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private wealth

Post General Election – Minority Government

What next for Private Wealth post the general election?

Theresa May and the DUP have announced that they have agreed a deal and the Conservatives will attempt to run a minority government. The Queen's Speech debates are taking place in Parliament this week and Brexit negotiations are underway.

But what does all this mean for those working in Private Wealth?

Below is a round-up of key topics which are likely to rear their head again during the next Government term.

Non-doms reforms

Stripped from the Finance Bill pre-election and expected to return at some point, but what will the implementation dates be?

The extension of deemed domcile was stripped out of the Finance Bill at the last minute once the General Election was announced, leaving many non-doms and wealth advisers, who had taken steps in preparation for the changes, annoyed and in an uncomfortable limbo.

The Government proposed new rules that would mean that non-domiciled individuals who had lived in the UK for 15 out of the previous 20 years, and 'formerly domiciled residents', would be treated as UK domiciled for all UK tax purposes. By way of compensation, the proposed rules also included rebasing and cleansing reliefs for certain non-doms.

The Conservative Government did say at the time they were pulled that these provisions would come back at the earliest opportunity so we can expect them to return to this fairly soon.

If the current draft rules are revived, the question is whether they will be 'backdated' to have effect from the 6 April this year. We do not know the answer to this but we do know that the likelihood is that if you are a non-dom long term UK resident, you are likely to be affected by UK tax changes in the near to medium future and should speak to your UK tax adviser..

In the meantime here is our report on the tipping point at which the non-dom reforms would benefit the Treasury and at what point the number of people leaving the UK would be detrimental to revenue.

www.irwinmitchell.com/non-dom-changes

Probate fees

The unpopular ‘death tax’ was pulled before the election but could still make an unwelcome return, find out more about the proposals.

Largely unpopular when the Government consulted on them, and even more so when they were introduced, this legislation was pulled before it could become enshrined in law and suspicions are that it will be re-thought through before being re-introduced.

Probate fees had been due to rise from £155 or £215 to up to £20,000 for some estates in England and Wales from May. The proposals which linked probate frees to the size of the estate were largely criticised as a tax rather than a fee with farmers and landowners who are asset-rich, cash-poor likely to be particularly hard hit.

However out of 831 respondents to the consultation on the proposals, less than 2% were in favour and the plans were dropped before the election with Government officials refusing to confirm that they would come back after the vote.

The election has given the Government some breathing space on probate fees and its likely they will have re-think before introducing them. Given the probate fee is essential to get a grant of probate it essentially amounted to a tax and the high level of fees was extremely unfair for what is an administrative function.

There is more info on the original probate fee proposals here

www.irwinmitchell.com/probate-fees

It’s not long since the Residence Nil Rate Band, the new relief for homes from Inheritance Tax, was brought in, but what happens now?

Once it called the election the Government decided to drop changes to the UK inheritance tax treatment of certain property-owning structures from the Finance Bill 2017 as there was not enough time to scrutinise them properly.

The changes that have been dropped for now were rules to:

- regard shares in companies or partnerships that own UK residential property as inheritance taxable in the UK;
- treat loans used to buy UK residential property as UK assets and so inheritance taxable; andr
- treat assets held as security for loans used to buy UK residential property as Inheritance taxable assets.

The fact these changes were withdrawn means that, as at today, shares in offshore property-holding companies are treated as “excluded property” (i.e. not subject to UK inheritance tax) . In addition, loans which would have been treated as “relevant loans” and assets used as security will not necessarily be subject to Inheritance Tax..

We think it is likely that the new rules will be reintroduced but their effective date and final terms are not sure, leaving clients, especially those who may not have already completed planning steps, in a position of uncertainty.

What to do

Many clients have already reorganised their affairs in order to plan for the changes, which were supposed to have effect from 6 April 2017. We advise clients:

- if they have already completed planning steps, sit tight and wait for developments – it is likely that the new rules will still come into effect and that their planning will therefore be advantageous
- if they have taken no steps to restructure existing structures, to take advice immediately as to whether the withdrawal of the new rules offers them a window of opportunity to restructure and the risks of doing so
- if they are non-doms thinking of buying UK residential property in a structure, take advice as to the risks before doing so and possibly even delay their purchase until it is clear whether and when the new rules will be reintroduced.

