SOTERIA
– TRUSTS –

A GUIDE TO THE SOTERIA TAX PLANNING SERVICES

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At Soteria we are not only concerned about the 'here and now' but also for your future and beyond your lifetime. Efficient Tax Planning ensures that you pay the optimum level of tax which can be achieved by taking advantage of the most appropriate allowances and incentives that are available.

Navigating the ever-changing and complex tax landscape, which now places a greater reporting responsibility than ever on the individual, can be a daunting task, one which many don't have the time or appetite to tackle alone.

It is increasingly necessary for those who are subject to taxation on their property and other investments to engage with professional advisers to assist with that reporting. Soteria clients benefit from our knowledge and experience. Combine those attributes with prudence and an objective to reduce, mitigate or eliminate as many taxes as possible, and you end up with tailored solutions which ensure you do not pay any more than you are legally obliged to.

We regularly hear of those who don't plan properly and as a consequence the overall value of their asset base is considerably reduced because of taxation. It's often the case that their investments performed well but in the absence of a tax strategy running in parallel they will be lucky to retain half of their gains, the rest falling due in taxes. Delivering multi-faceted strategies that take both the investment credentials and taxation pressure points into account when structuring, is exactly our area of expertise.

The below taxes are paid by everybody with UK-sited assets and investments and covered within our mitigation strategies:

Income Tax:	From 20 – 45% per annum of property rental.
Stamp Duty Land Tax:	Up to 17% of residential transaction value.
Capital Gains Tax:	28% of gains made on property from April 2015. Other investment gains charged at 18%.
Annual Tax on Enveloped Dwellings:	From £3,700 - £236,250 per annum.
Inheritance Tax:	40% of value of net estate over Nil Rate Bands (NRB's) of £325,000 for singles & £650,000 for couples. UK residents who would like to pass on their main residence to loved ones at death can apply for the Nil Rate Residential Allowance and receive another £175,000 allowance. Any excess asset value over the NRB's and Nil rate residential allowance (NRRA's) upon death is charged at 40%.

CGT & IHT ARE NOT DISTINGUISHED BY NATIONALITY

The services of Soteria Trust are primarily aimed at those who personally own or will likely inherit UK sited assets which are currently valued in excess of £325,000.

A common misconception by British Nationals if they live overseas is that they are not liable to pay UK taxes. Whilst that is true if their income is earned abroad, it is not the case for assets that are sited in UK.

On the flip side there are many overseas Nationals who own UK sited assets and who believe that they don't have any exposure to CGT or IHT because they are not British Nationals and don't reside in UK. That may have been the case many years ago but that all changed in 2015 when the playing field was levelled and all non-resident, non-UK nationals who own investments in UK came in scope for CGT and IHT.

Whether you are British, Eastern European, Indian, Asian, South American or anything in between, Her Majesty's Revenue & Customs (HMRC) will tax you based on the asset value at the point of purchase, annually on any income generated, on any profits made when the asset is disposed of and finally from your overall estate following death.

Whilst no two investors are alike, a lot of the characteristics and inbuilt features within our solutions appeal to a wider range of individual client profiles. Following a process of consultation, education and close guidance, we take you to the sanctuary of Soteria and provide a service that establishes the most beneficial structuring of your assets,

At the end of the consultation process you will receive a recommendation providing you with a flexible yet robust solution, a safe environment where your investments can grow in the most tax efficient manner. Looking into the future and making provision for change will allow us to shelter you from unknown predators and provide a multi-generational legacy plan for you and your family.

Governments around the world are battling against increasing deficits brought about in part by outdated, under resourced welfare systems which are bursting at the seams and that doesn't look likely to change in the short term. Austerity measures and a reclamation of the financial assistance given to the needy during COVID-19 means that an almost inevitable rise in personal taxes will follow. Income tax, CGT and IHT will be the obvious areas to increase and further affect the ROI on individually held assets.

The relevant legislation and the approved structures and incentive schemes, which are all recognised by Her Majesty's Revenue & Customs (HMRC), form part of the Soteria strategies as follows:

BUSINESS RELIEF (BR)

This strategy sets out to reduce your personal IHT liability by utilizing incentives and reliefs that HMRC has been granting to its taxpayers since 1976, and which can be taken up voluntarily by all. By purchasing assets via a Soteria Business Relief Account you have a tax efficient structure that not only helps you to legitimately reduce or mitigate IHT, but also helps grass root businesses to operate and expand as they would like to. Business Property Relief (BPR) now known as Business Relief (BR) has been an established part of inheritance tax legislation since 1976 and as an investment incentive is relatively straightforward. Once you have owned BR qualifying shares for at least two years, they can be passed on to your loved ones free from inheritance tax, upon your death.

