Synopsis

The Isle of Man is an English speaking country which lies in the Irish Sea between Britain and Ireland. It occupies an area of 588 sq. km (277 sq. miles). Constitutionally it has never been part of the United Kingdom, but is rather a self-governing territory within the Commonwealth with a population of about 85,000 persons.

Tynwald, the Isle of Man parliament, is responsible for the Island’s domestic affairs including taxation. Britain is responsible for the Island’s defence and foreign affairs. The Island has a special relationship with the European Community: whilst it is associated with the EC the Island is excluded from the Community’s fiscal harmonisation policy. The Isle of Man is a part of the UK VAT area and does impose VAT on goods and services. As such, an Isle of Man company may be registered for VAT and may therefore prove a suitable vehicle for international trade with other member states of the European Union.

The Isle of Man law is closely based on English common law and the decisions of the courts in England are regarded as being persuasive in the Manx courts.

The Isle of Man Foundation

An Isle of Man Foundation is a legal entity that comes into existence when an application made under the Foundations Act 2011 ("the Act") to the Registrar of Foundations is approved and a Certificate of Establishment is issued by the Registrar.

The application must be made by a Registered Agent and accompanied by the Foundation Instrument, the prescribed fees and a declaration by the Registered Agent. If the Application has been made in compliance with the Act, the Registrar must establish the Foundation.

Once established, a Foundation acquires its own separate juridical status or personality, which is separate to the founder, the council of members and its beneficiaries. The Foundation has limited liability. The Foundation can own assets, contract obligations and be part of administrative or judicial processes and its capacity is not limited by anything in the Foundation Rules or the act of any person appointed under the Rules. A Foundation cannot directly engage in commercial trading not incidental to the attainment of its objects.

A Foundation is governed by its Foundation Instrument, its Foundation Rules and by the Act and any Regulations made thereunder.

A Foundation has the following characteristics:-

Foundation Instrument

The Foundation Instrument is a public document and the main constitutional document of the Foundation. It must be in English, set out the objects of the Foundation and specify the name of the Foundation. It must also specify the name(s) and address(es) of Council Members and the Registered Agent. The names of beneficiaries and any enforcer are not required to be stated in the Foundation Instrument.
Foundation Rules
A Foundation must have Foundation Rules setting out how the Council of Members should administer the assets and carry out the objects of the Foundation.

It is not a public document, although copies of the Rules must be provided to the Council Members, the Registered Agent, the Enforcer (if applicable) and the Founder.

Objects
The objects of the Foundation may be charitable, non-charitable or a mixture of both and may benefit a person or class of persons or be to carry out a specific purpose, or a mixture of both. The objects must be reasonable, certain and possible and must not be unlawful, against public policy or immoral. A Foundation cannot directly engage in commercial trading not incidental to the attainment of its objects.

Initial Dedication of Assets
An initial dedication of assets is not mandatory. If, however, an initial dedication of assets is made, details of this dedication must be specified in the Foundation Rules.

Further Dedication of Assets
Following establishment, further assets may be dedicated to the Foundation, subject to any provision to the contrary in the Foundation Rules.

Registered Agent
A Foundation must appoint a licensed Registered Agent on the Island and only one Registered Agent may be appointed at any one time. It is the Registered Agent who makes the Application to establish a Foundation.

There is nothing in the Act or accompanying Regulations to preclude the Registered Agent from also being a Council Member, an Enforcer and/or a Founder.

The Foundation Rules govern the appointment, removal, retirement and remuneration of the Registered Agent.

Please note that where a Registered Agent retires or is removed, this is not effective until immediately before the appointment of a new Registered Agent has taken place, despite any provision to the contrary in the Foundation Rules.

Founder
The Founder is the person who causes the establishment of the Foundation. The Founder can be a natural person or a body corporate.

The rights of the Founder are set out in the Foundation Rules. The Foundation Rules can provide that the Founder's rights may be assigned.

