



SovereignGroup.com

Sovereign Annual Overseas Permanent Establishment Summit

By Simon Denton, Managing Director of Sovereign (UK) Ltd
Sovereign (UK) Limited
Beijing and Shanghai, the 24th and 25th January, 2018

Presentation content

- **Becoming acquainted with the United Kingdom (UK) fiscal landscape applicable to individuals and corporates**
- **Taking advantage of the unique UK taxation system that is majorly favourable to Chinese nationals – non-UK domiciled persons**
- **What structures and arrangements should be used to invest in UK property**
 - Buying a main residence and/or a property for lifestyle usage
 - Investing in buy-to-let residential real estate
 - Acquiring a commercial property
 - Undertaking land trading for property development purposes

Why the UK taxation regime is so beneficial for persons that are non-UK domiciled such as Chinese nationals

What is domicile?

The country of birth, the country of a person's permanent home, the country of where their parents were born, the nation in which they have sustained substantial social and economic ties, the main country of education and their children's education, the country in which they intend to reside indefinitely or the country in which they intend to return to live for the indefinite future. **A person can only have one domicile.**

Period of UK residence	Taxation
0-7 years	No UK tax on overseas income and gains not remitted to the UK and no UK IHT on overseas assets. The taxpayer should still claim the Remittance Basis on their tax return.
8-12 years	Option to pay annual Remittance Basis Tax Charge (RBC) of £30,000 to prevent overseas income and gains being subject to UK taxation, unless remitted. No IHT on worldwide assets.
13-15 years	RBC increases to £60,000.
15 years – from April 2017	From 2017 non-UK doms will not be able to claim the remittance basis. Worldwide income and gains will be subject to UK taxation. UK IHT will be on point for all world wide assets

UK taxation applicable to UK residents that enjoy non-UK domiciled status (Chinese domiciled persons) that generate UK income and gains and/or decide to remit overseas income and gains to the UK that claim the remittance basis

Income	Tax
From £1 to £45,000	20%
From £ 45,001 to £150,000	40%
Over £150,000	45%

Immigration and Tax TIPS relevant to non-EU, Chinese and for all non-UK domiciled persons

A gift of +£2M from, for example, a family member to a Chinese person seeking to apply for UK residency, perhaps pursuant to the Tier 1 Investor Visa Program and which will be remitted to the UK will not be subject to UK personal taxation.

Remittances of overseas capital (inheritance, savings, tax paid income and income generated in preceding UK fiscal years of the actual fiscal year of UK residence) to a personal UK bank account of the non-UK domiciled applicant that is to relocate to reside in the UK will not be subject to UK personal taxation

UK Capital Gains Tax (CGT) applicable to UK assets sold by a UK resident that enjoys non-UK domiciled status that claim the remittance basis

Capital Gains	Tax
£1 to no limit	20%
Sale of main UK residential property	0%
Overseas assets sold for a gain during the first 15 years of UK residence	0% - conditional to the UK resident being a remittance basis taxpayer

UK Inheritance Tax (IHT) applicable to non-UK domiciled persons, being persons that have lived in the UK for less than 15 years that own UK assets and elect the Remittance Basis

Value of assets	Tax Rate
Nil rate band of £325,000	0%
+£325,000	40%
Overseas assets of any value	0%

Why the UK corporate regime is so friendly to owner-managed businesses, SME's and larger corporates, applicable to UK domiciled and non-UK domiciled persons

Elements	Tax Rate applicable to UK Companies
Financial year end April 2018 and April 2019	19%
Financial year end 2020/21	17% - Lowest CT rate in G7
Employer Taxation	13.8% applicable to gross monthly salaries paid to employees
VAT Rate	20%
Number of Double Taxation Treaties signed to with the UK	134
Dividends paid from overseas qualifying subsidiaries to a UK Corporate parent	0%
The sale of one subsidiary forming part of a UK trading group	0%
Dividends paid to any individual or corporate shareholder, regardless of residency and nationality	0%

NOTES

Minimum of 1 director and shareholder, no paid up share capital requirement, strong limited liability, banking can be multicurrency and international, relaxed labour laws, minimum Governmental, Registry and third party interference.

