SOVEREIGN REPORT 51

THE FUTURE OF **INTERNATIONAL TAXATION**

SOVEREIGN UPDATE –
How we are adapting to industry changes

A sample of what we can OFFER

SOVEREIGN™

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CEO's Report from Gerry Kelly

Gerry Kelly
Chief Executive Officer
The Sovereign Group

It's now been a year since I stepped up from being Director of Finance and Operations to the newly created post of Chief Executive Officer of the Sovereign Group of companies. And it's been quite a year.

This transition followed a decade that has seen significant growth in our products, services, geographic coverage and personnel. It has also enabled our founder Howard Bilton to step back from day-to-day operations to focus on strategic matters, as well as driving the work of the Sovereign Art Foundation in Hong Kong. (See page 24)

Since I first joined Sovereign Trust in Gibraltar in 2002, the Group has changed out of all recognition. And so has the environment in which we operate.

The move toward increased transparency and exchange of information has assisted those providers that insisted that client structures must always be legally and fiscally compliant. Getting to know our clients much better has also given us the opportunity to introduce the additional services that they require for long-term sustainability – accountancy, human resources, retirement planning, insurance, IP protection and specialist tax advice.

I have been closely involved with building this capacity – through recruitment or acquisition – and it has always been focused on building value and substance for our clients. I have also been responsible for ensuring that the Group has the appropriate systems and levels of professional competence that have been essential to Sovereign's success in gaining and maintaining regulatory authorisations across a broad range of locations.

The EU has now moved to impose 'economic substance' requirements across all international financial centres. This will have dramatic consequences for thousands of businesses that are registered offshore, but Sovereign and its clients are already in the right place. We still face many challenges in our business but the progressive attitude that Sovereign adopted in the past means that our future continues to be very positive.

During 2018, we completed three acquisitions. In Guernsey we acquired the pension book of Certes Capital Ltd and in Gibraltar we acquired the pension book of ECS International Trustees (Gibraltar) Ltd. Our pensions teams in both jurisdictions have put in a lot of hard work to bring this new business onto our books.

Meanwhile in Singapore we acquired the company portfolio of corporate service provider Venture International Corporate Services Pte Ltd. This has involved the on-boarding of a large number of business and individual clients and we are splitting the administration of this book between our Singapore and Mauritius offices.

We are actively looking at other possible acquisitions and expect to announce more in 2019. To this end we are delighted to have appointed David Sutton as the new Group Finance Director. David, who is based in our Gibraltar office, has over 20 years' experience in operational and commercial finance, across a wide range of geographies and industries covering financial services, transport and technology.

We have also appointed Nick Cully, Managing Director of our Dubai office, to the Group board as our new Group Business Development Director. Nick is in the process of implementing some changes to our sales model, as well as introducing some new products.

Finally, we have said farewell – but not goodbye – to John Hodgson, who retired as Group Legal Director last year. I would like to thank John for his encouragement and expert guidance over the years. The good news is that he will be remaining on the Group board as a Non-Executive Director, so we can continue to draw on his knowledge and expertise.

I would also like to take this opportunity to thank all our new and existing clients for your business. This is not something that we ever take for granted and we will continue to work hard across the board to ensure that we continue to add value to your commercial or personal arrangements. ■

> The move towards 'substance' is now being greatly accelerated by a number of global regulatory initiatives.

Sovereign Corporate Services – Providing real substance

In the 32 years since the Sovereign Group was founded, the vast majority of companies that we have incorporated for our clients have been based in 'offshore' jurisdictions. In recent years, this has changed. Today, the bulk of new incorporations are for clients that are actively trading and need to be based in jurisdictions that can provide real substance.

This shift in focus has had a significant impact on our corporate services offering. In most cases we no longer just form and register a company on behalf of a client, we also continue to support the business going forward by providing the administrative support that enables them to maximise their opportunities and achieve long-term sustainability.

To this end our corporate services suite has expanded to include accountancy, human resources, pensions, insurance, trademark and intellectual property protection, obtaining local licences and permits, executive relocation and specialist tax advice.

Up to now, the move towards 'substance' has been driven by the commercial needs of our clients but this trend is now being greatly accelerated by a number of global regulatory initiatives that are targeting 'harmful tax practices'. (See page 20)

The OECD's Base Erosion and Profit Shifting (BEPS) Action Plan aims to ensure that profits are taxed where economic activities generating the profits are performed and where value is created. In particular, it is designed to counter tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. Over 100 countries and jurisdictions have committed to implement the BEPS measures.

Secondly, the European Union's code of conduct for business taxation was set up with the objective of curbing harmful tax competition. In 2017 it began assessing jurisdictions with low or zero rates of corporation tax to ensure that they "should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction".

'Substance' generally entails that core income-generating activities, employees, office space, local expenditure and appropriate decision-making should be present in the country where a company is established. The following operations and/or businesses will be affected – banking, insurance, finance and leasing, intellectual property holding, fund management, shipping, headquarters, holding company business, as well as distribution and service centres.

Companies undertaking these activities that do not currently have sufficient substance to meet these requirements will need to increase their substance accordingly. It may be that they can outsource some of these substance requirements to a third party service provider such as Sovereign.

Fortunately Sovereign has built and maintained an office network that gives it global reach. We have had offices in Hong Kong, South Africa, UK and the UAE for more than 20 years, and in Singapore, China and Bahrain for more than 10 years. This longevity means that our teams have great levels of expertise and experience in each of these countries. It also means that these offices have longstanding relationships with local government and tax departments as well as bodies promoting foreign investments.

Many of our clients are big international firms that have identified a need to enter a new market. Modes of entry may vary – Internet, exporting, licensing, commercial agents, distributors, strategic alliances, joint ventures, overseas

manufacturing or sales subsidiaries – but international expansion will inevitably involve unfamiliar legislation, regulations and processes, as well as creating international legal and tax considerations.

Whether you are doing business in Europe, Asia, Africa, the Middle East, the Americas or elsewhere, Sovereign will set up the best trading structure for your business. We will assist you to select the most effective and efficient legal entity, and will then form and register that entity in line with local laws and regulations. But our role does not stop there. Once the company has been established, we can provide a wide range of other essential services:

- **Banking** – All companies require a bank account, particularly those that are actively trading. But opening accounts is becoming increasingly difficult due to international transparency and anti-money laundering initiatives. Many banks will no longer open accounts for non-resident companies. Others will only open accounts for companies that have been introduced by a recognised and licensed service provider that is on their 'approved list'. Sovereign has long standing relationships with many banks around the world and it is strongly recommended that we assist with bank introductions and the preparation and submission of the necessary documentation. Clients are, of course, free to choose their own banks but generally an account can be opened more quickly and on better terms at banks known to, and recommended by, Sovereign.

- **Company Secretarial Services** – Sovereign can also assist with the provision of a company secretary where required. A company secretary is the most senior administrative officer of a private or public company or organisation. Their role is to ensure that the company complies with all standard financial and legal requirements, as legalised in the jurisdiction of incorporation. As company secretary, Sovereign will take responsibility for: maintaining the company's records, preparing and filing of returns with the local registry, issuing reminders of accounting deadlines, providing access to the company's records and overseeing routine changes such as a change in director.

- **Accounting services** – Bookkeeping and accounting are integral components of any business. Companies incorporated in an onshore jurisdiction such as Dubai or China will generally have to prepare and file accounts. Often these accounts must also be audited. Sovereign can either offer in-house bookkeeping and accounting services or can recommend a range of accountancy firms that we work with closely. By outsourcing your accounting facility, you will reduce internal operational costs and allow yourself more time and resources to focus on value-added and revenue generating tasks.

- **Payroll services** – Companies, wherever they are based, must pay the salaries of their employees in a timely manner. They must also ensure their income tax and social security compliance in terms of withholding, calculations and reporting. Every country's employment and tax system is different. Any organisation entering a foreign market faces a number of employment and tax related challenges. By outsourcing your payroll you can free up your valuable time and resources to concentrate on the important business of running your company while making certain that obligations and responsibilities are met in a timely and efficient manner in every jurisdiction of operation.

- **Insurance services** – Insurance, as part of a carefully designed and integrated risk management strategy, is one of the most effective ways to manage corporate risk and create a risk-free environment in which commercial activity can flourish and a company's assets are fully protected. An effective risk management strategy will protect your company against legal or financial liability claims from direct or indirect causes and give shareholders and customers confidence in the operational stability and reliability of the firm. Sovereign Insurance Services is on hand to assist our clients with their requirements in this area and to ensure compliance with local employee insurance needs.

- **Trademarks and Intellectual Property** – Trademarks are the most cost effective way for businesses to protect their name, products and reputation overseas. Failure to obtain a trademark in a country where you are active or plan to be active means you are exposing your business to commercial risk. Every country has its own rules to manage and register trademarks, and we will work within those rules to protect your business. Sovereign's intellectual property division can provide cost effective advice to clients on the acquisition, exploitation, use and enforcement of intellectual property rights on both a domestic and cross-border basis. We can also provide strategic advice to both established and developing companies.

- **Pensions** – Employee benefit packages are a vital consideration for any employer who wishes to attract and retain the best talent, as well as maintain a loyal and committed workforce. One of the main components of any employee benefit package is corporate pensions or savings provision. Most employees now regard retirement provision as a key part of their remuneration package. Sovereign has extensive experience in designing and operating corporate pension schemes. Our clients range from large international businesses to smaller firms just starting out. Sovereign also offers individual portable pension arrangements for internationally mobile employees and senior staff. ■

Sovereign Private Client Services – Assistance in uncertain times

Sovereign Private Client Services provides trustee services, wealth management and succession planning to internationally mobile families and entrepreneurs. We assist families and entrepreneurs around the world to structure their assets in a way that will help to grow their wealth now and preserve it for future generations.

We advise on all aspects of the design and implementation of structures, using trusts, foundations, companies and funds, in domestic as well as overseas jurisdictions, to hold assets and investments for secure, efficient wealth and succession planning.

While some of our clients are based only in a single location, many are international families with assets and family members spread across different countries. We have broad experience in managing trusts and estates with complex structures involving assets and beneficiaries in multiple jurisdictions, as well as the legal, tax and compliance issues that arise when the laws of several jurisdictions may apply.

We also provide the support to maximise opportunities and achieve long-term sustainability, from full family office solutions to assistance with tax and regulatory compliance. This includes, but is not limited to, asset management, accountancy, foreign property ownership, retirement planning, residency, immigration and citizenship, insurance, marine and aviation registration and management, as well as specialist tax advice.

Sovereign's founding vision was for a trust company that was focused on safe, sustained growth, balancing competitiveness with the maintenance of best professional practice. We were therefore delighted to be named as the Best International Trust and Estate Planning Firm at the Global Financial Services Awards 2018, organised and hosted by International Adviser magazine.

This reinforces our commitment to compliant structuring and staff development in an increasingly changing global legislative environment. Last year we were also delighted that Sovereign Trust (Hong Kong) became one of the first firms to be formally licensed as a Trust or Company Service Provider (TCSP) under Hong Kong's newly created licensing regime.

TCSPs are required to apply for a licence from the Registrar of Companies and satisfy a 'fit-and-proper' test before they can provide trust or company services as a business in Hong Kong. Sovereign Trust (Hong Kong) and its operating sister companies – Sovereign Fiduciaries (Hong Kong), Sovereign Fiduciaries Services and Sovereign Trustees – have all been granted TCSP licences.

This is the first time that TCSPs have been made subject to their own regulatory regime in Hong Kong. Sovereign has been lobbying the relevant authorities for many years to introduce licensing in Hong Kong to ensure that standards within the industry are consistent and in accordance with best international practice.