BR is a well-established relief which has been helping people to reduce their IHT exposure for over 40 years.

Not every type of business qualifies for BR. Broadly speaking, investments in the following kinds of business that carry on a trade rather than investment activities could qualify. They include:

- Shares in qualifying companies that are not listed on any stock exchange.
- Shares in qualifying companies listed on the Alternative Investment Market (AIM).
- An interest in a qualifying business, such as a partnership.

Investing in the shares of BR qualifying companies can be beneficial if they fit into one of the above categories. An investment in an Enterprise Investment Scheme (EIS) can also obtain relief from IHT using your Soteria BR Account. The investor will benefit from the relief after holding an EIS investment for at least two years, providing the scheme meets the Business Relief trading criteria. An EIS also offers generous income tax and capital gains tax relief to investors.

ENTERPRISE INVESTMENT SCHEME (EIS)

EIS is designed to help companies to raise money in order to help grow their business. It does this by offering tax reliefs to individual investors who buy new shares in a qualifying company.

Under EIS, you can raise up to £5 million each year, and a maximum of £12 million in your company's lifetime. This also includes amounts received from other venture capital schemes. To get EIS status a company must receive investment under a venture capital scheme within 7 years of its first commercial sale.

Companies must follow the EIS rules so that their investors can claim and keep EIS tax reliefs relating to their shares. Tax reliefs will be withheld or withdrawn from investors if the qualifying company does not follow the rules for at least 3 years after the investment is made.

Companies cannot raise more than £5 million in total in any 12-month period from:

- EIS
- Venture Capital Trusts (VCT)
- Seed Enterprise Investment Scheme (SEIS)
- Social Investment Tax Relief (SITR)
- State aid approved under the risk finance guidelines - check with the person who gave you the aid for advice

Companies cannot raise more than £12 million from these sources in their lifetime. This includes any money received by any subsidiaries, former subsidiaries or businesses you've acquired.

Investors can claim up to 30% income tax relief on investments up to £1 million per tax year. Any gain is Capital Gains Tax (CGT) free if the shares are held for at least three years. Payment of CGT can be deferred when the gain is invested in shares of an EIS qualifying company.

EIS schemes offer some downside protection in the form of 'loss relief' which allows an investor to offset a loss made on an EIS company against either their capital gains tax bill or their income tax bill. They can claim loss relief either in the tax year when they realise the loss or the following tax year. This is in addition to other EIS tax reliefs.

SEED ENTERPRISE INVESTMENT SCHEME SEIS

SEIS is much newer than its parent initiative, EIS, having been set up in 2012.

It is very similar to EIS but designed for investing in even smaller companies, and providing even more generous tax breaks.

While the maximum workforce and gross assets allowable under EIS are 250 staff and £15 million respectively, SEIS has lower limits of 50 staff and £200,000 gross assets. Businesses must also be less than two years old (there are no age restrictions under EIS).

The tax breaks are as follows:

Income tax relief is 50%, not 30%, so you get £5,000 off your income tax bill for investing £10,000 under SEIS.

- As with EIS, there is no capital gains tax to pay on profits, no inheritance tax, and you can claim loss relief in the same way.
  See above for details.
- There is an extra relief called capital gains reinvestment relief. This is useful to you if you have recently paid capital gains tax on other investments. You can reclaim up to 50 per cent of the tax paid if you reinvest that money into SEIS. This was originally introduced as a temporary measure, but in the 2014 Budget, chancellor George Osborne made it permanent.

The tax reliefs available through SEIS are so generous that for the 2012/13 tax year, they added up to a potential 100.5 per cent of your investment in a situation where that investment was a complete failure. In other words, you literally could not lose provided you had paid enough tax to offset your SEIS investment against.

The maximum you can invest through SEIS in any tax year is £100,000.

QUALIFYING NON-UK PENSION SCHEMES (QNUPS)

All Soteria QNUPS retirement plans are Qualifying Non-UK Pension Schemes which adhere to legislation that was amended in 2010 to rectify a mistake originally made in the 2004 Finance Act. The 2004 Finance Act stated that money placed into a QNUPS would be subject to UK inheritance tax (IHT) in the event of the death of the member. However, with the introduction of the 2010 QNUPS legislation, it was stated that any money placed within a scheme will not be subject to IHT. That same legislation and the IHT rules remain in force today.

The Soteria IHT Planning Service was developed to assist those who own UK sited assets to reduce or mitigate the 5 main taxes that are associated with property ownership. Incorporating suitable BR, EIS & SEIS qualifying investments along with QNUPS are strategies regularly employed within our solutions. We aim to neutralise, reduce or mitigate the following taxes and when circumstances allow pay the lower rates of tax on client's individual investments, property investments and retirement schemes.

