

Excluded Property Trust

How does it work?

The excluded property trust is suitable for:

- UK resident and non-resident individuals who are not UK domiciled or deemed domiciled in the UK for UK inheritance tax (IHT) purposes.

The excluded property trust is not suitable for individuals who are born in the UK with a UK domicile of origin at birth and are now a UK tax resident.

Mr Lopez decides to sell his Spanish assets and open a Friends Provident International policy, placing this into an excluded property trust

This must be done whilst he is non-UK domiciled.

The policy is now treated as being outside of his estate for UK IHT. Any growth of the investment is also outside of his estate.

Even if Mr Lopez later becomes deemed UK domiciled.

As Mr Lopez is a potential beneficiary of the trust, subject to trustee's approval, he can take an income from the policy.

The assets could also be assigned back into his ownership at any time.

Example

- Mr Lopez is resident in the UAE and is a non-UK domiciled individual. He was born outside of the UK.
- He holds Spanish investments that are currently valued at £400,000.
- He is relocating to the UK to take up employment.
- Mr Lopez is concerned about UK (IHT) exposure on his non-UK assets upon his death.

While Mr Lopez remains non-UK domiciled he will only be taxed on his UK assets.

Where Mr Lopez has been UK resident for at least 15 of the last 20 tax years he will then be treated as deemed UK domiciled for all tax purposes, and taxed on his worldwide assets from the sixteenth year.

The table below provides a comparison of the IHT situation should the Spanish assets be placed into an excluded property trust versus no excluded property being used, therefore taxed as part of his worldwide assets. By the time of Mr Lopez's death, the value of assets has grown to £590,000.

	Excluded Property Trust	No Excluded Property Trust
Value of assets	£590,000	£590,000
Nil Rate Band	n/a	£325,000
IHT at 40%	£0	£265,000
IHT at 40%	£0	£106,000

Important note

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the law and HM Revenue and Customs (HMRC) practice. You should note however, that we cannot take on

the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.

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