SOVEREIGN REPORT 53

A review of 2020

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COPORATE SERVICES – PRIVATE CLIENT SERVICES – RETIREMENT PLANNING

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2020 – *A year like no other*

Gerry Kelly
Chief Executive Officer
The Sovereign Group

It's hard to believe how different the world was exactly 12 months ago. Safe to say that none of us will ever forget 2020 and I'm sure most of us were glad to leave it behind. But at least we continue to look forward with optimism, both from a Sovereign point of view and to the success of vaccine programmes now underway across the world.

While there were many negatives about 2020, there were also many positives. From an operational perspective, it was the success of home working and the technology that made that possible. We have had up to 400 of our 475 staff working from their home across 18 different countries or territories during the various lockdowns. Despite this, companies have still been incorporated, trusts established, pensions set up, payments made and contracts and agreements signed. It has been an incredible achievement and special praise should be directed to our IT team, headed by the indefatigable and unflappable Allan Brown.

And neither did we let the pandemic prevent us from expanding and continuing to invest in the business. During 2020 we managed to complete two acquisitions – Tax Solutions in Portugal and First Rock Trustees in Gibraltar – as well as the transfer of a book of business. We continue to seek out opportunities for acquisition although we have slowed the pace while there are so many practical difficulties still in place.

We also successfully completed a major office move in Malta and moved into our new Group headquarters in Gibraltar, where the business first opened in 1987. We now have just over 100 staff in Gibraltar across four licensed entities and we had simply spilled out of 143 Main Street, which had served us really well since 1992. The main driver for moving to 117 Main Street was to get all of us under one roof again. The four-storey building – now renamed Sovereign Place – has been carefully restored, extended and repurposed for contemporary office use, while maintaining its original features and sense of Gibraltar's unique architecture. We look forward to welcoming any clients who make their way to the Rock.

We have also been making significant investment in IT with the introduction of a new occupational pension scheme administration system in October – the first client-interactive software launched by the Group – while a new SIPP pension platform is due to come on stream in March this year. We hope both these investments have a positive impact with an improved customer experience.

The Sovereign Art Foundation (SAF) reached an incredible milestone in 2020, passing the US$10 million mark for monies raised to help underprivileged children in seven countries through the medium of art. SAF started life in 2003 as the brainchild of our chairman, Howard Bilton, and has now held 23 professional art prizes across the world, receiving 8,627 entries, shortlisting 596 artists and awarding 49 prizes.

In doing so SAF has helped to bring international recognition to many mid-career artists, while the funds raised have made it possible for SAF to help over 15,000 children through expressive arts programmes. The Sovereign Group bears all SAF's administrative costs, while the costs of putting on the prizes are covered by our generous sponsors. This ensures that all the proceeds go to fund SAF's charitable work.

SAF has been working with the University of Hong Kong over the past three years to evaluate the benefits of expressive arts, based on the workshops SAF has been running through its 'Make It Better' programme. These results will be published in 2021.

We are all immensely proud of the work done by our SAF team – expertly led by Tiffany Pinkstone whose passion and drive has been instrumental in its success – and we would like to thank all the sponsors, donors, artists, curators and judges – as well as anyone who has attended the prize exhibitions and bid on the artworks – for their invaluable and generous support.

We continue to invest in our people. I am very pleased to advise that David Sutton has been appointed to the Sovereign Group board as Chief Financial Officer (one of my previous roles). Having joined Sovereign two years ago, David has brought welcome rigour to the finance area and we feel there is more that he can add as a member of the board.

Nicholas Cully, who also sits on the Group Board as Sales Director, stepped down as Managing Director of Sovereign's Dubai office in December 2020 after five years in the role and over a decade in the Emirate. Nick will be relocating to Zug in Switzerland in March, where he is to focus on developing business in Central Europe and on managing the Group's global sales efforts in Europe, Africa, the Middle East and South-East Asia. He will remain on the boards in Bahrain, Saudi Arabia and Dubai and will continue to oversee the Middle East with regular trips to the region.

On behalf of the Group Board, thank you to all our clients for their massive support during the year and we look forward to 2021 with confidence, together.

Tax considerations *for those working from home and heading overseas*

Howard Bilton
Chairman
The Sovereign Group

Many different countries seek to attract highly-paid individuals to relocate within their borders. Given that almost all countries have run up massive budget deficits to try to offset the financial damage caused by the Covid-19 pandemic, it is not surprising that they are now super keen to attract economic catalysts – entrepreneurs, top employees and high net worth individuals.

At the same time, the Internet has made individuals and businesses a lot more mobile. Now that coronavirus restrictions mean we cannot meet in person, there is no particular reason why people cannot work from anywhere. Places of work were previously governed by the location of the office and colleagues, and to a lesser extent by the location of clients. These factors no longer apply to the same extent, if at all.

An increasing number of right-minded folks are thinking that if they are going to be locked down, they may as well be locked down somewhere with space, sun, sea, sand and cheap living costs. In many cases those same places also have low or zero tax regimes. Even if such people are not going to pay much direct tax while staying in their new temporary home, they still will contribute to the economy by paying for accommodation, spending their money at local shops, bars and restaurants (if, of course, bars and restaurants are allowed to open), by using the services of local professionals and staff, by paying VAT or sales taxes and, generally, pumping money into the system.

That's all great but there are a number of tax traps for the unwary. First of all, it will rarely be the case that leaving the place where you are currently tax resident for a temporary period will automatically end your liability to pay taxes there. Nobody should assume that their tax liability ceases as soon as they get on the plane.

On arrival in your new place of abode you may or may not become immediately tax resident there. That will depend upon the rules of the place you are visiting. If you intend to stay there permanently, the chances are that you will become tax resident there from the day on which you arrive. But the fact that you are tax resident in this new place does not mean that you will be disregarded as tax resident in the country you have left.

Many people are tax resident in more than one place at the same time. For example, a person who spends 90 days a year in Hong Kong, 90 days a year in the UK, 90 days a year in Portugal and 90 days a year in Spain and also has a property available there, would theoretically be tax resident in all four places at the same time.

Tax residency in Hong Kong has little effect because Hong Kong charges tax only on Hong Kong-source income. However all the other places in our example charge tax on worldwide income, so in theory income earned in Hong Kong would be taxable in all four places at the same time. Tax treaties between the various countries may help to decide who has the taxing right. If there are no tax treaties it could be that credit is given for tax paid in one country against tax due on the same income in another, but this would be by concession rather than right.

Theoretically (but in practice unlikely), therefore, it is possible to be liable to tax on the same income in several different places at the same time and have a tax bill in excess of the income earned. But generally on first moving a person will become tax resident in both the new place of abode and the one just departed. Of assistance in these cases is Article 4 of tax treaties, which frequently contains a 'tie-breaker clause' that decides which of the two countries has the taxing right.

Consider the example of Joe Bloggs, a UK national who has lived in the UK for the last 35 years but decides that, for as long as he is no longer able to visit his clients in the UK or go to the office, he may as well go to Portugal and work from there. The Portugal/UK double tax treaty will decide who has the taxing right by reference to which place he has the closest connection.

A temporary absence from the UK is unlikely to result in any reduction in UK tax liability for as long as the taxpayer has a permanent home in the UK. However, if Joe has a home, permanent or otherwise, in Portugal he could well be taxable there as well. Portugal offers a special tax status, known as the 'Non Habitual Residency' (NHR) regime, which may (with care) allow Joe to organise his affairs such that most of his worldwide income is exempt from Portuguese tax. But that doesn't really help him if he is still subject to tax in the UK.

In other words, Joe needs to arrange his affairs in such a way that he cuts his ties with the UK sufficiently to lose his UK tax residency there. If he can also do what is necessary to establish himself in Portugal, he may shed his UK liability altogether and not be subject to much tax in Portugal. Bingo.

In many other countries that are trying to attract foreign workers to relocate, either temporarily or permanently – the Cayman Islands, Malta or Dubai to name but a few – there would be little or no tax payable there. So it is essential to do what is necessary to lose your tax residency in the place from which you have come. The point is clear. If moving country is motivated in part or whole by a desire to save tax, then great care must be taken. Not only because losing your current tax residency is rarely simple but also because there is substantive danger that your tax burden may actually increase if tax is payable both in the place you are residing and the place from which you have come. Assumptions about tax can be dangerous – or, as someone once put it, "Never assume, because when you assume, you make an 'ass' out of 'u' and 'me'". Tee hee.■

Howard Bilton was called to the Bar in England/Wales and Gibraltar. He is Adjunct Professor at Texas A&M University School of Law, USA, and Chairman of The Sovereign Group.

China – *still a top location for foreign companies*

Mark Ray
Managing Director
Sovereign (China) Ltd

2020 started brightly in China with the signing in January of a preliminary trade agreement with the US that was designed to lessen the trade tensions that had weighed so heavily on global markets over the previous 12 months.

Under the deal, intended as the first stage of a more comprehensive trade agreement, China agreed to boost imports from the US and pledged to improve protections for intellectual property. In return, the Trump administration agreed to suspend proposed tariff escalations on Chinese goods and halve a 15% US tariff on US$120 billion of Chinese imports.

China's new Foreign Investment Law (FIL) and implementing regulations took effect on 1 January 2020. It replaced the three previous laws governing foreign investment and foreign invested enterprises (FIEs) in China, and provides for greater promotion and protection of foreign investment as well as enhanced regulatory transparency.

The FIL demonstrates that China is maintaining its commitment to further open up its market and boost inbound foreign investment and addresses some of the issues raised by the US in its trade negotiations with China. Key changes under the new law include introducing national treatment of foreign investment subject to the Negative List (of which, more later), protection of foreign IP rights and trade secrets, and equal treatment of domestic and foreign companies in government procurement.

This positive start, however, was swiftly forgotten as the true scale of the coronavirus outbreak that had emerged in central Hubei province became apparent and China went into lockdown. The World Health Organisation declared the coronavirus to be a global pandemic on 11 March, when more than 118,000 cases in over 110 countries had been reported, and by mid-April the world was looking at its worst economic recession in living memory.

The Chinese economy shrank 6.8% in the first three months of 2020, according to China's National Bureau of Statistics, the first such contraction on record and a stark sign of the economic impact of the virus. But although China was the first country hit by Covid-19, it took swift and extremely strict action which meant it has largely avoided repeat lockdowns. As a result, unlike other major economies, it escaped an economic recession in 2020 and is in fact estimated to see growth of 2% this year.

President Xi Jinping's 'dual circulation strategy' (DCS) is likely to be a key priority in the government's 14th five-year plan (2021-2025), which is due to be unveiled during the annual parliament session in early 2021. Under the DCS, China will depend mainly on "domestic circulation" for its next phase of economic development, supported by external resources through "international circulation".

The former is intended to reduce China's dependence on overseas markets and technology for its long-term development, a shift brought on by the deepening rift with the US, while the latter entails greater market opening to attract more foreign investment in high-end manufacturing to strengthen its supply chain security and deter foreign countries from luring firms away from China.

To this end, the Central Committee of the Communist Party of China has pledged to:

- **Improve the management of the 'negative list' for foreign investment**
- **Further open up the services industry to foreign investment**
- **Protect the legitimate rights and interests of foreign enterprises.**

In July last year, the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOF) jointly issued two new 'negative lists' – National and Free Trade Zone (FTZ) – that set out the industries where foreign investment will either be prohibited or restricted. These cut the number of National restrictive measures from 40 in 2019 to 33, and the number of FTZ restrictive measures from 37 to 30. An exceptional mechanism was also added, such that the provisions of the two negative lists can be disapplied to specific foreign investments with the approval of the State Council.

In the financial sector, the caps on foreign ownership of securities companies, securities investment fund management companies, futures companies and life insurance companies were lifted, in line with China's commitments under the 'phase one' trade agreement signed with the US in January. Previously, foreign investors were not allowed to exceed ownership stakes of 51% and were limited to joint venture structures.

The role of FTZs was further strengthened. In the field of medicine, the regulations prohibiting foreign investment in traditional Chinese medicine decoction were lifted. In the education sector, wholly foreign-owned enterprises are now allowed to establish vocational training institutions.

The Central Committee also offered some recommendations as to the key areas for development. Innovation was hailed as the central concept driving China's modernisation – with technological independence and self-reliance as strategic supporting pillars to this development model.

The Committee therefore renewed emphasis on protecting intellectual property rights, talent attraction, tech infrastructure and establishing mass interdisciplinary and cross-regional innovation centres. Investment in R&D was a resounding theme – with seven frontier fields highlighted for further exploration: artificial intelligence, quantum information, integrated circuits, life and health science, neural science, biological breeding and aerospace technology.

More tangible progress should soon be forthcoming in respect of China's Greater Bay Area (GBA) initiative, with the central government having now thrown its support behind the full implementation of previously agreed measures by end-2020. The GBA comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province.

