



The Rysaffe Principle Is Under Threat

What is it?

The Rysaffe Principle uses the technique of making multiple settlements into multiple trusts on separate days, giving each trust its own Nil Rate Band (NRB) for Inheritance Tax (IHT) calculations. Therefore, on the 10 year anniversary, provided the value of each trust is within the NRB, there will be no tax to pay.

What has happened?

In April, HMRC published a consultation document called Inheritance Tax: Simplifying Charges on Trusts, containing proposed updates. They have proposed changes to the calculation of 10 yearly charges by ignoring the settlors previous lifetime transfers and also non-relevant property would be discounted.....

BUT

.....they propose the NRB be split across the number of relevant property trusts settled, then a simple 6% tax applied on chargeable transfers for the calculation of periodic and exit charges.

Is there cause for concern?

Yes. For those seeking to put large values into multiple trusts there would no longer be any advantage in using this strategy. Also, HMRC propose the new rules apply to all new trusts and all existing trusts from a given date.

If it happens, what can be done?

There are many varying strategies that may be employed to avoid paying Inheritance Tax. These include an increasing number of funds which utilise Business Property Relief, making the investment exempt from IHT after 2 years, although a degree of risk must be accepted. Crucially, these funds give access to the money invested at all times, unlike a trust. Additionally, some investment managers now consider these funds as a key asset class when considered within the individuals' investment portfolio as a whole.

To discuss any aspect of this technical news brief please contact David Henderson on 0131 538 7390 or dvh@personalmm.co.uk