What structures and arrangements to use

Observations, do's and don'ts

- Do not use companies to purchase any real estate to be used and occupied as a main residence and/or a life style asset
- Companies should be used for the purchase of buy to let residential property that are to be exclusively rented to third parties as no ATED (annual tax charge) will apply
- Consider mortgage finance when purchasing any type of property. Circa 65% finance to purchase can be acquired, with interest only mortgages permitted
- UK companies should only be used for land trading and property development
- Personal ownership of UK property having a value exceeding £ 325,000 will be exposed to UK IHT

Stamp Duty Land Tax (SDLT) – once only taxation levels applicable to the purchaser

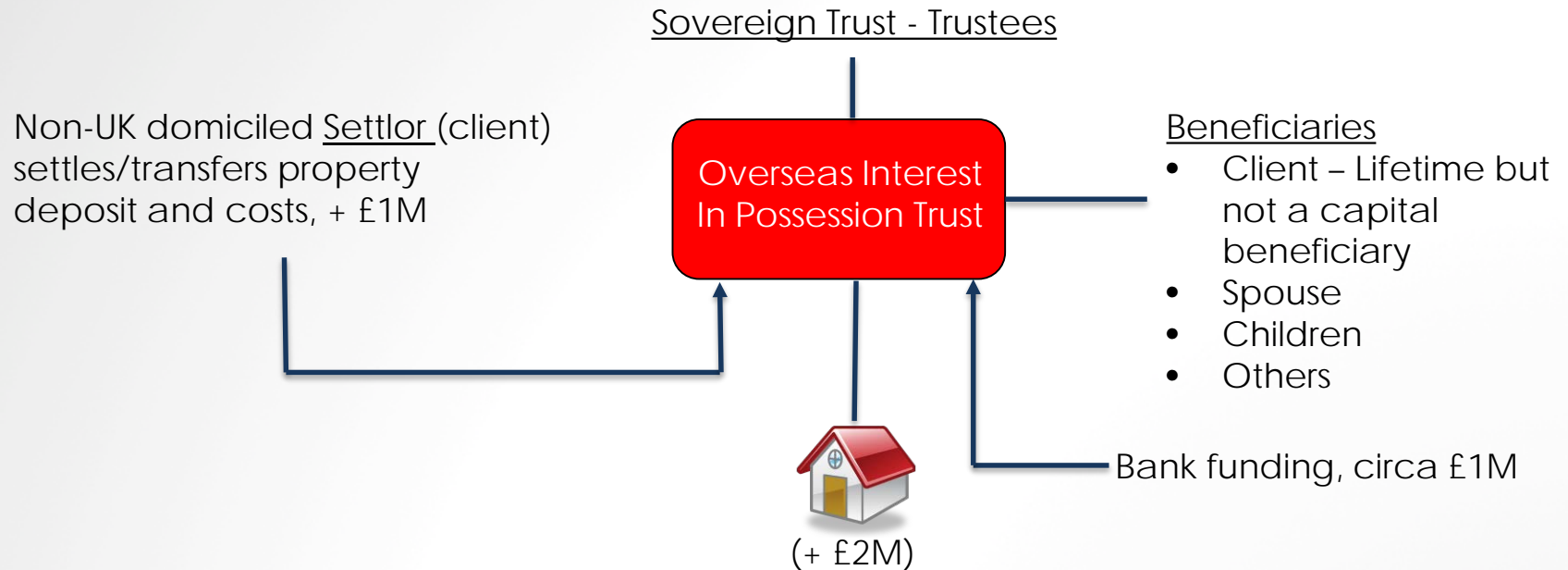
Purchase price	SDLT
Up to £125,000	0%
Portion from £125,000 - £250,000	2%
Portion from £250,000 - £925,000	5%
Portion £925,000 - £1.5M	10%
Portion from £1.5M	12%
Surcharge for non-main residence purchase	3%

Commercial properties (non-residential dwellings and development)

