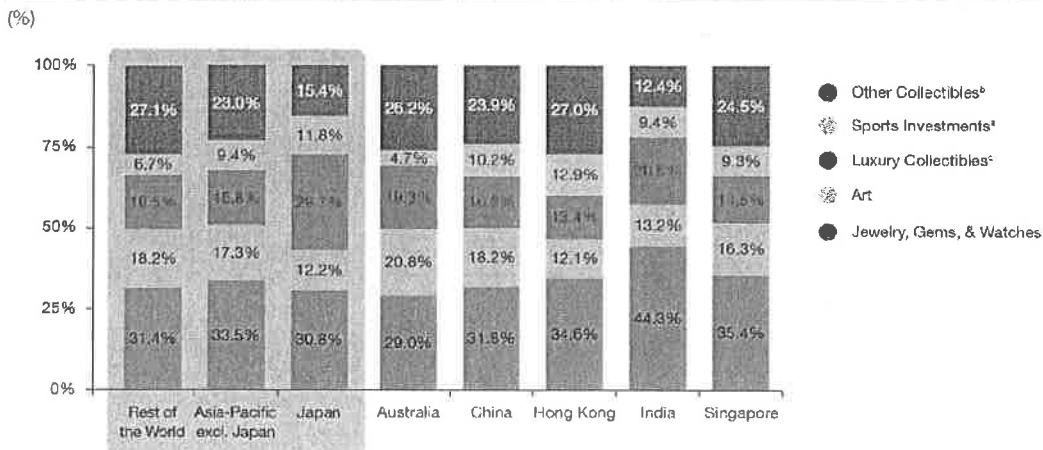
Wealth allocation



Note: Chart numbers may not add up to 100% due to rounding
 Source: Capgemini Analysis, 2013; Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey 2013

Personal interests

FIGURE 14. HNWI Allocations to Investments of Passion, Q1 2013



^a "Sports Investments" represents sports teams, sailing, race horses, etc.
^b "Other Collectibles" represents cars, wine, antiques, etc.
^c "Luxury Collectibles" represents automobiles, boats, jets, etc.
 Note: Chart numbers may not add up to 100% due to rounding. Asia-Pacific (excluding Japan) refers to Australia, China, India, Hong Kong, and Singapore. Rest of the World refers to all countries covered in the Global HNWI Insights Survey 2013 except those in Asia-Pacific.
 Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNWI Insights Survey 2013



Wealth Management Approach

PREFERRED WEALTH MANAGEMENT APPROACH

Rest of the World		Asia-Pacific excl. Japan		Japan	
44.9% Single Firm	15.6% Multiple Firms	49.2% Single Firm	18.6% Multiple Firms	19.0% Single Firm	6.9% Multiple Firms
26.3% Family Wealth Advice	36.1% Personal Wealth Advice	47.2% Family Wealth Advice	23.3% Personal Wealth Advice	12.0% Family Wealth Advice	23.5% Personal Wealth Advice
35.9% Financial & Life Goals Measurement	28.2% Financial Benchmark Measurement	43.5% Financial & Life Goals Measurement	23.0% Financial Benchmark Measurement	23.0% Financial & Life Goals Measurement	8.5% Financial Benchmark Measurement
21.2% Complex Needs	48.7% Straightforward Needs	41.1% Complex Needs	31.0% Straightforward Needs	12.2% Complex Needs	24.0% Straightforward Needs
33.3% Wealth Preservation	27.7% Wealth Growth	38.9% Wealth Preservation	31.5% Wealth Growth	24.3% Wealth Preservation	15.3% Wealth Growth

15



Many thanks!

16

Taxation of High Net Worth Individuals

**Taxation of Income and
Capital Gains**



TAXATION OF INCOME AND CAPITAL GAINS

Rachel Saw
IBFD

OECD freely authorises the use of this material for non-commercial purposes. All requests for commercial uses of this material or for translation rights should be submitted to permissions@oecd.org

The opinions expressed and arguments employed herein are those of the author and do not necessarily reflect the official views of the OECD or of the governments of its member countries.



Agenda of the Day

- Income from Immovable Property (Art. 6)
- Dividends (Art. 10 OECD Model)
- Interest (Art. 11)
- Royalties (Art. 12)
- Capital Gains (Art. 13)
- Taxation of cross-border employment activities (Art. 15)
- Directors' Fees (Art. 16)
- Artistes and Sportspersons (Art. 17)

»» WHAT IS PASSIVE INCOME

PASSIVE INCOME

- Passive income from business activity?
- Technical fees?

- Investment income
- Income from capital
- Income from holding of assets
- Purchase and sale of assets

ACTIVE INCOME

- Income from business activity
- Income from employment

»» PASSIVE INCOME

Income from immovable property *Article 6*

Dividends, Interest and Royalties

Capital Gains



Income from Immovable Property

State R Country of residence of the recipient



Taxation on worldwide income

Domestic tax relief

RENT
DOUBLE TAXATION

R- S Treaty

Taxation on source income

Gross WHT

Net rental income



State S Country of source of the income



Allocation of Taxing Rights – Source State

OECD/UN Model Tax Convention



Art. 6
INCOME FROM IMMOVABLE PROPERTY

(1) Income derived by a resident of a Contracting State from immovable property ... situated in the other C may be taxed may be taxed in that other State.

