

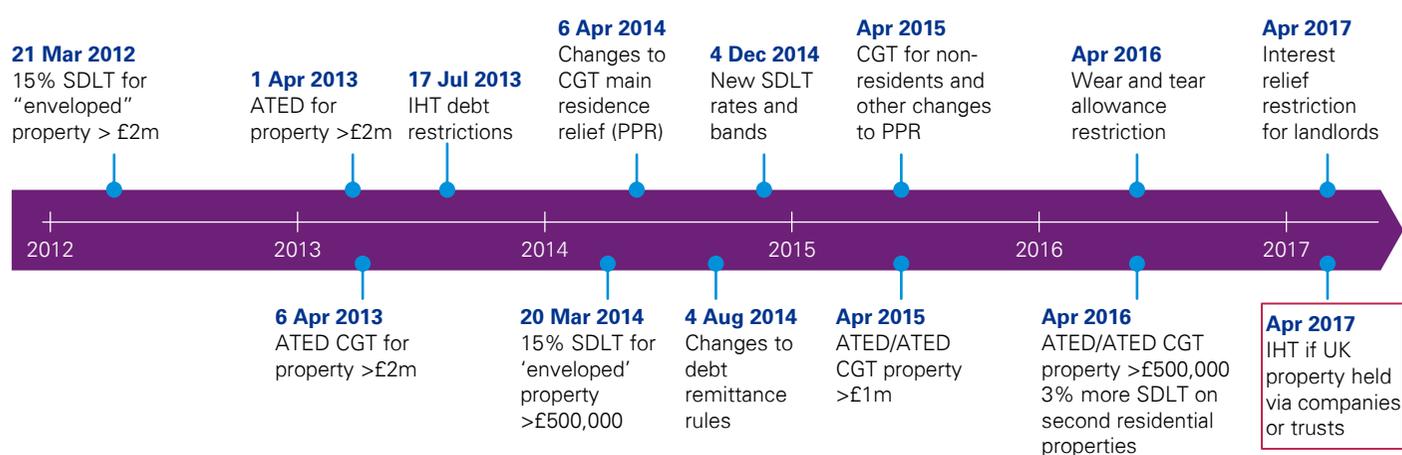


# UK residential property Inheritance Tax

## Private Client Update

October 2016

The tax rules affecting UK residential property have undergone substantial changes in the last few years. This is continuing – as of 6 April 2017 UK Inheritance Tax ('IHT') will be chargeable on all UK residential property, regardless of ownership structure.



### What does this change mean for non-UK domiciled property owners?

In the past, UK property held in a company incorporated outside the UK (possibly held in turn by a trust resident outside the UK) was not seen as a UK asset for IHT purposes and was therefore outside of the scope of the charge for non-domiciled individuals ('non-doms'). This is now changing – as of 6 April 2017 all UK residential property will be within the scope of IHT. This means that current corporate property holding structures may no longer be beneficial from an IHT perspective, in addition to incurring annual ATED charges. Structures for future acquisitions will also be affected.

### Are only non-doms resident in the UK affected?

No – whereas other recent legislative changes that have focused on non-doms target those who have been resident in the UK for extended periods, **these new IHT rules affect all non-doms whether they are resident in the UK or not.** Anyone who currently owns UK residential property through a company incorporated outside the UK or other opaque vehicle will be liable to IHT on the value of such UK property in the same way as UK domiciled individuals. The measure will apply to all UK residential property whether it is occupied or let and of whatever value.

### What is the IHT exposure on my property – how will it be taxed?

Directly held UK residential property will continue to be within the scope of IHT in most situations, regardless of the owner's residence and domicile position and will be calculated in the usual way.

As the UK residential property that is targeted by these changes is usually held within a company, there are questions around how IHT will be levied in practice. There remains considerable uncertainty on the practical aspects of the rule changes, including on issues of valuation and deductibility of debts. Clients will need to consider the impact of the changes in assessing the IHT exposure that will come with the new rules.

### What else do I need to know?

The Government has confirmed that there will be no relief for 'de-enveloping' such property. This means individuals will need to navigate the tax complexities of a possible 'de-enveloping' themselves, working with their advisors.

## What should I do?

Whilst we await the draft legislation, it is highly likely that there are circumstances where action would be beneficial before 5 April 2017 and we would strongly recommend engaging with advisers as soon as possible

Taking professional advice is now more important than ever. Understanding how the new IHT rules interplay with other taxes that affect these property structures is key when making decisions for the future, both for existing structures and future acquisitions.

