

KEY FEATURES AND BENEFITS 23

Lifetime Planning options for: Non-Principal Private Residences

(RESIDENTIAL OR COMMERCIAL)

COMMON PROBLEMS FACED BY RENTAL PROPERTY OWNERS

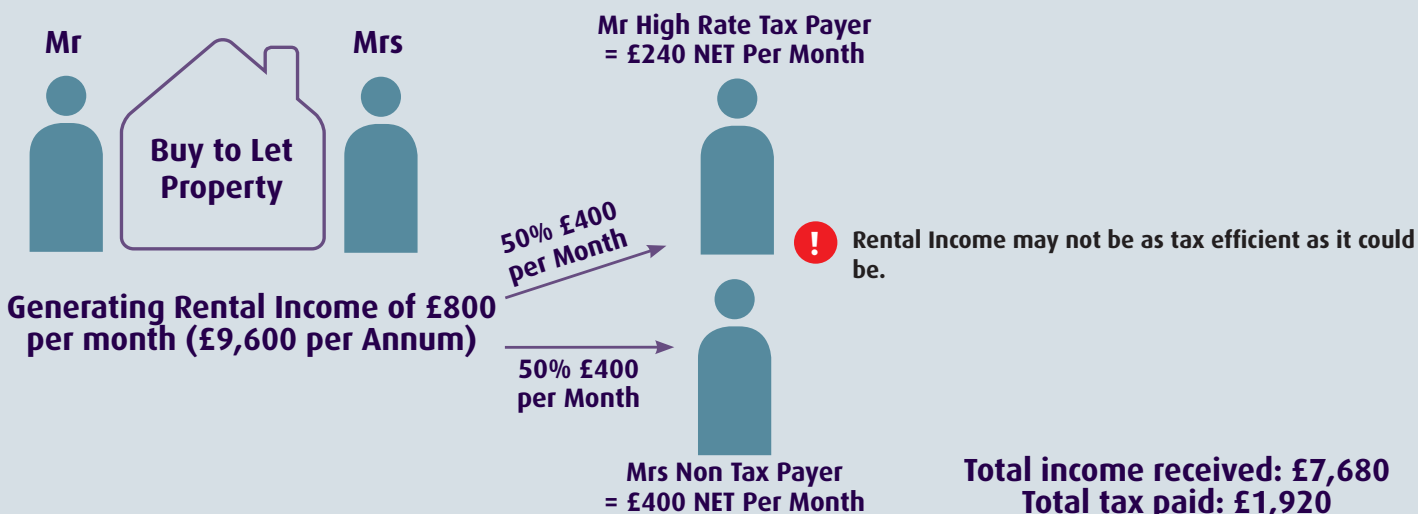
1. GIFTING ISSUES



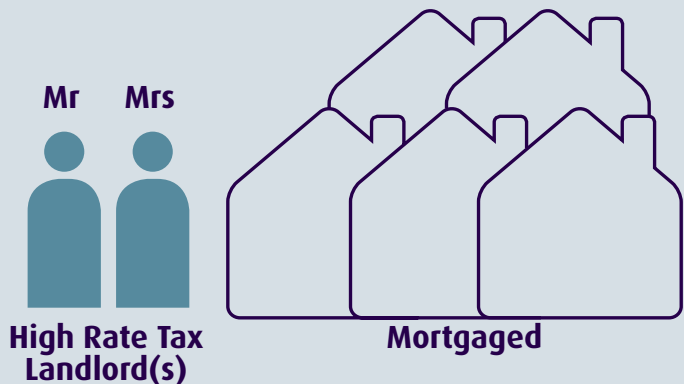
Creating IHT for Mr and Mrs

- ! Sale of the rental property can be subject to Capital Gains Tax (CGT).
- ! Clients want to start the 7 year clock for IHT efficiency but are concerned that the gift would be attackable from the recipient's divorces, creditor claims, care fees and their Inheritance Tax on their deaths.
- ! Clients can afford to gift the capital but need to retain as much income as possible.
- ! Client wants to gift part of the capital and all of the rent but retain access to part of the capital.
- ! Clients wish to optimise CGT position on rental property when family lives/had lived in prior to sale (next event).

