



Crowe Clark Whitehill LLC™

ISLE OF MAN RESIDENT TRUSTS STILL TAX EFFICIENT?

If an individual, who is UK resident and domiciled, is intending leaving assets to his children or grandchildren in his will, UK Inheritance Tax will be payable on his death, unless relief for business or agricultural property is available. If instead he sets up an offshore trust via his will for the benefit of his heirs, this will not alter the UK Inheritance Tax payable, but by using a trust he can allow his heirs the opportunity to defer UK tax liabilities in future in a number of ways. In addition, a trust could possibly prevent his heirs from spending all their inheritance with undue haste,

Income

An Isle of Man resident trust has no liability to Manx tax, providing there are no Manx resident beneficiaries and no taxable Manx source income. Interest from Manx banking institutions is exempt from Manx tax if there are no Manx resident beneficiaries.

Only UK source income will be liable to UK income tax in the hands of the trustees.

If a discretionary trust is set up and non-UK source income is accumulated rather than distributed, tax liabilities can be deferred until the income is paid out, and the income can benefit from gross roll-up.

Capital Gains

Gains are calculated using UK Capital Gains Tax (CGT) principles. However, because the settlor is dead, no UK CGT will arise until such time as there is a capital payment to a UK resident beneficiary. Thus taxation on trust gains can be deferred by delaying capital distributions from the trust, and trust capital can roll-up in a tax-free environment. Trustee gains are matched with capital payments when made, resulting in a CGT charge on a UK resident beneficiary @ 18%/28% currently, with a supplementary charge of up to 44.8% applying if there is a delay between the gains being realised and the capital payment being distributed and matched. Trustee gains are now matched on a Last In First Out (LIFO) basis, so that the latest gains are matched first. If the beneficiary is UK resident but not UK domiciled, and is a remittance basis user, then no CGT charge will arise if the capital is not remitted to the UK. Payment to non-UK resident beneficiaries will reduce the "pot" of gains realised by the trustees, but will not be liable to UK CGT.

Using Offshore Trusts

The use of a trust allows an orderly, regular distribution of trust income and capital which prevents young beneficiaries from receiving large sums of capital before they are mature enough to handle it sensibly. Routing an estate through an offshore trust will enable beneficiaries to gradually come to terms with the responsibilities of wealth. An offshore trust can also be very tax effective.

If you would like to know more then please contact
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