Income Tax: Can be reduced from a high of 45% per annum down to 0%

Stamp Duty Land Tax (SDLT): Can be reduced from a maximum of 17% to 0%

Capital Gains Tax (CGT): Reduced from the highest rate of 28% to 0%

Annual Tax on Enveloped Dwellings (ATED): Reduced from a maximum of £236,250 per annum to £0.

Inheritance Tax (IHT): A tax paid by the estate of anybody who dies whilst owning UK assets. Everybody is granted a Nil Rate Band Allowance of £325,000 or £650,000, dependent on their marital status. UK residents who would like to pass on their main residence to loved ones at death can apply for the Nil Rate Residential Allowance and receive another £175,000 allowance. Any excess asset value over the NRB's and NRRA's upon death is charged at 40%.

THE DEXTERITY OF A QNUPS

QNUPS is an extremely tax efficient structure which is attractive to all age groups and their wide-ranging investment needs. The key benefits are:

- Any asset class can be purchased or transferred into the scheme
- Offers immediate IHT relief as assets are considered as being outside your estate on death
- Assets become CGT exempt once they are inside the scheme
- QNUPS has no contribution ceiling or lifetime allowance
- Permits a tax-free withdrawal or pension commencement lump sum of up to 30% of the fund value at age 55, thereafter income can be taken in line with 150% of GAD rates from the remaining 70/75%*
- Dependent on the structure chosen, it is possible to move existing property from being registered in an individual's name to that of the scheme's Trustee without incurring SDLT charges.
- As a Registered Pension Scheme a QNUPS doesn't have to pay ATED, allowing those who for legacy reasons own property in non-registered trusts or within limited liability companies, to liquidate them and reduce operating expenses as well as the annual tax of up to £236,250.
- Following an asset transfer each property becomes registered in the name of the Pension, and with it a switch to Corporation Tax means that the previous annual Income Tax rates of up to 45% reduce to a flat 19%.
- Larger portfolios generating income in excess of £150,00 per annum can benefit from using an HMRC registered trust and effectively pay no income or corporation tax on rental income.

**Details as published on HMRC website*

CASE STUDY

An Asian based British couple have taxes that lay hidden until either the sale of an asset or the passing of an asset following death.

Mr & Mrs Taylor left the UK in 2016 and have no immediate plans to return. Mr T (48) works as an engineer and Mrs T (34) works part time at an international school. They have two children aged 8 & 10. Having lived in one Asian country since their departure from UK for 4 years they are still considered to be UK domiciled and therefore are liable for IHT on worldwide assets. Mr & Mrs T don't have fixed plans as to where they will retire but are reasonably confident that it won't be in the UK or their current country of residence.

THEIR ASSETS WHEN LEAVING THE UK WERE:

Family Home (now Investment Property 1 when they moved abroad):

Purchased in 2005 for £475,000 (mortgage of £375,000)

Valued at £600,000 in 2015 (mortgage of £375,000)

At the end of 2020 its value had increased to £650,000.

Gains for CGT purposes were £50,000

Investment Property 2:

Purchased in 2015 for £300,000, (mortgage of £200,000)

At the end of 2020 its value had increased to £350,000.

Gains for CGT purposes were £50,000

Cash and other assets:

Various other assets valued at £200,000

Gross estate value today is £1,200,000

Following the deduction of the married couple Nil Rate Band (NRB) the Net Estate value for IHT purposes is £550,000 x 40%:

Current IHT liability = £220,000

The Taylor's recognise that their liability will rise as asset values appreciate. They would like to reduce it so that their children can inherit as much as possible when they both finally pass away.

They are still relatively young, healthy, and expect to live long into their 70s or 80's.

Inflating their current asset base by 3% per annum for 22 years will give a gross estate value of £2,365,000 when Mr T reaches the age 70.

Net estate value after deduction of the NRB*

The IHT liability in 22 years will be £686,000*

(Calculation: 2,365,000 – 650,000 = 1,715,000 x 40% = 686,000)

Taking it a stage further and assuming that inflation remains at 3%, the gross estate value when Mr T reaches age 80 would be:

Gross estate value of £3,263,000

Net estate value after the deduction of NRB of £650,000

Net estate value for IHT purposes is £2,613,000

The IHT liability in 32 years will be £1,045,200

(Calculation: 3,263,000 – 650,000 = 2,613,000 x 40% = 1,045,200)

By factoring inflation into the planning what can be seen is a sharp increase in IHT liability from £220,000 at outset to £686,000 in 22 years and then again to £1,045,200 after a further 10 years. That liability would need to be settled in full before the children could inherit any of their parents assets.