These new licences add to over 30 professional licences held by Sovereign Group companies around the world, including in the Bahamas, Bahrain, Cyprus, Dubai, Gibraltar, Guernsey, the Isle of Man, Malta, Mauritius, the Seychelles, Singapore, Turks & Caicos Islands and the UK. They are testament to our high standards, knowledge and professionalism.

Citizens of countries that are politically or economically unstable often wish to emigrate or acquire an alternative citizenship or residency as an insurance policy – in case things at home take a turn for the worse. If such individuals have money to invest, then it makes sense to do so in countries that will give them a formal status in return.

Many countries encourage immigration by HNWIs, through citizenship by investment (CBI) or residency by investment (RBI) schemes – often known as 'golden passports' and 'golden visas' respectively. These are characterised by the provision of access to citizenship or residency in exchange for specified investments and via a clear delineated process.

Sovereign Group has more than 30 years' experience of working with clients from all over the world through its global office network and in 2018 we launched a new citizenship and residency programme based on European CBI and RBI schemes, which offer greater security and benefits than many other equivalent schemes and are now among the most popular worldwide.

Advantages of European citizenship:

- Obtain an irrevocable citizenship and passport from an EU member state
- Obtain immediate access to 165+ countries with visa free or visa-on-arrival travel
- Potential to pass on nationality to future generations by descent
- Freely open companies and bank accounts throughout the world
- Protected by the laws of the country where you obtain citizenship
- Improved access to world class healthcare and education systems

Advantages of European residency:

- Access to a second home in a prime location
- Freedom to travel to all EU countries that are members of the Schengen area
- Potential for permanent EU residency and nationality in the future
- Enhanced ability to open bank accounts
- Potential tax advantages in certain cases
- Ability to assist dependants with obtaining residency

Sovereign has selected the best European programmes and has further prioritised those jurisdictions in which it also has an office – Cyprus, Gibraltar, Malta and Portugal. In these locations we are able to offer a 'one-stop-shop' for RBI and CBI applications, providing assistance in submitting an application without the need to outsource any aspect to a third party.

In addition, in those jurisdictions where an RBI or CBI scheme requires an applicant to purchase a property, we have signed exclusive agreements with real estate companies and developers to ensure that our clients have access to the best selection of properties, whether they plan to live in them or to retain them for investment purposes.

Many investors suffered in the political turmoil and economic uncertainty in 2018. Major asset classes either fell in value or saw minimal gains as issues ranging from Brexit to the US-China trade war took their toll. In the current climate investors should be considering a wealth review – risk profile, asset classes, products, sectoral and geographical diversification, tax exposure and holding structures.

Sovereign Wealth (SW) is a fully independent, MIFID II-compliant wealth advisory, that is licensed and approved to give investment advice in several jurisdictions spanning the globe. Based and regulated in Gibraltar, the team is made up of highly qualified and experienced wealth managers who have worked for leading banks and investment houses across many jurisdictions worldwide.

The emphasis is very much on providing cost effective, transparent fee-based tailored solutions for our clients based on their risk profile and investment objectives over the short, medium and long-term. SW is committed to stripping away any of the unnecessary costs by avoiding the 'commission heavy products' and 'back-end loaded' investments so common in the advisory space.

SW will work with the chosen investment manager and tailor the asset allocations to ensure that a client's portfolio has the appropriate balance of investments to reflect the clients' risk profile and objectives. Having a second level of oversight by an independent but regulated company such as SW can be a valuable check and balance.

As a fully independent firm SW is not tied to any investment houses, platforms or any other intermediaries and does not take any incentives or commissions from any third parties, ensuring that our interests are aligned with those of our clients. As a result, SW offers Sovereign clients two levels of expertise for the price of one – understanding the capabilities of the investment managers and providing professional oversight of what they are doing with your money.

Sovereign has a large share of the international pensions market and this is an area in which SW excels. Not only in the transfer of pensions to QROPS and UK and international SIPPs, but also by providing advice on how to incorporate the pension into any existing investment strategies to balance and spread the investment in line with the clients' risk appetite and financial goals.

> Sovereign has established itself as a market leader in the international pensions space with a broad range of products and services.

Sovereign Retirement Planning – Another busy year

2018 was a very busy year for Sovereign's retirement planning division with the introduction of a number of new products as well as the need to respond to a swathe of new rules and regulations across many of the jurisdictions in which we operate.

Sovereign has established itself as a market leader in the international pensions space with a broad range of products and services. This position has been built primarily in the personal pensions market but 2018 saw us also making in-roads into the occupational pensions market.

Sovereign now offers international occupational solutions from its Guernsey and Isle of Man offices, and additional local corporate solutions are available from Hong Kong, Malta, Guernsey and Gibraltar. Small Self Administered Schemes (SSASs) are also available to UK businesses.

These occupational solutions build on the personal retirement planning solutions including Qualifying Recognised Overseas Pension Schemes (QROPS), Qualifying Non-UK Pension Schemes (QNUPS), Self-Invested Personal Pensions (SIPPs) and International Pension Plans (IPPs) across our six main pension jurisdictions of Malta, Guernsey, Hong Kong, Isle of Man, Gibraltar and the UK.

The pensions' regulatory environment in which Sovereign operates continues to evolve with both Guernsey and Malta introducing formal regulatory change in 2018. Sovereign remains at the forefront of innovative product development that responds to the market place and remains compliant with new regulations. New products launched in 2018 include a Gibraltar Personal Pension Scheme, a Malta-based contract QROPS, Hong Kong Occupational Retirement Schemes Ordinance (ORSO) schemes, Guernsey End-of-Service Gratuity Schemes, a local pension scheme for Guernsey residents and an international multi-employer 'umbrella' occupational scheme, also from Guernsey.

Hong Kong's ORSO established a registration system for occupational retirement schemes that were established voluntarily by employers to provide retirement benefits for their employees. As voluntary schemes, they afford great flexibility.

ORSO schemes enable the sponsoring employer to decide the enrolment and eligibility arrangements, the contribution rates and the minimum retirement age. They also permit a much wider range of investment options. In addition, a vesting scale that specifies the minimum period that employees must work to be entitled to the employer's contributions can be applied to every ORSO scheme.

Flexi-access Drawdown (FAD) is available upon meeting the minimum retirement age. The minimum retirement age is determined by the employer but may not be less than 45 years of age. On attaining the minimum age of retirement under an ORSO Scheme, distributions to members can be made in the form of lump sum and/or regular payments or transfer to other pension plans or annuity contracts.

ORSO schemes offer particular tax advantages to expatriate staff that intend to return to a country that has a double tax treaty with Hong Kong. Hong Kong

has treaties with a number of countries – including Belgium, Canada, the Czech Republic, France, Hungary, Indonesia, Ireland, South Korea, the Netherlands, Romania, Russia, Switzerland and the UK – which specify that pension distributions from Hong Kong corporate retirement plans "in consideration of past employment" are only taxable in Hong Kong.

ORSO schemes can also be particularly attractive for employers using Hong Kong as a platform for regional retirement schemes. Employers from within a grouping of companies may operate, contribute to or participate in a group occupational retirement scheme that covers two or more companies from within a group. This can be particularly important for employees based in less politically or economically stable countries.

Sovereign in Guernsey continues to innovate and enter new markets and in 2018 Sovereign Trust (Guernsey) launched a new multi-employer international corporate pension plan. The Sovereign Corporate Retirement Savings Scheme is an 'umbrella' scheme that can be accessed by multiple unconnected employers and their employees. Upon acceptance, each employer will have its own designated and segregated plan that is established solely for the benefit of its own employees.

The plan is designed specifically for non-Guernsey companies that wish to provide retirement and savings benefits to their non-Guernsey international employees. It is likely to be attractive to international companies with a large proportion of employees working outside their home country, companies with highly transient employees and those with employees working in a country that has no recognised pensions framework.

This multi-employer structure helps to streamline procedures and minimise costs, while also enabling employers to tailor the rules to meet their specific requirements in a context where the attraction of good calibre staff and employee retention are key business drivers. It has enjoyed great success since launch.

Sovereign continues to build on its reputation for technical pension excellence and good customer service. It is represented on all the relevant industry bodies in the jurisdictions in which it operates and chairs the committees in both Gibraltar and the Isle of Man. Gerry Kelly, our new Group Chief Executive Officer, was recently recognised as one the 'key influencers' in the financial services space on *International Adviser's* 'Top 100'.

In December, the Malta Financial Services Authority (MFSA) introduced new personal pension regulations, which came into effect on 1st January 2019. To remain in compliance, Sovereign is changing its administration processes and requirements and this will impact the way Sovereign interacts with the investment advisers of pension members.

The amended rules include conditions around licensing for financial advisers, disclosure of investment commissions and cancellation periods. Unless a member is classified as a 'professional member', or a discretionary fund manager is appointed, a Retirement Scheme Administrator (RSA) must ensure that the client is provided with full disclosure of all costs payable and of any commissions payable to the RSA or any other third party under the terms of any investment selected, including any upfront, ongoing or exit charges.

Sovereign welcomes this requirement for transparency; our product application forms and member communications have all been amended to ensure full disclosure of every layer of cost with any of our pension structures. Advisers with existing Sovereign Malta pension clients, or those who wish to introduce new clients, will now need to complete a 'Terms of Business' application. As of 1st July 2019, any firm that does not meet the licensing conditions and has not completed the new terms of business agreement will be unable to manage its clients.

Similarly, we have amended our investment guidelines for Recognised Overseas Pension Schemes (ROPS) and international SIPPs in order to give better protection to members. As of 1st September 2018, Sovereign no longer permits investment into funds that contain exit charges, 'broker funds' where a fund manager is being financially incentivised, or any funds that are deemed to have high expense ratios or ongoing charges figures. This will ensure greater investment transparency and value for pension members.

As a member of the Pension Scams Industry Group (PSIG) in the UK, Sovereign is also delighted to report that 'pension cold-calling' was banned in the UK as of 9th January 2019. The new rules, which are intended to combat pension scams, mean that firms will no longer be able to make unsolicited marketing calls about pension schemes. Any firms found flouting the ban will face enforcement action from the Information Commissioner's Office, and could be fined up to £500,000.

Sovereign continues to act with integrity and has an excellent regulatory record in all the jurisdictions in which it is licensed to operate. In addition to product provision, Sovereign's services cover a broad spectrum including scheme administration, technical pensions' know-how, pension transfer guidance, investment management, actuarial services, tax planning and wealth structuring. ■

These measures demonstrate China's continued willingness to open up its market to foreign investors.

China makes further moves to simplify regulation and liberalise business

Mark Ray
Managing Director
Sovereign (China) Ltd

2018 saw further moves to consolidate bureaucratic procedures and make it faster and easier for foreign investors to set up a business in China. From 30th June 2018, foreign-invested enterprises (FIEs) were able to submit a single form to a single government office, rather than having to deal with multiple forms and offices.

Previously trialled in the Shanghai Free Trade Zone (FTZ), the so-called 'One Window, One Form' policy will also strengthen information sharing between relevant government departments, increasing the importance of maintaining compliance with rules and regulations in business operations.

This followed the introduction of the new 'Five-in-One' certification at the start of 2018, which combines the business tax registration, organisation code, business licence, social security and statistical registration certificate into a single document with one social credit code.

China has also updated its work permit renewal policy and introduced a new R-Visa for foreign high-level talents and specialist personnel. As of 28th February 2019, foreign companies are now required to submit work permit renewal applications for their foreign workers at least 30 days prior to their expiry. If a company fails to renew a work permit in time, it will then be required to follow the procedures for applying for a new work permit, which is much more costly and time consuming than renewing one.