Max 5%

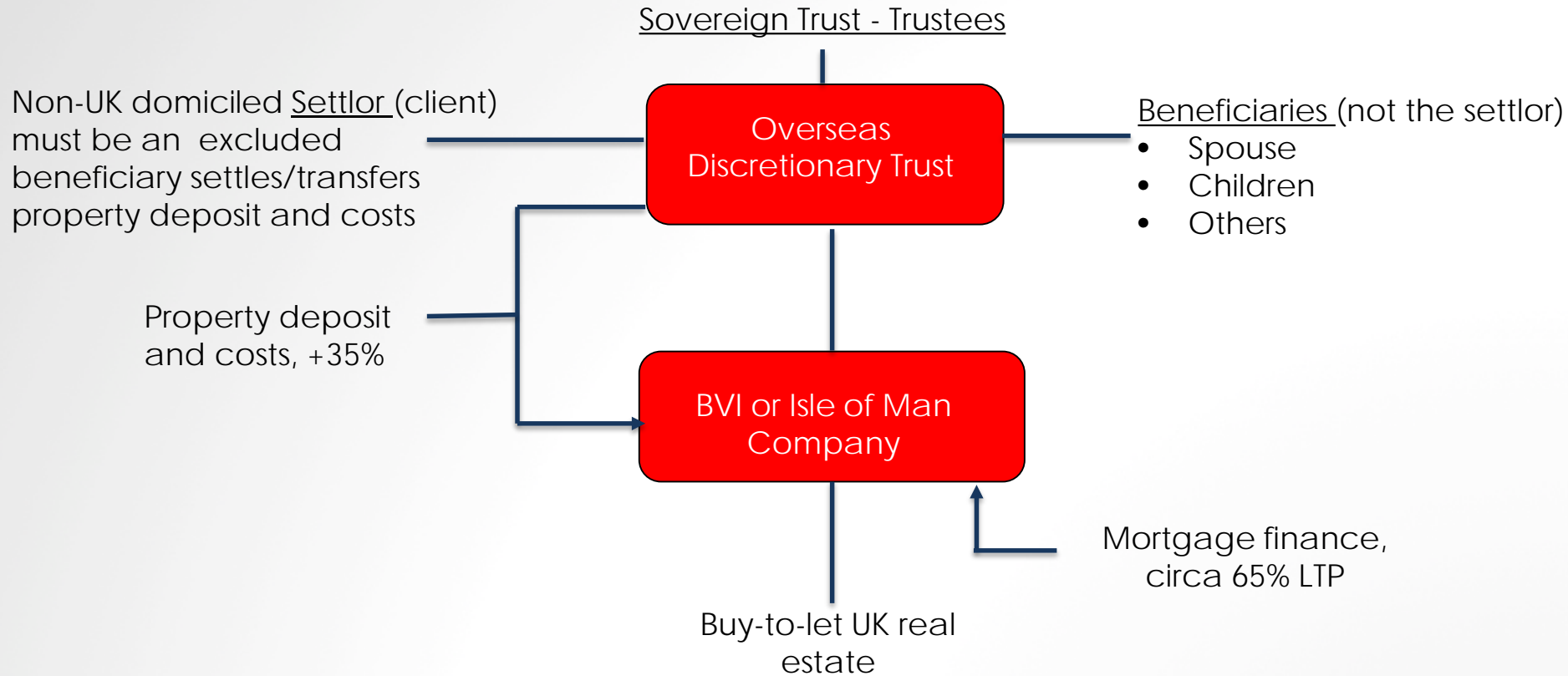


Purchasing a main residence by using an Overseas Trust



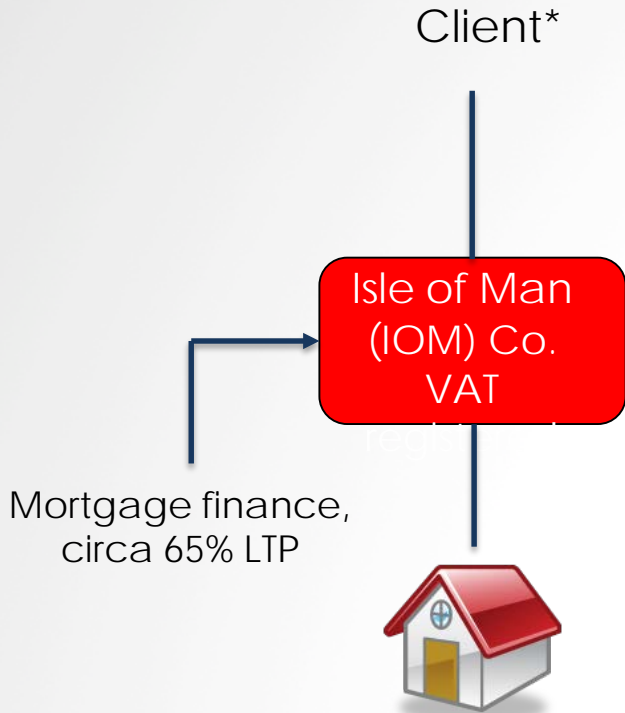
- No lifetime inheritance tax (IHT)
- No ATED
- No CGT if main residence relief can be claimed
- 10 yearly anniversary charge
- No IHT come Settlor or beneficiary demise

Investing in UK buy-to let property by using overseas companies