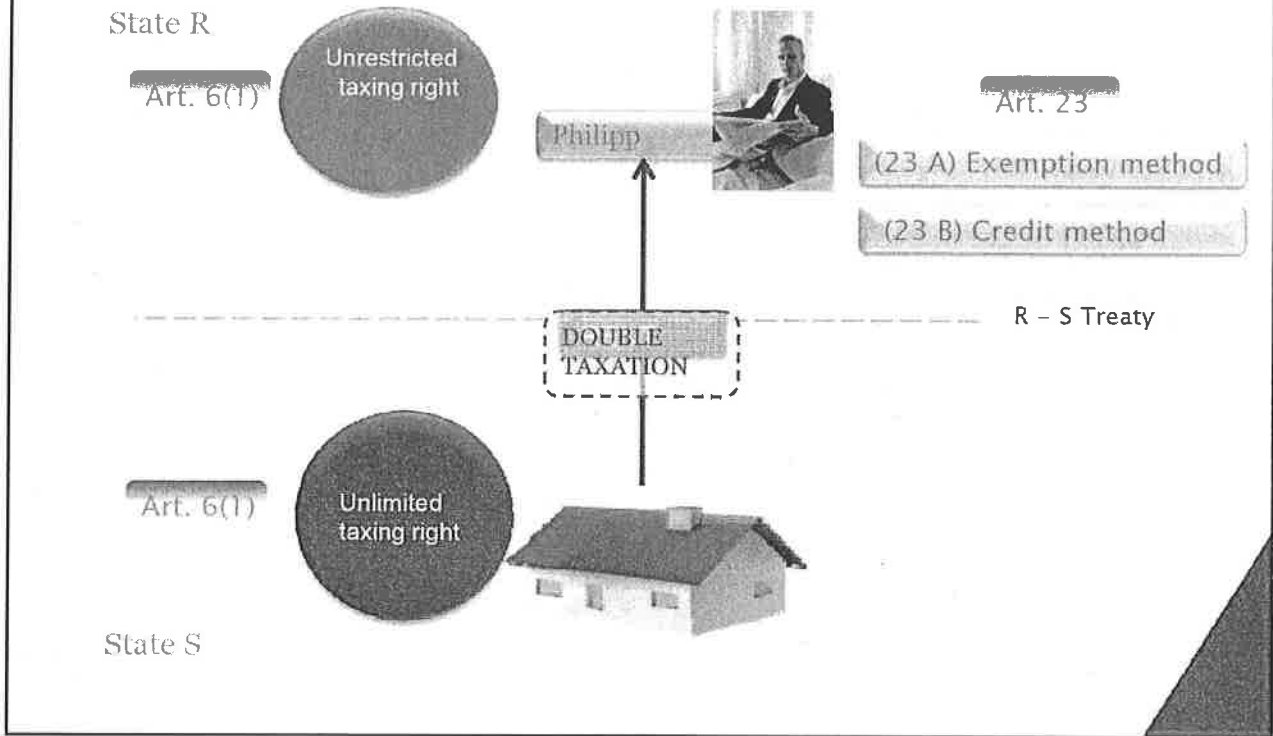
State S

RENT

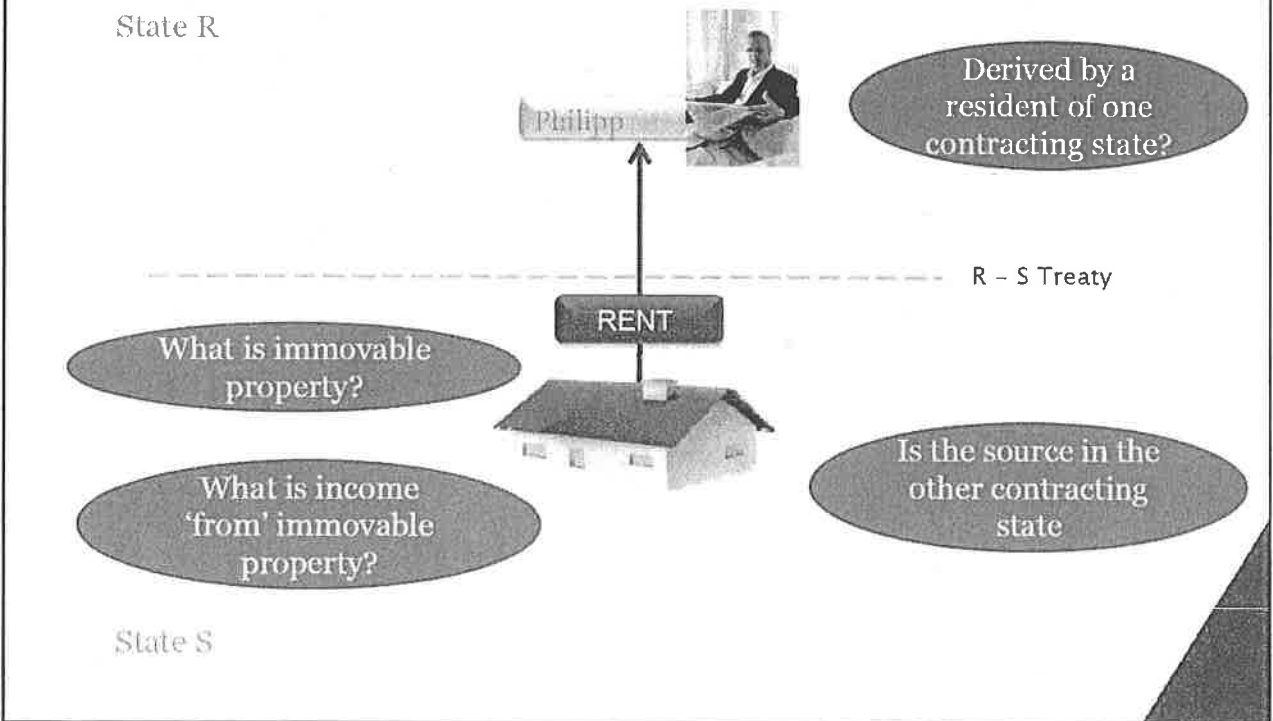
Source State unlimited taxing right



Impact of Tax Treaties



Scope of Article 6



» What is Immovable Property?

OECD Model Tax Convention on Income and on Capital



Art. 6
INCOME FROM IMMOVABLE PROPERTY

(2) The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as immovable property.