The Talent (R) Visa is a multiple-entry visa that allows foreign professionals who are eligible for Category A of the unified work permit classification system – scientists, technological leaders, international entrepreneurs or talents with extraordinary abilities – to perform business activities.

The R-Visa is valid for five to ten years with multiple entries and can be issued within two working days. Spouses and children of holders are also allowed to enter China on an R-Visa. These guidelines were applied to nine cities in China, including Beijing and Shanghai, as of 1st January 2018.

On the tax treaty front, China's State Administration of Taxation (SAT) issued Public Notice 9 to clarify the definition of a 'beneficial owner' (BO) in respect of non-resident eligibility for tax treaty benefits on China-sourced dividends, interests and royalties.

This guidance extended the scope of the 'safe harbour rule' from listed companies to governments and individuals. It also introduced a new 'same jurisdiction/same treaty benefit' rule in respect of multi-tier holding structures. Companies investing through a holding company located in a treaty partner jurisdiction should review whether these new rules allow them enjoy treaty benefits.

Further changes were announced to the enhanced value-added tax (VAT) regime, which effectively replaced China's business tax in 2016. As of 1st May 2018, the existing VAT rates of 17% and 11% were lowered to 16% and 10% respectively. The criteria for businesses to qualify as small-scale VAT taxpayers were also expanded.

Finally, as part of the continuing process of business liberalisation, new National and Free Trade Zone (FTZ) 'negative lists' were issued as of 28th July 2018. Restricted industries are generally only accessible to foreign investors through joint venture structures with Chinese companies and often include shareholding limits. For industries not included in the negative lists, foreign investors are given equal treatment to domestic Chinese investments, save for record-filing requirements.

At the national level, the Special Administrative Measures on Access to Foreign Investment 2018 reduced the number of industries in which foreign investment is either prohibited or restricted industries from 63 to 48. The Special Administrative Measures for Foreign Investment Access to Pilot Free Zones (FTZ Negative List) reduced the number of restrictive measures from 95 in the previous version to 45.

These measures demonstrate China's continued willingness to open up its market to foreign investors. The number of restrictive measures peaked at 120 in 2011 but has since gradually been reduced. However, the latest reduction was not as substantial as some foreign investors had hoped.

Regulations can change very quickly in China and, as we always advise, it is essential to take action to adjust and determine how your operations will be affected. This is especially true for foreign firms when it comes to any tax-related matters. china@SovereignGroup.com

Cyprus focuses on enhancing competitiveness

George Ayiomamitis
Managing Director
Sovereign Trust (Cyprus) Ltd

To further enhance Cyprus' competitiveness and achieve steady and self-sustained growth.

At a time of increasingly international competition, the government of Cyprus has put in place several measures in 2018 to further enhance Cyprus' competitiveness and achieve steady and self-sustained growth.

The basic goals, which form the central core of the government's incentives framework, are to:

- Attract and develop new high-tech industries and skill-intensive products
- Assist and reconstruct Cyprus' traditional economic sectors
- Improve productivity and labour skills
- Attract capital-intensive foreign investment.

In March 2018, the UK and Cyprus signed a new double tax treaty and accompanying protocol. This came into force on 18th July 2018 following the completion of ratification procedures and replaced the previous 1974 agreement. The new treaty eliminates withholding tax on dividends, interest and royalties with the exception of dividends paid from tax exempted immovable property income.

The government also made revisions to the Cyprus Citizenship by Investment Programme in June 2018, which enables investors to obtain Cypriot citizenship for an investment of a minimum of €2 million, in order to address concerns of the European Commission. The scheme will now be known as the 'Cyprus Investment Programme' and, as from this year, will be limited to 700 investors per year. Applicants will also be subject to enhanced due diligence procedures.

This programme offers unrivalled benefits to successful applicants, which include gaining citizenship of an EU member state and the freedom to reside, work, establish business, move capital and travel anywhere in all EU member states, as well as EEA and EFTA states, as well as visa-free travel to 171 countries worldwide.

Full citizenship and passports are granted to the applicant and include family members – spouse, parents and dependant children – and there is no requirement to reside in Cyprus before, during or after the approval of the citizenship application. Cypriot citizenship is valid for life and transferable to dependants.

Sovereign Trust (Cyprus) is able to advise and assist applicants in submitting an application and will also be able to indicate the expected time frames based on the specific circumstances of an application.

In July 2018, the Cyprus parliament approved new alternative investment funds (AIF) legislation, Law 124(I)/2018, which will replace the existing Law 131(I)/2014 and introduce a new form of alternative investment fund, known as a Registered AIF (RAIF).

The RAIF structure offers great flexibility. There is no minimum capital requirement and RAIFs may be open or closed-ended and either stand-alone or with an umbrella structure. They may take the form of a mutual fund, an investment company with fixed or variable capital, or a limited partnership, and the new law also introduces the concept of limited partnerships with separate legal personality.

As a further incentive for funds to establish their operations in Cyprus, the Income Tax Law has been amended to clarify that investment by a non-resident individual in a Cypriot mutual fund or partnership does not create a permanent establishment in Cyprus with respect to the investment.

Cyprus also launched a special framework of incentives and benefits in 2018 to establish the island as a top location for international film productions. Minister of Finance Harris Georgiades said the audiovisual sector would constitute a fresh opportunity for Cyprus, which he described as a "natural studio" with many economic advantages.

Under the Cyprus Filming Scheme, production companies that opt to film in Cyprus can choose between cash rebate or tax credit and can also benefit from tax discounts on investments made on equipment and infrastructure, with VAT returns on expenditure in scope. Qualifying production categories include feature films, television films or series, digital or analogue animation, creative documentaries, trans and cross-media productions, and reality programmes.

Sovereign Trust (Cyprus) can assist applicants under the Cyprus Filming Scheme with all aspects of the application process and can further provide support in obtaining local licences and permits, importing and exporting equipment and dealing with the relevant local agencies.

We also provide the administrative support to maximise opportunities and achieve long-term sustainability, from full back-office solutions to assistance with tax and regulatory compliance. This includes accountancy, human resources, pensions, insurance, trademark and intellectual property protection, executive relocation and specialist tax advice.
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Gibraltar positions itself for Blockchain revolution

Kyra Romano-Scott
Managing Director
Sovereign Trust
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The first jurisdiction worldwide to introduce a Digital Ledger Technology (DLT) Regulatory Framework.

On 1st January 2018 Gibraltar became the first jurisdiction worldwide to introduce a Digital Ledger Technology (DLT) Regulatory Framework. Any firm carrying out by way of business, in or from Gibraltar, the use of DLT for storing or transmitting value belonging to others (DLT activities), will need to be authorised by the Gibraltar Financial Services Commission (GFSC) as a DLT Provider.

Firms and activities that are subject to another regulatory framework will continue to be regulated under that framework. Firms that are currently licensed under existing financial services legislation, but use DLT in order to improve their controls, procedures and processes, will not need to obtain a separate licence under the DLT framework, unless the activities are not currently caught within the scope of the licence they hold.

The GFSC has laid out nine principles for DLT providers, which are designed ▸

to protect consumers and Gibraltar's reputation, and to ensure that the regulatory outcomes are achieved. Nicky Gomez, GFSC's head of risk and innovation, said: "Working closely and collaboratively with the financial services industry and the government of Gibraltar has resulted in the GFSC becoming the first regulator to introduce a DLT Regulatory Framework – it is a very encouraging time and we are also looking forward to the challenge."

The Gibraltar government has also announced its intention to introduce 'Initial Coin Offering' regulations for the promotion and sale of tokens in and from Gibraltar. This regime will complement and operate in parallel to the DLT Providers licensing framework. The GFSC has indicated that, whilst token sales themselves may not fall within the scope of the DLT Providers licensing framework, the ICO Regulations will provide rules and standards for an ICO that is launched or conducted from Gibraltar.

In July 2018, the new Gibraltar Blockchain Exchange (GBX) went live after a soft launch in June that enabled 300 participants to gain early access. The GBX aims to position itself as an institutional-grade token sale platform and digital asset exchange and was launched with six crypto currencies. The GBX's parent company, the Gibraltar Stock Exchange (GSX), is an EU-regulated stock exchange. The GSX is now the first stock exchange to own a regulated blockchain exchange.

The FinTech team at Sovereign Trust (Gibraltar) offers expertise on all matters relating to blockchain and crypto-currency business. In addition to regulatory advice and assistance in obtaining a DLT licence, we are able to advise on company formation and management, tax, accounting and employment matters.

In November, the UK government signed the draft Brexit withdrawal agreement that sets out how the UK leaves the European Union. This included an 'implementation' period that was intended to run from 29th March 2019 to 31st December 2020. Gibraltar is covered by both the withdrawal agreement and by the implementation period and its constitutional status will not change.

In the Brexit negotiations so far, the future of Gibraltar has not been specifically addressed. That will change when the UK leaves and the negotiating stage for the future arrangements begin. Ahead of Brexit an increasing number of foreign firms are considering setting up holding structures and Sovereign can advise on the various attractive and advantageous options available.

Gibraltar companies are increasingly popular as part of a holding structure and with good reason. Like the UK, Gibraltar does not levy withholding taxes on dividends but, in addition, the corporation tax rate is only 10% and this is not charged on income that is derived or accrued from outside Gibraltar. And, of course, there is no VAT.

It is possible that Gibraltar could secure unique privileged access to the EU customs union and single market via a special protocol, in exchange for possible changes in its tax arrangements. This could potentially offer a neat solution that allows the main body of the UK to achieve a meaningful Brexit, while allowing British businesses to maintain European access and benefits essentially equivalent to continued EU membership.

The UK's ratification of the draft withdrawal agreement is currently delayed pending approval by the UK parliament. Sovereign will keep you updated on future developments.
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Guernsey exempts International Savings Plans/Gratuity Schemes from tax

Stephen Hare
Managing Director
Sovereign Trust
(Guernsey) Ltd

> **"Guernsey has become a preferred jurisdiction for the provision of international retirement and savings plans"**

In December 2018, the States of Guernsey passed a number of proposals put forward by the Guernsey Revenue Service. These included the introduction of a specific section within the Income Tax Law to formally recognise qualifying international savings plans – referred to as 'gratuity schemes' – and exempt them from tax in Guernsey.

As a result Guernsey is now a highly attractive location for business owners wishing to offer their employees the ability to withdraw a lump sum distribution on leaving employment – for example, under the 'end-of-service' benefit provisions that prevail in the Gulf Cooperation Council (GCC) area – without a minimum retirement age requirement.

The changes further position Guernsey as a leading jurisdiction for international pensions, savings plans and gratuity schemes. Guernsey has become a preferred jurisdiction for the provision of international retirement and savings plans, for both individual and corporate clients, as it has an extremely flexible, yet robust, framework and an attractive tax regime, particularly for non-Guernsey tax residents. The island has become a centre of excellence for pension administration.

The provision of retirement and savings plans is a regulated activity, overseen by the Guernsey Financial Services Commission (GFSC). For non-Guernsey tax resident individuals and companies, there are a number of options available to suit a variety of needs and circumstances. There are fully approved retirement savings plans. There are also non-approved, but tax-recognised, retirement savings plans and there are non-approved and non-recognised savings and gratuity plans (generally for certain specific employer sponsored arrangements, where flexibility is paramount).

Sovereign Trust (Guernsey) is a regulated pension licensee in Guernsey, offering a wide range of retirement and savings plan solutions for individual and corporate clients, both domestically and internationally. This includes low cost, multi-employer occupational pension and savings plans for international employers, plus approved occupational retirement plans for locally based employers.

For individual clients, this includes both approved multi-member retirement savings plans open to both local and international clients – the Brock Personal Pension Plan – and tax-recognised multi-member retirement savings plans for international clients only – the Conservo International Retirement Plan – which provide cost effective solutions to clients wishing to make additional savings for their retirement.