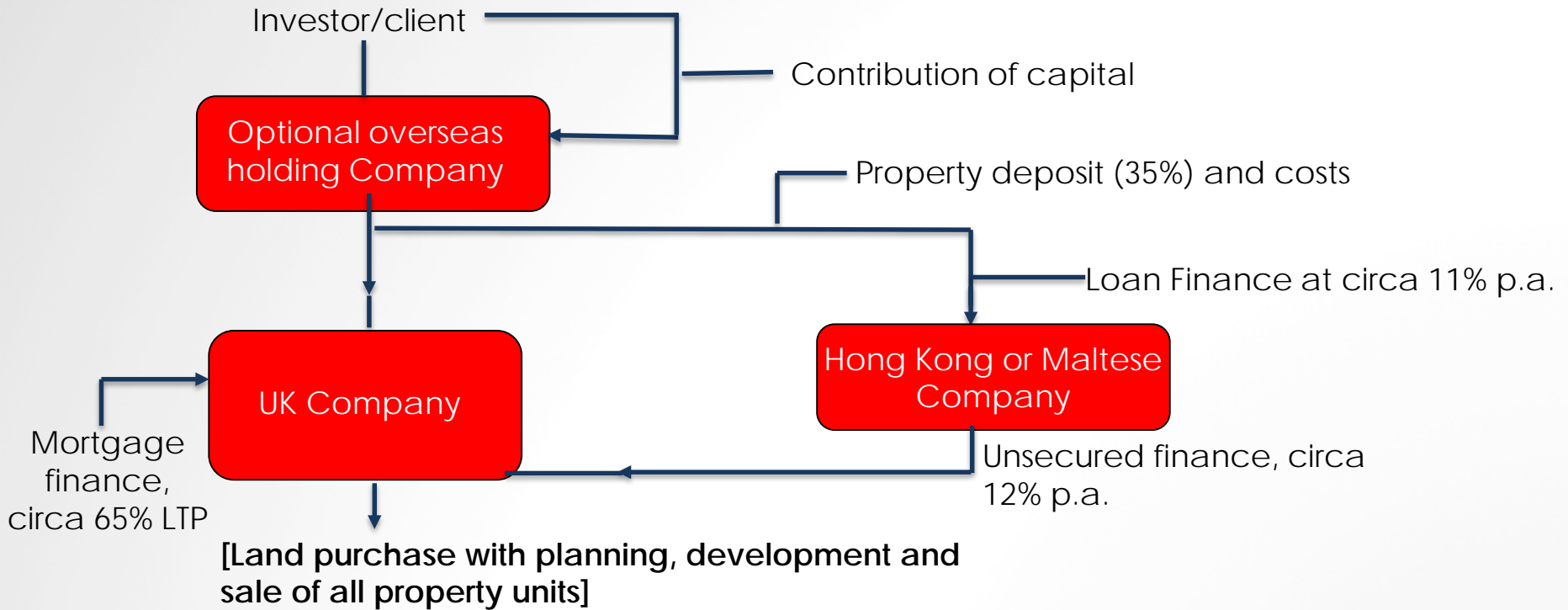
- No lifetime IHT
- ATED exemption
- 20% tax on net rental income
- Any gains made from a property sale will be subject to tax at 20%
- Deductibility of mortgage interest
- 10 yearly anniversary charge applies from 6th April 2017
- No IHT on the demise of the settlor and/or beneficiaries