The Founder may be appointed Enforcer and may also be a Council Member or the Registered Agent.
Council of Members
A Foundation must have a Council of Members (of which there must be at least one member) to administer the Foundation's assets and carry out its objects.

The Council of Members can be compared with the board of directors of a normal company and to help the Foundation to fulfil and achieve all of the Foundation's aims, objectives and purposes, as set out in the Foundation Instrument or in the Foundation Rules.

Council Members must adhere to the Foundation Rules, the Foundation Instrument and the Act. They must act in good faith and in the best interests of the Foundation.

Beneficiaries
The beneficiary, or beneficiaries, are those that benefit from the Foundation. As the Foundation Rules need not be registered on public file, the confidentiality or anonymity of the beneficiaries can be achieved.

The rights of beneficiaries are as provided for in the Foundation Rules. They do not have an automatic right to the Foundation's income or assets nor to information regarding the Foundation.

Enforcer
The Foundation Instrument and/or the Foundation Rules may or may not require that the Foundation have an Enforcer, to whom the Council is accountable. The role of an Enforcer is comparable to that of the protector of a trust. The Enforcer can be an individual or a company.

Taxation
A Foundation is treated as a company for income tax purposes in the Isle of Man where companies are subject to tax at 0% on profits, with the exception of income from banking and local property/land, which is taxed at 10%.

Reporting Requirements
The Foundation must notify the Registrar of changes to the Foundation Instrument within one month of those changes.

Timescale
Once the Registrar has received the Application and accompanying documents, the Registrar can establish a Foundation within two working days.

Restrictions on Name and Activity
Foundations can be established for all lawful objects and the name must end with the word “Foundation”. The Foundation cannot directly engage in commercial trading not incidental to the attainment of its objects.

Annual Reporting
The Foundation must make an annual return to the Registrar together with the prescribed fee, currently £360, within one month of the annual return date.

There is no requirement to file accounts with the Registrar, but the Foundation must keep reliable accounting records.
Local Requirements
The Registered Agent must have an Isle of Man business address and be licensed as an Isle of Man Corporate Service Provider. We would generally provide these services as part of the annual fees.

Benefits
The Founder can retain as much or as little control as he wishes.

A Foundation is not subject to the rule against perpetuities and can therefore carry on indefinitely.

There are no restrictions as to the assets or structures which can be held by the Foundation.

It affords the Founder and the beneficiaries of the Foundation a good deal of privacy.

The filing requirements are minimal and taxation is low or nil. It is therefore relatively cheap to set up and run.

Dedications to the Foundation may be tax deductible for the person dedicating the assets.

It represents an alternative tax planning and wealth management structure to the traditional trust, which may be more attractive to clients from civil law jurisdictions.

Schedule of Fee

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment Fee and assistance with preparing Application Form</td>
<td>£ 1,050</td>
</tr>
<tr>
<td>(to include provision of Foundation instrument, rules and declaration of Registered Agent)</td>
<td></td>
</tr>
<tr>
<td>Opening of bank account</td>
<td>£ 650</td>
</tr>
<tr>
<td>Courier fees</td>
<td>£ 50</td>
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</tbody>
</table>

**Annually**

<table>
<thead>
<tr>
<th>Service</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Domiciliary and Management Fees to include business address, Registered agent, council of members, fiscal agent and remail services</td>
<td></td>
</tr>
<tr>
<td>£2,500 Deposit against minimum accounting fees</td>
<td>£ 500</td>
</tr>
<tr>
<td>Disbursement of Filing Fees</td>
<td>£ 360</td>
</tr>
</tbody>
</table>

**TOTAL UP FRONT FEES**  
£ 5,110

**SECOND AND SUBSEQUENT YEARS FEES**  
£ 3,510

PLEASE NOTE that specialist drafting of either the Foundation Instrument or the Foundation Rules may be required so additional fees, charged on a time spent basis, will be incurred for this service. Accounting, audit fees and time-spent throughout the year will be payable in addition to the above.
OPTIONAL SERVICES

Accounting Services
All IOM companies which have a turnover of £79,000 per annum or more may have to register for VAT (VAT is a sales tax chargeable throughout the European Union) and must prepare and file quarterly VAT returns. Our fees for preparing the application for VAT registration are from £500. Our fees for preparing the quarterly VAT returns will be a minimum of £125 per return.