During 2018, Sovereign Trust (Guernsey) announced the launch of the Sovereign Retirement Annuity Trust Scheme (Sovereign RAT), a multi-member retirement annuity trust scheme open solely to Guernsey residents.

The Sovereign RAT has been developed to satisfy all the necessary conditions prescribed by HM Revenue & Customs to be a Recognised Overseas Pension Scheme (ROPS). This means that the Sovereign RAT is able to accept authorised transfers from UK-registered pension schemes. This will be attractive to anyone who has relocated to Guernsey having already built up a pension pot in the UK.

Guernsey RATs offer many advantages and great flexibility. Retirement age can be anytime between the ages of 50 (55 if UK pension assets are held) and 75. Members do not have to purchase an annuity and up to 30% of the fund available at retirement can be taken as a tax-free lump sum (25% if UK pension assets are held). On a member's death, all assets remaining in the RAT can be passed to beneficiaries.

RATs offer the ability to transfer benefits from previous schemes and tax relief is available on new contributions, subject to the personal tax status of the member in Guernsey. Asset growth within the RAT is not subject to UK Capital Gains Tax or Guernsey Income Tax. If a member leaves Guernsey to move to the UK, Isle of Man or any EU member state, Sovereign can provide a free pension transfer to one of these jurisdictions.

Sovereign Trust (Guernsey) Managing Director Stephen Hare said: "We are excited to be able to offer a cost effective multi-member pension solution for local residents. Having operated on the island for close to ten years, it has always been our intention to provide a relevant solution for the Guernsey market – we just needed to ensure that we had the right team, systems and administrative capabilities in place to deliver such an offering before doing so."
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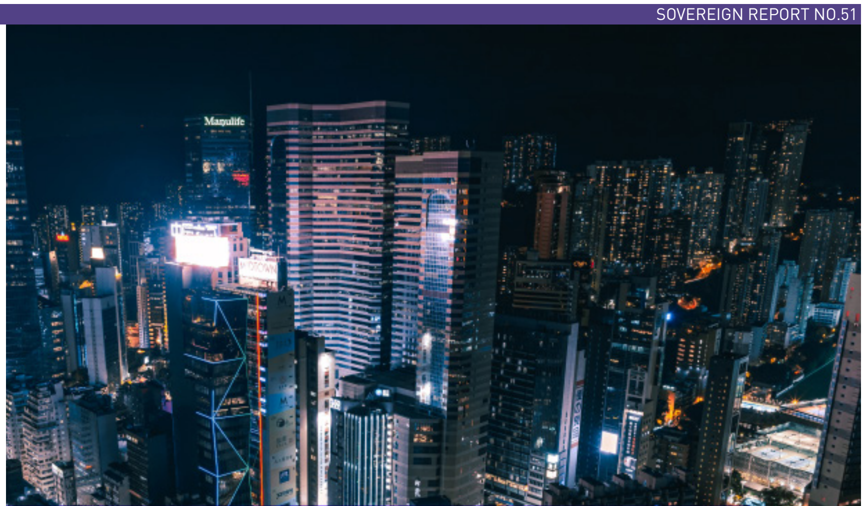

"Seeking to boost its competitiveness as an international financial centre."

Hong Kong makes progress on tax co-operation and competitiveness

Julia Connolly
Director
Sovereign Trust (Hong Kong) Ltd

Hong Kong has been working hard to bring itself fully into line with international initiatives to promote transparency, economic substance and tax co-operation, while at the same time seeking to boost its competitiveness as an international financial centre through new tax incentives and new tax treaties.

In January 2018, the Legislative Council passed the Hong Kong Companies Ordinance (Amendment) 2018 to introduce new requirements for registering 'people with significant control' of companies. This was brought into force on 1st March 2018.

The Ordinance requires Hong Kong companies to maintain details on their significant controllers and to prepare and maintain a Significant Controllers Register (SCR) that will be accessible by law enforcement officers upon demand. To identify a significant controller, companies must review their register of members, articles of association, shareholders agreements, and other relevant agreements, or invite an evaluation from a third party organisation.

The Legislative Council passed amendments to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance to extend statutory customer due diligence (CDD) and record-keeping requirements to 'designated non-financial businesses and professions' (DNFBPs) – solicitors and foreign lawyers, accounting professionals, estate agents and trust or company service providers (TCSPs) – when they engage in specified transactions.

The amendments, which apply as of 1st March 2018, also introduced a new licensing regime for TCSPs in Hong Kong. Sovereign was among the first Hong Kong-based firms to be formally licensed. Sovereign Trust (Hong Kong) and its operating sister companies – Sovereign Fiduciaries (Hong Kong), Sovereign Fiduciaries Services and Sovereign Trustees – have all been granted TCSP licences.

In March 2018, the Inland Revenue (Amendment) (No. 3) Ordinance 2018 was gazetted to bring a new two-tier profits tax rates regime into force. The regime, which was first announced in the Chief Executive's 2017 Policy Address, is designed to lower the tax burden for small and medium enterprises (SMEs) and will apply to both corporations and unincorporated business.

As from year of assessment 2018/19, the new profits tax will be halved to a rate of 8.25% (7.5% for unincorporated businesses) on the first HK$2 million (US$256,000) of assessable profits and at the standard rate of 16.5% (15% for unincorporated businesses) on the remainder of assessable profits.

The legislation is designed to benefit small and medium enterprises and start-ups. It contains restrictive provisions stating that a group of 'connected entities' can only elect one of them to be eligible for the two-tiered profits tax rates regime for a year of assessment.

In November 2018, the Hong Kong government also gazetted the Inland Revenue (Amendment) (No. 7) Ordinance 2018 to introduce an enhanced tax deduction for expenditures incurred by enterprises on research and development (R&D) activities in Hong Kong. The aim is to encourage more sustainable R&D investment from private enterprises rather than from the public sector.

R&D expenditures are now classified into either 'Type A' expenditures that qualify for 100% deduction or 'Type B' expenditures that qualify for enhanced tax deduction. The arrangements are applicable to R&D expenditures incurred by enterprises on or after 1st April 2018.

The enhanced tax deduction for 'Type B' expenditures is a two-tier deduction regime. The deduction is 300% for the first HK$2 million of the aggregate amount of payments made to "designated local research institutions" for "qualifying R&D activities", and expenditures incurred by the enterprises for in-house qualifying R&D, and 200% for the remaining amount. There is no cap on the amount of enhanced tax deduction.

In February 2018, the government gazetted the Inland Revenue (Amendment) Ordinance 2018, which provides the legal framework for Hong Kong to join the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MCAA) and meet its commitments under the OECD/G20 base erosion and profit shifting (BEPS) package.

Hong Kong had previously activated AEOI relationships with 49 other jurisdictions on the basis of bilateral competent authority agreements (CAAs). By becoming a party to the MCAA, Hong Kong will be able to select those other signatories with whom it intends to enter into AEOI relationships, rather than having to negotiate individual bilateral agreements.

In September 2018, a bilateral competent authority agreement (CAA) for conducting automatic exchange of financial account information in tax matters (AEOI) between the Mainland China and the Hong Kong Special Administrative Region was brought into force.
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Malta brings new gaming and crypto-currency laws into force

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A new Gaming Act was brought into force together with the subsidiary legislation and regulations on 1st August 2018. It replaces all previous gaming-related legislation with a single act that governs all gaming services in and from Malta.

The Act introduces a risk-based regulatory and supervisory regime, which will see the Malta Gaming Authority (MGA) adopt different approaches to different categories of games, depending on the risk they pose to consumer protection and integrity of the games and the operation. In addition, new reporting procedures have been introduced in line with the latest EU anti-money laundering rules.

The Act also brings about a shift from vertical to horizontal regulation and licensing. The current multi-licence system is replaced by a two-licence system – a business-to consumer (B2C) licence and a business-to-business licence (B2B) – covering different types of activities across multiple distribution channels.

A second tier of approvals addresses the systems, game types and channels used under one licence. Prior approval will only be required when the change or addition significantly changes the operation, such as the addition of a new game that changes the risk profile of the operation. This should provide for more flexibility for unorthodox games as well as encouraging innovation and new developments within the industry.

The licence term has been extended from five years to up to ten years. The regulations also provide for a licence with limited duration, leaving the term open for the MGA to establish the gaming activities.

All gaming services are required to pay a gaming tax of 5% of their gross gaming revenue generated where gaming services are offered to any player who is physically present in Malta at the time when the gaming service is actually provided. Operators of B2C businesses are also required to pay a compliance contribution based on game type and annual revenue, whilst B2B operators are only required to pay a fixed fee.

More effective processes for criminal and administrative justice, consumer protection standards, responsible gambling measures, identification of suspicious sports betting transactions and objective-orientated standards to encourage innovation and development are also covered in the Act.

On 1st November, three new laws – the Virtual Financial Assets Act, the Innovative Technology Arrangements & Services Act and the Malta Digital Innovation Authority Act – were brought into force to establish a legal framework for initial coin offerings (ICOs), exchanges and innovative technologies.

The legislation is designed to provide investor protection and legal certainty to investors and operators for the setting up of crypto-currency operations in Malta, as well as to provide for legal recognition and regulation.

The Virtual Financial Assets Act (VFA) deals with the regulation of initial coin offerings (ICO) and introduces a requirement for projects attracting funding through ICO to publish 'white papers' that must contain detailed descriptions of the entire project. The VFA also requires that the issuer's financial history be made public.

The Innovative Technology Arrangements and Services Act provides for the regulation of designated innovative technology arrangements. It will also give legal recognition to blockchain start-ups and other businesses looking to leverage distributed ledger technology.

- The Malta Digital Innovation Authority Act provides for the creation of a dedicated governing body that will be responsible for supporting the development and implementation of the guiding principles relating to technology innovation, including distributed or decentralised technology. It will also exercise regulatory functions in respect of innovative technology, arrangements and related services.

Malta has already emerged as a prominent jurisdiction in the crypto-currency industry. Binance and OKEx, the world's largest crypto-currency exchanges by trading volume, recently set up operations on the island. Binance's decision to relocate was based on Malta's plan to enable fiat-to-crypto currency deposits and withdrawals through local bank partnerships.

In April, Malta ratified the OECD's Multilateral Convention implementing tax treaty related measures to prevent Base Erosion and Profit Shifting (BEPS). The Convention, which entered into force on 1st July 2018, modifies existing bilateral tax treaties to introduce measures on hybrid mismatch arrangements, treaty abuse and permanent establishments. It also strengthens provisions to resolve treaty disputes. The amendments introduced through the Convention will have effect for existing tax treaties from 2019.
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Mauritius enacts changes to global business licence tax regime

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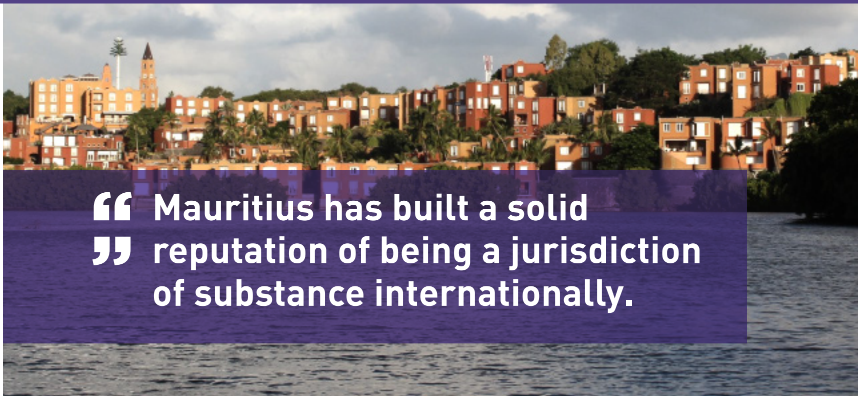
(Trust) Company

On 9th August 2018 the Mauritian parliament approved the Finance (Miscellaneous Provisions) Bill, which provides for proposed changes to the tax regime for corporations with global business licences, in order to comply with its international commitments.