» When is Income "from" Immovable Property?

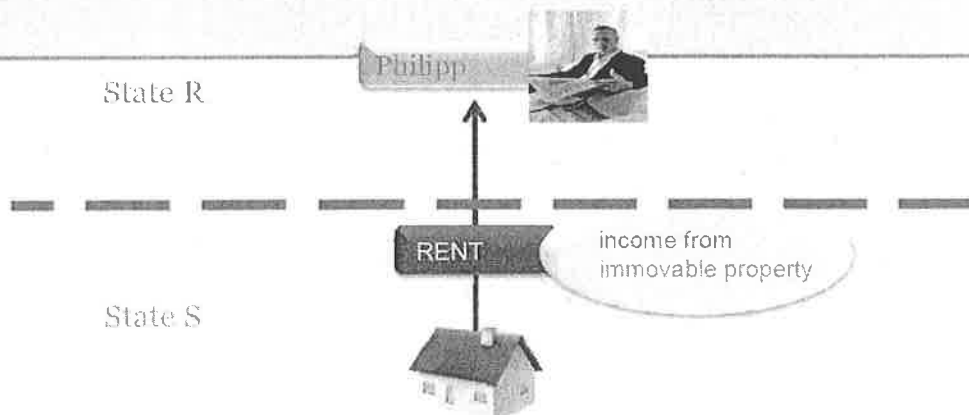
OECD Model Tax Convention on Income and on Capital



Art. 6
INCOME FROM IMMOVABLE PROPERTY

UN Model
Addition: "also"

(3) The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.