2. RENTAL INCOME ISSUES



3. TAX INEFFICIENCY OF BUY TO LET PORTFOLIOS



- ! Loss of mortgage interest relief to landlords with personally owned Buy to Let portfolios. To be reduced in 2020 from relief from their highest rate to basic rate. So this increases taxable profit and reduces real profit.
- ! Exacerbated by removal of wear and tear allowances.

OUR SOLUTION

	IHT	CGT	Income Tax
Gift Trust	✓	✗	✗
Holdover Gift Trust	✓	✓	✗
Gift and Loan	✓	✗	✗
Declaration of Trust (Land)	✓	✗	✓
Gift with Reservation	✓	✗	✓
Business Property Relief (BPR) Qualifying Investments	✓	✓	✓
Incorporation	✗	✓	✓

GIFT TRUST (Please refer to Key Features and Benefits Sheet 23a)

- Settlor can maintain control (as Trustee) but cannot benefit.
- Chargeable Lifetime Transfer (CLT) – 7 year clock.
- Settlor must give away capital and income.
- Transfer will trigger CGT.
- Trust assets gain maximum protection from beneficiary's divorces, creditor claims, care fees and their Inheritance Tax on their deaths.

HOLDOVER GIFT TRUST (Please refer to Key Features and Benefits Sheet 23b)

- Settlor can maintain control (as Trustee) but cannot benefit.
- CLT – 7 year clock.
- Settlor must give away capital and income.
- Trust assets gain maximum protection from beneficiary's divorces, creditor claims, care fees and their Inheritance Tax on their deaths.
- CGT liability can be deferred until future disposal.
- Trust must exclude Settlor, Settlor's spouse (or civil partner) and Settlor's minor children as beneficiaries.
- Can however benefit adult children and grandchildren.

GIFT AND LOAN (Please refer to Key Features and Benefits Sheet 23c)

- Settlor can maintain control (as Trustee).
- Settlor can loan a proportion of the capital to the Trustees to retain an interest in some of the capital.
- CLT on the capital transferred to trust– 7 year clock
- However the loan element is not a settlement and therefore not a CLT.
- The loan element remains in the estate of the Settlor for their IHT.
- Trust assets gain maximum protection from beneficiary's divorces, creditor claims, care fees and their Inheritance Tax on their deaths.

DECLARATION OF TRUST (LAND)

(Please refer to Key Features and Benefits Sheet 23d)

Can be used to maximise income tax efficiency, by utilising the income tax rate of the lower income Legal Title Holder of the rental properties.

CONCESSIONS TO GIFT WITH RESERVATION RULES AND RENTAL PROPERTIES (Please refer to Key Features and Benefits Sheet 23e)

- Clients can gift a percentage of the capital value of a rental property to a family member and retain all the rent with no Gift with Reservation of Benefit (GWROB).
- Would be a Potentially Exempt Transfer (PET) as referred to in Finance Act 1986, s102 (b)(iii).
- Would be disposal for CGT.

BPR INVESTMENTS

- Financial Conduct Authority (FCA) regulated products.
- Can defer CGT liabilities already triggered, by the investment of the gains.
- Investments IHT 'free' after 2 years and income tax reliefs available (The clients Will needs to be drafted to ensure full tax benefits are retained).

INCORPORATION (Please refer to Key Features and Benefits Sheet 23g)

- The transfer of 'personally' owned Buy to Let properties to a Limited Company.
- Mortgage interest relief available in a company.
- No CGT payable if the activities constitute a 'business' (Using s162 TCGA 1992).
- No SDLT payable if clients operating via a partnership (Schedule 15 FA 2003).
- Base costs of ALL properties are uplifted to current market value.
- Restricting tax on surplus profits to Corporation Tax rates only.
- Restricting tax on future disposals to Corporation Tax rates only.
- The availability of an indexation allowance to further reduce gains on disposal.
- Income can be paid in the form of salaries or dividends.
- Personal protection afforded by a corporate structure.

This sheet contains only general planning and is not to be construed as advice for any personal planning. Each strategy recommended is based on individual circumstances.