The T's are horrified to learn this and want to legitimately reduce IHT. This can easily be achieved by transferring the two UK investment properties into a QNUPS which immediately takes them outside the estate. Once the transfers have taken place the first objective of IHT mitigation has been achieved.

The transfer of UK property assets to a pension triggers CGT and SDLT charges so this needs to be calculated before the transfer is agreed, CGT liability is 28% of the gain in the asset value since 2015 to date, minus an annual allowance.

Each property has risen in value by £50,000 since that date so total gain assessed for CGT is £100,000. From the profit there is an annual CGT allowance of £12,300 = £87,700 x 28% = £24,556.

SDLT is paid on the consideration value at transfer which is the size of outstanding mortgages and not the value of the property as is typical when purchasing property.

Two mortgages of £375,000 + £200,000 = £575,000.

Using a simplified rate of 4% the SDLT payable upon transfer would be circa £23,000.

The CGT liability of the two properties increases from £24,556 today to approx. £548,000 & £755,000 in 22 and 32 years respectively.

Mr & Mrs T consider the Pluses and Minuses of transferring two UK properties into a QNUPS.

They deliberate whether to pay SDLT & CGT totalling £47,556 at outset (24,556 + 23,000 = 47,556) and be free of any further IHT and CGT liabilities on the assets or do nothing and allow the liabilities to increase until sale or death.

They are informed that their exposure to income tax at the rate of 20% will also disappear once the assets are inside the pension and that Corporation Tax will be charged to the pension instead. That will bring rates down from the current 20% to slightly lesser rate of 19%.

Having to pay taxes of £47,556 plus structuring costs of approx. £38,000, their decision to proceed became one of affordability rather than practicality.

At first glance the total costs of £85,556 appeared expensive until they were compared and broken down against the immediate, 22 & 32 year tax savings. The total costs on day 1 are the equivalent to 38% of the current tax liability. They can be further broken down as £3,900 per year over 22 years, or £2,700 per year over the 32-year period.

IHT liability today £220,000 / 85,556 or 38%

In 22 years is £686,000 / 22 = £3,900 per annum

In 32 years is £1,045,200 / 32 = £2,700 per annum

The T's were unsure whether to move forward with the restructuring until they started to rationalise the costs in a different way. In order to get comfortable with the overall expenditure they decided to view the £85,556 as an investment rather than a cost and the tax saved as a return on that investment. Viewing £686,000 tax saving as a return over a 22 year period is the same as receiving a 31% return on the original investment each year. Applying the same assumption over a 32-year period would deliver a return of 28% per year on the original investment amount.

It was then pointed out that utilising the Soteria IHT Planning Service in its entirety and taking advantage of some opportunities laid out in certain sections of the 2015 Finance Act and then applying Mr & Mrs T's circumstances against those specific clauses means that they would pay little or no GCT or SDLT on transfer and therefore crystallize an immediate **SAVING OF CIRCA £50,000 IN TAXES**.

To learn more about the tax efficiencies of Soteria Trusts and the full range of products and services offered visit www.soteriatrusts.com.

Alternatively, to arrange an no obligation, no cost exploratory call or face to face meeting with one of our specialists contact us at enquiries@soteriatrusts.com.

DISCLAIMER

Soteria Trusts have prepared this document in good faith and intend it to be used as a guide only. None of its statements, claims or contents should be construed as advice or a recommendation to buy a particular product or service. Any opinions expressed and information contained within reflects our understanding of UK's IHT rules and HMRC's tax rates, as at 1st January 2021. For the purposes of this case study a simplified rate of SDLT is used rather than two separate calculations. Unless otherwise stated, the figures used in calculations relate to UK tax law for the 2020/2021 tax year and relevant to UK residents and/ or domiciles, as well as any person anywhere with a UK based asset. Tax rules can change, and the benefits you receive from any scheme will depend on your personal circumstances. It is recommended that anybody wanting to purchase or take part in any of the tax efficient schemes that are referred to, should seek professional tax and investment advice before applying to become a member. The value of investments can go down as well as up and you should be aware that you may get back less than you paid into a scheme. Soteria Trusts accept no liability for investments that perform poorly or ultimately don't provide the Member with the tax benefits that they thought at outset.

SOTERIA
– TRUSTS –

Level 15/16, The Hong Kong Club Building

3A Chater Road, Central, Hong Kong

Tel: +852 2168 0626

Fax: +852 3974 8899

enquiries@soteriatrusts.com

www.soteriatrusts.com

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Soteria was the Greek goddess of safety and security and we believe that these attributes are the essential elements in the structuring of your Trust account.