Purchasing commercial property by using an Offshore Company



- Isle of Man VAT registration within 2 weeks
- An Isle of Man Company purchasing commercial UK property as a Transfer of Going Concern and should NOT be exposed to VAT
- SDLT, progressive rates but maximum will be 5%
- Net rental income taxed at 20%
- Deductibility of mortgage finance permitted
- No ATED
- No 10 yearly anniversary charge
- No UK CGT on future sale until 2019
- No UK IHT

Trading in UK land for development and trade



- Loan interest paid by UK Company should be deductible against income
- UK loan interest should NOT be subject to UK WHT but claim required
- No ATED
- UK Company pays 19% CT on its net profits, reducing to 17% in 2020/21

Property Grid – relevant to all clients purchasing UK property

Investment type	Status of investor Non-UK domiciled	Tax rate and advantages	Status of investor UK domiciled	Tax rates and advantages
<ul style="list-style-type: none"> UK main residence, Non main residence but not rented 	<ul style="list-style-type: none"> Personal ownership with mortgage finance but review life insurance. IIP trust with mortgage finance 	<ul style="list-style-type: none"> 0% - 12% SDLT (+ 3% on second property) No ATED but letting exemption required Potential to mitigate UK IHT. No UK CGT if trust is used since beneficiary with trustees might be able to claim main residence relief 10 Yearly charge if Trust is used 	<ul style="list-style-type: none"> Personal ownership 	<ul style="list-style-type: none"> 0% - 12% SDLT (+ 3% on second property) No ATED No UK CGT on primary residence Main residence nil rate band
<ul style="list-style-type: none"> Buy-to-let residential property 	<ul style="list-style-type: none"> Offshore company owned by a QNUPS conditional to other investments held within the structure, or by a Trust. 	<ul style="list-style-type: none"> 0% - 12% SDLT (+ 3% on second property) No ATED but letting exemption required Potential relief from UK IHT 20% Tax on net rental income Full deductibility of mortgage interest 10 yearly anniversary charge if Trust owns Company 	<ul style="list-style-type: none"> Overseas company owned by a QNUPS especially if other assets are going to be contributed into QNUPS 	<ul style="list-style-type: none"> 0% - 12% SDLT (+ 3% on second property) No ATED but letting exemption required Relief from UK IHT if QNUPS is used 20% tax on net rental income Full deductibility of mortgage interest
Property development with sole intention to sell property units	UK company and CT at 19% will apply	<ul style="list-style-type: none"> No ATED Potential relief from UK IHT if offshore entity with an optional trust, or QNUPS is used 19% CT on net profits 	UK company and CT at 19% will apply	<ul style="list-style-type: none"> No ATED
UK commercial property	Isle of Man company with optional trust or other arrangements.	<ul style="list-style-type: none"> Maximum 5% SDLT No ATED but letting exemption required No UK CGT No UK IHT 20% tax on net rental income 	Isle of Man company owned by QNUPS especially if other assets are to owned by QNUPS	<ul style="list-style-type: none"> Maximum 5% SDLT No ATED No UK IHT if QNUPS is used 20% tax on net rental income

