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Market slump: some unexpected wealth planning opportunities

13 OCTOBER 2008

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CATEGORY:
ARTICLE

The recent tumultuous economic developments have led to volatile and unpredictable market conditions. While we cannot forecast what will come next, the positive aspect is that reductions in portfolio values can give rise to tax planning opportunities.

Overview

An unexpected silver lining to the downturn is the opportunity to undertake tax planning efficiently today by making use of investment losses.

Wealth planning and tax losses

While tax planning may be far from the minds of most investors at the moment, there is an unexpected upside to the current global turmoil which investors should not ignore. Perhaps surprisingly, for many investors, now may be an opportune time to undertake certain tax planning arrangements, which can be effected on a tax-free basis, which would not typically be the case in more positive market conditions.

Lifetime planning opportunities

Unfortunately, many investment portfolios will currently be standing at a loss. This does however create significant potential for investors to undertake lifetime tax planning without incurring any charges to capital gains tax – typically capital gains tax is charged at 18% on latent gains where assets are gifted, unless specific reliefs apply. In the current climate, therefore, tax savings may be effected by implementing partnership or trust planning now.

- Partnerships – following the unfavourable changes made to the taxation of trusts, a number of our clients have created “Family Limited Partnerships” which are inheritance tax efficient vehicles for passing wealth to the younger generation. Transferring assets such as investment portfolios into a partnership and then gifting those assets within the partnership triggers a charge to capital gains tax on unrealised latent gains unless holdover relief applies. However, if the portfolio, or simply some investments within it, currently stand at a loss, this can now be undertaken for no inheritance tax or capital gains tax cost.
- Trusts – Unless you are non-UK domiciled transferring assets into trusts will typically trigger a 20% inheritance tax charge absent specific relief, as well as an ongoing inheritance tax cost. This is combined with a capital gains tax cost of 18% on gains arising on the assets transferred where gains cannot be held over. That notwithstanding, assets which benefit from reliefs such as business property relief – for example AIM listed shares – may be transferred into trusts without a charge to inheritance tax. Where those shares are currently standing at a loss there will be no capital gain to be taxed.

Turning losses to your advantage

Investors who realise a capital loss in any one year are generally able to carry this forward to use it in subsequent years. Therefore, investors who have assets which are currently standing at a loss should also seek advice on how best to crystallise these losses for opportunities going forward, and we can advise clients on this. Non domiciliaries who have been UK resident for seven out of the past nine tax years will need to consider the interplay between loss crystallisation and the new £30,000 tax charge which takes effect this year.

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