The objectives are to further deepen cooperation amongst Guangdong, Hong Kong and Macao, fully leverage the composite advantages of the three places, facilitate in-depth integration within the region, and promote coordinated regional economic development, with a view to developing an international first-class bay area ideal for living, working and travelling.

The GBA infrastructure and industry opportunities are being complemented by a range of policy and tax incentives. GBA provides tax relief in the form of double taxation agreements, tax credits for companies in tech industries, as well as various government incentives and subsidies. Individual income tax benefits are also available to workers in specific sectors such as finance and technology, helping businesses to attract global talents.

Despite ongoing disruptions from the coronavirus, the continued importance of the GBA initiative was recently underscored by Hong Kong's chief executive attributing a six-week delay in delivering this year's policy address to the need for discussions with central and provincial authorities on policies aimed at furthering some of the GBA's development and integration goals.

While it might take some years to achieve, the development of the GBA already presents massive opportunities for domestic and foreign investors. With a long standing presence in both China and Hong Kong, Sovereign has the local knowledge and international experience to guide clients through all the steps of starting and managing a business in the GBA.

We help you navigate the regulatory and tax environment, select the best structure for your business and manage all your company registration obligations. We can the take care of all your corporate, legal, accounting, payroll and tax administration requirements.

The IMF reported that the COVID-19 pandemic had a more negative impact on global economic activity in the first half of 2020 than anticipated, and that the recovery is projected to be more gradual than previously forecast. In 2021 it projects global growth of 5.4%, which would leave 2021 GDP some 6½ percentage points lower than in the pre-COVID-19 projections of January 2020.

So we can honestly say that the economy does not look in great shape and, unfortunately, this is having a ripple effect on foreign-owned business in China. Sovereign China has also felt this, with many projects delayed, postponed or even cancelled. And more upsetting, we have also seen an increase in company closures.

Although it is our mission to support our clients to succeed in China and not to fail, when things do not work out in China it is essential to close your business correctly and leave the option open for a stronger comeback. If you do not do it correctly, the door may be shut forever and it could also lead to penalties, sanctions, even criminal liabilities, as well as the 'black listing' of the legal representative and directors of an FIE. So if an investor decides to close an FIE, making a plan is essential if you are to stay ahead at each stage of the closure process. This will avoid lengthy delays, added costs and potentially serious consequences.
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Cyprus – *still the post-Brexit solution for UK financial services*

George Ayiomamitis
Managing Director
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Before the global Covid-19 outbreak, the success of Cyprus in transforming its banking, financial and regulatory structures in the wake of its 2013 financial crisis had turned it into one of the fastest-growing economies in the euro zone. Over five consecutive years, Cyprus registered growth rates that averaged 4.4% of GDP, with surplus budgets, rating upgrades and unemployment falling to its lowest level in decades.

A calculated shift to downsize the banking sector, reduce the concentration of high-risk assets and impose one of the strictest anti-money laundering frameworks in Europe had restored confidence in the banking sector, and the island was attracting new international business and foreign direct investment.

The lessons learned in 2013 helped Cyprus to rise to the challenges of the global pandemic in 2020 and its response to Covid-19 was swift. Early lockdown and travel restrictions helped control the spread of the infection, while the country's strong fiscal position enabled it to offer a €2 billion financial support package. Economic activity has contracted sharply – with the tourism sector bearing the brunt – but domestic demand has shown resilience and the government has been working to ensure that the recovery is strong.

In January, the incentive for investment in innovative and start-up companies for independent private investors was extended by a further 18 months to 30 June 2021. This provides that a qualifying investment, made either directly or through an investment fund, can be deducted from taxable income, with a limit equal to the lower of 50% of taxable income in a year or €150,000. Any surplus may be carried forward for up to five years.

Cyprus was the most-improved nation in the IMD World Competitiveness Rankings 2020, which are an amalgam of hard data taken from 2019 and survey responses from early 2020, after it rose 11 places from 2019 to rank 30 among 63 nations.

Cyprus's position has improved in all categories that make up the overall ranking, with a particularly significant improvement in the categories of business efficiency and state efficiency, as well as overall economic performance. In the category of business efficiency, Cyprus rose to 35 up from 52 last year. In terms of economic performance, Cyprus ranked 13, rising from 19 last year, and in terms of state efficiency, Cyprus ranked 21, compared to 32 in 2019.

Importantly, in September Cyprus signed a protocol amending its tax treaty with the Russian Federation, after four rounds of negotiations. It followed an official request from the Russian Ministry of Finance to modify the existing tax treaty by increasing withholding tax rates on dividends and interest paid from Russia. Equivalent changes have also been agreed with Malta and Luxembourg, while negotiations continue with the Netherlands.

The signed protocol increases the withholding tax on dividends and interest income to 15% respectively, while excluding certain regulated entities, such as pension funds and insurance companies, as well as listed entities with specific characteristics. Additionally, exemption from the withholding tax applies for interest payments from corporate bonds, government bonds and Eurobonds. Withholding tax on royalties remains unchanged at 0%.

The fact that similar provisions will apply to other countries with which Russia has concluded similar treaties, and from the same date that they will apply to Cyprus, should ensure a fair approach for all affected jurisdictions.

From a tax planning perspective, the provision for zero withholding tax on royalties paid from a Russian to a Cyprus company remains. This means that the Cyprus Intellectual Property (IP) Box regime, with a maximum effective tax rate of 2.5%, will still be highly attractive for Russian businesses involved in the acquisition or development of IP assets.

In October, Cyprus saw the launch of the first actively-managed investment fund covering the cryptocurrency markets. Larnaca-based ARK36 is regulated as an Alternative Investment Fund with Limited Number of Persons (AIFLNP) by the Cyprus Securities and Exchange Commission (CySEC).

The global cryptocurrency market has risen from a total market capitalisation of USD 17 billion at the start of 2017 to more than USD 200 billion at the start of 2020. As a licensed AIFLNP aimed specifically at cryptocurrency investments, ARK36 aims to capitalise on this growth, while its focus on crypto means that investors looking to diversify their portfolios will not find their exposure to other asset classes duplicated.

While there is currently no comprehensive legal framework for regulating blockchain and cryptocurrencies in Cyprus, the government has taken positive steps in this direction with the formation of a working group to develop and implement blockchain technology. This working group has set out a national strategy that aims to regulate, through a legal framework, cryptocurrencies and the trading of cryptocurrencies.

As a result of continuous efforts to upgrade its legislative and regulatory regime, Cyprus is fast becoming one of the top emerging investment fund centres in Europe. It offers unique access to high-growth markets, as well as serving as a professional and cost-efficient jurisdiction for investment funds. The expertise of its service providers like Sovereign has also established Cyprus as a location of choice for international fund promoters and investors seeking secure and advantageous fund solutions.

The ever increasing prospect of a 'no-deal' Brexit in the final quarter of 2020 saw a big increase in financial services companies looking at Cyprus as a 'low cost' European base to retain EU 'passporting' rights. Cyprus has access to the EU and high growth markets, a modern flexible legal framework based on English common law, a highly-educated workforce and low business costs compared to Malta, Netherlands, Ireland and Luxembourg.

A survey of the UK financial services sector found that 40% said EU passporting rights were the most important factor for them to consider moving their business, followed by ease of doing business (20%) and the tax regime (20%). Around 5,476 firms based in the UK currently benefit from passporting, while 8,000 companies in the European Economic Area (EEA) use the mechanism to offer services in the UK.

As a full EU member state, regulated fund activities in Cyprus enjoy access to the EEA market and associated passporting regime. The fund regulatory framework is set up in such a way that ensures full alignment between possible investor types and corresponding risk appetite and the funds ecosystem in Cyprus is well developed with a strong network of ancillary professional services. On a practical note, licensing supervisory processes for the CySEC licensed fund managers and investment funds, including legal, regulatory, commercial documentation takes place entirely in English.

Assets under management (AuM) in Cyprus have doubled in two years, according to data from the Cyprus Securities and Exchange Commission (CySEC). The increase from €3.9 billion to €7.6 billion by the end of the third quarter 2019 was attributed by CySEC to low set-up costs and the country's 'favourable' tax regime.

The strategic position of Cyprus and the plethora of signed double tax treaties that allows for direct investments in the EU and in developing countries throughout the Middle East make Cyprus an attractive jurisdiction for setting up alternative investment funds. More than half of the country's domiciled AUM relates to private equity and venture capital investments.

The entire fund ecosystem, from custodians, fund administrators and other professionals has been established to accommodate the growth in the fund industry, with more anticipated to follow. There are now 203 management companies and undertakings of collective investments in Cyprus, up from just 13 companies five years ago.

Sovereign Trust (Cyprus) can assist with the formation of funds in Cyprus. Services include incorporation and licensing of the fund, drafting of the fund prospectus and of the necessary agreements between the fund manager and investment manager and others such as custodians, investment advisers, bankers, registrars and company secretaries.

Tech companies are another area tipped for growth in Cyprus. For the tech sector, Cyprus offers an attractive intellectual property regime that allows up to 80% of qualifying profits and intangible assets to be tax-deductible expenses, so the effective tax rates for taking advantage of IP can be as low as 2.5%. It is important to note that this 80% exemption also covers capital gains upon disposal of IP. This allows the owners of the IP rights not only to enjoy tax benefits on the income generated from the use of such rights, but also provides for a tax-efficient exit route in the future.

Cyprus imposes no withholding taxes on payments to non-tax resident persons (companies or individuals) in respect of dividends, interest and royalties used outside Cyprus, irrespective of whether the recipient of the payment resides in a treaty country or not. In addition, the EU Directive on Interest and Royalties provides for zero withholding taxes between EU countries and Cyprus also has an extensive worldwide network of double tax treaties.

This provides for excellent profit repatriation opportunities and, when combined with the use of Cyprus companies and its IP regime, positions Cyprus as an ideal IP holding jurisdiction.
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Gibraltar *moves into a new era with Brexit deal*

John Blake
Managing Director
Sovereign Trust (Gibraltar) Ltd

Gibraltar is moving towards a new era after the UK and Spain reached a preliminary post-Brexit deal on New Year's Eve, just hours before the end of the transition period, to avoid a hard border.

This outline agreement, currently being examined by the European Commission, will allow Gibraltar, a British Overseas Territory, to join the Schengen zone that guarantees passport-free travel and freedom of movement to more than 400 million EU citizens. As a result, Gibraltar's port and airport will become the external borders of the Schengen area.

While the treaty is being prepared, the UK and Spain have also agreed a six-month extension to three memorandums of understanding for cooperation regarding tobacco, the environment, customs and policing, which were signed in 2018 and had been due to expire on 31 December.

Negotiations had stalled over how entrance into the Schengen zone, now to be inside the British territory, would be policed. The Gibraltar government said it would not accept Spanish officials controlling its borders. In announcing the agreement in principle, Spanish foreign minister Arancha González Laya said that Spain would be the responsible party for the oversight of Schengen, but said that officers from the EU border agency Frontex would assist with border controls during a four-year transition period.

UK foreign secretary Dominic Raab said the agreement would form the basis of a separate treaty between the UK and the EU regarding Gibraltar, adding "we remain steadfast in our support for Gibraltar and its sovereignty is safeguarded".

The agreement will give the 15,000 workers who commute from Spain to work on the Rock confidence in the long-term prospects of Gibraltar in the post-Brexit era and, with the potential for a thriving cross-border economy, is expected to make it an attractive place for even more foreign investment. Joining Schengen will also open up Gibraltar to flights from the 26 other EU member states that are part of the agreement. Currently, only flights to and from the UK are permitted.

The deal for Gibraltar's future relationship with the EU aims to find solutions to practical issues and not to harm the economy of Gibraltar, or the economy of Spain in the surrounding area near Gibraltar, unnecessarily. This is only possible by allowing free movement and, in the end, Sovereign is sure that a practical solution will be found well before the end of the four-year transition period. This is essential for all of us who work and live on either side of the border.

The Gibraltar Finance Centre Council, which represents Gibraltar's financial services industry, said: "A stable relationship with the EU which guarantees frontier fluidity and unhindered travel throughout the Schengen zone is to be welcomed. Coupled with bilateral access in financial services to the UK market, sensible regulation, competitive tax rates and a developing double tax treaty network, the outlook for the financial services industry and its prosperity are very positive."

Gibraltar has a unique relationship with the UK through passporting rights, which allow financial service providers in Gibraltar unique access to the UK market. To prepare for the Brexit challenges, the Gibraltar government brought a new Financial Services Act into force in January 2020, which consolidated all EU and local legislation in relation to financial services into a single Act. This harmonised approach to financial regulation makes it easier to navigate.

More than 20% of UK motor insurance policies are provided by Gibraltar-based companies, whose policies bring significant benefits to UK consumers including increased choice and competition. In addition, UK consumers receive the same high levels of consumer protection that apply to a motor insurance policy from a UK insurer, thanks to the UK's Financial Services Compensation Scheme (FSCS). Gibraltar insurers contribute on exactly the same basis as UK insurers to the UK's FSCS.

