

MARKET BULLETIN

From Head of Tax & Treasury

Date 31 May 2006

Reference Y3822

Subject INHERITANCE TAX: NAMECOS AND FUNDS AT LLOYD'S

Subject areas

Attachments

Action points To note extension of concessionary IHT treatment until 31 December 2006

Deadlines Not applicable

1. *Introduction*

- 1.1 Market bulletin Y3161 of 14 October 2003 dealt with the inheritance tax treatment of Funds At Lloyd's that are provided by the owner of a Nameco or take the form of a bank guarantee secured on the owner's personal assets (here called "third party FAL assets"). That bulletin noted that HM Revenue & Customs (HMRC) had agreed to concessionary treatment to such assets up to 31 December 2004. HMRC have now agreed to our request to extend this concessionary period up until 31 December 2006.

2. *Background*

- 2.1 Following a change in 2002 in the understanding of the IHT position on third party FAL assets, HMRC agreed to allow members who converted to writing through a Nameco before July 2002 to continue, within certain limits, to benefit from business property relief on the value of such assets. This transitional measure has now been extended by two years, up until 31 December 2006.
- 2.2 Market bulletin Y3204 of 6 December 2003 set out the IHT treatment of third party and interavailable FAL from 1 January 2005 onwards, together with examples. References in that bulletin to 1 January 2005 should now be replaced by 1 January 2007.

3. *Revised Summary of IHT treatment*

3.1 *Deaths on or before 31 December 2006*

(a) Third party FAL (including assets backing a bank guarantee)

For deaths on or before 31 December 2006, business property relief will continue to be given on third party FAL assets, including amounts guaranteed under bank guarantees. However, the relief will be capped at the level of FAL needed for 2002 and will also be subject to the overriding constraint that the funds eligible for relief cannot be disproportionate to the level of underwriting as a whole.

(b) Interavailable FAL

For deaths on or before 31 December 2006, full business property relief will be given on interavailable FAL up to the level needed for 2003.

3.2 *Deaths on or after 1 January 2007*

(a) Third party FAL (including assets backing a bank guarantee)

No business property relief will be given, but the valuation of the assets for IHT purposes must take into account the negative value of the FAL arrangement to the estate.

(b) Interavailable FAL

Business property relief will be given on interavailable FAL assets, including amounts guaranteed under bank guarantees, to the extent that the interavailable FAL is not disproportionate to the individual's unlimited liability underwriting. To the extent that business property relief is not given, the valuation of the assets for IHT purposes must take into account the negative value of the FAL arrangement to the estate.

4. *Readership and contact details*

- 4.1 This bulletin is being sent to underwriting agents, recognised auditors, personal accountants and members who deal with their own tax affairs. If you have any queries, please contact Rosaleen Moore on 020 7327 6856 or email rosaleen.moore@lloyds.com.

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