For more general information on Inheritance Tax changes see this guide

www.irwinmitchell.com/inheritance-tax-changes

Social Care: “Dementia tax”

The so-called “Dementia Tax” to fund future care was a hot topic in the media during the election but downgraded in the Queen’s Speech to a Consultation on social care – the devil will be in the detail as our expert explains.

The Queen’s Speech outlined that the new Conservative government planned to reform the way social care is funded, but the formal announcement did not make any specific pledges on the issue. Instead, it was confirmed that plans would be considered and a consultation would be launched in due course.

As the election showed, funding for social care is a crucial and emotional issue for a huge number of families and it is only going to increase in importance over the next few years as people live even longer due to medical advances.

Many will be relieved that the so-called “Dementia Tax” policy from the Conservative manifesto has been dropped, with there being wide acknowledgement that the proposal had a number of flaws and ultimately served to raise a huge number of questions.

With all of this in mind, it is important that the consultation announced in the Queens Speech helps to bring about a solution as soon as possible.

Planning for later life is something that we all have to consider, and it is simply not the case that a person only needs to write a will and have a pension in place. There are a range of issues to consider, from care fees and inheritance tax thresholds to lasting power of attorney and mental capacity. Each of these needs to be given serious thought.

It is hoped that the government’s further scrutiny of this area and the potential reformation of social care funding will prove to be a catalyst and kick-start those difficult conversations between family and friends.

Immigration

Our immigration team is helping EEA nationals concerned about their rights of residence in the UK post-Brexit.

With Brexit negotiations due to begin in the next few weeks post-election, EU nationals living in the UK and British ex-pats will be keeping a keen eye on what this means for them.

Irwin Mitchell Private Wealth’s Immigration experts have seen an upsurge in enquiries from European Economic Area (EEA) nationals, many of whom are confused as to what their current rights of residence in the UK are, and others who want to understand if their current rights to work and reside in the UK will be protected post-Brexit.

It is important that anyone concerned seeks advice now as it could help them to bring more certainty to their status in the longer term regardless of how the Brexit negotiations go.

Manifesto round up

Although much of the Manifesto will not be carried through, having been left out of the Queens Speech. Find out what the Tories said about other issues potentially affecting wealth management including Income Tax, Pensions and Corporation Tax.

Not all the Government's new policies are detailed in full in the manifesto but there were some hints at what might be to come. Those working in wealth management and protection will be interested in what happens to Tax, Pensions and Business Rates. Here is a round-up of what we know so far.

Tax

David Cameron's tax "triple lock", which guaranteed there would be no rise in national insurance, VAT or income tax, was likely to be scrapped in favour of a statement of intent to lower tax and simplify the tax system.

It's expected that there will be no increase in VAT and a commitment to raise the tax-free personal allowance to £12,500 by 2020 will stay. The Tories also say they will keep a commitment to raise the threshold for the 40p tax rate to £50,000 by 2020.

Pensions

The Conservative manifesto says they will seek to maintain the triple lock pension guarantee until 2020, then replace it with a double lock - meaning pensions will rise in line with earnings or inflation, whichever is highest. This has now fallen foul of the hung Parliament, with the DUP's deal preventing the government scrapping the triple lock guarantee.

The key theme is that the Tories want to avoid more headlines of major pension schemes not being able to meet their obligations.

There will likely be tougher punishments for those caught mismanaging pension schemes and new powers will be given to the Pensions Regulator to issue fines to those found to have "wilfully left a pension scheme under-resourced" and, if necessary, powers similar to those held by the Insolvency Service to disqualify the relevant company directors.

It is also planned to introduce a new criminal offence for company directors who "deliberately or recklessly put at risk" a pension scheme's ability to meet its obligations.

Corporation tax

With Brexit looming the Tories are looking to cut Corporation Tax to 17 per cent by 2020, they say this will be the lowest rate of any developed economy

The revaluation of business rates remains controversial particularly for small business owners and the Conservatives say they will review the system to make sure revaluations are conducted more frequently. This is to attempt to avoid large changes to bills that businesses face.