As from 1st January 2019, the deemed 80% foreign tax credit available to companies holding a Category 1 Global Business Licence has been abolished and the rate of tax for both domestic companies and Global Business Companies (GBCs) has been harmonised at 15%.



In its place, an 80% Partial Exemption Regime has been introduced for certain income streams, subject to pre-defined substance requirements. Existing GBC1 companies, where licences were issued on or before 16th October 2017, will be grandfathered until 30th June 2021. Licences issued after 16th October 2017 will be grandfathered until 31st December 2018.

The Category 2 Global Business Licence (GBC2) was also abolished from 1st January 2019. Existing GBC2 companies, where licences were issued on or before 16th October 2017, will be grandfathered until 30th June 2021. Licences issued after 16th October 2017 will be grandfathered until 31st December 2018.

A new licence, termed a Global Business Licence (GBL), will be mandatory if a foreign-controlled company wishes to conduct its business principally outside Mauritius or with such category of persons as may be specified by the Financial Services Commission (FSC).

A GBL holder will be required to carry out its income generating activities in or from Mauritius though the direct and indirect employment of suitably qualified persons and should incur a minimum level of expenditure in accordance with its level of activities. It is also mandatory for the holder of a GBL to be managed and controlled from Mauritius and administered by a company that holds a Management Licence from the FSC.

Sovereign Mauritius (Trust) Company holds a Management Licence from the FSC and offers a comprehensive corporate services package, which includes forming new corporate structures, reorganising existing structures and repatriating earnings. We also offer the necessary expertise in administering and managing companies, including company law, board procedures, director responsibilities and shareholder relations, and financial and corporate compliance requirements.

Mauritius has built a solid reputation of being a jurisdiction of substance internationally. Supported by its legislative framework and financial services infrastructure, Mauritius offers an ideal platform for investments around the globe, with a focus on Africa and Asia.

Presenting the Budget in June, Prime Minister Pravind Jugnauth announced two new schemes designed to attract high-net-worth individuals to Mauritius. The first scheme will offer Mauritian citizenship to foreigners who make a non-refundable contribution of USD1 million to the Mauritius Sovereign Fund. An additional contribution of USD100,000 will be required for a spouse or dependant family member.

The second scheme will offer the opportunity to obtain a Mauritian passport provided applicants make a contribution of USD500,000 to the Mauritius Sovereign Fund. An additional contribution of USD50,000 will be required for a spouse or dependant family member. The Mauritius Sovereign Fund will fund new capital projects and public debt repayments.

The purchase of a residential unit acquired under schemes approved and managed by the Economic Development Board – the Property Development Scheme (PDS), the Integrated Resort Scheme (IRS) and Residential Estate Scheme (RES) – offers the right to residency in Mauritius to a purchaser and their family, provided that the residential unit's purchase price is above USD 500,000.

Owners may rent out the property, become tax resident in Mauritius and face no restriction on the repatriation of funds or revenue raised from the sale or renting of the property. Mauritius has no capital gains tax, dividends or inheritance tax and a universal tax rate of 15%.

So whether you are just thinking of buying a second home in a holiday destination in the Indian Ocean or you are looking to obtain a Mauritian residency permit (RP) as a 'back-up plan', Mauritius is an excellent option to explore.
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UAE introduces 100% foreign ownership and Value Added Tax (VAT)

Nick Cully
Managing Director
Sovereign Corporate
Services Ltd

2018 opened with the introduction of a 5% Value Added Tax (VAT) on goods and services in the United Arab Emirates (UAE) and Saudi Arabia – the first two states to implement the new tax in the six-member Gulf Co-operation Council (GCC).

Mandatory registration is now required for all companies, businesses or entities with an annual taxable supply of goods and services of over AED 375,000 (US$100,000). Sovereign's team of qualified chartered accountants in the UAE has been focused on clarifying our clients' VAT position and then implementing and executing procedures to ensure their compliance.

Sovereign offers the full range of VAT-related services from advisory, registration and implementation through to book-keeping, returns and VAT recovery. We understand that every client's situation is different and we can provide all these services on the basis of either a comprehensive VAT package or a specific service unit.

In October 2018, a law allowing 100% foreign ownership of companies in certain sectors of the economy finally came into force in the UAE after many years of discussion. Previously, Article 10 of the UAE Commercial Companies Law required that 51% or more of the shares in a company established in the UAE had to be owned by a UAE national shareholder.

The new law is aimed at boosting the UAE's attractiveness as a target for FDI and increase investment flows in priority sectors. At the same time, the Abu Dhabi Executive Council has announced that all new economic licences issued in Abu Dhabi will be exempt from local fees for two years from the date of initial issuance. The long-awaited change applies only to limited sectors of the economy that do not appear on a 'negative list' established by the UAE Cabinet and does not apply to free zones where 100% foreign ownership of companies is already permitted.

Many investors are concerned by the foreign ownership restrictions and are uncomfortable about relinquishing control of their company to a local partner. For those sectors that appear on the 'negative list', Sovereign's successful 'Corporate Nominee Shareholder Model' enables clients to maintain effective 100% ownership control of their business and have the ability to trade with all areas in the UAE and GCC.

Sovereign operates and controls a portfolio of 100% UAE-owned Limited Liability Companies (LLCs) that can act as the 51% local partner. Through a suite of risk mitigation documents, all management control, financial control and the day-to-day running of the business is passed back to the 49% shareholder in return for a 'fixed annual sponsorship fee'.

We have now extended this model to Bahrain, where Sovereign Trust Consultancy WLL operates and controls a portfolio of 100% Bahraini-owned LLCs. This corporate shareholder model enables the investor to maintain 100% beneficial ownership and control of their business, whilst remaining in full compliance with Bahrain's companies law.

Sovereign offers specialist expertise in the ongoing management and administration of its clients' companies, from providing full back-office solutions to assistance with tax and regulatory compliance and payroll. Setting up a company in the UAE or Bahrain will also create the need for a corporate bank account, personal bank account and residency permits. We can assist our clients with all these matters. Our Bahrain office is also able to provide services to many other countries in the region, such as Lebanon, Jordan, Turkey and Saudi Arabia.

In November, the Dubai International Financial Centre (DIFC) enacted new laws to update its legal and regulatory framework. The previous Companies Law recognised three main types of company – companies limited by shares, limited liability companies (LLCs) and 'recognised companies)'.

Under DIFC Law No. 5 of 2018, limited liability companies (LLCs) have been abolished. Existing LLCs have been automatically converted into private companies, while entities incorporated as companies limited by shares have automatically been converted into either private or public companies. 'Recognised companies' (branches of foreign companies) continue to exist.

Generally, private companies are subject to fewer regulatory requirements than public companies. All companies should have received a notification of their new status following conversion.

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Brexit and Fiscal Representation in Portugal

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> UK residents will be required to appoint a fiscal representative in Portugal.

In 2002 it became obligatory for non-resident individuals or companies, who owned property in Portugal, to appoint a fiscal representative (Representação Fiscal) to receive tax department correspondence and to ensure fiscal compliance.

However the European Court of Justice ruled in 2011 that nationals of EU member states could not be compelled to have fiscal representation because this requirement would amount to a breach of the rights of free circulation of people and capital. Despite this ruling, many non-residents chose to retain their representatives for peace of mind.

So will UK residents once again be required to appoint a fiscal representative after Brexit? The law clearly states that non-residents who are not nationals of EU member states must appoint a representative, so it follows on that, yes, UK residents will be required to appoint a fiscal representative in Portugal. The onus is on taxpayers to be aware of and to comply with the law. ▸

Currently EU residents who are without representation automatically receive their tax department correspondence, including their property tax bills, at their EU address. Sovereign believes that after Brexit, tax correspondence will no longer be sent to the UK because the system is automated only for EU countries.

We anticipate that correspondence will instead be retained by the Lisbon tax department, which is the office designated for non-residents who have opted not to appoint a representative. If property owners do not receive their correspondence, it is likely that they will fail to pay their taxes or respond to notifications on time, risking fines and penalties.

By the time the UK leaves the EU it may be too late to receive the 2019 property tax bills in the UK. To avoid possible complications we believe it would be advisable to appoint a fiscal representative in advance.

Since 1999, Sovereign – Consultoria Lda has built a very close relationship with local tax departments and other institutions which enables us to keep pace with the ever changing fiscal demands placed on resident and non-resident clients.

We have become aware of a body of opinion that is recommending that Portuguese property holding companies should ensure that their directors/managers and company secretary are based in non-'blacklisted' jurisdictions in order to avoid the company itself being considered as blacklisted by the Portuguese tax authority and therefore liable to aggravated rates of taxation.

The reasoning behind this opinion is that with the creation of a Register of Effective Beneficial Ownership in respect of any foreign company having an activity in Portugal, the tax authority will now be able to 'see' from where the company is managed and controlled by its officers.

Whilst we agree that the details shown on the register will provide such information and that unexpected applications of the law do sometimes occur in Portugal, we do not subscribe to this view because we do not feel it to be justified under existing Portuguese law.

Whilst the law does contain the concept that any company may be also considered as taxable in Portugal if it is managed and controlled from Portugal, we do not accept that a foreign company might be considered as blacklisted simply due to the location of its management and control. In our view, under existing Portuguese law this is determined by the location of its corporate registration and its registered office.

If you plan to buy a property in Portugal and live in the country for any length of time, Sovereign – Consultoria Lda can assist.
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Singapore continues to be a special destination

Andrew Galway
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Sovereign Management Services Pte. Ltd

Singapore was named the best place in the world for expats to move to for the fourth year in a row in HSBC's 2018 *Expat Explorer* survey. More than a quarter of Singapore expats may have originally been sent by their employer (27%), but almost half (47%) have stayed on for the great quality of life it offers them and their family.

They're certainly drawn to this global financial hub with its strong and stable economy. Almost half of all expats in Singapore moved to progress their careers (45%). And though more than a quarter simply wanted a challenge, many more (38%) wanted to improve their earnings.

Singapore's government is committed to ensuring that things stay that way. In 2018 it activated 61 Automatic Exchange of Financial Account Information (AEOI) relationships to endorse its commitment to international standards on transparency and tax cooperation under the OECD's Common Reporting Standard (CRS). As a result Singapore will share financial account data generally dating back as far as 1st January 2017, with these countries on an annual basis, with covered financial institutions required to provide CRS information for these jurisdictions from 31st May 2018.

Under the CRS, the financial information to be reported with respect to reportable accounts includes interest, dividends, account balance, income from certain insurance products, sales proceeds from financial assets, and other income generated with respect to assets held in the account or payments made with respect to the account.

Reportable accounts include accounts held by individuals and entities, which include trusts and foundations, and the CRS includes a requirement that financial institutions 'look through' passive entities to report on the relevant controlling persons.

With its business-friendly environment, world-class infrastructure and highly

> Singapore was named the best place in the world for expats to move to.

competitive tax regime, Singapore is the best place for any investor to enhance their business and their presence in Asia. To maintain this competitive environment while staying in compliance with the OECD's Base Erosion and Profit Shifting (BEPS) project, the government brought the Economic Expansion Incentives (Amendment) Act 2018 into force in May.

These provide for the exclusion of income from intellectual property rights from the scope of tax relief under the Pioneer Service Companies Incentive and the Development and Expansion Incentive schemes. The change was required by Singapore's introduction, as of 1st July 2018, of the new Intellectual Property Development Incentive, which is in line with the 'modified nexus' approach under Action 5 of the BEPS initiative.

