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Mr M [REDACTED] & M [REDACTED]

El Portal 7

Bloque 5-Apt 7

[REDACTED]

Sitio de Calahonda

Mijas Costa

29649 Malaga


15/09/2006

Dear M [REDACTED] & M [REDACTED]

Further to our conversation please find enclosed the summary of our discussion around Income Release and Inheritance Tax.

I hope you will find this useful and look forward to your decision on how you wish to proceed with the matter.

Yours Sincerely



Martin Antony

1. Introduction and Summary

Thank you for asking me to advise you. This report is to explain:

- my understanding of your needs
- my recommendations to meet those needs and the reasons for them.

It is important that you read the report carefully and check that it matches your understanding of our meetings. Please also bear in mind that this information is based on the current tax legislation and could change in the future.

2. Important Information

It is important that you understand my advice, which is based on the information you have supplied. If any information has changed or is incorrect then please let me know as soon as possible.

I have also included with this letter a copy of our Terms of Business document. This explains my status as an Adviser and the information about you that we store in our records.

3. Inheritance Tax Rules

Inheritance tax in Spain is levied on assets passed to a spouse or to family members. If you are resident in Spain the tax is levied on your worldwide assets. However, there is a small exemption and this applies to each inheritor.

As you will see from the enclosed I have calculated that the approximate value of your estate located in Spain is €224,000. Taking into account mainly the fixed assets (your property) this means currently you have a potential tax liability of **€10,807** for M█████ and **€12,422** for M█████ on first death. (See Appendix 1)

There are a number of ways that could be used to reduce this. These are:

- 1/ Spanish Company
- 2/ Offshore Company/Family Trust
- 3/ Gift
- 4/ Creation of a debt

3.1/ Spanish Company

This recent method can be quite advantageous if you own several properties. The constitution of a Company to own property means that on death the property is not owned by any one individual and therefore is not subject to Inheritance Tax.

However, the setting up cost can be high with a transfer tax of 1% of the property value and legal fees. You would also need an Accountant (Gestoria) to prepare the yearly accounts, which would obviously incur an annual charge together with any corporation tax due. If you have a property overseas this can become part of the Company but would entail a lengthy and expensive legal process.

As you did not want high up front cost this option did not fit your circumstances.

3.2 Offshore Company/Family Trust

This works in the same way as a Spanish Company except the families' wealth passes into the hands of the Company, which is constituted, in an Offshore jurisdiction. Again there is large setting up cost and annual maintenance charges.

This was a preferred route before the Government introduced the facility described above with regard to setting up Spanish Company. If the Company has been set up with the facility of a Trust, this is not recognised by the Spanish Authorities. However, this method could be a suitable route if you own many properties overseas.

3.3 Gift

This is where you gift an asset such as property to your inheritors reserving the right to live in the property. Unfortunately the Spanish Gift Tax is the same as Inheritance tax and effectively you would be paying the tax anyway!

In your case if you were to do this you would have to pay the tax of €36,315 plus legal fees on your property in Spain.

The other important factor to consider is that you lose control over your asset and were you to gift any asset to an inheritor you would also have to consider the implications of the possibility of divorce (if applicable) or death of that person.

3.4 Creation of debt

This is one of the more convenient ways to mitigate a substantial proportion of an Inheritance tax liability. By putting a legally registered charge against the property this reduces the net estate. This plan is known as SITIRS (Spanish Inheritance Tax and Income Release Scheme) which can have certain guarantees added to the plan chosen and also a facility to drawdown a small proportion of income if required.

As you will see from the enclosed document by having a charge registered against the property of 100% of its value the potential savings could be **97 %** in reduction of tax (see Appendix 2).

There are legal fees to set this up which can be added to the legal registered charge which amount to approximately 3-3.5% of the loan amount. In effect the only upfront costs are the valuation fees or the administration fee depending on which scheme you choose. The loan offered by Rothschild has the following:

- 5 year renewable Euro loans
- Interest rate - 3 month variable or 5 year fixed
- Interest only loans; no capital repayments required until end of loan period
- Interest rolled up until end of loan period
- No upper age limit and no proof of income required
- 75% maximum loan to value
- Lender's collateral – charge over both property and investment fund
- Valuation fee of €567

The loan offered by Surrenderlink has all the above but with the following:

- Up to 100% loan to value
- Administration fee of €1,000 which includes the valuation.
- Interest paid quarterly

This scheme has the flexibility of deciding the degree of savings you wish to make in respect of mitigating Inheritance Tax.

