

International FOCUS

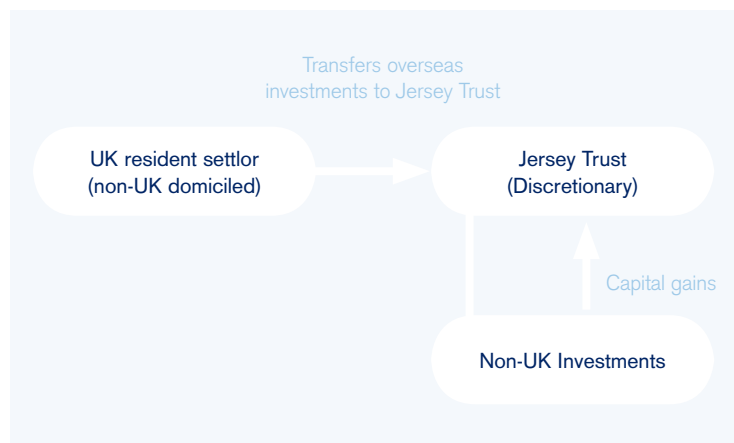
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International tax planning for UK resident but non-domiciled clients using Jersey trusts

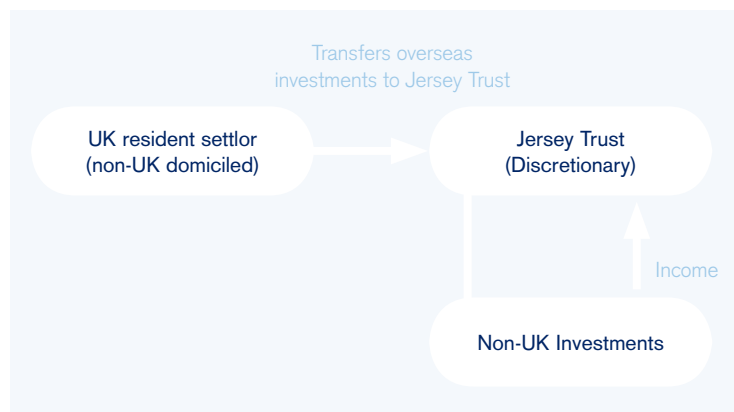
This issue of International Focus concentrates on some of the uses and benefits of Jersey trusts, based on case studies Jordans (C.I.) Limited have encountered in the last 12 months.

Case Study One Protecting UK investments from UK CGT liability



- The Jersey trustees are non-UK resident, therefore they are exempt from UK capital gains tax. There is no capital gains tax regime in Jersey
- If the settlor is non-UK domiciled, he or she cannot be assessed on the Jersey trustees' gains
- Neither the UK resident settlor, nor any other UK resident but non-UK domiciled beneficiaries of the trust can be taxed on capital payments received in the UK from the trust

Case Study Two Protecting foreign income from UK income tax liabilities



- The Jersey trustees are non-UK resident, therefore they are exempt from UK income tax on income arising from non-UK source investments. They are also exempt from Jersey income taxation
- Such income that the trustees receive is attributable to a UK resident but non-domiciled settlor under UK tax law but only on the remittance basis
- Therefore, for so long as the income is not distributed to the settlor or any other UK resident beneficiary, it is not taxable in the UK, and can be accumulated in the trust tax free



Jordans name is famous for the provision of reliable high quality UK company formation and company management and administration services.

Jordans also delivers the same reliability and high quality of service in the provision of offshore trust and corporate services from Jersey. Jordans (C.I.) Limited has been licensed by the Financial Services Commission in Jersey to provide offshore trust and corporate services since 2001.

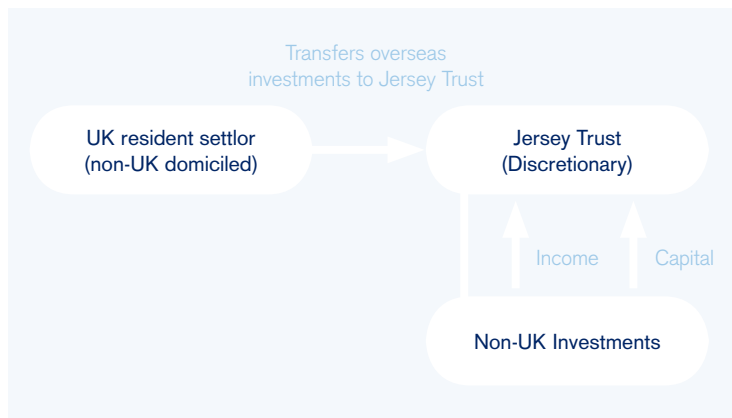


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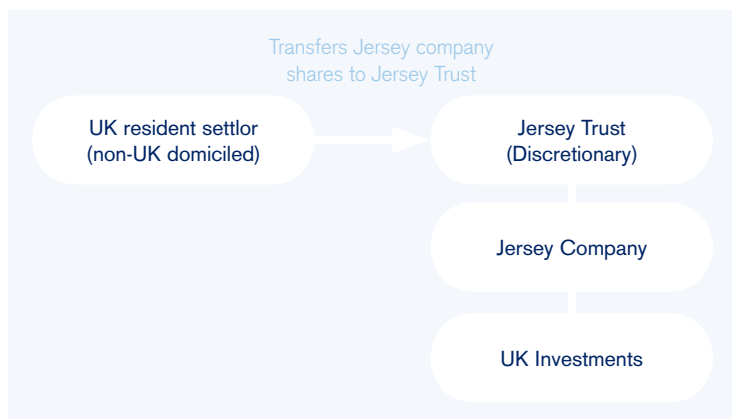
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Case Study Three Remitting foreign capital gains to the UK 'tax free'