Why and when to use Sovereign

- Client companies, Foundations, Limited Partnerships and SPV's with the provision of a full suite of fiduciary services in all major onshore and offshore finance centres.
- Trust establishment and professional trustee services in: Cyprus, Gibraltar, Grand Turk, Guernsey, Hong Kong, IOM, Malta, Mauritius and Singapore
- Private Trust Companies – ideal for highly valuable assets and clients seeking some control and flexibility
- Experienced Investor Fund formation
- Bespoke insurance policies such as kidnap and ransom, emergency and evacuation, D&O, P.I, multiple international home insurance, international healthcare, shipping and aviation cover.
- Solutions for international market entry, corporate migration and the relocation of corporates to other countries and regions of the world namely Asia, the Middle East, the UK, other nations of the EU and Africa.
- Tax and cost friendly arrangements/structures for UK property purchase, be it a lifestyle asset, a buy to let investment, an acquisition of a commercial property/building and the trading in land for development and sale.
- Solutions for retirement, especially Pension Trustee services, offering tax compliant strategies for an international client seeking to retire overseas
- Bank accounts, payment solutions, Credit and Debit issuing and Merchant Online Payment services to also include online industries and alternative business sectors

Sovereign have been delivering client solutions for over 30 years, extending services from our 26 international offices and subsidiaries that are wholly owned by our global Group, regulated to provide the services as referenced and represented by 410 staff.

For further information contact

Sovereign (UK) Limited

40 Craven Street

London

WC2N 5NG

T: 0207 389 0555

Simon Denton, Managing Director

SDenton@SovereignGroup.com

Laurence Lancaster, Group Tax Counsel

LLancaster@SovereignGroup.com

Ian Le Breton, Corporate Services Director

IleBreton@SovereignGroup.com

David Griffiths,

DGriffiths@SovereignGroup.com

Alex Beetham

ABeetham@SovereignGroup.com

Grant Twine

GTwine@SovereignGroup.com

30 years servicing international clients made possible through 26 offices worldwide

Bahamas

Tel: +1 242 322 5444
bh@SovereignGroup.com

Bahrain

Tel: +973 17 1515 71
bahrain@SovereignGroup.com

British Virgin Islands

Tel: +1 284 495 3232
bvi@SovereignGroup.com

Cayman Islands

Tel: +1 949 7555
cay@SovereignGroup.com

China, Beijing

Tel: +86 10 6582 0268
china@SovereignGroup.com

China, Shanghai

Tel: +86 21 5211 0068
china@SovereignGroup.com

Curaçao

Tel: +599 9 465 2698
cu@SovereignGroup.com

Cyprus

Tel: +357 25 733 440
cy@SovereignGroup.com

Dubai

Tel: +971 4 270 3400
dubai@SovereignGroup.com

Gibraltar

Tel: +350 200 76173
gib@SovereignGroup.com

RegisterAnAircraft.com

Tel: +350 200 76173
rana@SovereignGroup.com

RegisterAYacht.com

Tel: +350 200 51870
ray@SovereignGroup.com

Sovereign Accounting Services (Gibraltar) Limited

Tel: +350 200 48669
sasgib@SovereignGroup.com

Sovereign Asset Management Limited

Tel: +350 200 41054
sam@SovereignGroup.com

Sovereign Insurance Services Limited

Tel: +350 200 52908
sis@SovereignGroup.com

Guernsey

Tel: +44 1481 729 965
ci@SovereignGroup.com

Hong Kong

Tel: +852 2542 1177
hk@SovereignGroup.com

Isle of Man

Tel: +44 1624 699 800
iom@SovereignGroup.com

Malta

Tel: +356 21 228 411
ml@SovereignGroup.com

Mauritius

Tel: +230 244 3210
mu@SovereignGroup.com

Portugal

Tel: +351 282 340 480
port@SovereignGroup.com

Seychelles

Tel: +248 4321 000
sc@SovereignGroup.com

Singapore

Tel: +65 6222 3209
sg@SovereignGroup.com

South Africa, Cape Town

Tel: +27 21 418 2170
sact@SovereignGroup.com

Switzerland

Tel: +41 21 971 1485
ch@SovereignGroup.com

Turks & Caicos Islands

Tel: +1 649 946 2050
tci@SovereignGroup.com

United Kingdom

Tel: +44 20 7389 0555
uk@SovereignGroup.com

Sovereign Pension Services (UK) Limited

Tel: +44 20 151 328 1777
ukpensions@sovereigngroup.com