3.5 Cash Release

One of the other benefits with these schemes is the cash release facility. The schemes have the following:

Rothschild

- 5 % initial cash release and up to 3% income subject to fund performance. (In your case this could be €10,000 initial cash release and up to €6,000 per annum depending on fund performance)

The remaining funds after the first cash release are invested into the Capital plus Protected Fund, which provides:

- a capital guaranteed medium to long term euro denominated fund with exposure to equities, hedge funds and bonds
- Minimum 100% participation in the fund during the term
- Notes issued by Societe Generale , which also provides a 107% capital guarantee at 10 year maturity
- Managed by Lyxor Asset Management who have approximately €55 billion under management.

Surrenderlink

- 2% initial cash release and a guaranteed income of 2% per annum for 4 more years(This would be €4,000 per annum)
- Or 5% on completion and 2% per annum for 4 years and then 2% for 5 years subject to fund performance.(This would be €10,000 on completion and €4,000 per annum)

The remaining funds after the first cash release are invested into the Premier Balanced Fund (private client sub-funds) which provides:

- Medium to long term growth in excess of the loan interest rate
- Portfolio includes a range of assets including cash, bonds, equities, UK commercial property, and hedge funds
- Managed by Capital International Ltd-based in the Isle of Man and is a member of the London Stock Exchange. Clients include Axa (IOM) Ltd, Clerical Medical International, Scottish Widows, and Zurich Financial Services Ltd

4.Recommendation

Taking into account your preferences and objectives and the credibility of the Companies involved I would recommend the SITIRS scheme as the option to give you extra cash and potentially reduce any Inheritance Tax due.

5. Other

It is important that you have an up to date Spanish Will for your assets allocated here. It is good to hear that you have done so.

INHERITANCE TAX CALCULATION (BEFORE)

Clients: Johns

Client 1 (M██████) Client 2 (M██████)

TOTAL TAX DUE	10807	12422
Equivalent to tax of %	10.2	10.7



Property	100000	100000
Contents(3%)	6000	6000
Car etc	0	10000
Other : Apartment	0	0
	0	0
	0	0
Total Estate	106000	116000
minus Exemp.	15957	15957
minus mortg./loan	0	0
Net Estate	90043	100043
Tax charge	9166	9166
Margt %	16.41	32.56
TOTAL TAX	10807	12422
Net Estate	79236	87621

Tax Base	Tax	Marginal %
0	0	7.65
7993	611	8.5
15980	1290	9.35
23968	2037	10.2
31955	2852	11.05
39943	3735	11.9
47930	4685	12.75
55918	5703	13.6
63905	6790	14.45
71893	7944	15.3
79880	9166	16.15
119757	15806	18.7
159634	23063	21.25
239389	40011	25.5
398777	80655	29.75
797555	199281	34

Inheritors

Existing Assets	Spouses children	Cousins/Uncles	Non Relatives
0 to 402678	1.00	1.5882	2.00
402678 to 2007380	1.05	1.6876	2.10
2007388 to 4020770	1.10	1.7471	2.20
More than 4020770	1.20	1.9059	2.40

INHERITANCE TAX CALCULATION (AFTER)

Clients: Johns

Client 1 (M████) Client 2 (M████)

TOTAL TAX DUE	0	385
Equivalent to tax of %	0.0	0.3



Property	100000	100000
Contents(3%)	6000	6000
Car etc	0	10000
Other : Apartment	0	0
	0	0
	0	0
Total Estate	106000	116000
minus Exemp.	15957	15957
minus mortg./loan	95000	95000
Net Estate	-4957	6043
Tax charge	0	385
Margl %	0	0
TOTAL TAX	0	385
Net Estate	-4957	4658

Tax Base	Tax	Marginal %
0	0	7.65
7993	611	8.5
15980	1290	9.35
23968	2037	10.2
31955	2852	11.05
39943	3735	11.9
47930	4685	12.75
55918	5703	13.6
63905	6790	14.45
71893	7944	15.3
79880	9166	16.15
119757	15606	18.7
159634	23063	21.25
239389	40011	25.5
398777	80655	29.75
797555	199291	34

Inheritors

Existing Assets	Spouses children	Cousins/Uncles	Non Relatives
0 to 402678	1.00	1.5662	2.00
402678 to 2007380	1.05	1.6676	2.10
2007388 to 4020770	1.10	1.7471	2.20
More than 4020770	1.20	1.9059	2.40

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