Gibraltar is committed to innovating and supporting the companies that choose to do business on the Rock. Our commitment to a modern regulatory system and the emerging technology industry is evident through our support of the gaming industry, the insurance industry, and more recently, Distributed Ledger Technology (DLT). Gibraltar was the first jurisdiction globally to introduce legislation around DLT and has since asserted its position as a leading blockchain and cryptocurrency hub.

In August 2020, Gibraltar-based digital asset trading platform INX became the first security token IPO cleared by the US Securities & Exchange Commission (SEC). Based on the filing, the $117 million deal was set to be the largest crypto IPO in history. INX has been accepting major cryptocurrencies like Bitcoin (BTC) and Ether (ETH) for its IPO since 10 September.

In September, the Gibraltar Financial Services Commission (GFSC) issued a number of important updates to its DLT Providers' regulatory framework Guidance Notes. As well as offering further clarity on key areas, the amended guidance notes also updated the risk framework to distinguish between virtual assets and virtual asset denominated instruments and fully adapting the framework to include the latest Financial Action Task Force (FATF) recommendations relating to virtual asset service providers (VASP) activities.

In November, the Gibraltar government announced that it was joining the Global Blockchain Business Council (GBBC), the leading industry association for the blockchain technology industry, as an Observing Member. The GBBC brings together innovators from over 50 countries to further adoption of blockchain technology by engaging and educating regulators, business leaders, and lawmakers on the benefits and applications of this ground-breaking technology.

It also introduced amendments to its insurance legislation to permit Gibraltar-licensed insurance intermediaries to appoint insurance managers. The aim was to attract more wholesale Managing General Agents (MGAs) to establish in Gibraltar, as well as MGA incubators and insurtechs.

Insurance managers provide an essential role for many new applicants and are one of the compelling reasons for Gibraltar's continued appeal to new insurance business. We look forward to continuing to support the insurance-focused companies already based here, and to welcoming new businesses who seek to avail of all Gibraltar has to offer.

Finally, the Sovereign Group is delighted to announce that it completed the transition of its headquarters office in Gibraltar from 143 to 117 Main Street (now renamed Sovereign Place) in September. The move marked a significant milestone in Sovereign's journey and a substantial investment in the future of our business on the Rock.

Sovereign was founded in Gibraltar in 1987 and today it is the largest office within our global network. Sovereign now employs over 100 staff and is one of the most significant private sector employers in Gibraltar. The renovation of Sovereign Place – the conversion of an historic family freehold within the Old Town of Gibraltar into a four-storey office providing 1,300sqm of Grade A office space – took some three years.

Many of the original features have been retained in the refurbishment, which has provided modern, well-equipped fully functional office space with disabled access that will give our staff the space and facilities they need to function and flourish, whilst also providing our clients with a much improved client experience.

As part of the process of transitioning the business to Sovereign Place, we have made some key appointments. John Blake, previously Director of Client Services and Business Development, was promoted to Managing Director of Sovereign Trust (Gibraltar) in December 2019.

John has primary responsibility for driving the growth of our Corporate Services and Private Client divisions through the Gibraltar office. He also sits on the board of Sovereign Trust International, which serves as trustee of our pensions and trust business in Gibraltar and holds individual director positions on several client companies that are controlled functions approved by the Gibraltar FSC.

John was instrumental in spearheading Sovereign's response to DLT business. He wrote and implemented our group policy on DLT and virtual assets and also established and sits on Sovereign's DLT Sector Committee, which acts as gatekeeper for business referred by group offices.

Darren Whitley, formerly Director of Sovereign Pension Services, was also promoted to Managing Director of Sovereign Pensions Services (Gibraltar). Darren joined Sovereign in 2008 as Head of New Business for Sovereign Group (Europe) and was promoted to Business Development Director in 2015, when his focus switched to the retirement planning area of the business. Darren is instrumental in maintaining and growing our Occupational Pension offering in Gibraltar.

Sovereign's other regulated entities in Gibraltar – Sovereign Wealth and Sovereign Insurance Services – are headed by Eamon Bermingham and Neil Entwistle respectively. Both have held the managing director title for a number of years and are well-known stakeholders locally.

Sovereign Wealth is the licensed and regulated investment arm, advising clients of the Sovereign Group and providing investment oversight for all group investment mandates, including personal and occupational pension portfolios.

Sovereign Insurance Services serves corporate and high net worth private clients that require international insurance solutions. It has access to specialists across the main corporate risks of professional indemnity, directors and officers, property ownership and construction liabilities, and also offers international corporate medical health policies and tailored policies for high net worth individuals.

Gibraltar has enduring strengths that mean it can continue to prosper as a highly developed business services infrastructure where it is possible to passport financial services into the UK market, together with a highly competitive corporate tax rate and a stable Sterling-equivalent currency. Gibraltar offers a stable political and economic environment, fit-for-purpose regulations, a legal system that is modelled on the English structure, a highly qualified workforce and one of Europe's most advanced fibreoptic communications networks.

Whether it's establishing or supporting a business and its owners, our offering spans across employee benefit packages and incentive plans, trustee and director services, accounting, payroll, bespoke corporate and private client insurance, occupational and personal pension plans, obtaining local licences and permits, plus company secretarial and management.

"Despite the unprecedented challenges over recent months, we are extremely positive about Gibraltar's future," says John Blake. "We have made substantial investments in our systems and our staff and continue to seek out opportunities for acquisition. Sovereign has acquired five local businesses over the past five years and is geared towards further growth. Despite the massive disruptions created by the Covid-19 pandemic, Sovereign has continued to make significant progress and, with our move to new premises, we are very proud to call Gibraltar our home."
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Guernsey *remains very much open for business*

Stephen Hare
Managing Director
Sovereign Trust (Channel Islands) Ltd

Given the difficulties created by the Covid pandemic and the uncertainties surrounding the UK's departure from the European Union, 2020 was no ordinary year. But Guernsey largely succeeded in minimising the disruptions from the coronavirus and emerged with its constitutional position safeguarded and its commercial advantage intact.

With the last-minute signing of the Trade & Cooperation Agreement (TCA) between the EU and the UK, Guernsey's constitutional position remains unchanged. The three Crown Dependencies (CDs) – Guernsey, Jersey and the Isle of Man – were never part of the EU. Under Protocol 3 to the UK's 1972 Treaty of Accession, they were part of the EU Customs Union and essentially within the Single Market for the purposes of trade in goods, but they were third countries in all other respects.

The CDs sought to ensure that their interests were fully represented during the negotiation of the TCA, which includes a political commitment in respect of the Channel Islands on cooperation with the EU over tax information exchange and administrative assistance for certain indirect taxes. The UK and EU have also agreed a 'Joint Political Declaration on the Countering of Harmful Tax Regimes', a non-legally binding political commitment that the parties to the TCA "will encourage the application of its principles in the territories for which they have special responsibilities or taxation prerogatives". Guernsey already meets the OECD and EU Code of Conduct standards on fair taxation and tax cooperation.

The TCA does not cover financial services but the UK and EU agreed a declaration to establish 'structured regulatory cooperation' on financial services and to agree a Memorandum of Understanding by March 2021. Guernsey has adopted some aspects of EU legislation in compliance with the bilateral agreements in place between the Channel Islands and EU Member States, including a number of tax information exchange agreements. Guernsey is also able to market financial services into the EU because those services currently meet the stipulations imposed by the EU.

The end of the transition period has therefore had no immediate effect on Guernsey. But while UK fund managers are no longer able to use 'passporting' rights under the Alternative Investment Fund Managers Directive (AIFMD) and will instead need to market into EU Member States, where possible, through the national private placement regime (NPPR), Guernsey fund managers already have the necessary cooperation agreements in place. This puts Guernsey in an incredibly strong position compared to the UK in terms of market access.

With the end of Protocol 3, a new UK-CD Customs Union was also put in place on 1 January 2021 to enable the CDs to enjoy the benefits of free trade agreements entered into by the UK. This enables the CDs to choose to join any UK free trade agreement into which the UK enters, although they are bound to apply any preferential tariffs to goods imported under all UK free trade agreements.

Before Brexit, the UK was automatically part of any trade deal the EU reached with other countries. When the UK left, the EU had about 40 trade deals covering more than 70 countries. By the end of 2020, the UK has signed deals to continue trading in the same way with 60 of these countries and deals had also been agreed with Canada and Mexico. The UK further signed a deal with Japan in October – the first to differ from an existing EU deal – and is also holding trade talks with the US, Australia and New Zealand. The CDs have confirmed that their interests should be covered within these negotiations.

Following requests made by the CDs, the UK confirmed that its membership of the World Trade Organisation (WTO) would also be extended to the CDs when it became an independently represented WTO member at the end of the transition period. This means that Guernsey has access to the international rules of fair trade for goods and services, as well as the trade-related aspects of intellectual property, and provides trading certainty for businesses that trade in goods or services with the 164 WTO member countries.

The CDs have all committed to securing the rights of EU, European Economic Area (EEA) and Swiss citizens and their family members that are resident in their jurisdictions. The implementation period has been extended to run until 30 June 2021, but if they wish to remain beyond that date they will need to apply under a settlement scheme. If approved, those citizens and their family members will be allowed to continue to live and work in Guernsey, and their rights to healthcare, work arrangements and public services will continue unaffected.

Although the EU's General Data Protection Regulation (GDPR) did not have direct effect in Guernsey, it adopted legislation based on the GDPR and EU approval was granted as a third party country with adequacy in 2008. Following the end of the transition period, the UK is pursuing an adequacy assessment from the EU and has committed to continuing to free flow data to the EU and all adequate jurisdictions. Guernsey has agreed to extend recognition of the UK as an 'authorised jurisdiction' until the end of 31 December 2021, which will continue to allow the free flow of data from Guernsey to the UK.

Besides Brexit, Guernsey is soon to introduce a secondary pensions regime, which will make it mandatory for all Guernsey-based employers to enrol their eligible employees into a qualifying employer-sponsored pension scheme, similar to 'auto-enrolment' in the UK, to ensure that the majority of the working population is saving adequately for retirement. Annual pension saving in the UK has since increased by more than £7 billion and more than 10 million more people are now saving into a pension scheme.

This will be the most significant reform in the Guernsey pensions industry in recent times and will result in a high number of employers looking for suitable and cost-effective solutions. Sovereign is very well placed to assist local employers and, as an independent provider, can work in conjunction with any employer, investment partner and suitably qualified financial adviser, as required.

Sovereign has an established presence and fully-licensed pensions businesses in Guernsey and we are in the process of making significant investment in terms of systems and personnel to ensure that we are well placed to provide services to employers. This area of business will complement our growing corporate international pensions and international savings plans.

Another significant step was taken in July, when Guernsey introduced regulations to provide for the migration of limited partnerships into the island. The move follows Guernsey's adoption of a new 'fast-track' regime for the migration of investment funds and managers, and the new regulations are similarly structured.

The Limited Partnerships (Migration) Regulations 2020 will allow limited partnerships – commonly used for company structures, private equity vehicles or collective investment funds – seeking the security of a jurisdiction such as Guernsey, white-listed by the European Union and OECD for economic substance, to move quickly and easily.

Sovereign continues to see enquiries for the migration of existing structures into Guernsey; sometimes this is fee driven but more usually it is the sophistication of Guernsey's finance sector that attracts clients. The development of the limited partnership regulations once again demonstrates Guernsey's legal flexibility in responding to the needs of clients.

Guernsey is also set to revise the rules of its successful Private Investment Fund (PIF) regime to provide for two supplemental models that remove the requirement for manager involvement. The PIF has been a popular addition to the Guernsey funds sector since it was introduced in 2016 and these revisions will create the most comprehensive and flexible suite of options of any private fund regime.

The PIF regime already provided a streamlined, rapid route to market for managers who are not seeking a large investor base. According to the consultation paper, the two new models will comprise an alternative for qualifying investors only and a 'truly private structure' for family relationships only, reflecting Guernsey's position as a jurisdiction of choice for family office structuring.

The GFSC has also opened consultation on proposed changes to its non-Guernsey scheme regime, to move away from the requirements for firms to seek prior regulatory approval to administer non-Guernsey schemes, to a simple 'notification' regime that will require reporting only via licensees' annual returns.

Guernsey has also been taking significant strides in respect of green and sustainable finance initiatives under the Guernsey Green Finance brand. Guernsey's aim is to be at the forefront of the development of green and sustainable finance – the primary purpose being to arrest climate change by helping route capital to finance climate change mitigation.

Guernsey Green Finance has a clear programme of development in place, with an ambition to leverage its leadership in private equity and the intent to transpose its global leadership from funds to the private capital and family office space. Sovereign Trust (Channel Islands) Limited recently enrolled in ESI Monitor's Environmental Business Operations Award, so it can play its part in this strategic commitment.

