Taxation insights – UK, Spain and Italy

The thoughts of Nick Hockney, Octium Life.

UK - Inheritance Tax Simplification

The Office for Tax Simplification has delivered its second report and made its recommendations to HM Government. The review was requested by the Chancellor of the Exchequer. The Government must now respond to the findings and recommendations.

Inheritance Tax receipts are rising, in 2019 24,500 estates had an Inheritance Tax bill to pay, that is around 4% of all deaths in the UK.

A summary of some of the proposals;

1) Reducing the Potentially Exempt Transfer period from 7 to 5 years whilst also removing taper relief.

2) Lifetime gifts - the OTS recommends replacing the current regime for gifts with a simplified single allowance. This would also see the removal of the 'regular gifts out of income rules' which would now be included in the single gift allowance.

3) Term Assurance - the proposal is that benefits from a term life policy be excluded from inheritance tax, whether under trust or not. This is recognition that few policies are actually constructed using trusts.

4) Changing who pays the taxation on gifts - The OTS has recommended that tax is paid by the estate rather than the recipient, many of whom fail to account for the future tax liability.

5) The OTS note that the capital gains tax (CGT) uplift on death, coupled with certain IHT reliefs on business property and farm assets, can put people off passing assets to the next generation during their lifetime. They have therefore suggested removal of the CGT uplift on death, where the same asset is subject to relief from IHT.

6) A review of the treatment of reliefs for businesses and farms.

7) Removal of the so called 14 year rule. The rule requires in certain circumstances, particularly where a lifetime trust has been created, that executors look back over 14 years of gifts rather than the 7 years under a PET.

Spanish expatriate regime

A ruling by the Directorate General for Taxes, Ruling V0293-19 in relation to the special expatriates regime, more commonly known as the 'Beckham Law' (Royal Decree 687/2005). The ruling clarified that inbound expatriates have tax residence in Spain, even if they have chosen to be taxed as non-residents for personal income tax purposes under the special regime. The judgement follows a clarification on the tax of a gift. It concludes that for inheritance and gift tax purposes they are taxed on all property received, wherever located. They are treated as residents when determining the autonomous community legislation applicable to them.

Spain and IDD

Due to government delays, Spain has not yet ratified the Insurance Distribution Directive. There seems to be little sign of the political impasse being broken in the short term and may well lead to a further election in the Autumn. Consequently, the proposed changes to remuneration for intermediaries under IDD have not reached assent.

Italy's non dom taxation regime.

The Italian Tax authority has indicated that 400 individuals moved their tax residence to Italy, to benefit from the new regime, in the tax years 2017/2018. Whilst there was uncertainty about the longevity of the regime initially, the introduction of the Retirees Regime - Law 145/2018 (Article 1, paragraphs 273-275), has seemed to strengthen opinion of the regime continuing. As a reminder, the regime is designed to attract retirees to the regions of Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily. The regime would provide a special tax of 7% on pension or other income sourced abroad. The regime also provides for exemptions from wealth taxes on foreign assets and from the ordinary reporting regime under Italian law.

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