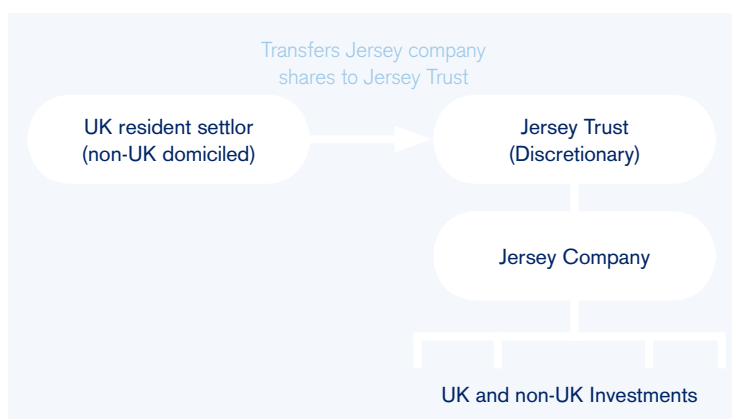
- The Jersey trustees need to consider segregating trust income and capital into separate bank accounts
- Trust income is credited to the 'income account' and all capital receipts should be credited to a 'capital account'. Should the settlor require funds to be brought into the UK, this should be paid by the trustees from the trust capital account to the settlor's personal capital account in the UK
- Both the trust's income and capital accounts should be located outside the UK for IHT reasons. The settlor then receives appointments of capital from the trust's overseas capital account. The capital receipt of the settlor is tax free in the UK. Any remittance of income to the UK will be taxable. However, remittances of capital are not taxable for UK resident but non-domiciled settlors and beneficiaries

Case Study Four Converting UK assets into non-UK assets for IHT purposes



- UK non-domiciled clients, whether resident or non-resident, are liable to UK inheritance on their UK situs assets
- An offshore discretionary trust which owns UK investments is potentially liable to a 10 yearly IHT charge and an exit charge on such UK investments. The current rate of tax is 6%
- This liability can be avoided by incorporating a Jersey company to own the UK assets, with the shares of the Jersey company owned by the Jersey trust. The trust now escapes any liability to UK inheritance tax as it no longer owns UK assets, but Jersey assets in the form of company shares

Case Study Five Permanent protection from a deemed domicile status



- Any non-UK domiciled person acquires a 'deemed domicile' after 17 years of residence in the UK. The result of this is liability to UK inheritance tax on his or her worldwide assets
- The alternative danger is that the UK resident taxpayer acquires an actual UK domicile prior to 17 years of residence in the UK. Again, worldwide liability to UK inheritance tax results from such an actual domicile
- The solution to this problem is for the UK non-domiciled but resident taxpayer to establish a Jersey discretionary trust prior to acquiring an actual or deemed domicile. Ideally this should be done on or prior to immigration to the UK
- Once assets are settled into the Jersey trust, they remain exempt from UK inheritance tax even if the settlor or creator of the trust subsequently becomes UK domiciled



Case Study Six Offshore trusts for UK resident and domiciled clients



- The creation of the settlement or trust is without any form of IHT charge because the settled assets are within the nil rate band
- Further trusts using the nil rate band can be created every seven years. A maximum 6% tax charge will be levied every ten years on the net value of the trust's assets
- Capital gains arising to the trust are taxable as the settlor's gains. However, should the settlor die or emigrate, the trust becomes a CGT shelter. In the interim, the trust should invest in income-producing assets, e.g. shares in an offshore company (which distribute dividends) or non-distributing offshore funds

Conclusion



The use of offshore trusts is a vital component in tax planning for UK resident but non-domiciled clients, and for non-UK clients who wish to invest in valuable UK assets.

- UK investments of non-UK domiciled persons, whether UK resident or not, should be held via an offshore company, with the shares of the company being settled into trust
- As a rule of thumb, where UK and/or overseas assets of a UK resident but non-domiciled person exceed £500,000 an offshore trust should be carefully considered
- Jersey trusts are particularly attractive for UK residents for the following reasons:
 - the proximity of Jersey to the UK (one hour flight from London)
 - the absence of taxation in Jersey on Jersey trusts
 - the sound regulatory regime applicable to Jersey trusts and trustees which gives high net worth families a reliable and reassuring framework
 - Jersey operates in the same language and time zone as the UK
 - absence of VAT on trust fees

Cover image

Waterfront view of St Aubin, Jersey
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About Jordans (C.I.) Limited

Jordans (C.I.) Limited provides a comprehensive range of professional trust and corporate services for individuals, families and corporate clients.

Jordans (C.I.) Limited is regulated by the Jersey Financial Services Commission and is part of a large international group offering a secure, well regulated environment for offshore wealth preservation strategies.

Being specialists in professional trusteeship and trust administration, our fees are based on the work undertaken on behalf of the trust rather than the value of the trust assets. This philosophy provides excellent value for both the smaller or inactive trust holding growth assets as well as for more substantial, active trusts.

Our directors maintain regular contact with all settlors and trust relationships are reviewed with the settlor on an annual basis.

Jordans (C.I.) Limited also provides a wide range of offshore corporate services, including the incorporation and management of Jersey, British Virgin Islands, Seychelles and Panamanian companies.

For further information on our Jersey trust and corporate services please contact **Gisele Le Miere** in Jersey or **Martin Palmer** in our UK office

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