



Inheritance Tax on Residential Property

The legislation confirms a number of points in relation to the extension of the IHT regime to UK residential property held in offshore structures as follows:

- The legislation confirms three categories of “property” that will not be treated as excluded property – (i) the rights or interest of a participator in a close company where the value is directly or indirectly attributable to a UK residential property interest, (ii) an interest in a partnership where the value is directly or indirectly attributable to a UK residential property interest, and (iii) relevant loans or funds provided as collateral or security for a relevant loan. A loan used to finance the acquisition, maintenance or improvement of a UK residential property held in a trust or close company will be treated as a relevant loan.
- It was previously indicated that connected party loans would be ignored when valuing the close company shares. Whilst all debts will now be taken into account when calculating the value of subject to IHT (attributed rateably to all property held in the company), any loans used to acquire or maintain the UK residential property will be within the charge to IHT in the hands of the lender.
- A de-minimis limit has been imposed whereby the IHT provisions will not apply if the value of the qualifying interest held by trustees or an individual in a close company or partnership is less than 1% of the total value.
- There will be a two year “run-off” period after the disposal of an interest in a close company or partnership holding UK residential property or after the repayment of a relevant loan during which the consideration received cannot be treated as excluded property.

- The legislation states that the amendments will have effect from 6 April 2017 and it has been confirmed that the same rules, exclusions and reliefs will apply in relation to UK residential property as they do to other property. It would therefore appear that interests of trustees attributable to UK residential property held in underlying companies will only be treated as being non-excluded property with effect from 6 April 2017 (or such later date as may apply) and that any IHT charges occurring within ten years of that date will therefore be proportionately reduced.

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