In December 2018, Singapore also ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS. This entered into force for Singapore on 1st April 2019 and is an essential step in protecting Singapore's treaty network against BEPS activities.

In October 2018, Singapore's exchange of information upon request (EOIR) regime was rated as compliant with international tax transparency standards after an OECD Global Forum peer review. The Global Forum noted that Singapore had appropriate legislation in place requiring availability of all relevant information and that Singapore was valued as an important and reliable partner.

Minister for Finance Heng Swee Keat said: "We are glad to have such an outcome of Global Forum's robust peer review of Singapore's EOIR regime. This outcome is in line with Singapore's commitment to multilateralism – we uphold international tax standards, just as we have a strong rule of law domestically. Singapore is and will remain firmly committed to the international tax transparency standards in combating cross border tax evasion".

During the year, Singapore signed new double tax treaties with Tunisia, Brazil, Kenya and Gabon. It also signed a Tax Information Exchange Agreement (TIEA) and a reciprocal Foreign Account Tax Compliance Act Model 1 Intergovernmental Agreement with the US in November.

The TIEA will permit Singapore and the US to exchange information for tax purposes. The reciprocal IGA provides for the automatic exchange of information with respect to financial accounts under the US Foreign Account Tax Compliance Act (FATCA). The new reciprocal IGA will supersede the existing non-reciprocal IGA when it enters into force.

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Expat tax is coming to South Africa

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An amendment to the South African Income Tax Act, which will have hard-hitting consequences for South Africans working outside South Africa, will come into force in March 2020. South Africans earning an income abroad should be considering their options.

Currently, South Africans working abroad for more than 183 days – of which 60 days are consecutive – are able to earn foreign employment income free of South African tax. Following the enactment of this amendment, many South Africans will be required to pay tax in SA of up to 45% of their foreign employment income once it exceeds ZAR1 million (approx. US$75,000) per annum.

Doing nothing certainly isn't advisable, so South Africans will need to assess their situation as soon as possible. Broadly there are three options available, setting up a structure through which you invoice the employer, relying on a tax treaty which gives the other country taxing rights on the expat's salary or financial emigration, however not in all cases does this make a person a non-tax resident in South Africa.

Financial emigration is the formal process during which you apply to the South African Reserve Bank ("SARB") to be classified as a non-resident of South Africa. You will also apply for an emigration tax clearance certificate through SARS which will be submitted to SARB. Formal emigration can impose a lot of restrictions on assets remaining in SA, as well as assets that you might want to acquire in SA. It can also have significant capital gains tax implications. However, it is important note that financial emigration may not be necessary when trying to avoid the expat tax, provided that you meet the right requirements. If you are a tax non-resident South African living abroad and can prove to SARS that the other country has the taxing rights on your salary, because of a treaty tie-breaker in favour of the country in which you are living, the expat tax should not apply.

In terms of compliant tax-efficient structures to preserve foreign assets and income, Sovereign recommends setting up an offshore professional services company in a tax friendly jurisdiction that could invoice an international employer. However, careful consideration needs to be given to the new substance requirements introduced in most of the offshore jurisdictions. The shareholding of this company should be planned carefully.

Another option to consider would be an investment portfolio housed within a Sovereign Conservo International Retirement Plan (Guernsey 40ee). These plans are named after section 40(ee) of the Income Tax (Guernsey) Law 1975, which allows international Guernsey-based Retirement Annuity Trust Schemes to make payments to non-Guernsey resident individuals without deduction of any Guernsey tax.

There is no limit to the level of contributions or to the fund size, and payments can be structured to suit the individual – a mixture of lump sum and regular income payments that can be made in any recognised currency and at any time. As a result, '40ee' international retirement plans are ideal for internationally mobile South Africans, wherever they happen to be working or residing.

South Africans can use the R10 million foreign investment allowance to diversify their estates and gain overseas exposure. They are also able to move existing offshore assets into the Conservo. The portfolio can hold a wide range of investments, including shares in listed and private companies, derivatives and physical assets, such as art, but consideration must be given to how any investment will provide an income in retirement.

The assets within the fund are free from Guernsey income tax and capital gains tax because they are held in a Guernsey retirement vehicle. As a result, the growth on investments can be optimised from the outset. Counsel opinion suggests that there will only be a taxable event when the growth portion of the funds is accessed. However, if the amount drawn down does not exceed the capital investment, there should be no tax liability for a South African tax resident.

The Davis Tax Committee (DTC) made some recommendations and observations in relation to offshore retirement structures in its second interim report issued in August 2016. It concluded that foreign trust-based arrangements fell outside of the judicial purview of SARS because they are non-resident. There was no reason why an individual should not make use of a foreign pension provided it was used for its intended purpose – to provide an income for retirement. .
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UK continues to push transparency in corporate and property sectors

Simon Denton
Managing Director
Sovereign (UK) Ltd

The battle over ‘Brexit’ continued to dominate the UK's political and economic landscape throughout 2018 but there is still no certainty on future trade relations with the 27 remaining EU Member States. Businesses, both inside and outside the UK, are having to consider their options.

In practice Brexit will require negotiation of a wide range of new arrangements with the EU and other countries. This may result in the UK participating as a non-member in aspects of the EU on terms very similar to those currently in place, whilst other aspects are likely to be radically different. Similarly, negotiations with non-EU countries could play out in a number of different ways. Taken together, this amounts to a wide range of possible outcomes.

At Sovereign, we have been seeing an elevated level of enquiries from both sides. UK-based firms keen to retain access to their coveted European markets are considering the establishment of subsidiaries or branches in one or more EU member states. Sovereign is located in several EU countries and can assist with setting up any new structure that is required.

“Brexit’ continued to dominate the UK's political and economic landscape”

Conversely, there are firms from all over the world that have existing EU operations that are based outside the UK. They face the risk of losing access to the UK's affluent market of some 66 million people and we are seeing a greater demand for UK companies as a result.

The government's determination to increase transparency in the corporate and property sectors has not abated. A draft Registration of Overseas Entities Bill was published in July, which provides for the creation of a beneficial ownership register maintained by Companies House. Any overseas entity wishing to own land in the UK will be required to identify and register its beneficial owners. The term ‘overseas entity’ refers to “a non-UK registered body with legal personality that can own property in its own right.”

When registered, an overseas entity will obtain an overseas entity ID and will be required to update information annually until it is removed from the register of overseas entities. Failure to register will result in an overseas entity being unable to register ownership with the Land Registry and obtain full legal title. This will effectively preclude overseas entities from selling or purchasing property in the UK. Trusts will not be included on the register.

In September 2018, the government also announced proposals for a stamp duty land tax (SDLT) surcharge of 1% to 3% on foreign buyers of UK properties. A consultation is being prepared on the proposal. It is not known when the new levy might be introduced.

In February 2019, the UK National Crime Agency (NCA) secured two unexplained wealth orders (UWOs) to investigate two properties totalling £22 million that it believed were owned by a politically exposed person (PEP). It was the first time such orders had been granted under legislation that came into force on 31st January 2019. In addition to the UWOs, interim freezing orders (IFOs) were granted meaning that the assets could not be sold, transferred or dissipated.

In July 2018, the government confirmed that it intends to transpose the fifth EU anti-money laundering directive (AMLD V), which will establish beneficial ownership registers in respect of trusts as well as companies, into national law. AMLD V sets out a series of measures for increased transparency in financial transactions, including:

- Public registers of company owners in every member state
- Access to the names of the beneficiaries of trusts for law enforcement agencies and those with a “legitimate interest”, including investigative journalists and NGOs
- A cross-border database of company and trust owners, overseen by the European Commission
- Automatic access to the names of bank account holders for national financial intelligence units.

In the Budget in October 2018, Chancellor Philip Hammond further announced that non-residents that make a capital gain on the disposal of UK real estate or on the sale of shares in certain ‘property-rich’ entities would become subject to UK tax. From April 2020, non-residents that are currently subject to UK income tax on rental profits made from the letting of UK real estate will, instead, be brought within the scope of UK corporation tax.
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UK Dependencies and Territories issue new substance requirements

All three of the British Crown Dependencies – Guernsey, the Isle of Man and Jersey – have tabled legislation that will introduce new substance requirements for tax-resident firms engaged in certain industries.

The proposed legislation is relevant to all companies resident for tax purposes in the Crown Dependencies and will be effective for accounting periods commencing from 1st January 2019.

In 2016 the European Union's Code of Conduct Group was instructed by the European Council to undertake a screening process by which low or no tax jurisdictions were assessed against three standards in respect of tax transparency, fair taxation and compliance with the OECD's Base Erosion and Profit Shifting (BEPS) project.

No issues were raised in respect of the Crown Dependencies' standards of tax transparency and anti-BEPs compliance. During the screening process, however, the Code of Conduct Group expressed concern that the Crown Dependencies did not have a "legal substance requirement for entities doing business in or through the jurisdiction". It was concerned that this increased "the risk that profits registered in a jurisdiction are not commensurate with economic activities and substantial economic presence".

A scoping paper set out requirements that certain jurisdictions – Anguilla, Bahamas, Bahrain, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Isle of Man, Jersey, Marshall Islands, Turks and Caicos Islands, United Arab Emirates and Vanuatu – outside the EU should adopt with regard to the economic substance of entities based in those jurisdictions, in order to avoid being black-listed by the EU.

These concerns were articulated in a letter to each of the Crown Dependencies in November 2017. In response, each of the Crown Dependencies made a commitment to address these concerns by the end of December 2018.

The proposed legislation has been designed to address concerns that companies could be used to artificially attract profits that are not commensurate with economic activities and substantial economic presence in the Crown Dependencies. With this in mind the proposed legislation requires certain companies to demonstrate they have local substance by:

- Being directed and managed in the jurisdiction
- Conducting Core Income Generating Activities (CIGA) in the jurisdiction
- Having adequate people, premises and expenditure in the jurisdiction.

The 'directed and managed test' is designed to ensure that there are an adequate number of board meetings held and attended in the jurisdiction, which will be dependent on the relevant activities of the company. It is generally expected that the majority of board meetings will be held in the jurisdiction and that, even for companies with a minimal level of activity, there will be at least one meeting.

The test also looks to ensure that the associated minutes and records are kept in the jurisdiction and that the board is a decision-taking body with the necessary knowledge and experience. In the case where there are corporate directors, the requirements will apply to the individual officers of the corporate director who are actually performing the duties.

The proposed legislation provides a list of the core activities that a company operating in each sector could carry on although it is not necessary for the company to perform all of the CIGA listed in order to demonstrate substance. Some companies may undertake or outsource all or part of an activity outside the jurisdiction. However, the income subject to tax in the jurisdiction must be commensurate to the CIGA undertaken in the jurisdiction.

If some or all of the CIGA is outsourced, the company must be able to demonstrate that it has adequate supervision of the outsourced activities and, to meet the substance requirements, that those activities are undertaken in the jurisdiction. The company remains responsible for ensuring accurate information is reported on its return and this will include precise details of the resources employed by its service providers, for example based on the use of timesheets.

The proposed legislation refers to the term "adequate" but this is not defined. What is adequate for each company will be dependent on the particular facts of the company and its business activity. A company will have to ensure it maintains and retains appropriate records to demonstrate the adequacy of the resources utilised and expenditure incurred.

These substance requirements apply to the following categories of geographically mobile financial and other service activities, identified by the OECD's Forum on Harmful Tax Practices –
banking, insurance, shipping, fund management (excluding companies that are collective investment vehicles), financing and leasing, headquarters, distribution and service centres, holding company and intellectual property (IP).