PASSIVE INCOME

Income from immovable property

**Dividends, Interest and
Royalties**

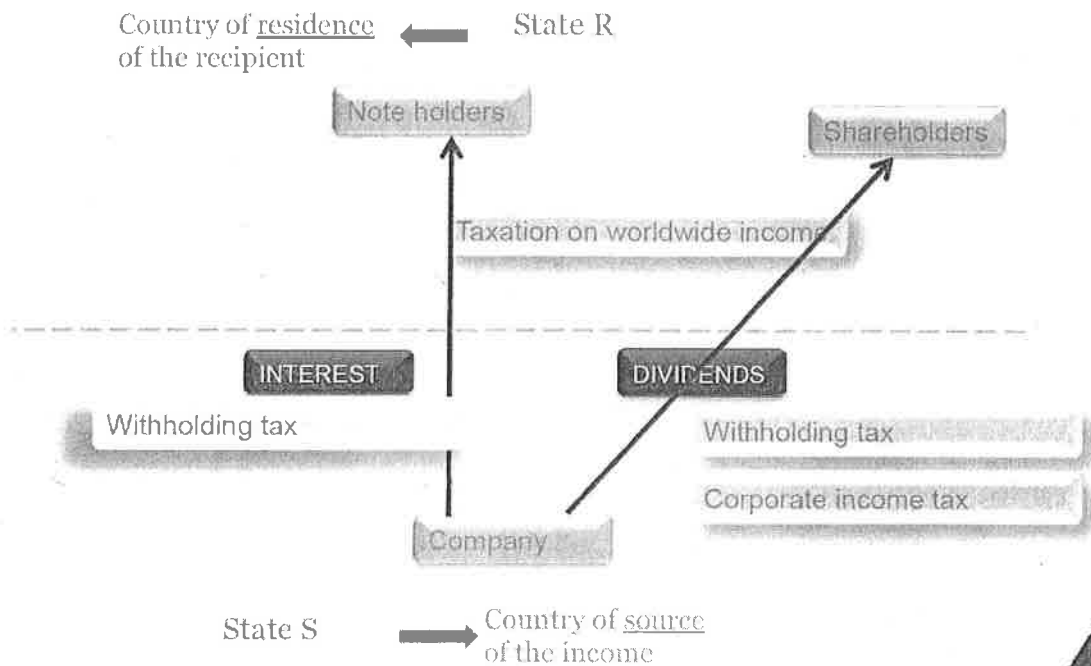
Capital Gains



DIVIDENDS

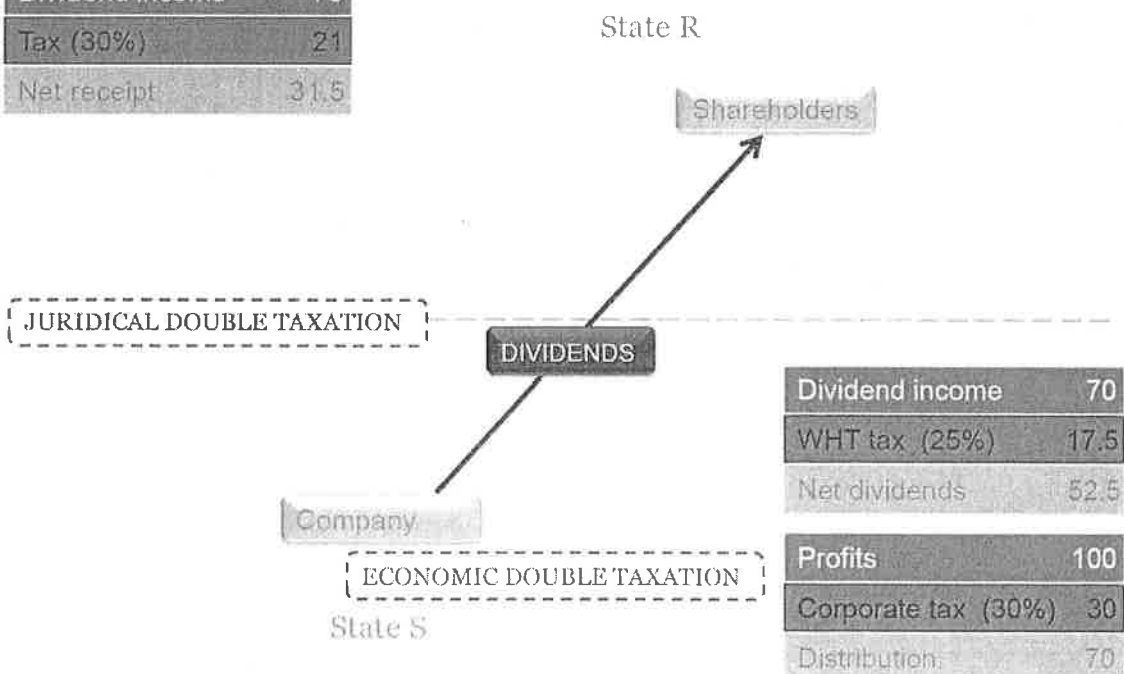


Taxation of Cross-border Investments



Economic and Juridical Double Taxation

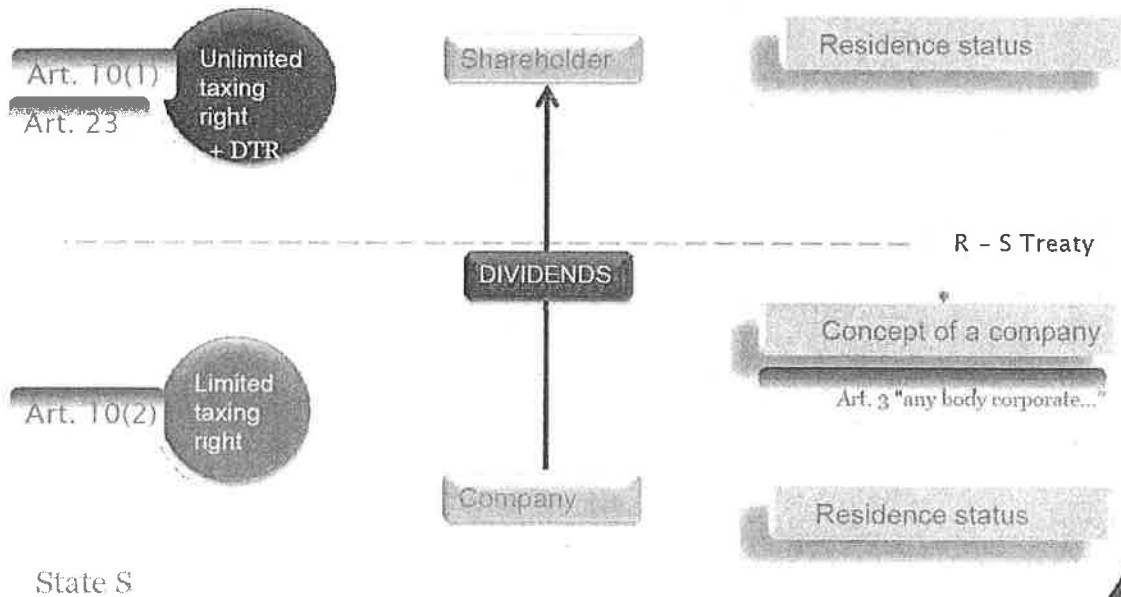
Dividend income	70
Tax (30%)	21
Net receipt	31.5





Treaty Distributive Rules for Dividends

State R



State S



What are Dividends?

UN and OECD Model Tax Convention on Income and on Capital



Art. 10
DIVIDENDS

(3) The term "dividends" as used in this Article means income from shares, "jouissance" shares or "jouissance" rights, mining shares, founders' shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.

income from shares...

income from other rights, not being debt claims, participating in profits

income from other corporate rights... (reference to domestic law)

Definition of Dividends



Are distributions from a
partnership dividends?

17

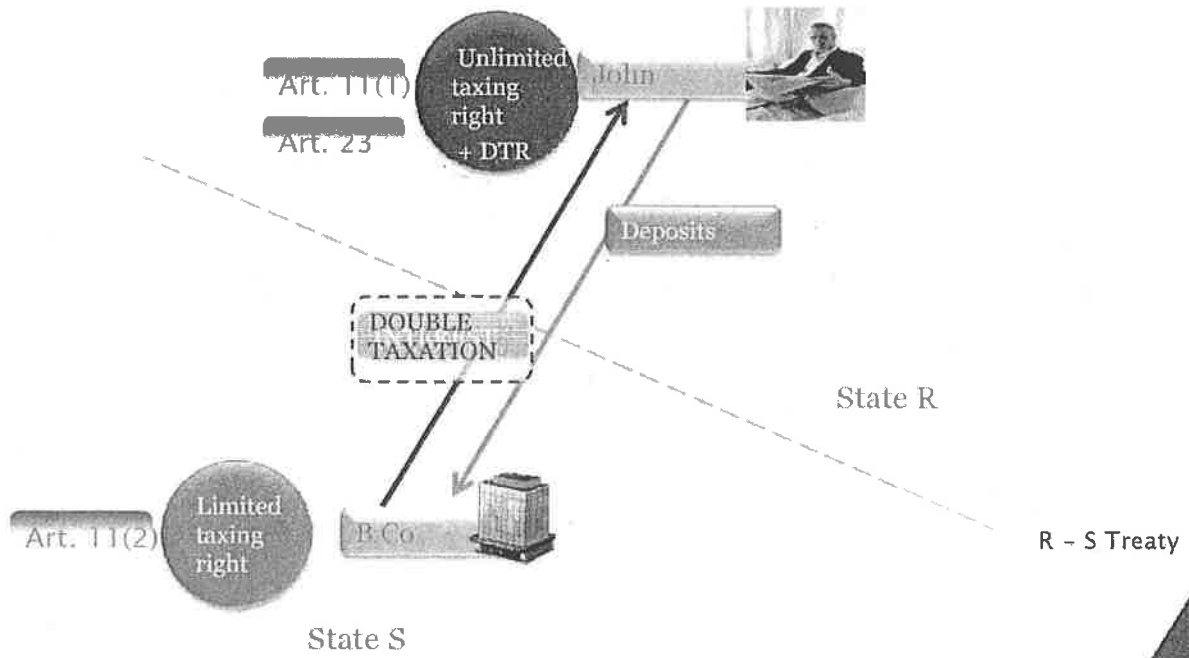


INTEREST

18



OECD Model: Tax-sharing Rule for Interest



Other Tax-sharing Arrangements for Interests

Exempt all interest income

Exempt specific categories of interest income

Interest paid to governments

Interest paid to tax-exempt financial institutions

Interest paid to governments

Interest paid to funds and managers of institutions

State S



What is “interest”?