All Isle of Man entities which are required to produce accounts must file them in a timely fashion if fines and other penalties are to be avoided. For this reason Sovereign offers to act as the “Fiscal Agent” for your entity and assist in completing and filing the necessary returns, assisting with the preparation of the accounts, introducing the entity to and liaising with a suitable auditor and liaising with the tax department to ensure that the obligations of the entity are met in full and in a timely fashion. For the provision of this service we charge from £300 per annum. Accounting and audit fees cannot be quoted in advance as these will vary depending on the amount of time / work involved, but you should allow minimally £600.

Directors
Most onshore countries have provisions within their tax legislation whereby any company, no matter where it is incorporated, which is managed or controlled from within their jurisdiction will be tax resident there and taxable on its worldwide income at local rates. For example, any offshore company which had UK based directors would be tax resident in the UK and subject to UK tax on its worldwide income. Failure by the directors to declare the liability of the offshore company to UK tax would be an offence under UK law with potentially very serious financial and criminal consequences. Most onshore countries have similar provisions within their tax legislation so it will rarely be advisable for onshore resident clients to act as the directors of an offshore company. To establish that the management and control of the company does take place offshore and the company is therefore tax resident offshore as well as incorporated there we can, and habitually do, provide directors. In most cases this service is essential if legitimate tax savings are to be made. Fees for the provision of management services are included above. If you require this service please tick the appropriate box in the application form.

Bank Accounts
We can open bank accounts for the company in most places in the world and our fees for attending to the account opening procedures are from £650 plus the cost of preparing any additional notarised documentation which a particular bank may require.

Remailing, Fax, Tel. and Office Facilities
As part of the domiciliary services package we provide a registered office address in the jurisdiction of the incorporation of your company in order to meet the local statutory requirement. An additional service is the provision of an address, telephone and fax number to receive correspondence which can be the same as the registered office address or another of our Group offices’ addresses. When we receive communications we will deal with them according to your wishes. Fees for the provision of this service are included above plus handling charges (£2 per item plus disbursements). If you require this service please tick the appropriate box in the application form.

Dedicated Telephone Lines
For those companies which are particularly active or wish to have a higher profile or more substance we can arrange the immediate allocation of a dedicated telephone line answered with the name of your company.
Additional costs apply to this service.

**Trust Services**

Using a trust to own the shares of an offshore company can result in very substantial tax and non-tax related advantages which will accrue both on death and during the lifetime of the trust settlor. These advantages may be summarised as follows:

1. **Saving on Inheritance Tax:** On death, the inheritance tax which would normally be assessed on the value of the shares would generally be eradicated.

2. **Asset Protection:** Assets placed into trust are generally beyond the reach of creditors who might arise as a result of financial difficulties, divorce proceedings, litigation etc.

3. **Avoidance of Probate:** A trust provides a means whereby assets can be smoothly passed on to the next generation without the disruption, delays, substantial costs, loss of confidentiality associated with the probate procedure which necessarily follows when assets are bequeathed by will.

4. **Continuity:** Trusts provide a means whereby assets can continue to be administered in accordance with the wishes of the settlor after his death so the weak can be protected from others and the spendthrift can be protected from himself.

5. **Lifetime Tax Savings:** During lifetime, substantial income and capital gains tax advantages may result from setting up the trust.

Trust services can be provided by our licenced trust corporations in Gibraltar, Guernsey, the Isle of Man and the Turks & Caicos Islands through our various Group offices. Fees for drafting the trust deed and for the provision of trustee services will be quoted on a case by case basis. Please contact your nearest Sovereign office for a copy of our brochure and/or an exploratory discussion.