All tax resident companies will be required to provide more information in their tax returns to ensure these activities can be identified. Tax returns will also be redesigned to collect the information needed to monitor compliance with the substance requirements.

Where a company receives income from IP, it will have to consider if it is a "high risk IP company". It is presumed in the legislation that a high risk IP company has failed the substance requirement and the competent authority will therefore exchange all of the information provided by the company with the relevant EU Member State competent authority where the immediate parent company, ultimate parent company and/or ultimate beneficial owner is resident.

To rebut this presumption, a high risk IP company will have to produce materials that explain how the DEMPE (Development, enhancement, maintenance, protection and exploitation) functions have been under its control, and that this has involved people who are highly skilled and perform their core activities in the jurisdiction.

The high evidential threshold requires:

- Detailed business plans which clearly lay out the commercial rationale for holding the IP asset(s) in the jurisdiction
- Concrete evidence that the decision making is taking place in the jurisdiction and not elsewhere
- Information on employees in the jurisdiction, their experience, the contractual terms, their qualifications and length of service.

The proposed legislation includes sanctions for failure to meet the substance requirements. These are progressive and include financial penalties and, ultimately, the company being struck off the Companies Register.

The draft legislation comprises the Guernsey Income Tax (Substance Requirements) (Implementation) Regulations 2018, the Isle of Man Taxation Companies Economic Substance Law and the Jersey Taxation (Companies – Economic Substance) (Jersey) Law.

The tax administrations from the Crown Dependencies will issue comprehensive guidance notes in due course. The guidance notes cannot, however, cover every scenario and will not replace the need to take independent professional advice. Sovereign will be able to provide such advice through our offices in Guernsey and the Isle of Man.

Broadly equivalent legislation has also been passed in all major offshore jurisdictions including Bermuda, the BVI and the Cayman Islands. It is anticipated that the EU's economic substance requirements will soon become a global OECD standard.

In addition, the UK announced in December 2018 that it plans to prepare draft legislation by the end of 2020, with all Overseas Territories expected to have fully functioning publicly accessible registers of beneficial ownership for legal entities by the end of 2023.

Minister of State Sir Alan Duncan said: "The UK will push for action at the highest levels with our partners around the world to make public registers of company beneficial ownership the global norm by 2023. Gibraltar has committed to have in place a publicly accessible register of beneficial ownership for legal entities in line with the EU 5th Anti-Money Laundering Directive by January 2020."

The UK made its beneficial ownership register public in 2016 but this is not yet a global standard. Britain's Crown Dependencies and Overseas Territories currently maintain registers and provide information to official entities on request but have resisted making their registers publicly accessible until such time as it becomes a global standard and there is a level playing field between jurisdictions.

However UK Minister of State for the Commonwealth and the UN Lord Ahmad said: "It is our intention—during the Joint Ministerial Council we made it very clear—to work with the territories themselves. It is our intention that if by 2020 there is no public register, for whatever territory, we will then issue an Order in Council, which will then have a requirement for an operational public register by 2023.

"In terms of whether, from a global perspective, there will be a level playing field by 2023, as I said, that is an objective—an ambition we have set ourselves—but in my personal view, I do not think we will see every territory across the world having public registers by 2023." ■

The Future of International Taxation
By Howard Bilton, Chairman of the Sovereign Group

Why doesn't Amazon pay any tax in the UK?

The answer is because it doesn't have to. Amazon is simply adhering strictly to the international tax agreements signed by the UK that specifically allow this to happen. In particular Amazon relies upon the internationally agreed principle that when goods are sold over the Internet, the point of sale is the place where the server is located. In the case of Amazon, that happens to be Luxembourg.

Further, tax treaties signed by the UK typically contain a 'permanent establishment' (PE) article, which provides that a company can maintain stocks of goods for storage, display or delivery in the UK without creating a PE in the UK. If there is no PE, there is no taxation.

In other words Amazon is doing nothing more than was specifically envisaged and intended by the legislation and the tax treaties signed by the UK. It may seem strange that Amazon can do all those things in the UK without paying tax here but that is precisely what the UK agreed and used that very provision to encourage Amazon to invest in the UK and create jobs here. It is a little rich to suggest that now they are making lots of money by doing exactly what they are allowed to and that this is in some way unfair.

Ultimately, if the UK imposes tax on Amazon it is the US that will lose out because, somewhere down the line, the US will be obliged to offset any tax paid in the UK paid against Amazon's US tax liability. That is why the US is resisting attempts by the UK to impose tax on one of its companies contrary to the tax agreements signed by the UK.

Amazon is booking its profits in Luxembourg, which means that neither the US nor the UK is currently getting much in the way of tax. It is therefore down to the US to alter its legislation to tax the undistributed profit in Luxembourg, instead of allowing that profit to be transferred and rolled up offshore. It has made some changes along these lines but doesn't want to go further.

If we took Luxembourg out of the equation completely, all Amazon profits would be taxable in the US – and the UK would still get nothing. We should stop complaining that Amazon is making lots of money and that the UK is not getting its 'fair share'. This 'fair share' concept is a simply envy. Amazon is making lots of money so why shouldn't we have some?

It may well be that if Amazon was not allowed to do all those activities in the UK without paying tax, then it would not have warehouses and employees in the UK. It might decide to do it all in Ireland, which would then get the jobs, the PAYE, and all that money entering the economy. Tax treaties were designed and agreed to encourage investment and give certainty to taxpayers as to how they will be treated if they invest. It seems that certainty exists just until the investor makes loads of money and then all bets are off.

Starbucks

Starbucks also doesn't pay any tax in the UK but for a different reason than Amazon. The US coffee giant charges a royalty to its own outlets for the use of the Starbucks name. Again, this is specifically permitted in the various tax treaties that the UK has signed. A royalty payment can be made pre-tax. Typically the royalty is around 15% of turnover. There is not much profit left after that has been paid.

But why should a Starbucks shop in the UK have the benefit of the Starbucks name, knowledge and branding without paying for it? The value of the Starbucks name has been created by spending billions of dollars on marketing and it seems only right, proper and 'fair' that anybody who wants to use it should pay for it.

Starbucks is not allowed to charge its own shops any more than it would charge a third party franchisee, so the royalty amounts are negotiated and not artificial. This seems reasonable and, again, the complaints against Starbucks seem mostly to do with envy – it's the 'fair share' concept at work again. The tax treaty says you can do this but now you are making lots of money we want to change the rules and grab more of it.

Reforming the tax system

The existing tax system allows apparent anomalies like Amazon to happen and is in need of reform. It was developed in a world of physical goods and in-person services – before the arrival of the Internet and before it was appreciated that businesses could be totally mobile.

It might now seem fairer that taxes should be levied wherever the money is made. That generally means at the point of sale. A straightforward tax on turnover would not be equitable because many businesses would be unable to pay unless they were actually profitable. Such a law would kill many businesses before they had started.

Perhaps a fairer system would be to calculate the worldwide profits of Amazon and then assume that the percentage of profit made in each country is the same as the percentage of sales generated in each country. For example, if Amazon's worldwide profits were US$1 million and 10% of its sales came from the UK, then US$100,000 of those profits would be taxed in the UK at UK rates. Does that seem fair?

Are tax authorities getting more aggressive and less rational?

Yes they are. Just consider the trouble that sportspeople like Messi, Ronaldo, Mourinho and Alonso have got into in Spain. They all sought to avoid paying tax in Spain by assigning their image rights to a foreign company. If they opened a supermarket in Germany, for example, their fees would be paid to the company rather than to themselves directly. There would be no tax payable in Spain on those amounts.

The Spanish tax department – the Ministerio de Hacienda – contended that it should have received tax on those payments and prosecuted the individuals on the basis that they had illegally avoided tax. It did not cite any section of the tax law that had been infringed. Instead, the basis of its case was that the company that owned the image rights did not really exist and therefore that the money should be treated as belonging to the individual. This is an extremely unusual argument with no basis in law.

The Hacienda has claimed a massive victory in these cases but, in reality, the taxpayers paid only a small proportion of the tax claimed and received deferred criminal convictions. The poor footballers no doubt calculated the potential costs of challenging the Spanish government and decided it was better to settle quickly. In the opinion of this writer it has been a travesty of justice but for sure few will have any sympathy with these individuals who remain very rich.

Substance 'abuse'

Under pressure from the OECD – and particularly now the European Union – 'offshore' financial centres are being obliged to introduce a requirement for substance. The idea is that any company incorporated in these jurisdictions should also have offices, bank accounts, employees etc. in that jurisdiction.

This requirement does not apply if the company in question is managed and controlled from outside the jurisdiction. In most cases it will be. However we believe that in the future it may become necessary to demonstrate substance wherever that company is managed and controlled outside its place of incorporation. In other words, companies will not be permitted to have no substance anywhere.

Again, this is an unusual obligation because none of the major onshore nations requires that a company must have substance in its place of incorporation. It is possible to go online and incorporate a UK company for £49. There is no need to adhere to any of the requirements that the UK is trying to impose on others.

CRS, FATCA, registers of beneficial ownership and other transparency initiatives

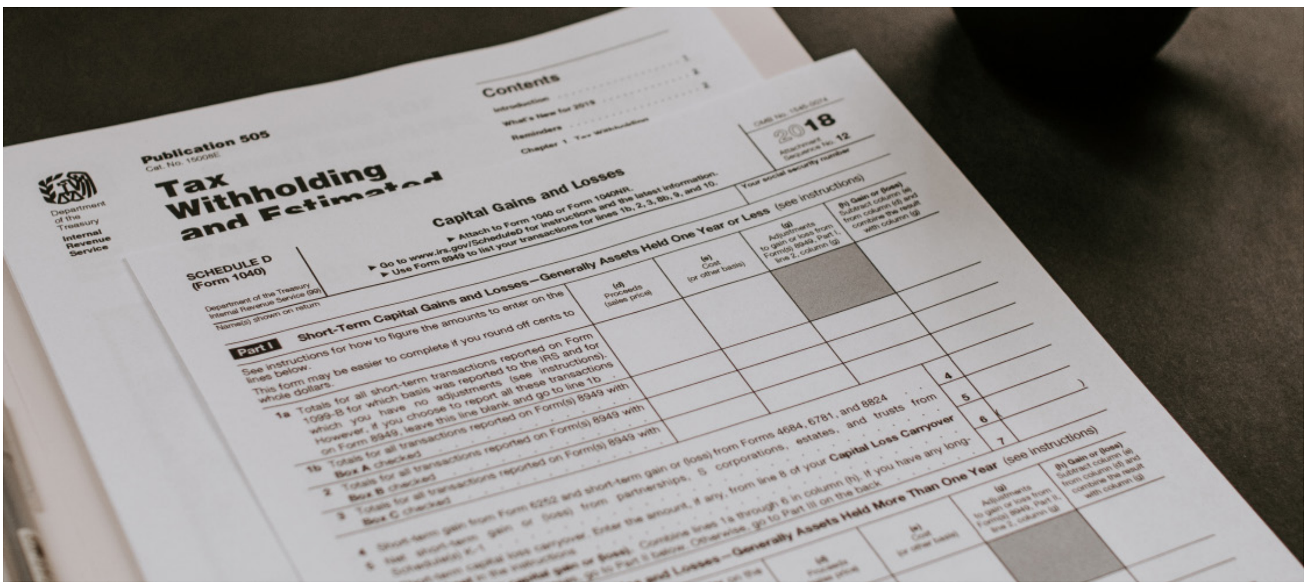
Sovereign doesn't have any issue with the principle that tax departments around the world should be able to obtain the information that they need to calculate the liabilities of taxpayers correctly. We don't think anyone should be able to hide criminal tax evasion through secrecy. We do, however, think there is a big difference between secrecy and confidentiality. The tax authorities may need all this information but the nosy neighbour does not.