Guernsey, just like everywhere else, has been through a testing 12 months, but the island has not only coped, it has continued to thrive, innovate and demonstrate that it remains very much open for business.
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Hong Kong *seeks to accelerate fintech advantage*

Tiffany Pinkstone
Director
Sovereign Trust (Hong Kong) Ltd

Hong Kong has had a lot to contend with over the last 18 months including city-wide protest actions, the Covid-19 pandemic, a US-China trade war, not to mention the new Hong Kong National Security Law and the subsequent removal of Hong Kong's special trade status by President Trump. But Hong Kong is an extremely resilient city and, based on its record, we expect it to rebound strongly.

There continues to be a strong drive to implement China's plans drawn up for the Greater Bay Area (GBA) and its goal of building a world-class city cluster across the Guangdong-Hong Kong-Macau region. As preferential policies for the region are put in place and barriers are taken down, it is more than just 'business as usual'. By 2030, the region is expected to play a leading role in advanced manufacturing, innovation, shipping, trade and finance.

It is anticipated that the GBA will rival other well-known city clusters, such as the San Francisco and the Tokyo bay areas. The GBA is now the largest urban area in the world with a combined population of 72 million people and a current total GDP of about USD1.65 trillion – equivalent to the world's 11th-largest economy behind Canada and ahead of Russia – and provides a potential market ten times the size of Hong Kong.

There is also ample land, and access to labour that can ease the two biggest headaches for most start-ups in Hong Kong: real estate prices and staff costs. Combined with cultural familiarity and a shared dialect, Hong Kong is in a unique position to take advantage of the GBA's benefits. Hong Kong Financial Secretary Paul Chan Mo-po said the GBA can provide Hong Kong with the potential market and the growth driver for taking the city's economy out of its worst recession in decades, and a grant by local authorities to fund start-ups is still available.

Many Hong Kong companies have already beaten a path to the GBA, with 69,292 Hong Kong companies investing a combined HK$2.67 trillion (US$390 billion) in the region at the end of 2019, according to Hong Kong government data. Total trade flow between Hong Kong and GBA cities on the mainland rose to CNY919.49 billion (US$134.37 billion).

In May, the People's Bank of China, along with three other central authorities, unveiled new guidelines to support the financial reform and opening-up of the GBA. The guidelines encourage more cross-border business activities between Hong Kong, Macao, and mainland China to optimise the allocation of financial resources in the region and open up new opportunities for businesses operating in the insurance, securities and wealth management sectors.

The Hong Kong government has been working with its mainland counterparts to implement the Wealth Management Connect. The cross border investment scheme announced in

June will allow people in the GBA to buy investment products cross the border via banks. This will bring enormous business opportunities to the entire financial industry in Hong Kong and reinforce Hong Kong as an offshore yuan business hub.

One of the most important success factors for fintech companies is the ability to scale – from funding and product development to distribution and marketing – and the recalibration of Hong Kong towards this market opportunity is happening very fast. Companies, regulators and the government are making the most of Hong Kong's unique position to scale up on the mainland, in the GBA in particular, and in Southeast Asia – the largest, most dynamic fintech markets in the world.

A positive attitude to experimentation is in the DNA of Hong Kong, which has spurred both local and international fintech players in the city to capitalise on Asia's abundant fintech opportunities. A study by the Hong Kong Monetary Authority released in 2020 found that 86% of incumbent banks are progressively integrating fintech applications across all types of financial services, and all incumbent banks intend to introduce one or more fintech applications to their business in the next five years.

To further enrich Hong Kong's talent pool, the government has launched the Fintech Anti-Epidemic Scheme for Talent Development (FAST), a subsidy plan of US$15.5 million, while the recently announced Fintech Proof-of-Concept Subsidy Scheme also sets to encourage traditional financial institutions to work with fintech companies to develop proof of concept fintech projects.

When it comes to funding, Hong Kong boasts a high density of family offices. To foster development, a dedicated team was set up at Invest Hong Kong to offer one-stop support service to family offices interested in establishing in the city. In turn, this initiative will help further expand Hong Kong's private capital funding pool – and thus, driving even more funding into the fintech ecosystem.

A world-class regulatory regime, a strong capital market and the capability to turn start-ups into scale-ups, are the key ingredients for a successful and resilient fintech hub. If any city has the required set of capabilities to benefit, it is Hong Kong.

In August, the US government issued its recommendations to delist Chinese companies that do not comply with US accounting standards from US stock exchanges by 1 January 2022, while a ban on new listings that did not comply would come in immediately. If these proposals progress, the biggest and most strategic Chinese companies will probably revert to their listings on China mainland exchanges but many companies in the tech and education sectors may choose Hong Kong, which has a large and well functioning stock market with a solid reputation. Alibaba, JD.com, and NetEase have all recently filed new IPOs in Hong Kong.

The Hong Kong government has also been working to enhance the competitiveness of Hong Kong to encourage asset managers of private funds to locate their activities in Hong Kong and to use a Hong Kong domiciled fund vehicle. It brought the Limited Partnership Fund Ordinance (LPFO), which provides for registration of eligible funds as limited partnership funds (LPFs) in Hong Kong, into operation on 31 August.

Previously Hong Kong funds could be established in the form of a unit trust or an open-ended fund company, but the preferred structure for private equity (PE) funds is the limited partnership and the LPFO brings Hong Kong into line with limited partnership structures in competing jurisdictions. The use of an LPF operating in Hong Kong will render each of the funds, the general partner and the investment manager subject to onshore tax reporting. In the context of the OECD's Base Erosion and Profit Shifting (BEPS) initiative, this will mean that taxation of a fund's activities and those of its manager should occur in the place or places where in substance those activities are being carried on.

The introduction of the LPFO follows the expansion of existing tax exemptions to create the 'Unified Funds Exemption Regime', which created a level playing field making tax exemptions at the fund level available, subject to meeting certain conditions, to both offshore and onshore funds on the same basis.

The final piece in the jigsaw is a proposal to introduce a tax concession on carried interest distributed by private equity funds in view of Singapore's 10% special rate on fund managers' performance fees. The proposal does not specify the tax concession rate, but notes it will be "highly competitive". If approved, the relief will have retrospective effect from 1 April 2020. When added together, this package of measures should represent a dramatic change in the landscape for private funds in Hong Kong, and especially for private equity funds.

Hong Kong is also proposing a new licensing regime for Virtual Asset Service Providers (VASPs). Operating a virtual assets exchange will become a regulated virtual asset activity under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) and will require a VASP licence from the Securities & Futures Commission (SFC).

VASPs will initially only be allowed to serve professional investors – who have over HK$8 million (US$1 million) in assets under the proposed regime, and will have to maintain high levels of investor protection and security. Operators will have to ensure there are no retail investors trading on their platforms. The new regulations will cover all types of virtual assets' trading platforms operating in Hong Kong, as well as overseas platforms targeting local investors.

Finally, Sovereign has introduced escrow services to its suit of services in Hong Kong. As an escrow agent, Sovereign will hold funds in an escrow account at a bank in Hong Kong on behalf of clients in accordance with the terms and conditions of an escrow agreement, until we receive the appropriate instructions or until predetermined contractual obligations have been fulfilled.

Escrow services can be used in almost any situation where money or property is being transferred between parties and can be applied to straightforward or complicated agreements involving domestic or multi-currency, multi-jurisdictional transactions within varied accounting and legal frameworks. An escrow agreement provides:

- **Protection, because funds are held by a neutral, trusted third-party escrow agent**
- **Reduced risk, because counterparty or market risks are minimised**
- **Assurance, because the escrow agent provides independent assurance of escrow objectives**
- **Efficiency, because an escrow account helps facilitate efficient transactions for the parties involved**
- **Confidentiality, because Sovereign is the escrow account holder, so the details of the parties to the agreement do not appear on any public register.**

Parties to escrow arrangements can range from end users like corporate or multinational companies to professional intermediaries such as law firms and accounting firms. They can also serve government agencies engaging in national infrastructure projects. Sovereign's escrow services can be tailored to meet the requirements of many different parties, situations and jurisdictions, and our group legal, accounting and compliance capabilities enable us to draft arrangements, process documentation and conduct due diligence rapidly.
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Sovereign on the move in Malta

Stephen Griffiths
Managing Director
Sovereign Trust (Malta) Ltd

The wide-reaching impact of COVID-19 is still being felt around the world and, given Malta's dependence on the tourism industry, it has been one of the many countries experiencing major economic difficulties. Tourist arrivals in Malta fell 75.2% in the first 11 months of 2020 compared to the same period in 2019, confirming the devastating impact of coronavirus travel restrictions.

But there have also been many encouraging signs. Malta Enterprise approved a total of 190 project investments, both foreign and local over the last year, creating around 1,900 employment opportunities. Prime Minister Robert Abela said: "Our best economic opportunity is for a more digital and environmentally aware Malta, this is what the new prosperity means."

We are also seeing new opportunities in Malta. Sovereign Pension Services (SPS) was granted an occupational scheme licence from the Malta Financial Services Authority (MFSA) last January and we are now looking to expand into the Maltese market.

With Malta set to further enhance the tax incentives for private retirement planning, Sovereign is ready to be at the forefront of the occupational scheme market and work with local stakeholders to introduce occupational pension schemes for their employees. Our selected partners have proven track records in providing investment management and custody services to occupational schemes, and we have no doubt that the product will be an excellent addition to Sovereign's existing array of corporate retirement planning solutions.

SPS also announced the appointment of Cristina Cassar Difesa as managing director of the pensions arm of the business with Stephen Griffiths, who initially established Sovereign's pension operations in Malta, stepping aside to focus on his role as managing director of Sovereign Trust (Malta). Operations Director since 2017, Cristina has played a key role in managing the growth of SPS, which now has more than £600 million of assets under administration and a growing book of business.

Reaffirm Malta's reputation as a forward-looking jurisdiction that is open to innovation, the Maltese government launched a new MFSA 'FinTech Regulatory Sandbox' in July, one of the MFSA's main strategic objectives under its FinTech Strategy. This will provide a much needed tool for financial services start-ups and incumbents to test their innovations for a specified period of time and under certain prescribed conditions, while also enabling the MFSA to enhance its understanding of ever-changing technological innovation and increase its technical know-how.

The sandbox is a milestone towards creating a holistic long-term approach to catalyse innovation, growth and competition in Malta's financial services market, complementing the Virtual Financial Assets Act and further positioning Malta as an international FinTech innovation hub.

Also in July, Malta's Economy, Investment and Small Businesses Minister Silvio Schembri announced that the Malta Business Registry (MBR) had removed 10,000 inactive companies as part of an extensive process of cleaning up the registry in line with new international standards. These were companies that had failed to appoint officials or to enter their annual reports or that had not provided the necessary information relating to beneficial ownership.

Schembri said the Maltese government was dedicated to strengthening existing structures. Important changes were introduced via Legal Notice 247 of 2020, which amended the Companies Act (Register of Beneficial Owners) (Amendment) Regulations 2020, with effect from 16 June.

Whenever a declaration containing information on the beneficial owners (BOs) of a company is submitted to the MBR, including any change in the beneficial ownership, a certified true copy of the official identification document of every beneficial owner must also be submitted. On each anniversary of a company's registration, it must file a form showing any change in details of the BO, or confirming that there has been no change, within 42 days. The return must be signed by at least one director of the company or the company secretary.

If there is any change in the senior managing officials of a company, a form must be filed with the Registrar within 14 days of the date of the change. If there is any change in the details of BOs at any time – such as name, country of residence or official identification document (ID) number – a form indicating the change must be filed with the Registrar, together with a certified true copy of the ID.

The Registrar has been given enhanced powers to refuse to register any document of a company if the BO information is not submitted or if the Registrar is not satisfied that the company has provided accurate and up to date information on all BOs. It can also restrict new incorporations for directors involved in other companies that have failed to submit BO information, and take any steps and require any information/documentation it deems necessary to ascertain the correctness of the BO submitted, including a physical on-site investigation, before registering a new company or return.

The penalty imposed on every officer of the company where the Registrar deems it necessary to update the BO information has been increased significantly to €100,000. The administrative penalties have also been increased to a maximum flat penalty of €10,000 and €500 for every day of default.

Where a company fails to provide BO information, the Registrar will send a warning letter. If the company fails to submit the BO information within one month of the letter, the Registrar can publish a notice in the Gazette and, within three months from the publication, proceed to strike the company off the register.

Sovereign welcomes these steps taken by the MBR, which follow the recommendations of the Council of Europe's anti-money laundering body MONEYVAL. Malta is an important jurisdiction for doing business in Europe and it is good to see that the government is determined to commit even more resources to its institutions and regulations to ensure that it is meeting all its international responsibilities."

Finally, the Maltese operations of the Sovereign Group – Sovereign Pension Services (SPS) and Sovereign Trust (Malta) – have both relocated from Birkirkara to larger, centrally located offices in St Julian's. Sovereign has been established in Malta for over 20 years and this expansion is testament to the success that has been achieved throughout these decades. Our new offices will provide a better work environment for our existing staff, an improved experience for clients and will also accommodate our future projected growth.