UN and OECD Model Tax Convention on Income and on Capital



Art. 11 INTEREST

(3) The term “interest” as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor’s profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attached to such securities, bonds or debentures. Penalty charges for late payment shall be regarded as interest for the purpose of this Article.

“Closed” definition –
does not refer to domestic law



ROYALTIES

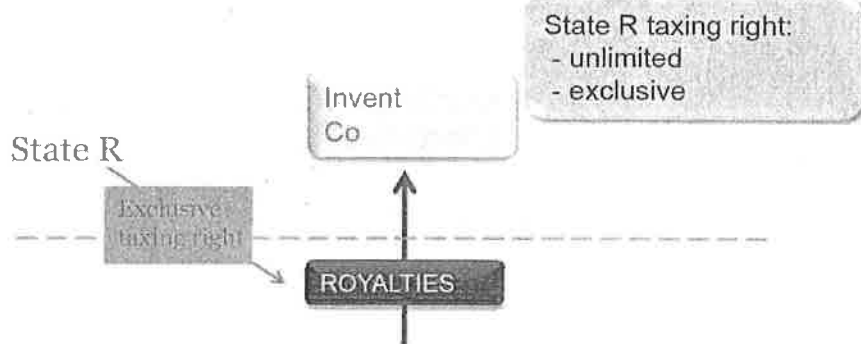
Royalties – OECD Model

OECD Model Tax Convention on Income and on Capital



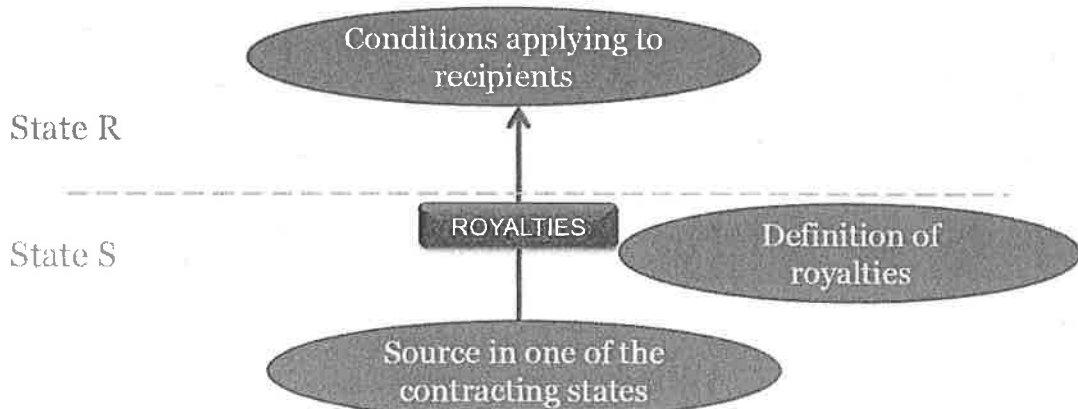
Art. 12(1)

“Royalties arising in a Contracting State (State S) and beneficially owned by a resident of the other Contracting State (State R) shall be taxable only in State R”



Scope of Art. 12

What conditions need to be present for Art. 12 to apply?



» Treaty Definition of Royalties

OECD Model Tax Convention on Income and on Capital

Art. 12(2)

The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films; any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.

Includes:

property/rights that are not registered

payments for exclusive use

compensation for fraudulent use

periodic as well as lump-sum payments

public / unique / useful
information

Service

Royalties → PE?

» Special Relationship

Non-arm's length royalty payments

Art. 12(4)



OECD Model

Art 12(6)



UN Model

Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid exceed the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

AGENDA

Income from immovable property

Dividends, Interest and Royalties

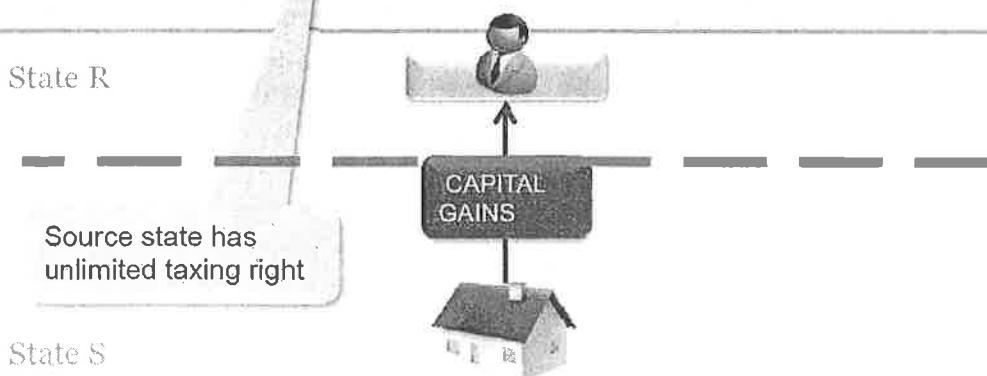
Capital Gains

Alienation of Immovable Property – Tax Treaties

OECD Model Tax Convention on Income and on Capital

Art. 13
CAPITAL GAINS

(1) Gains derived by a resident of a Contracting State from the alienation of immovable property referred to in Article 6 and situated in the other Contracting State may be taxed in that other State.