Other countries don't agree. In Norway, for instance, every taxpayer is required to file a tax return on a public platform. Any member of the public can therefore see exactly how much someone earns, what taxes they have paid and, to a certain extent, what assets they own.

Perhaps everybody should be posting his or her payslips, bank statements and tax returns on to a public register? We don't believe so. We still think that everybody has a right to keep their affairs confidential and can see no reason why the general public should have the right to look into other people's private finances.

The future

Clearly the flow of tax-related information is only going to get greater. Sovereign believes there is a need to balance the rights of the individual to confidentiality with the needs of governments to ensure that they are receiving the right amount of tax. We also believe that international agreements that have been signed by countries should be respected rather than ignored whenever it is convenient for them to do so. ■



The finalists exhibition of The 2018 Sovereign Asian Art Prize.

SAF – Continuing to make it better

The Sovereign Art Foundation (SAF), a registered charity founded in 2003 in Hong Kong by Sovereign Group chairman Howard Bilton, has been running contemporary art prizes for over 14 years. It has raised US$7 million to fund projects using art as education, rehabilitation and therapy for disadvantaged children throughout the world.

SAF's 'Make It Better' (MIB) programme continues to go from strength to strength. Our team of art facilitators, two of which are qualified art therapists, are now delivering weekly expressive arts workshops at 27 schools and community centres across Hong Kong.

These workshops form part of SAF's wider 'Jockey Club Expressive Arts Programme for Children', which aims to train teachers in Hong Kong to integrate principles of expressive arts into their classes, to better support and communicate with children, especially those with special educational needs.

Funded by the Hong Kong Jockey Club Charities Trust, this pioneering programme is led by the MIB team with the support of research staff from the University of Hong Kong (HKU).

Last June, MIB children, teachers and caregivers celebrated the successful completion of another year of workshops with graduation ceremonies and exhibitions of the children's artworks at Asia Society Hong Kong Centre and Youth Square in Chai Wan.

The events included talks from Professor Rainbow Ho, Director of HK's Centre on Behavioural Health, and Yana Ng, SAF's MIB Course Planning Teacher and Art Therapist. The young graduates were presented with certificates and colouring sets by Jasmine Chung, Senior Charities Manager of the Hong Kong Jockey Club, before tucking into some delicious snacks and getting crafty with a hands-on art workshop.

This was followed by a series of nature outings from mid-November to mid-January when children were accompanied by our facilitators to several different locations, including Hong Kong Park, Tai Po Waterfront Park and the Sai Kung Lion's Nature Education Centre.

In each location, participants were encouraged to engage in art-making activities and tasks in response to their environment, with each activity being specially designed to help children develop an increased awareness and appreciation of nature.

The MIB team receives an overwhelming volume of positive feedback from parents and teachers, with one mother recently saying: "My son wasn't good at expressing his emotions. After joining the MIB programme, he now uses drawing to express himself. Recently, he used a drawing to share that he was bullied by his classmates at school. Through the work he had created, his father and I could clearly see what had happened and how sad he felt about the incident. We were then able to help him. I feel his self-expression has improved a lot. Thank you, teacher Judith!"

The Sovereign Asian Art Prize 2018

In May 2018, Pakistan's Halima Cassell received the 2018 Sovereign Asian Art Prize and a cheque for USD30,000 for her geometric bronze sculpture 'Acapella'. Her compatriot Muhammad Onaiz Taji also took the USD1,000 Public Vote Prize for his ink-on-paper work entitled '25th December 2016'.

The winners were chosen from a strong shortlist of 30 artworks, which were selected from a group of 328 mid-career artists with a total of 530 entries nominated by over 70 independent art professionals across Asia-Pacific.

The finalists' work was exhibited at HART Hall at H Queen's, Hong Kong, where they attracted over 8,000 visitors, before moving to the James Christie Room at Christie's Hong Kong for a panel discussion hosted by the auctioneer in partnership with the Financial Times.

The winner announcement and ceremony took place at SAF's annual Gala Dinner and Auction in May at the Four Seasons Hotel Hong Kong, which raised nearly US$400,000 for various beneficiaries through the auction of the artworks, direct donations and child sponsorships. The auction proceeds were split evenly between the artists and SAF's charitable projects.

SAF Students' Prizes

SAF's Students' Prizes have continued to expand. We now have prizes operating in Bahrain, Guernsey, Hong Kong, the Isle of Man, Malta, Mauritius, Portugal (Algarve) and Singapore.

In each location the prizes seek to celebrate the importance of art in the education system and recognise the quality of art that can be produced by students. They also aim to raise funds in aid of local children's charities, as well as for SAF and its many projects.

The Hong Kong Students' Art Prize is now in its sixth year and is streamed for both secondary schools and higher institutions. The 2018 winners were selected by the judges from the 20 shortlisted artworks that were showcased beautifully in October at HART Haus, a modern 'arthouse' dedicated to the creation process and realisation of large-scale installations and projects in Hong Kong.

Trophies along with HK$60,000 in cash prizes were awarded to the winning students and their schools. The 2019 edition of the Hong Kong Student's Prize will be launched soon, with an exhibition planned in October at Fine Art Asia, a leading fine art fair held in the Hong Kong Convention and Exhibition Centre (HKCEC).

The fourth edition of the Bahrain Schools' Art Prize was held in partnership with the Royal Charity Organisation (RCO). The 2018 event involved the participation of four universities and 14 schools and generated over 30,000 artworks.

The art exhibition at the Avenues Mall featured 310 paintings and prizes were awarded to students across five age groups. The event culminated in a gala dinner and auction, which raised a total of BHD484,668 to support the work of the RCO's programme to enhance the education and welfare of orphans and widows across the Kingdom of Bahrain.

The Malta Students' Art Prize is now entering its second year. All local secondary schools and colleges in Malta and Gozo are invited to participate, by nominating and submitting five of the best artworks produced by its students. Of these, 12 pieces are shortlisted and three winners chosen.

The 2018 finalists were exhibited at the Duke Shopping Mall in Gozo, the Chamber of Commerce in Valletta and at the Point Shopping Mall in Sliema. The awards ceremony and auction was held at the Malta Society of Arts at the magnificent Palazzo de La Salle in Valletta.

The Algarve Students' Art Prize is now entering its third year and is open to participation by all pupils from years 10, 11 and 12 in the Algarve. The 2018 edition featured 20 finalists, whose works were exhibited in Faro, Lagos and Albufeira before the awards ceremony and auction took place at the Lady in Red gallery in Lagos.

For the 2019 Prize, Sovereign Consultoria has chosen to, once again, support the Rotary Clube de Silves, but the funds will be used to directly support the School Art Projects workshops organised by artists David Trubshaw and Gudrun Bartels, who work with children of all ages in schools throughout the Algarve.

Established in 2016, the Mauritius Students' Art Prize invites secondary schools in Mauritius to select three students to submit one artwork each to represent their school. Last year's edition featured 23 finalists with the exhibition and award ceremony held at Circle Square Retail Park in Forbach.

The Guernsey Students' Art Prize was established in 2015 and seeks to recognise and celebrate the artwork of local students aged 11 to 18. As well as inviting schools to nominate students, the prize also invites students aged 15 to 18 to enter their own artwork independently. This enables them to explore creative ideas that might not fit with their school coursework themes and develop these ideas over the summer holidays.

The 2018 edition attracted 70 entries and the artwork of the 20 finalists was exhibited via a roving tour around the island taking in the Chamber of Commerce, Beau Sejour Leisure Centre, Guernsey Airport and Guille-Alles Library before the awards ceremony was held at St. James Concert Hall.

In addition to the winners and schools prizes, Art for Guernsey offered a Scholarship Prize to two of our finalists for the second year. This enabled them to attend a summer school master class at the Royal Drawing School in London.

The Isle of Man Students' Art Prize is now entering its third year. All seven local high schools and colleges in the Isle of Man are invited to nominate their best artworks produced by students within the current academic year.

The 2018 edition featured 13 finalists whose work was exhibited in Douglas. SAF then held a charity ball to raise funds for 'Wish Upon a Dream', a local charity that grants wishes for seriously or terminally ill children living on the island.
www.SovereignArtFoundation.com

Molly Pavoux and Jana Shrigley are winners of The Sovereign Art Foundation Guernsey Students Prize 2018.

Soobrah Dhanavati Devi is the 3rd Prize winner of The Sovereign Art Foundation Mauritius Students Prize 2018.

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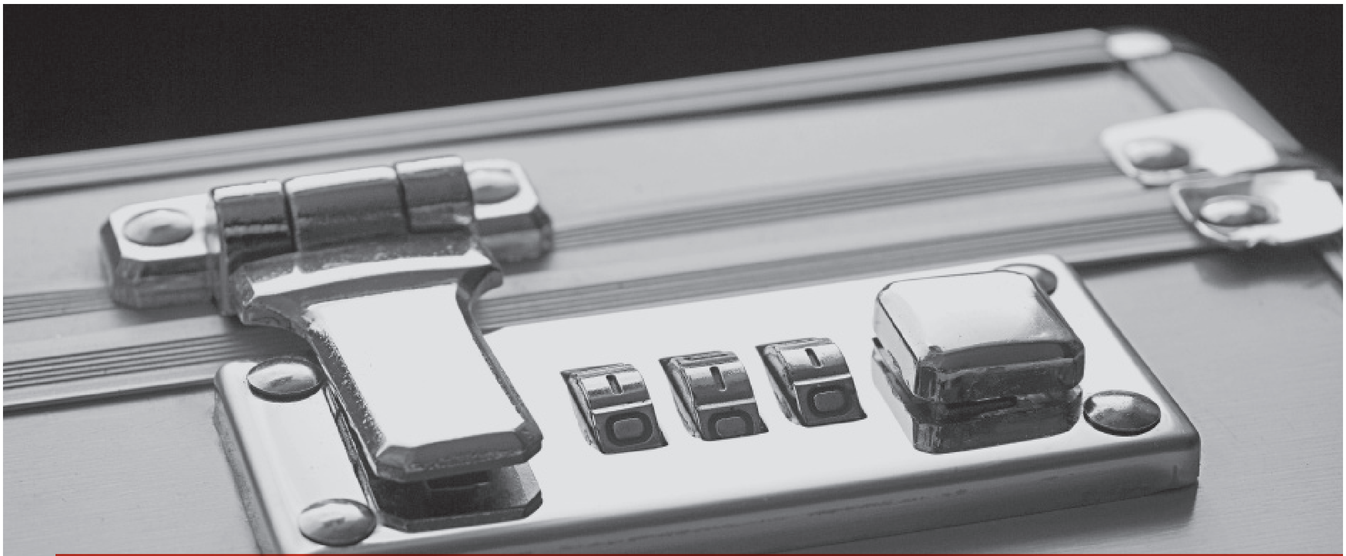

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Insurance Products for our Private Clients

At Sovereign Insurance Services we appreciate your insurance requirements are unique. We understand that a typical insurance policy may not be suitable so by listening and discussing your requirements with you, we understand what you need.

Because we have access to a number of bespoke insurance products with leading insurers, we are able to tailor a policy to reflect your needs and lifestyle. The following examples illustrate just how our Private Clients benefit from this bespoke coverage:

- Cover can be combined with one insurer for multiple properties, including those overseas, cars and valuables, with one renewal date making life easier
- Dedicated personal service and support throughout the duration of the policy and in the event of a loss arising
- Specific benefits for collections of valuables such as agreed value and automatic cover for new acquisitions
- A policy free of restrictive warranties or endorsements often found on many policies
- A complimentary risk survey can be arranged which will help ensure your home and contents are insured adequately