We aim to position Sovereign as the leader in retirement benefit provision in the local market and to become the trusted partner for employers in Malta. We are also becoming the service providers of choice for trustee, company services and residency services. The move to larger and more centrally located offices is a testament to the growth of the business. Sovereign looks forward to welcoming clients to its new premises and to continuing to assist both companies and individuals as they choose to invest in Malta.
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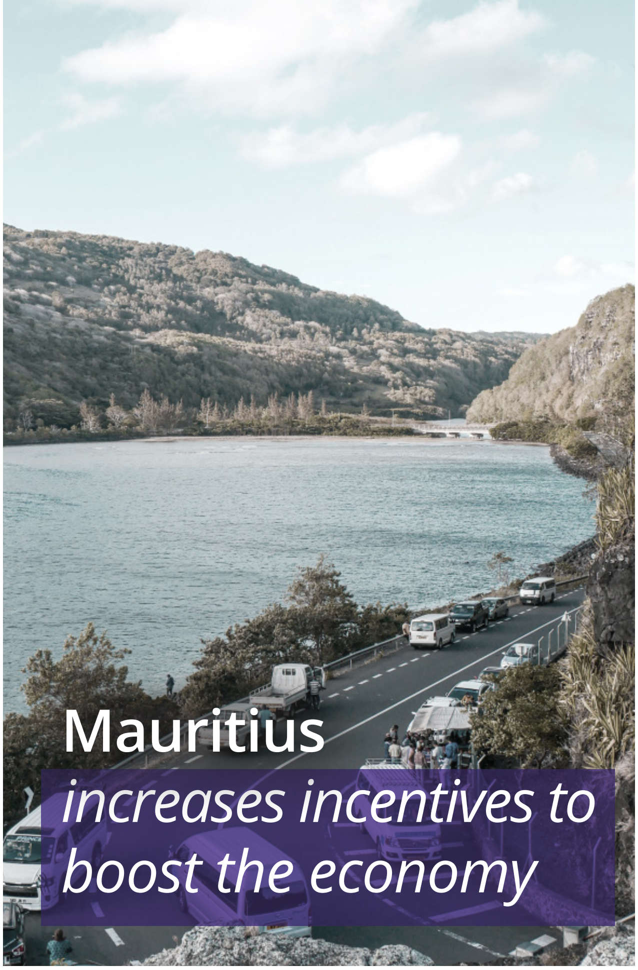

Mauritius *increases incentives to boost the economy*

Nico van Zyl
Managing Director
Sovereign Trust (Mauritius) Ltd

2020 was a challenging year for Mauritius. Tourism generated MUR63 billion ($1.6 billion) for the Mauritian economy in 2019 but, with massively reduced tourist arrivals as a result of global lockdown measures, the coronavirus pandemic hit Mauritius hard. In addition to the pandemic, Mauritius declared a state of environmental emergency in July when the bulk carrier vessel MW Wakashio ran aground on the reef of Point d'Esny, a known sanctuary for rare wildlife, leaking more than 1,000 tons of fuel, oil and oil sludge.

Although the clean-up from the oil spill is still ongoing, the 27 staff members of Sovereign Mauritius took advantage of the Assumption Day public holiday to volunteer for oil spill clean-up operations. They all drove down to Mahebourg, the nearest and worst-affected town to the Wakashio, to support the Lions Club in their oil clean-up efforts.

These setbacks followed a bright start to the year when Mauritius moved up from 20th to 13th out of 190 countries worldwide in the World Bank's Ease of Doing Business Report global rankings. This recognition reaffirmed the competitiveness of Mauritius as a jurisdiction in which to do business and was testimony to the efforts and commitment of government to modernise the economy through structural reforms.

The country's overall ease of doing business score increased to 81.5, narrowing the gap with the benchmark, which was New Zealand on 86.8. Mauritius was ranked first among African countries, ahead of Rwanda (38th) and Kenya (56th) in Sub-Saharan Africa, and second in the global ‘upper middle-income’ category, just after Malaysia and with the same score.

To address the economic challenges raised by Covid-19, a new range of incentives were introduced in the national Budget to make it cheaper and easier than ever for foreign nationals to invest in or live and work in Mauritius. Designed to encourage foreign talent and investment to boost the country’s economy, they will see existing residency permits and related procedures simplified and extended, and more flexibility provided in terms of investments.

One of the highlights was the halving of the minimum investment required to acquire an Occupation Permit (OP) – a combined work and residence permit that allows foreign nationals to work and reside in Mauritius under the three categories of Investor, Professional and Self-Employed – from USD 100,000 (MUR1.7 million) to USD50,000. The USD40,000 minimum turnover and investment requirement for the ’Innovator’ category of the Investor OP was also removed.

The validity of an OP has also been extended from three to ten years, and the spouses of OP holders will no longer require a separate permit to invest or work in Mauritius themselves. OP holders will also be allowed to bring their parents and dependant children aged under 24 to live in Mauritius.

The Residence Permit (RP) – for retired foreign nationals aged 50 and above – now only requires holders to transfer a monthly amount to Mauritius that is equal to USD1,500 from an account outside of Mauritius, or USD18,000 annually, down from USD40,000 previously. RP holders and Professional OP holders are also now permitted to invest in other ventures without any shareholding restriction.

Work and residence permits will be combined into one document; people who have held an RP for three years will be allowed to apply for permanent residence; and Permanent Residence Permits (PRPs) will also be extended from 10 to 20 years. The spouse of a PRP holder, as well the parents and any dependant children under the age of 24, are also entitled to residency in Mauritius over the same time period as the PRP holder.

A further major concession was that OP holders are now able to buy up to 2,100 sq m of land for residential use within ‘Smart City’ schemes, subject to certain conditions being met. Previously, non-citizens could only buy homes in schemes that were specifically designated for foreign buyers.

The minimum purchase price for investing in a property to obtain Permanent Residence in Mauritius was also reduced from USD500,000 to USD375,000. This permit is valid for an initial ten years and is renewable for as long as the investor owns the property. The spouse and dependant children under the age of 24, as well as the parents of the permit holder, are entitled to residency in Mauritius over the same time period.

In November, the Mauritius government also introduced a new Premium Travel Visa for foreign nationals who intend to stay in Mauritius for a maximum period of one year as a tourist, retiree or a professional, and are willing to come with their family and carry out their business or work remotely from Mauritius in a Covid-safe destination.

The Premium Visa is valid for a period of one year and is renewable. A Premium Visa is required by those who intend to stay in Mauritius for a period exceeding 180 days in a calendar year. For those staying for less than 180 days, a tourist visa can be granted on arrival to Mauritius. Foreign nationals staying in Mauritius under a tourist visa can apply for a Premium Visa during their stay in Mauritius.

These changes are aimed to assist the Mauritian economy, especially due to the economic impact that the Covid-19 virus has had and the potential aftershocks that are still to be realised. These measures will certainly support the Mauritian property market and assist Mauritian global business companies in meeting the economic substance test through the acquisition of Mauritian property.

As part of Sovereign Trust’s range of services, we assist clients both in applying for the respective permits and, in conjunction with our trusted partners, to assist clients to relocate to Mauritius. This includes assisting clients to identify suitable properties for purchase, as well as opening personal bank accounts.

The effective implementation of robust anti-money laundering and combatting the financing of terrorism (AML-CFT) remains a key priority for Mauritius. Within a year of the publication of the Financial Action Task Force’s (FATF) Mutual Evaluation Report in 2019, Mauritius had demonstrated positive and tangible progress on 53 of the 58 Recommended Actions and had devised a detailed action plan with the FATF with specific deadlines to remedy the identified shortcomings.

Despite this, in February the FATF placed Mauritius on its list of jurisdictions subject to increased monitoring and, as a result, the European Union also then included Mauritius (along with 11 other countries) on its revised list of high-risk countries perceived as having strategic deficiencies in their AML-CFT frameworks as from 1 October 2020.

In order to achieve technical compliance with the remaining five FATF Recommendations, Mauritius enacted the Anti-Money Laundering & Combatting the Financing of Terrorism (Miscellaneous Provisions) Act 2020, which brings amendments to 19 pieces of legislation, in July. On the strength of this legislation and additional progress made by the competent authorities, Mauritius has now submitted a third application to the FATF for a technical compliance re-rating.

“The recent addition of Mauritius to the EU high risk countries list is unfortunate,” says Nico van Zyl, Managing Director of Sovereign Trust (Mauritius) Limited. “However we believe this will be short-lived because Mauritius is working extremely hard to satisfy the EU and erase the last few deficiencies found by the FATF. Mauritius has shown over the last few years that it is willing to adapt and change at short notice. This time will be no different. It remains a safe and stable jurisdiction for business and foreign investment.”

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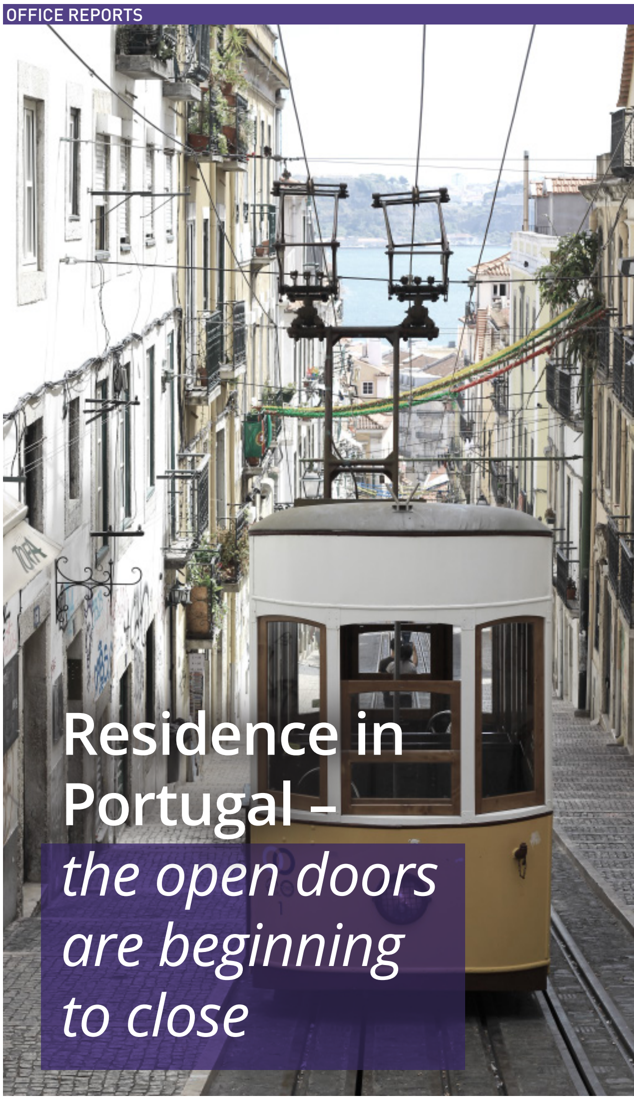

Residence in Portugal – *the open doors are beginning to close*

Andreia Vieira
Managing Director
Sovereign - Consultoria Lda.

The appeal of Portugal as a place to live and invest has increased dramatically over the last few years, enhanced by the substantial benefits that can be gained through the Golden Visa (GV) and the Non-Habitual Resident (NHR) immigration schemes. But changes to both regimes are on their way and anybody considering either of these schemes would be well advised to take urgent action.

For EU citizens the GV is less important because they already have a right to live in Portugal without formal immigration and without investment. For them the driver is NHR status, which has attracted many new residents from the UK, Scandinavia and France in particular. Although the UK's departure from the EU on 31 December also means the end of this easy route to residency and the ten year tax holiday that comes with it.

However non-EU citizens, now including UK nationals of course, can obtain easy residency, eventually leading to citizenship by investing in Portugal. This is the GV scheme.

Portugal has one of the more enviable European climates, 800 kms of coastline, excellent food and wine, captivating culture, intriguing art and architecture, fascinating history, welcoming people, good health care, low crime and affordability. Add this to Portugal's favourable investment and residency landscape and it becomes clear why Portugal is the number one destination for so many. And, of course, Portugal is a full member of the EU, so legal residents of Portugal can travel freely and visa-free throughout the EU under the Schengen arrangements.

Previously, with careful structuring, NHRs were not taxable on anything other than their Portuguese-source income for the ten-year designated term. Recently an amendment was introduced which means that all new NHRs will be taxed on their foreign pension income at 10%. However the NHR does still offer a flat income tax rate of 20% for those employed in Portugal in one of the pre-defined 'high-value' professions and you are still able to obtain foreign income without attracting Portuguese tax for the first ten years in Portugal. This includes certain capital gains, rental income, interest and some dividends.

