

FOTRA Securities – A valuable Estate Planning Tool for Non-UK Residents

What are FOTRA securities?

FOTRA stands for "free of tax to residents abroad". The FOTRA designation covers all UK Government Securities, also known as Gilts, acquired on or after 6th April 2013 where the beneficial owner is resident outside of the UK.

The important point is that the beneficial owner need only be non-UK resident and not non-UK domiciled. Domicile is far more 'adhesive' than residence. Non-resident status can be achieved in any given tax year in accordance with the Statutory Residence Test, which outlines how many days an individual can spend in the UK each year in order to maintain or determine non-UK resident status.

Securities acquired before 6th April 2013 can also qualify, but require the holder to be either, or both, non-UK domiciled or 'not ordinarily resident' in the UK (a concept that was otherwise made redundant from this date).

What are the tax benefits of FOTRA securities?

FOTRA securities are classified as 'excluded property' for UK inheritance tax (IHT) purposes. This means that they will not be subject to UK IHT in the event of the owner's death, or to lifetime IHT charges if settled into Trust.

FOTRA securities are exempt from UK Capital Gains Tax.

Income arising from FOTRA securities is exempt from UK income tax.

Advice should be sought in the country of residence of the holder in respect of any local taxes which may be payable.

How to 'unlock' the benefits of FOTRA securities?

To benefit from the beneficial tax provisions, you only need to continue being, or become, non-UK tax resident.

What are the tax planning opportunities available to holders of FOTRA securities?

Estate planning

Where an individual is non-UK resident, and they would be subject to UK IHT (by virtue of being UK domiciled) in the event of their death, they could convert liquid assets such as cash or listed securities into FOTRA securities prior to their death.

These FOTRA securities would be excluded property for UK IHT purposes. This could represent an IHT saving of 40% of the value of any converted assets.



Unlike other common IHT efficient assets, such as shares in unlisted companies which qualify for Business Property Relief, there is no minimum holding period specified in legislation for FOTRA securities, meaning that theoretically, such a conversion could be undertaken the day before death and still qualify for exemption.

Lifetime Gifts

Ordinarily, where an individual who is chargeable to UK inheritance makes a gift of cash to another person during their lifetime, this would be classified as a 'potentially exempt transfer' and would only 'escape' the UK IHT net if they survived the gift by seven years.
For example, if Mr Johnson who is non-UK tax resident, but remains UK domiciled, gifted £1,000,000 to his son, that gift would still form part of his estate if he were to die within 7-years. This could give rise to an IHT liability of up to £400,000 on the event of his death.

Conversely, if Mr Johnson, purchased £1,000,000 of FOTRA securities which he then gifted to his son, as the gift is of 'excluded property' the gift will not be a potentially exempt transfer, and no charge to UK IHT will arise on his death (regardless of when that is).

Trusts
Transfers into a UK Trust would usually be classified as 'chargeable lifetime transfers' which would incur a lifetime inheritance tax charge of 20% of the amount settled into the Trust. If we take the example of Mr Johnson again, then if he were to settle £1,000,000 of cash into a UK Trust, a lifetime inheritance tax charge of £200,000 would be payable by the Trustees.

However, if Mr Johnson, were to settle £1,000,000 of FOTRA securities into a UK Trust, then this will be a transfer of 'excluded property' and as such no charge to IHT will arise. The Trustees (and by proxy the beneficiaries) would be £200,000 better off.

It is important to note that once the securities are within the UK Trust, they will become 'relevant property' for UK tax purposes because the tax advantages only apply to non-UK residents. As such, the Trustees will be subject to the 10-yearly IHT charges (at 6%) on those funds, and subject to income tax on any income received.

How can Verfides help?

Our team of experts is ready to help you with any inheritance tax questions or queries you may have, so please email the team tax_team@verfides.com to see what we can do for you.

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This document has been prepared as a general guide and is based on the latest legislation and guidelines. Whilst every care has been taken in its preparation, Verfides cannot accept any responsibility for any person relying on this publication. Professional advice should be obtained before undertaking transactions and Verfides will be pleased to provide such advice where appropriate.

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