



Scottsdale Consulting  
INDEPENDENT FINANCIAL ADVISERS

## Inheritance Tax

There is no inheritance tax in Australia. However, UK domiciled individuals are liable to UK inheritance tax at 40% on their worldwide assets.

### Domicile

To be deemed "non-resident" in the UK, you only have to work abroad for a full tax year and spend no more than an average of 90 days a year in Britain.

But everyone acquires a "domicile of origin" at birth, which is normally the country in which they are born. It is very much more difficult to change your domicile at a later date, even after you have lived abroad for many years. This is why most expats remain UK domiciled, particularly those who retire overseas.

If you want to be domiciled in Australia you must submit a DOM1 form to your local HMRC office and sever all ties with the UK. This involves closing all UK bank accounts, selling all assets in Britain and even organising your funeral abroad.

Even if you are granted a new domicile of choice in Australia, it takes three years for the loss of UK domicile to become effective for IHT purposes.

### IHT Threshold

You only begin paying IHT above a certain point. The threshold for the 2010/2011 tax year is £325,000 (£650,000 for couples).

If the value of your estate, including your home and certain gifts made in the previous seven years, exceeds this figure, your estate will be taxed on the excess at 40%.

There is no tax to pay on transfers between spouses or between couples in a civil partnership.

### Taxable Estate

Your estate includes everything owned in your name and your share of anything your own jointly. Also included are gifts from which you still derive some benefit, such investments held in some trusts from which you receive an income.

Set against this total is everything that you owe, including any outstanding mortgages or loans, unpaid bills, and funeral expenses.

### Reducing IHT

Any amount of money given away outright to an individual is not counted for tax as long as the donor lives for a further seven years. These gifts are called 'potentially exempt transfers' and are useful for tax planning.

Money put into a 'bare' trust is also a potentially exempt transfer. A bare trust is a simple trust where the beneficiary is entitled to the trust fund at age 18. They are often used to leave money to grandchildren for example, to stop them having access to it until they are older. The beneficiaries of a bare trust cannot be changed.

Discretionary trusts are for more flexible than bare trusts and are therefore more popular for inheritance tax planning. Gifts to discretionary trusts are treated as chargeable lifetime transfers. There is no tax to pay on chargeable lifetime transfers up to the threshold but amounts over are taxed at 20% immediately and a further 20% is payable if the donor dies within seven years.

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