It is widely anticipated that this 10% charge may soon be extended to the worldwide income of NHRs, but if this change does happen it will not be retrospective and will not affect anyone who is already an NHR. They will continue to benefit according to the rules and taxes applicable at the time their application was granted.

To apply for NHR status it is necessary to appoint a fiscal representative and have a place to live in Portugal. This doesn't have to be a place of your own. It can just be a room in somebody else's house that they make available to you. Rent need not be paid. It is sufficient to get a contract that provides that accommodation is available to you in return for paying overheads or something similar. Those without friends in Portugal may rent a modest flat for a low rent.

There are a few other formalities required. At the end of your first tax year, for example, a return must be completed. If by then you have not actually taken up residence it will be sufficient to file a zero return. Otherwise a return will need to be filed for any income that is taxable in Portugal. Under NHR status this will include any income from local employment or Portuguese-source income (as well as any foreign income that has been incorrectly structured). For most NHRs, a zero return will be all that is required.

Portugal is already under pressure from the rest of the EU to limit the tax advantages under the NHR scheme. No tax advantageous scheme lasts forever and neither will this one. At some stage it will be closed to new applicants. With these two factors in mind, we believe that anyone who thinks they may move to Portugal, or who might spend sufficient time there to be considered tax resident, any time within the next ten years would be well advised to apply for NHR status now and lock in the ten-year tax benefits.

If they find they are no longer fulfilling the residency requirement of NHR, their NHR status will remain in place but that one year of the ten-year special status will have been wasted. It would normally make sense to wait to apply and not run down the 10-year period but we are fairly sure the ten year tax deal will be changing to a 10% deal very soon. So why wait?

The GV scheme is completely different but can be combined with NHR. The GV is designed to attract foreign investors who want a fast and easy way to obtain the legal right to reside in Portugal. By investing €500,000 in property, €350,000 in a redeveloped property (both reduced by 20% if located in a low density area), €350,000 in a qualifying Portuguese regulated investment fund or a similar sum in an employment generating business, it is possible to obtain residency immediately. Permanent residency status would become available after five years, and Portuguese citizenship shortly after.

For those who wish to live in Portugal this status can be combined with NHR to provide the same ten-year tax advantageous residency. The GV status means that the successful applicant is a legal resident of Portugal but not necessarily a tax resident. Those who live in Portugal will be tax resident but those who do not, won't be.

Many apply for GV status as an insurance policy so they have somewhere they can live in case of difficulty in their homeland. They also get to enjoy visa-free travel within the EU and can start the clock on qualifying for Portuguese citizenship. Such people may not want to move to Portugal (at present), but even for them we recommend applying for NHR just in case. For a small additional cost they can lock in the ten-year tax benefit while it is still available in case their plans change.

The most popular form of GV investment has been residential property in Lisbon and Porto in particular. The (justifiable) complaint from locals was that they are being priced out of these markets and, on 8 January 2021, the Council of Ministers approved a decree-law that ends golden visas in the metropolitan areas of Lisbon and Porto and the coastal regions. This will come into force in July 2021, with a transitional period to allow investors to complete their applications, which will run until 2022. However, all the other investment options seem set to remain.

After five years of legal residency in Portugal, it is possible to apply for Portuguese citizenship. For GV holders only seven days presence in Portugal per year is required to maintain GV immigrant status and be eligible for citizenship. This is highly exceptional and there is pressure from other EU member states for Portugal to change. We believe it is unlikely that Portugal will be permitted to continue with this arrangement in the long term, so speed may be of the essence if you want to take advantage of this special EU entry option.

These two exceptionally attractive schemes will shortly become a little less attractive. Hence the urgency to apply. Anybody that thinks they might wish to move to Portugal at any time in the future should act now to lock in the ten-year tax break and/or make an unrestricted investment in property before it is too late.

"For the past 23 years we have been helping foreign residents and non-residents to find a smooth path through the Portuguese tax system and, with our professionally qualified staff, we are here to advise and assist any client who wishes to move to our beautiful country," says Andreia Vieira, Managing Director of Sovereign - Consultoria Lda.
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South Africa *relaxes exchange controls in favour of tax treatment*

Richard Neal
Managing Director
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The COVID-19 pandemic and its resulting economic crisis have hit South Africa hard. In late March the government began enforcing one of the world's strictest lockdowns aimed at stemming the spread of coronavirus. All sectors of the economy deemed inessential were shut down. Already in a recession before the pandemic struck, macroeconomic conditions in the region are likely to remain tough for the next few years, while changing customer needs and behaviours are disrupting traditional business models.

Even before the lockdown, South African Finance Minister Tito Mboweni announced, as part of the Budget speech in February, two significant changes for South Africans living overseas – the "administratively burdensome" process of emigration through the South African Reserve Bank (SARB) was to be phased out from March 2021, while the tax exemption on foreign remuneration for a South African resident would increase from R1 million to R1.25 million on 1 March.

Mboweni said that South Africans who have been living abroad for many years have increasingly opted to emigrate or break their ties with SA in an effort to avoid the so-called 'expat tax', which was brought into effect on 1 March. This provided that South Africans working overseas but remaining tax resident in South Africa were only to be exempt from paying tax on the first R1 million they earn abroad. The rest of their foreign earnings – including all fringe benefits, such as housing, education and flight allowances – are taxed at the standard SA tax rates for the year.

According to the speech: "Following reforms to the income tax treatment of South African tax residents who receive remuneration outside the country, government proposes to remove the exchange control treatment for individuals, while strengthening the tax treatment. The intention is to allow individuals who work abroad more flexibility, provided funds are legitimately sourced and the individual is in good standing with the South African Revenue Service (SARS).

"Individuals who transfer more than R10 million offshore will be subjected to a more stringent verification process. Such transfers will also trigger a risk management test that will include certification of tax status and source of funds, and assurance that the individual complies with anti-money laundering and countering terror financing requirements prescribed in the Financial Intelligence Centre Act (2001). This will be phased in by 1 March 2021."

The emigration process has now been shifted to the SARS and there will be a validation confirmation process to see when the Section 10 foreign income exemption is applicable. Tax residency for individuals will continue to be determined by the ordinarily resident and physically presence tests as set out in the Income Tax Act (1962).

As a result of changes announced in the draft Taxation Laws Amendment Bill in July, South Africans who have financially emigrated will be required to demonstrate they have been non-tax resident in South Africa for at least three consecutive tax years before they are permitted to withdraw retirement and pension funds in South Africa prior to retirement age – unless they transfer out their funds before 1 March 2021.

Expats should be concerned about leaving their retirement provisions behind in South Africa. Apart from an uncertain economic future, SA-based funds are more difficult to manage, and forced investment into prescribed assets could damage their hard-saved monies. Those who have already left South Africa should urgently examine their options for any retirement funds they have left behind.

Typically, an investor would house their foreign investment in an overseas discretionary trust, then draw on the funds once they had completed their relocation. Another option would be to look at establishing an overseas retirement plan while still living in South Africa, and fund the plan with after-tax funds while pursuing emigration through the normal channels. The overseas retirement plan route is more popular due to the ease of establishment, lower cost and clear rationale for funding. These overseas retirement plans are typically based in stable and well-regulated jurisdictions, such as Guernsey or the Isle of Man.

"Prospective expats, particularly those retired or close to retirement, should consider funding an overseas account in lieu of contributions to an SA-based retirement annuity or pension. While they would not get the tax advantages of local retirement annuities, this would at least leave the expat with accessible funds to settle them in their new country of residence," says Richard Neal, managing director of Sovereign Trust (SA) Limited.

On a brighter note, the South African Reserve Bank (SARB) released Exchange Control Circular Number 15/2020 on 29 October, which advised that the following entities could now invest in inward-listed instruments without restriction: South African institutional investors (which include retirement funds, retirement annuity (RA) funds and preservation funds); authorised dealers; South African companies, trusts, partnerships and private individuals; emigrants, subject to defined emigration policy; and *bona fide* non-residents.

And in January 2021, the SARB issued Exchange Control Circular No. 1/2021 to lift the restriction on the so-called 'loop structure' in order to encourage inward investments into South Africa. The reform was effective as 1 January 2021 and applies to private individuals and companies, including private equity funds, that are tax resident in South Africa.

A loop structure is broadly any arrangement under which a South African resident invests in an offshore vehicle which, in turn, invests in South African assets. Previously such structures were permitted only in very limited instances, such as where SA residents held 40% or less of the shares in a foreign company that held interests back into SA.

This is a significant exchange control relaxation that will impact many structures for both corporates and individuals. The move was first proposed by Mboweni in his Budget Statement last February. It was then reiterated in his Medium Term Budget Speech (MTBS) delivered last October, when he said: "Work is well advanced to modernise the cross-border flows management regime to support South Africa's growth as an investment and financial hub for Africa."

An explanatory note to the MTBS stated: "The full 'loop structure' restriction has been lifted to encourage inward investments into South Africa, subject to reporting to Financial Surveillance Department of the SARB as and when the transaction is finalised. This reform will be effective from 1 January 2021 for companies, including private equity funds, provided that the entity is tax resident in South Africa."

In terms of the new provisions, South African companies and South African resident individuals with authorised foreign assets will be able to invest in South African assets provided that, where South African assets are acquired through an offshore structure, the investment is reported to an authorised dealer. It will also be required to verify that the transactions are entered into on an arm's length basis and for market value consideration. Existing unauthorised loop structures must still be regulated with the Financial Surveillance Department of the SARB (FinSurv).

"The SA government, it seems, has taken the decision to stop trying to combat tax avoidance through the use of exchange controls rather than tax avoidance legislation," says Neal. "This significant relaxation of exchange controls is most welcome and encouraging. The amendment will act to stimulate investment into South Africa from offshore entities, investment which is much needed at present. All clients that are currently invested in loop structures or that have been prevented from making investments by the loop structure restrictions, should carefully consider the impact of these changes on their current or future investments."
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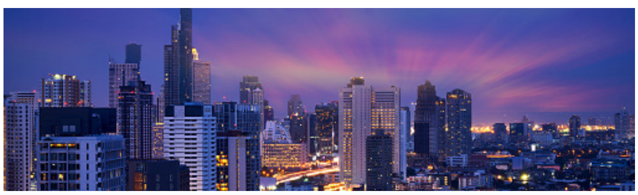

Sovereign launches market entry services in Saudi Arabia

Paul Arnold
Managing Director
Sovereign Corporate Services (KSA)

The Sovereign Group officially launched a new service offering to clients that wish to enter the Kingdom of Saudi Arabia (KSA) with the signing, in January 2020, of a formal Collaboration Agreement with Arabian Enterprise Incubators (AEI). Entering the substantial and strategically important Saudi market will further extend Sovereign's reach in the Middle East region beyond our existing offices in Abu Dhabi, Bahrain and Dubai.

KSA is experiencing significant social, political and economic change as the Saudi government seeks to diversify the economy beyond oil exports. Thousands of international businesses and investors are coming to the Kingdom with a view to establishing a foothold and a range of planned privatisation programmes are expected to raise in excess of US$ 200 billion by 2030.

AEI Saudi is a Riyadh-based market entry consultancy that is registered in the KSA. It provides infrastructure, services and guidance to clients who are looking to enter the Saudi market. With team members based throughout the Kingdom, as well as in offices in the UK and the US, AEI's capability in Saudi will complement Sovereign's expertise in handling cross-border corporate and commercial matters, including forming new corporate structures and in administering and managing companies.

Paul Arnold has been appointed as Managing Director of our new Saudi Arabia office in Riyadh, from where he will lead our 'Saudi Expansion Plan'. Paul has been working in the Gulf region for over 14 years and joined the Sovereign Group almost four years ago as Head of New Market Development, based in Dubai.

The Covid-19 pandemic created a crisis in oil markets with the collapse in global oil demand and also delivered a major setback to the Saudi economy just as its de facto leader, Crown Prince Mohammad bin Salman, was trying to steer the country in a new and different direction through his ambitious Vision 2030 economic reform programme.

While the goal of boosting non-oil government revenue from SAR 163 billion in 2016 to SAR 1 trillion by 2030 may no longer be realistic, one of Vision 2030's main pillars – privatisation – is still set to go ahead. The spin-off of government assets, building on last year's initial public offering of state-controlled Saudi Aramco, will proceed, with the aim of raising over SAR 50 billion in the next four to five years from the healthcare, water and education sectors.

The coronavirus pandemic also delayed another key reform – abolition of the 'kafala' sponsorship system – which had been scheduled during the first quarter of 2020. It was not until November that it was announced that kafala was to be brought to an end under the new Labour Reform Initiative (LRI) on 14 March 2021.

The LRI will increase the flexibility, effectiveness and competitiveness of the labour market and bring it into line with best international practice and the KSA's local labour laws. Enhanced employee mobility will allow expatriate workers to transfer between employers upon the expiry of the binding work contract without the employer's consent. LRI also outlines the conditions applicable during the validity of the contract, provided that a notice period and specific measures are adhered to.