As you can see from the above timeline, IHT is now just one of the many tax considerations that affect UK residential property - KPMG can offer expert, tailored advice on the best way forward, taking into account all personal and commercial considerations and ensuring that you understand the tax position.

Even if no such changes are planned and current structures maintained, realising exactly how the new rules affect your IHT position is recommended in order to see if any other potential planning is possible in other areas.

## Have all these changes been finalised?

Not as yet – we do know that the new rules are coming in April 2017, but so far the Government has only published consultation documents.

It is very unlikely that there will be substantial difference in the direction of the new rules when they are finalised – and there is not much time before they are implemented. Should anyone be planning to act before their property is affected, we recommend that you contact us for advice as soon as possible.

For further information see:

[www.kpmg.com/uk/ukresidentialproperty](http://www.kpmg.com/uk/ukresidentialproperty)

[www.kpmg.com/uk/nondoms](http://www.kpmg.com/uk/nondoms)

### London

#### Jo Bateson

**Partner – London**

T: +44 (0)20 7694 5445

E: [jo.bateson@kpmg.co.uk](mailto:jo.bateson@kpmg.co.uk)

#### Daniel Crowther

**Partner – London**

T: +44 (0)122 358 2163

E: [daniel.crowther@kpmg.co.uk](mailto:daniel.crowther@kpmg.co.uk)

#### Greg Limb

**Partner – UK Head of Private Client**

T: +44 (0)20 7694 5401

E: [greg.limb@kpmg.co.uk](mailto:greg.limb@kpmg.co.uk)

#### Derek Scott

**Associate Partner – London**

T: +44 (0)207 311 2618

E: [derek.h.scott@kpmg.co.uk](mailto:derek.h.scott@kpmg.co.uk)

#### Mike Walker

**Partner – London**

T: +44 (0)20 7311 8620

E: [mike.walker@kpmg.co.uk](mailto:mike.walker@kpmg.co.uk)

#### Alexander Marcham

**Director – London**

T: +44 (0)20 73114976

E: [alexander.marcham@kpmg.co.uk](mailto:alexander.marcham@kpmg.co.uk)

#### Paul Day

**Director – London**

T: +44 (0)20 73113560

E: [paul.day@kpmg.co.uk](mailto:paul.day@kpmg.co.uk)

### South

#### Jane Crotty

**Director – Bristol**

T: +44 (0)207 694 5396

E: [jane.crotty@kpmg.co.uk](mailto:jane.crotty@kpmg.co.uk)

#### David Furness

**Director – Reading**

T: +44 (0)118 964 2192

E: [david.furness@kpmg.co.uk](mailto:david.furness@kpmg.co.uk)

#### Roger Gadd

**Associate Partner – Bristol**

T: +44 (0)117 905 4636

E: [roger.gadd@kpmg.co.uk](mailto:roger.gadd@kpmg.co.uk)

#### Paul Spicer

**Partner – Bristol**

T: +44 (0)117 905 4040

E: [paul.spicer@kpmg.co.uk](mailto:paul.spicer@kpmg.co.uk)

### North

#### Dermot Callinan

**Partner**

T: +44 (0)113 231 3358

E: [dermot.callinan@kpmg.co.uk](mailto:dermot.callinan@kpmg.co.uk)

#### Rob Luty

**Director – Manchester**

T: +44 (0)161 246 4608

E: [rob.luty@kpmg.co.uk](mailto:rob.luty@kpmg.co.uk)

#### Nick Pheasey

**Partner – Manchester**

T: +44 (0)161 246 4658

E: [nick.pheasey@kpmg.co.uk](mailto:nick.pheasey@kpmg.co.uk)

#### Jonathan Turner

**Director – Leeds**

T: +44 (0)113 231 3385

E: [jonathan.turner@kpmg.co.uk](mailto:jonathan.turner@kpmg.co.uk)

### Midlands

#### Simon Johnson

**Director – Birmingham**

T: +44 (0)121 335 2330

E: [simon.johnson@kpmg.co.uk](mailto:simon.johnson@kpmg.co.uk)

#### Narinder Paul

**Partner – Birmingham**

T: +44 (0)121 232 3357

E: [narinder.paul@kpmg.co.uk](mailto:narinder.paul@kpmg.co.uk)

### Scotland

#### Beatrice Friar

**Associate Partner – Glasgow**

T: +44 (0)141 300 5768

E: [beatrice.friar@kpmg.co.uk](mailto:beatrice.friar@kpmg.co.uk)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.