BERWIN LEIGHTON PAISNER
PRIVATE WEALTH

Wealth Owner Summary

You may have lived overseas for many years, maybe even most of your life but, from April 2017 your worldwide assets (including those held in trust) will be subject to UK tax if you were born in the UK with a UK domicile at birth and are returning to live here. Here we provide a guide to the proposals so you can plan ahead.

AUGUST 2016 CON-DOC: IMPACT FOR A UK RESIDENT WITH A UK DOMICILE OF ORIGIN

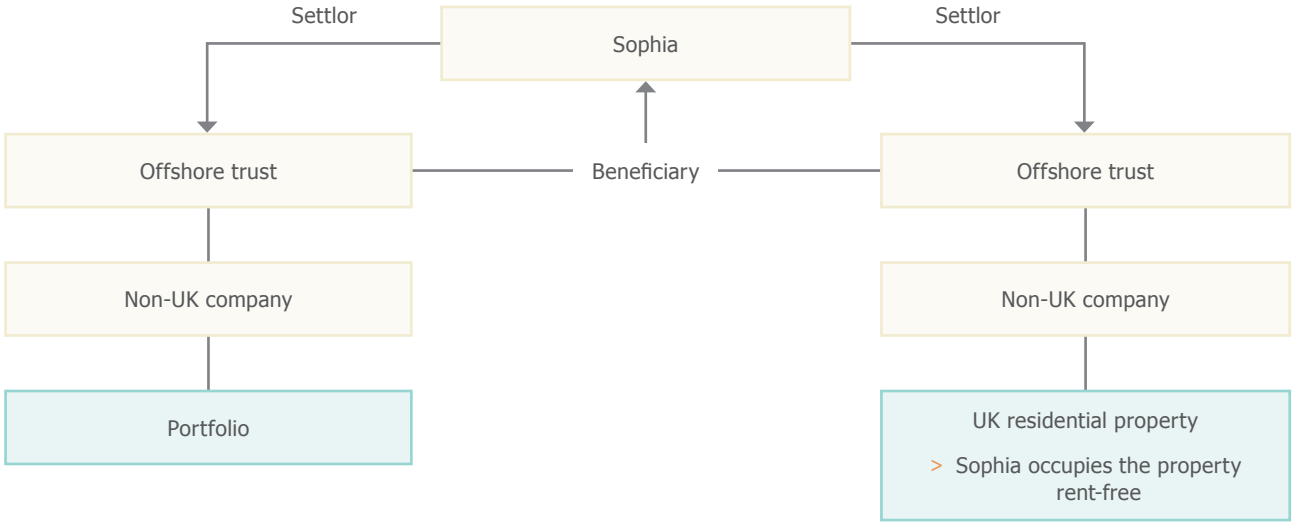
Proposed position from April 2017

The long awaited consultation paper on the taxation of non-UK domiciles has been issued. The expected position for those with a UK domicile of origin is set out below.

From April 2017, an individual born in the UK with a UK domicile of origin, who has acquired a domicile in another country but who returns to the UK to take up residence will be treated as UK domiciled as soon as she becomes UK resident. She will be taxed on her worldwide income and gains as they arise and after one tax year of residence her worldwide assets (including those held in trust) will be subject to UK inheritance tax.

SOPHIA

- born in UK with UK domicile of origin
- non-UK resident since 1982; acquired non-UK domicile of choice in 1985
- set up offshore trusts in January 2002; she is a beneficiary of the trusts
- becomes UK resident from 6 April 2017 but intends to return to country of domicile of choice after a few years



TAX POSITION ONCE UK RESIDENT

As soon as Sophia becomes UK resident:

> she will be subject to tax on an arising basis on her worldwide income and gains

> her worldwide assets will be subject to inheritance tax from the start of her second tax year of residence

Offshore trusts

> Sophia will be subject to tax on an arising basis on the UK and non-UK income and gains of the trusts

> a charge to inheritance tax will arise on the UK and non-UK assets of trusts if any of following occur once Sophia has been resident for one tax year and while she remains UK resident (and potentially for a set period after she ceases to be UK resident depending on how long she is UK resident):

- 10 year anniversary of trust;
- assets are distributed out of trust to beneficiaries; or
- Sophia dies

UK residential property

> from 6 April 2017, the UK residential property held in the trust will be subject to inheritance tax even if Sophia does not return to the UK

> a charge to inheritance tax will arise:

- on each 10 year anniversary of the trust; and
- on Sophia's death

Expats need to be alert to the proposed changes to tax rules which take effect from April 2017. The draconian rules mean that an expat could find themselves paying UK income tax and capital gains tax and exposed to inheritance tax on their worldwide assets if they return to the UK, even temporarily.

Marilyn McKeever,
Associate Director - Private Client

PLANNING OPTIONS

> Sophia should consider planning options for the period that she is UK resident. This may include:

- investment planning to realise gains prior to arrival in the UK
- planning to defer income and gains so far as possible whilst she is resident in the UK
- potentially changing certain investments to enable deferral, and tax-free roll-up
- inheritance tax and succession planning for at least the period of UK residence

This note is a general guide only and is not a substitute for proper legal and tax advice.

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