Capital Gains

OECD Model Tax Convention on Income and on Capital

Art. 13
CAPITAL GAINS

Resident state has exclusive
taxing right

(5) Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3, 4 and 5 shall be taxable only in the Contracting State of which the alienator is a resident.

UN Model Double Taxation Convention

Art. 13
CAPITAL GAINS

(6) Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3, 4 and 5 shall be taxable only in the Contracting State of which the alienator is a resident.

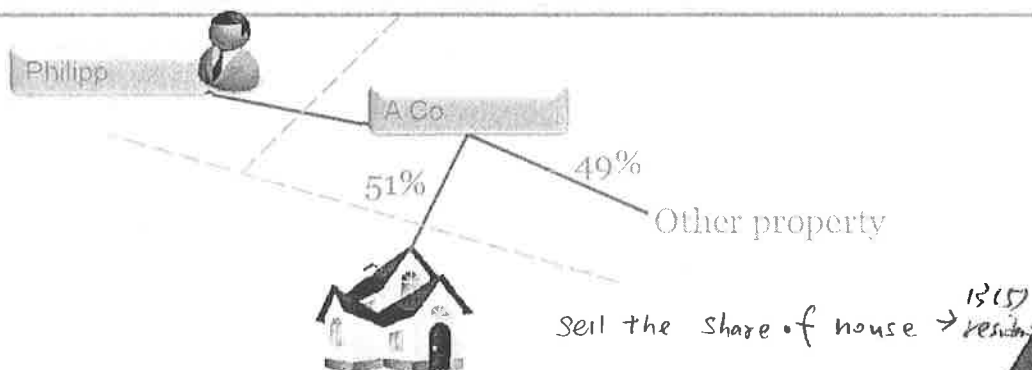
Shares in a Real Estate Company

OECD Model Tax Convention on Income and on Capital

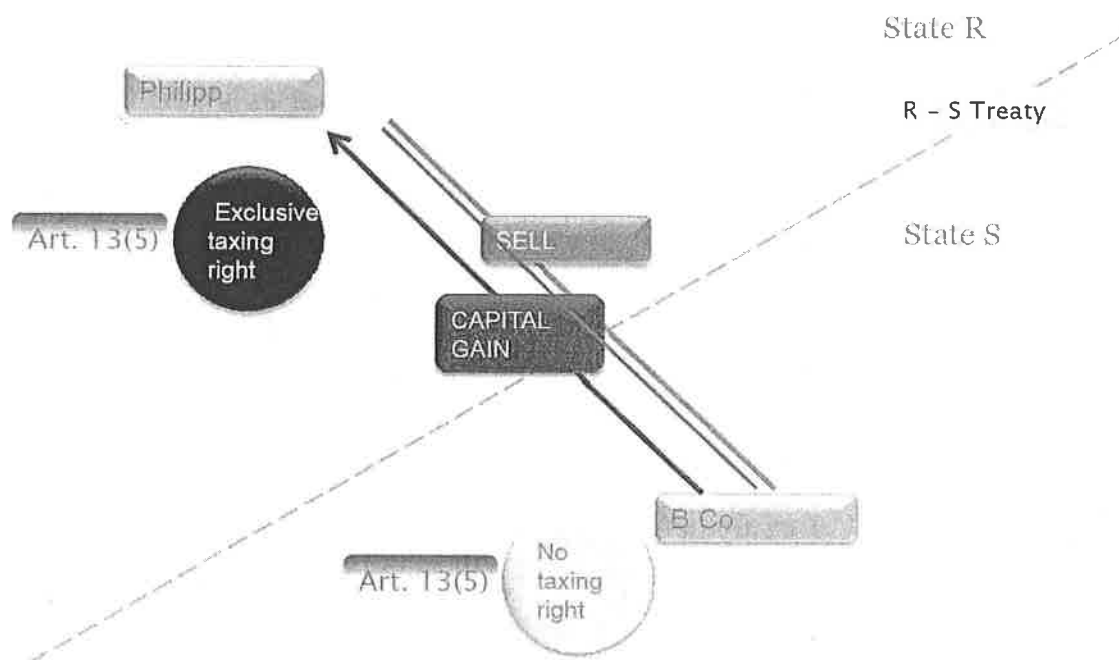
Art. 13
CAPITAL GAINS

(4) Gains derived by a resident of a Contracting State from the alienation of shares deriving more than 50% of their value directly or indirectly from immovable property situated in the other Contracting State may be taxed in that other State.

Identical to Art.13 (1)



» Gains from Alienation of Shares



» Various types of capital gains

Article	Asset
13(1)	Immovable property
13(2)	Movable property of a PE
13(3)	Ships and aircraft operated in international traffic and boats used in waterway transport
13(4)	Shares in an immovable property company
13(5)/UN Model 13(6)*	General rule: any other capital gains

*UN Model 13(5) Substantial shareholdings in a company



Other issues

- Impact of income classification
 - Royalties or Active income
 - Dividends or Interest?
- Hybrid financial instruments
- Beneficial Owner

33



ACTIVE INCOME

Employment income

Director's Fees

Pensions

© 2014 JEPD



Treaty Provisions

General
Rule

Art. 15 Employment Income

Special
Rules

Art. 16
Director's
Fees

Art. 17
Artistes and
Sportsmen

Art. 18
Private
Pensions

Art. 19
Government
Services

© 2014 IBFD



Art. 15 (1) of the OECD MC

Art.15 (1)

General Principle: exclusive taxation in the Residence State.

Exception: unless the work is exercised in the other State (Work State).