The Exit and Re-Entry Visa reforms allow expatriate workers to travel outside the KSA without requiring the employer's approval after submitting a request; employers will be notified electronically of their departure. The Final Exit Visa reforms allow expatriate workers to leave the Kingdom at the end of an employment contract without the employer's consent and will, again, notify the employer electronically with the worker bearing all consequences – financial or otherwise – relating to breaking an employment contract. All three services will be made available to the public through the smartphone application (Absher) and (Qiwa) portal of the Ministry of Human Resources and Social Development (HRSD).

The development comes as the next step after last year's introduction of Special Privilege Residency Permit (Premium Iqama), which allows all those who have ties with the KSA, irrespective of nationality, "to obtain a permanent or temporary residency that would grant them many privileges as well as the chance to avail of several services for themselves and their families."

This new permit allows holders to enjoy several privileges previously extended only to Saudi citizens, such as owning real estate, renting out of properties, educational and health services and other utilities specified in the Executive Regulations.

In June, the General Authority of Zakat & Tax (GAZT) issued new guidance on making requests under the Mutual Agreement Procedure (MAP) in tax treaties. As a member of the OECD's Inclusive Framework on Base Erosion & Profit Shifting (BEPS), the issuance of the MAP guidance is in line with the KSA's commitment to meet the minimum standard under BEPS Action 14.

The introduction of MAP in the KSA will provide taxpayers with increased certainty towards resolving cross-border double taxation, typically arising from transfer pricing adjustments, and resolving treaty-related tax disputes. MAP provides a bilateral mechanism that ensures that the GAZT can engage with the competent authority of another contracting state to negotiate and resolve the request of the taxpayer covered by a double tax treaty.

With the introduction of transfer pricing rules in February 2019 and the KSA's significant network of tax treaties, publication of the MAP guidance will be welcomed by many taxpayers with sizable operations in Saudi Arabia. It will provide greater certainty on how the GAZT can support taxpayers faced with double taxation and tax treaty interpretation and implementation issues.

In previous years, some businesses in the KSA may have been structured to circumvent the country's foreign ownership restrictions and to benefit from the more favourable tax treatment that is available under the Zakat Islamic assessment rather than the Corporate Income Tax (CIT). The rate of CIT is 20% of the net adjusted profits, whereas Zakat is charged at 2.5% on the company's Zakat base (net worth of the entity).

Generally, non-Saudi investors are liable for CIT in Saudi Arabia while Saudi investors (and Gulf Cooperation Council (GCC) nationals, who are considered to be Saudi citizens for Saudi tax purposes) are liable for Zakat. Where a company is owned by both Saudi and non-Saudi interests, the portion of taxable income attributable to the non-Saudi interest is subject to CIT and the Saudi share is assessed on the Zakat basis.

In order to minimise the overall tax liability of an operational company in KSA, it was a common practice to set up a foreign holding company to hold the shares. Typically, the majority or all of the holding company shares would be held by GCC nationals on behalf of a foreign investor, with 'side agreements' in place by which they would waive all economic and legal rights to receive dividends, exercise votes or receive any proceeds of the sale of shares.

GAZT recently announced that any such arrangements might qualify as tax avoidance if they had the effect of lowering the overall tax liability of a company in KSA. Under this classification, GAZT would then have ten years to issue or amend an assessment. It could also impose penalties up to 25% of any unpaid tax.

Given increased transparency and international exchange of information, such corporate structures are now much more likely to be successfully challenged by the GAZT if they do not reflect the economic reality or the intention of the KSA's tax laws and regulations.

In the current environment, where tax administrations are actively engaged in curtailing perceived abuses, it is more important than ever that corporations have proper tax risk management in place and ensure that all tax planning is well founded in the law. With increasing detection risks and awareness at GAZT, we highly recommend that any taxpayers that have put in place tax arrangements in the KSA of the kind outlined above should revisit these structures immediately.

As of January 2021, Sovereign Saudi Arabia can support clients with a range of solutions including government relations, incorporation, labour and immigration, back office services, market entry consultancy, bid support, managed compound accommodation, resource partners, management consultancy, managed transportation services and cultural awareness.

"I am delighted to be working with AEI in Saudi Arabia," says Paul Arnold, Managing Director of Sovereign Saudi Arabia. "Clients are rightly expecting more from their corporate service provider and together we are delivering a truly integrated offering in KSA by helping clients avoid the engagement of multiple firms to obtain the same services. We are also supporting our Saudi-based clients across the wider Sovereign global network of offices which provide leading corporate, private client and retirement planning services. I look forward to continuing Sovereign's growth and success across the region."
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Singapore *is still the world's most competitive economy*

Andrew Galway
Managing Director
Sovereign Management Services Pte. Ltd

Going into 2020, Singapore was ranked as the world's most competitive economy by the World Economic Forum's Global Competitiveness Report. Top contributing factors include our open economy, strong labour-employer relations, diverse workforce, robust intellectual property protection, as well as the stability of the government and its responsiveness to change.

Even amid the COVID-19 pandemic, the Economic Development Board (EDB) managed to secure S$13 billion worth of fixed asset investment commitments in the first four months of 2020. That was among the highest in recent years, and reflected business confidence in Singapore's "high levels of connectivity, openness and brand of trust".

Singapore also retained its second place, behind only New Zealand, in the World Bank's ranking for the 'ease of doing business', after consistently placing in the top three for the past 14 years. It is clear that, even in a period fraught with trade tensions, Singapore has sound economic fundamentals and remains an attractive location for businesses to grow and invest.

Singapore is one of the leading funds and asset management jurisdictions in Asia, not only for Singaporean wealth but for the wealth of greater Asia. But while Singapore has long been a location of choice for fund managers to physically base themselves, 'offshore' jurisdictions like the Cayman Islands, Dublin and Luxembourg have traditionally been used to house the fund structures themselves.

To address this, in February Singapore launched the brand new structure – the Variable Capital Company (VCC) – that is specifically designed to offer more flexibility to investment funds in Singapore by providing an umbrella-sub-fund structure and less rigid capital maintenance requirements. The VCC is therefore similar to the 'protected cell' and 'segregated portfolio' structures in offshore jurisdictions.

Singapore fund managers will be able to constitute investment funds as VCCs across both traditional and alternative strategies, and as open-ended or closed-end funds. Fund managers may also incorporate new VCCs or re-domicile their existing investment funds with comparable structures by transferring their registration to Singapore as VCCs.

With the introduction of new global reporting standards such as the OECD's Common Reporting Standard (CRS) and the economic substance requirements of the Base Erosion and Profit Shifting (BEPS) initiative, we expect to see a significant number of new funds being launched in Singapore. We also expect that a large number of existing international funds will redomicile in Singapore to take advantage of Singapore's robust regulation, extensive network of Double Taxation Agreements and to establish real economic substance and/or tax residency for the fund in Singapore.

To further encourage industry adoption of the VCC framework in Singapore, the Monetary Authority of Singapore (MAS) has launched a special VCC Grant Scheme. The grant scheme will help defray costs involved in incorporating or registering a VCC by co-funding up to 70% of eligible expenses paid to Singapore-based service providers. The grant is capped at S$150,000 for each application, with a maximum of three VCCs per fund manager.

Clients and fund managers will be further attracted by other tax incentives available to Singapore-based funds – notably the Singapore Resident Fund Scheme and Enhanced Tier Fund Scheme – which have been extended to VCCs, together with the Financial Sector Incentive Scheme for fund managers and the remission for funds from goods and services tax (GST).

In addition to incorporating the VCC and providing the necessary corporate secretarial support to the VCC, Sovereign can provide start-to-finish guidance on VCC set up and management to clients. This includes identifying and introducing clients to suitable professional intermediaries and assisting clients with these engagements.

To develop a strong 'tech' ecosystem that will ensure Singapore's continued global competitiveness, the Economic Development Board (EDB) has recently announced plans to launch Tech.Pass, a targeted programme to attract founders, leaders and technical experts with experience in established or fast-growing tech companies.

The Tech.Pass will allow holders flexibility in the participation of activities such as starting and operating a business, being an investor, employee, consultant or director in one or more Singapore-based companies, mentoring start-ups and lecturing at local universities.

Tech.Pass will be open for application in January 2021, with 500 places available upon launch. The pass will be valid for two years in the first instance, with a one-time renewal for a subsequent two years. Tech.Pass is an extension of the Tech@SG programme that was launched in 2019 to anchor and support the expansion of high potential companies in Singapore. Both programmes facilitate fast growing tech companies and established tech talent to enter and anchor themselves in Singapore, bringing their networks and experience with them to benefit the local tech ecosystem.

Singapore has also been attending to its international regulatory commitments with the recent creation of a Central Register of Controllers. All companies, foreign companies and limited liability partnerships (LLPs) in Singapore, unless specifically exempted, are now required to lodge the information that they currently maintain in their Register of Registrable Controllers (RORC) with the Accounting and Corporate Regulatory Authority (ACRA).

Singapore entities have been required to keep a RORC either in their registered office address or at the office of their authorised filing agent since March 2017. The information maintained in the RORC includes the names and identifying details of their controllers ('beneficial owners'), as well as information on their citizenship or places of registration in the case of legal entities. With effect from 29 September 2020, in addition to keeping a RORC privately, entities now have to lodge the same information in their RORC with ACRA's central register within 30 days.

MAS said that its priorities remain corporate disclosure, business conduct, anti-money laundering and countering the financing of terrorism, compliance and internal controls. This is a clear sign that it recognises that a rigorous and robust enforcement regime will continue to remain essential to sustaining and enhancing Singapore's reputation as a global financial centre.

"Singapore's excellent reputation, infrastructure, and forward looking strategic policies continue to be attractive for corporates, fund managers and families looking to set up in the region," says Andrew Galway, Managing Director of Sovereign Management Services Pte Ltd.

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UAE
opens up further to foreign investors

Simon Gordon
Managing Director
Sovereign Middle East

The postponement of Expo 2020 Dubai by a year due to the coronavirus outbreak was hugely disappointing. The six-month, multibillion-dollar global innovation fair was expected to attract some 24 million visitors and be the largest such event ever staged in the Arab world.

The global mega event will now run from 1 October 2021 to 31 March 2022, a delay that should allow all participants to safely navigate the impact of COVID-19. But despite this setback, 2020 proved to be a positive and exciting time in the UAE as the pandemic served to accelerate plans to open up further to foreign direct investment and to ensure that the federation remains attractive to expatriate individuals.

Chief amongst these was the announcement in November of the reform of the current foreign ownership restrictions and the proposal to permit foreign investors to have 100% ownership when establishing 'onshore' companies in the UAE Mainland (outside the free zones in which 100% foreign ownership is already permitted).

UAE President His Highness Sheikh Khalifa bin Zayed Al Nahyan issued a new decree to amend the Federal Law No 2 of 2015 on Commercial Companies by removing the provision that foreign shareholders are only permitted to own up to 49% of a locally-registered limited liability or joint stock company, with a UAE national partner (sponsor) holding the 51% majority.

Under the new legislation, which has not yet been published, the UAE will allow 100% ownership of businesses by foreign nationals. It is likely, however, that the Department of Economic Development (DED) in most of the Emirates will retain the right to determine the level of UAE national ownership participation in a business or company with certain activities.

In August, the UAE government introduced significant changes to the scope and application of the UAE's Economic Substance Regulations (ESR). These amendments introduced 'exempted licensees' as a new category of licensee under the ESR, which include: investment funds; licensees that are tax resident in another jurisdiction; and branches of a foreign entity of which the income from the relevant activity is subject to tax in a jurisdiction other than the UAE. In order to enjoy their exempt status for ESR purposes, exempted licensees are required to file a notification and provide documentary evidence.

The amendments also introduced changes in respect of relevant activities in the UAE and what licensees performing such activities must demonstrate in terms of sufficient economic substance. These include clarifications relating to the relevant activities of distribution and service centre businesses and high-risk IP businesses.

In November, the UAE government approved a raft of amendments to laws governing evidence in civil and commercial transactions in order to enable public notaries to do their job remotely and to enhance the digital transformation of government services. The move followed the announcement of sweeping changes to the UAE's legal system in respect of family law and other areas affecting people's daily lives.

The term 'notary public' refers to those authorised by the country's judicial authorities to attest and notarise legal documents. The amendments essentially allow notaries to do their job remotely and use teleconferencing. They also provide for the use of digital signatures and documents, e-hearing minutes that document witness testimonies, as well as the decisions of judges and signed notary documents.

Under the amendments, documents must be created and saved electronically and will be kept confidential and may not be circulated, copied or deleted from the electronic system without permission from the relevant administration of the notary public at the ministry.

The move follows sweeping changes announced to the UAE's legal system in respect of inheritance and succession, as well as other areas affecting people's daily lives, which are designed to make the UAE more attractive to expatriate individuals and as a destination for foreign direct investment.

