

On 13 July 2017, the UK Government announced that the new rules will be included in the next Finance Bill due to be published in September and, importantly, also confirmed that the changes will have retroactive effect from 6 April 2017.

IHT update: UK Government confirms effective date of proposed changes to UK non-dom tax rules

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The recent UK election and related legislative changes have delayed implementation of new rules imposing inheritance tax on UK residential property held in offshore structures. However, on 13 July 2017, the UK Government announced that the new rules will be included in the next Finance Bill due to be published in September and, importantly, also confirmed that the changes will have retroactive effect from 6 April 2017.

Background

Changes to the UK tax treatment of UK residential property held in offshore structures by non-domiciled individuals were initially proposed in the 2016 Finance Bill. The changes were expected to be finalised in the 2017 Finance (No 2) Bill prior to 6 April 2017, however, in the busy lead-up to the UK general election in June the proposed changes were removed from the bill.

Those affected by the changes who have yet to review and restructure their affairs, should now take the opportunity to consider whether steps should be taken to mitigate the effects of the impending rule changes by contacting their UK tax advisers.

Individuals

For individuals caught by the new '15/20 rule' at 6 April 2017, it may already be too late. However, those who will be caught from the start of the 2018/19 or subsequent tax years are advised to seek advice now to establish what action should be taken to shelter their assets from UK inheritance tax (*IHT*).

Offshore companies and trusts will continue to provide a shelter from UK IHT for non-domiciled individuals. Assets (with the exception of UK residential property – see below) settled in trust while an individual is non-domiciled will continue to qualify as 'excluded property' for UK IHT purposes even if the settlor subsequently becomes deemed UK domiciled. There are currently no proposals afoot to change this rule.

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Existing offshore companies, partnerships and trusts holding UK residential property

Many clients chose not to 'de-envelope' properties held in offshore structures despite the introduction and subsequent increase in the Annual Tax on Enveloped Dwellings (**ATED**) charge in order to preserve the IHT shelter provided. It has now been confirmed that the protection from IHT will be removed with effect from 6 April 2017. If the primary purpose of an offshore holding company/trust is to provide shelter from UK IHT, then, taking account the ongoing costs of maintenance and the imposition of ATED charges (which can be significant in relation to high value properties), now is the time to consider un-winding or reorganising the structure.

Harneys has significant experience helping clients to restructure their offshore holdings in preparation for the new rules. Specifically we are able to assist with:

- restructuring holding companies
- advising on the use of bare nominee companies
- advising on the restructuring of shareholder and other loans
- liquidating companies holding UK residential property
- winding-up trusts holding UK residential property
- establishing trusts to hold non-UK assets for individuals currently non-UK domiciled prior to becoming deemed domiciled.

For more information and key contacts please visit www.harneys.com/private-wealth.

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