Subject to the provisions of Articles 16, 18 and 19, salaries, wages and other similar remuneration derived by a resident of a Contracting State [Residence State] in respect of an employment shall be taxable only in that State [Residence State] **unless** the employment is exercised in the other Contracting State [Work State]. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State [Work State].

36



Art. 15 (2) of the OECD Model

Art.15 (1)

General Principle: exclusive taxation in the Residence State.

Exception: unless the work is exercised in the other State (Work State).

Art.15 (2)

Exception to the Exception: No taxation in the Work State if 3 conditions are met.

Rationale of the provision

The Work State must have sufficient economic ties with the employment activities to get the taxing right over the employment income.

37



3 Conditions for no Taxation in the Work State

tax on residence state

a. Employee present **for no more** than 183 days in the Work State;

because of PE

AND

b. The remuneration is paid by, or on behalf, of an employer who is **not** a resident of the Work State;

AND

c. The remuneration is **not** borne by a PE of the employer in the Work State.

38



Art. 16 Directors' Fees



39



Directors' Fees Art. 16 OECD M.C.

OECD Model Tax Convention on Income and on Capital



Art. 16
DIRECTORS' FEES

Directors' fees and other similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other State.

"... in his capacity as a member of the board of directors..."



Directors' Fees: Summary

- Principle: Right to tax allocated to the country of residence of the company in which the individual is a statutory director...
- ...regardless where the director performs his duties!
- Difference with Art. 15: physical presence in the Work State is required in order to grant the latter the right to tax



Art. 17

Artistes and Sportsmen



Structure of Art. 17

Article 17(1)

- Primary taxing right in the State of activity

Article 17(2)

- Anti-avoidance provision: Look-through approach

43



Artistes and Sportsmen – Art. 17

*Income derived as an entertainer/artiste, or as a musician, or as a sportsman – from his personal activities as such – **may be taxed in the State of exercise of the activity***

Art.17 takes precedence over Art. 7 and 15!



- Who is an "artist"?
- Who is an "entertainer"?
- Who is a "sportsman"?

44



“Artistes” or “Sportsmen”

- Commentary to Art. 17(3) OECD Model:
 - **NO PRECISE DEFINITION**
 - Activities of a political/social/ religious/ charitable – if entertainment element
 - NOT:
 - Conference speakers / admin / support staff such as cameramen, producers, film directors, choreographers, technical staff, road crews



“Impresarios”/ Agents

- If it’s an orchestra – paid per performance as a unit => but each musician receives an annual salary =>
- **A portion of that salary can be taxed by the Contracting State where the performance takes place**
- People who arrange for the appearance of an artist – not covered by Art 17, but... income received by them on behalf of the artist/sportsman is covered



How Art. 17 computes the income?

- Article 17 is silent on this.
- Domestic law determines computation of expenses
- Some States tax on the gross amount at a low rate
- Some help from recent ECJ judgments: “*Gerritse*” (C-234/01) and “*Scorpio*” (C-290/04) ...
- ...Direct expenses in respect of a performance should be deductible before WHT is calculated



Rent-A-Star Co. - Treaty Law

Art. 17(2) OECD Model: shifting from the “**limited**” to the “**unlimited**” approach...

...“*Where income in respect of personal activities exercised by an entertainer or a sportsman in his capacity as such **accrues ...to another person**, that income may...be taxed in the Contracting State in which the activities ...are exercised...*”

Art 17(2) allows taxation in those countries who don't have “look-through” rules **to tax the income accrued to the person receiving the income – even in the absence of a PE in that country**



Rent-A-Star Co.

- The State where performance takes place may tax an appropriate portion of any remuneration + where domestic laws allow “look-through” the service company
- “Income derived from appearances in its territory” – “accruing in the entity for the individual’s benefit” →
EVEN IF THE INCOME IS NOT PAID TO THE PERSON IT CAN BE TAXED (domestic law imposes tax)



Thank you!!!

Taxation of High Net Worth Individuals

Taxation of Gifts and Estates



Taxation of Gifts and Estates

UK Inheritance Tax and the High Net Worth Individual Population

Angela C Russell

Lead Customer Relationship Manager

OECD freely authorises the use of this material for non-commercial purposes. All requests for commercial uses of this material or for translation rights should be submitted to OECD@OECD.org.

The opinions expressed and arguments employed herein are those of the author and do not necessarily reflect the official views of the OECD or of the governments of its member countries.



Topics for Discussion

- How the High Net Worth Unit & Inheritance Tax fits into the UK HM Revenue & Customs
- The two certainties in life
- Who is responsible for collection of UK Inheritance Tax
- What is UK inheritance tax and the basis for charge
- What are the exemptions and reliefs
- What should the deceased estate include and what are lifetime transfers
- Gifts with reservation
- How do trusts fit into HNWI succession and estate planning
- Use of Discretionary Trusts
- UK legislative changes affecting IHT
- Avoidance & Evasion risks at death
- Types of UK IHT & Trust Avoidance schemes being used



How the UK High Net Worth Unit & Inheritance Tax fits into UK HM Revenue & Customs



Personal Tax has responsibility for personal tax policy and operations. It is accountable for the collection of revenue for the Department's personal tax customers and develops, supports and maintains the processes and procedures for a wide range of taxes

Specialist Personal Tax deals with the specialist aspects of the personal tax system. This covers: specialist taxes like Inheritance Tax and Capital Gains Tax; specialist tax incentives, like pension reliefs and Gift Aid; and specialist customer groups, like Trusts, Charities, Personal Tax International, and High Net Worth Individuals.

Trusts & Estates is part of Specialist Personal tax and has responsibility for operational, advisory and policy work on inheritance tax, Income tax on UK/Non UK resident trusts, transfer of assets and deceased persons estates in administration

High Net Worth Unit is a dedicated unit dealing with the tax affairs of around 6,000 of HMRC's wealthiest personal tax customers and 4,000 customer from Lloyds Underwriters

3



WHAT ARE THE TWO CERTAINTIES
IN LIFE

Death & Taxes

Who is responsible for collection of Inheritance Tax

Deceased Cases – to date of death

- The HNWI Birmingham office – settle any tax liabilities up to the date of death of HNWI customer
- 'Follow the money' from the deceased to the beneficiaries and bring the later in HNWI as appropriate
- Work closely with colleagues in Specialist PT Trusts & Estates on pre/post death circumstances
- Identify any potential 'ghosts' – deceased should be HNWI customers or not previously signed up to UK Tax system but should have been.

Deceased persons estates in Administration

- Trusts & Estates in Nottingham are responsible for deceased persons estates in administration. They work closely with colleagues in other HMRC compliance directorates to:
 - Identify estates that should have delivered an Inheritance Tax return
 - Identify when a return should be made for administration periods
 - Capture the information on IHT and T&E tax returns
 - Operate the Probate and IHT Helpline including the stationery order line
 - Investigate the accuracy of IHT accounts and settle estates
 - Give technical IHT advice and support to colleagues throughout HMRC
 - Tackle IHT avoidance schemes which can relate to lifetime transfers or at death

What is UK inheritance tax and the basis for charge

What is Inheritance Tax?

- A Transfer Tax
- A Transfer of value
- Inheritance rate of tax
- Nil Rate band

Basis for Charge

- UK domiciled individuals
- Non UK Domiciled individuals
- Deemed UK Domicile for IHT

Inheritance statistics

- IHT tax receipts in 2012/13 £3.1 billion
- 260,000 deaths each year of which 4% were tax paying



What should the Deceased tax estate include and What are Lifetime transfers

The Deceased estate should include

- All the deceased assets
- Any gifts not reasonable presents
- Assets not owned by the deceased
- Gifts with reservation of benefit

What are Lifetime chargeable transfers?

- Tax is payable on Lifetime Chargeable Transfers at the time of transfer. The tax is charged at 20%. A transfer becomes chargeable if it is not specifically exempt or a potentially exempt transfer. Generally only a gift into a discretionary trust will be a lifetime chargeable transfer.
- Trust entry, exit charges and 10 year anniversary charge on the trustees

Exemptions

Transfers between spouses/civil partners, gifts & legacies to charity, lifetime gifts not exceeding £250 to each receipt and the first £3,000 of lifetime gifts

Not otherwise exempt, normal out of income & maintenance gifts for children under 18 in education

7



What are UK Inheritance Tax reliefs

- Agricultural Property Relief (APR)
- Business Property Relief (BPR)
- Woodlands Relief (WR)
- Quick Succession Relief (QSR)

APR & BPR reliefs ensure that family businesses and farms do not have to be sold on the death of the owner to pay IHT

8



Gifts with Reservation

A gift with reservation is one made by the deceased, of property subject to a reservation which was made on or after 18 March 1986 which was not an exempt transfer.

Consideration must be given to:

- 7 year rule
- Conditions attached to a benefit

The purpose of the rule is to stop people arbitrarily reducing the size of their estates and, by doing so, avoiding inheritance tax.

9



How do Trusts fit it to HNWI succession or estate planning

- What is a trust ?
- What are the different types of trust?
- What are the reasons for setting up a trust?
- Who is responsible for declaring and paying UK income tax on income and gains
- A will trust
- Other types of Trust

Flat management company trust or sinking funds

Employer Trusts – Employer Benefit Trusts & Employer Financed Retirement Benefit

Trusts

Heritage maintenance funds

Charitable Trusts

Investment trusts & unit trusts

Sham trusts

10



Use of Discretionary Trusts

Claims to IHT arise on

- Transfers into trust (before 22/03/06 only discretionary trusts)
- Transfers out of a trust- including payment of capital
- Transfer of assets to a company
- Appointments which change the nature of the trust
- Each and every 10 years is still a discretionary trust
- Devaluations (e.g. a grant of lease at below Market Value to a beneficiary)

Transfers into trust are chargeable (at 20%) when made and do not depend on the death of the settlor, so they are not Potentially Exempt Transfers (PETS)

Potentially a 6% charge when capital is distributed and 10 year anniversary charges for some trusts equating to 6% of the excess over the Nil rate band.

11



UK Legislative changes affecting IHT

- **2006**

Radical changes to IHT for trusts with effect for Interest in possession and Accumulation & maintenance trusts from 22 March 2006

- **2007**

A change in the process of leaving money to a spouse- both entitled to a tax free allowance rate band

- **2010**

Increase in the Nil Rate band to £325,000 tax free. Reduction in IHT rate to 36% if a person donates to a charity at least 10% of their estate

- **2013**

Restriction when and to what extent liabilities may be deducted from an estate plus change to spouse of civil partner not domiciled in the UK

12



Avoidance & Evasion risks at death

Sidestepping probate process by

- Transferring funds offshore
- Transferring funds into joint names
- Transferring assets into trust/to nominees
- Managing personal assets through companies or partnerships

HMRC are also aware of

- Using IHT Avoidance schemes - to take assets out the estate
- Omitting assets or gifts - from the IHT return
- Undervaluing assets - in the IHT return
- Over claiming reliefs and exemptions
- Abuse of the excepted estate process (net assets below the threshold)
- Not obtaining a grant of probate at all
- Misrepresenting the true nature of the trust arrangements – saying it is a bare trust, non domiciled settlor when it is not.

13



Examples of UK IHT & Trust Avoidance schemes being used

There are two distinct areas of avoidance –

Disclosed under DOTAS and Undisclosed bespoke tax arrangements

- Home Loans/Double Trusts
- Excluded Property Trusts
- Debt & Charge Schemes
- Employment Benefit Trusts
- Employer Financed Retirement Benefit Schemes
- Round the World
- Estate Protection Plan

14



Thank you

Any Questions?