The changes will see the UAE's Islamic forced heirship provisions replaced by alternative measures for non-Emiratis. This means that the distribution of the estate of a non-Emirati individual can now be dealt with under the rules of their home country. Similar provisions will also apply on the division of property in the event of a divorce.

Previously Sharia forced heirship provisions determined the division of a UAE resident individual's assets on death unless a will was registered with the Dubai International Financial Centre wills and probate registry or Abu Dhabi Judicial Department. Under the new regime, the rules of the country where the deceased is a citizen should now dictate how their assets are divided, unless they have written a will. UAE real estate will continue to be distributed according to the existing UAE rules.

The changes represent the UAE's latest measures aimed at ensuring the country remains attractive to expatriate individuals and as a destination of choice for foreign direct investment – and should give additional comfort around succession issues and planning for many of the UAE's expat residents and private business owners.

The separate Emirates and Free Zones were also busy. On the private client side, Dubai issued Law No (9) of 2020 Regulating Family Ownership in August, which provides a governance framework that is appropriate for family-owned property and businesses. The intention is to ensure the continuity, development and smooth transition of family property from one generation to another.

The Law recognises and legitimises the concept of a Family Property Contract that can be entered into between family members up to the fourth generation to govern the collective ownership, management and administration of family-owned wealth. A Family Property Contract can be entered into for all kinds of movable and immovable property, with the exception of shares in public joint stock companies, and will be valid provided it meets six conditions set out in Article 6 of the Law, including notarisation by a notary public.

A Family Property Contract can provide for specific proportionate ownership provisions in relation to rights to income and capital and administration and management of the family property. It further provides for acquisition of interests in the underlying family property via the transfer of an individual family member's interests in the contract, whether to successors via inheritance or through specific provisions dealing with bankruptcy and disposal to third parties.

In 2018, the UAE cabinet adopted a law to introduce residency visas for investors and professionals, which offers a long-term 'Golden Visa' for up to ten years duration, but not citizenship. In 2020 it went further by adopting a proposal to grant citizenship to foreign investors, entrepreneurs, professionals and people with special talents to receive Emirati nationality provided they meet certain criteria.

These proposals have not yet been formally published but an applicant for UAE citizenship would be required to have had a lawful and continuous residence in the country, be fluent in the Arabic language, demonstrate a legitimate means of subsistence, hold an academic qualification and be of good character. They would also have to obtain security approval and swear an oath of allegiance to the UAE state.

At the same time, the Dubai government announced the launch of a global retirement programme – 'Retire in Dubai' – to provide foreign retirees with the opportunity to retire in Dubai. Previously expatriates who lived and worked in Dubai were obliged to retire abroad once they ceased working and their work visa expired.

Subject to certain conditions in respect of income, capital, real estate and medical insurance, the law provides both resident expatriates and foreigners aged 55 and over with a Retire in Dubai Visa that is valid for five years and is renewable provided that the applicant maintains their eligibility status. The visa covers the eligible applicant, their spouse, and their children, such that the immediate family can also retire in the emirate. Holders of the visa will also be permitted to work as independent workers, advisers, board members and consultants.

During the coronavirus pandemic we have also seen a significant increase in residency and citizenship programme applications from both GCC nationals and expats in the region, with a particular uptick in interest in the Portugal's Golden Visa Residency Permit (GVRP) programme. This offers residency in return for investment, has become an increasing popular investment opportunity due to it's diverse range of investment options.

The Golden Visa offers qualifying non-European investors and their family full rights to live, work and study in Portugal with an average minimum stay requirement of only seven days per year. It also provides visa free access throughout the Schengen zone and, after five years, the right to apply for permanent residency or citizenship. A second citizenship offers security, stability and freedom and can also offer the possibility of permanent citizenship for future generations.

In August, the UAE announced a landmark deal – known as 'The Abraham Accord' – for the "full normalisation of relations" with Israel, becoming the first Gulf state and the third Arab country, after Egypt and Jordan, to establish diplomatic relations with Israel. As a consequence, companies and individuals in the UAE are now permitted to enter into agreements with companies, individuals or bodies residing in Israel or belonging to it by nationality as part of commercial or financial operations or other dealings.

The first publicly announced private sector business deal followed just two days later when the UAE's Apex National Investment Company and Israel's TeraGroup signed a 'Strategic Commercial Agreement' to collaborate on research into Covid-19 and the development of a virus testing device.

In October, the UAE and Israel signed four agreements to promote and protect investments, a Memorandum of Understanding on cooperation in science and innovation, an aviation agreement and a visa-exemption agreement. In doing so, the UAE became the first Arab nation to lift visa requirements for Israeli nationals.

Properly structured arrangements, utilising the UAE's free zones, offer Israeli businesses a holding vehicle for the region – a route to market adopted by multinationals from other jurisdictions for many years – and the opportunity to realise significant tax benefits. Outside the 40-plus free zones, which permit 100% foreign ownership, Israelis looking to benefit from the myriad of opportunities in the UAE and the wider Gulf region will also be able to set up local limited liability companies (LLCs) for trading purposes.

Pending the proposed changes to the current foreign ownership restrictions and the proposal to permit foreign investors to have 100% ownership in the UAE, under the Sovereign Corporate Nominee Shareholder, Sovereign can act as the 51% 'corporate shareholder' in place of an Emirati individual in return for an annual fee. This means that the investing company or individual has a trusted partner that will have no interest in the company's day-to-day activity and no share of the profits.

Finally, in a busy year in the UAE, Sovereign has reshaped its Middle East management to deliver a focus on growth in the region. Nicholas Cully, who also sits on the Group Board of the Sovereign Group as Sales Director, has stepped down as Managing Director of Sovereign's Dubai office after five years in the role and over a decade in the Emirate.

He will be relocating to Switzerland in March 2021, where he will concentrate on developing business in Central Europe and on managing the Group's global sales efforts in Europe, Africa, the Middle East and South-East Asia. He will remain on the boards in Bahrain, Saudi Arabia and Dubai and will continue to oversee the Middle East with regular trips to the region.

Simon Gordon, currently a Director in Dubai and Bahrain, has been promoted to the position of Managing Director of Sovereign's Dubai office. After seven years with the company and three years in a Sales Director role at Sovereign Dubai, Simon is well placed to take the business forward and will be ably supported by an experienced board. Zana Jablan Mousa, who heads up the Onshore Team in Dubai, advising clients on corporate structuring and UAE regulatory matters, has also been promoted to the Board of our Dubai office.

"In what has been a turbulent last 12 months, the UAE continues to adapt and grow through amendments in legislation that will only benefit the country in future years to come," says Simon Gordon. "To carry out these changes in the midst of a pandemic is truly remarkable and shows the vision of the country's hierarchy. As for Sovereign, we have recently made some managerial changes in our Middle Eastern offices but our vision remains unchanged and that is to continue to be a market leader in the region while also providing a first class service to our clients".
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UK *moves on to new footing with EU trade deal*

Simon Denton
Managing Director
Sovereign (UK) Ltd

The UK and EU finally agreed a new Trade & Cooperation Agreement (TCA) on 24 December, after nine rounds of formal negotiations and just a week before the Brexit transition period expired. The deal, which will cover the future UK-EU relationship, is 1,246 pages long and there are additional numerous side agreements and political declarations.

As of 1 January, the UK is now formally a third country from an EU perspective and the EU principles of free movement of goods, capital, workers and provision of services are no longer applicable. The UK is no longer part of the Single Market and Customs Union, so that trade between the UK and EU will certainly be more complicated than before, but the TCA does at least go some way to cushioning the cliff-edge that would have ensued had no trade deal been struck at all.

Under the TCA, there will be no tariffs or quotas on trade in goods provided that rules of origin are met. There are increased non-tariff barriers, but measures on customs and trade facilitation to ease these, while 'level playing field' provisions give both parties the right to take counter-measures where they believe divergences are distorting trade. There is no role for the Court of Justice of the EU in the governance and dispute settlement provisions.

UK service suppliers lost their automatic right to offer services across the EU on 1 January 2020 and no longer benefit from the 'country-of-origin' approach or 'passporting' concept, which enable automatic access to the entire EU Single Market. They are now required to comply with the host-country rules of each member state.

The TCA contains non-discrimination clauses under which service suppliers and investors from the EU are to be treated no less favourably than UK operators by the UK, and vice-versa. The TCA also contains a 'most-favoured nation' clause, which enables either party to claim any more favourable treatment granted by the other party in future agreements on trade in services and investment with other third countries – except for financial services.

Financial services are not covered comprehensively in the TCA. Instead, the declarations include an agreement to try and reach a Memorandum of Understanding by March 2021 that might mean the two sides agree to recognise each other's rules, a process known as 'equivalence'. This would allow the finance industry to trade across the UK and EU border. There will be "transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions."

Although freedom of movement is brought to an end, the deal recognises that the ability to work in another country temporarily is important for some professions and sets out a list that allows specified occupations visa-free travel for 90 days. However a wide range of sectors, including sports professionals, artists and musicians, do not currently appear on the list.

From 1 January 2021, a number of EU directives in the tax area no longer apply: the Parent-Subsidiary Directive, the Interest & Royalties Directive, the Merger Directive, the Directive on Administrative Cooperation (DAC), the Anti-Tax Avoidance Directive (ATAD) and the Directive on tax dispute resolution mechanisms in the EU.

The TCA includes a good governance clause, under which parties commit to uphold the taxation standards on exchange of tax information, anti-tax avoidance, and public tax transparency agreed upon at the level of the OECD, as well as reiterate their support for the OECD Base Erosion and Profit Shifting (BEPS) Action Plan. Taxation standards specifically mentioned include those related to exchange of tax information on financial accounts, cross-border tax rulings, country-by-country reporting, potential cross-border tax planning arrangements, as well as rules on interest limitation, controlled foreign companies and hybrid mismatches.

The parties also re-affirmed, in a separate joint-declaration, their commitment on countering harmful tax regimes and set out the principles that would apply in this matter. An annual dialogue will take place on the application of these principles.

Overseas businesses with operations in the UK or looking to establish in the UK will need to consider the extent to which the provisions of the TCA apply to their businesses and the extent to which it mitigates the impact of the loss of EU freedom of movement rights.

For EEA companies with registered UK branches, additional information must be supplied to Companies House by the end of March 2021 and exemptions, particularly in relation to the filing of their accounts, will no longer be available. These companies also need to include additional trading disclosures in their business correspondence and on their websites. EEA companies that act as corporate directors of UK companies also need to file additional information with Companies House.

UK companies with branches in EEA member states are now subject to the rules applicable to branches of third country companies. This may require UK companies to supply additional information and make additional filings, while UK citizens may also face restrictions on their ability to own, manage or act as a director of a company incorporated in an EU member state. Such restrictions and changes will depend on the sector and state in which the business is operating. Restrictions may be more burdensome for branches or representative offices, as opposed to subsidiaries which have their own legal identity and are incorporated in the EU member state concerned.

UK companies and limited liability partnerships that have their central administration or principal place of business in certain

EU member states may no longer have their limited liability recognised. This is the case in certain jurisdictions that operate the 'real seat' principle of incorporation.

If your group structure includes branches, places of business or central administration in an EU member state, there could be other compelling commercial reasons for setting up a local incorporated company in that state – protecting EU domain name and trade mark registrations, preserving EU market access, avoiding restrictions on cross-border operations or preventing loss of access to EU-funded programmes.

Subsidiary companies incorporated in an EU member state will continue to be covered by all relevant EU law. The same may apply if you have an EU company with a registered establishment or branch in the UK. You will need to comply with the specific accounting and reporting requirements for such businesses in the EU-27 country in which they operate.

UK investors in EU businesses – whether individuals, businesses or investment funds – may face restrictions on the amount of equity they can hold in certain sectors in some EU member states. They should make themselves aware of any restrictions that might be placed on them within any EU member state in which they are operating.

The key thing is to review any corporate structure in the light of the TCA to ensure that your business operations can continue unhindered.

Leaving Brexit, a new UK visa will be available to British National (Overseas) citizens (BNOs) in Hong Kong and their close family members after 31 January 2021. The UK government changed the rights attached to BNO status last October following the enactment by China of a new National Security Law to apply to Hong Kong in June.

The new rules permit BNO visa holders to come to the UK with their close family members for five years. After five years of residence in the UK, they will be entitled to apply for settlement – termed 'indefinite leave to remain' – and after one further year of residence to apply for British citizenship.

BNO visa holders will be able to work or study freely in the UK, including applying for higher education courses. Although they will not generally be entitled to claim benefits, they will be able to use the National Health Service. There is no limit on the number of eligible people who can come under the new route.

Although there are only around 400,000 BNO passports currently in circulation – with around 200,000 applications pending – the UK government said there were around 2.9 million BNO citizens in total. It estimates that, with dependants and members of family units, a further 2.5 million Hong Kong residents will be eligible to come to the UK under the new route.

Any BNO citizens in Hong Kong who are looking to relocate or invest in the UK will need to ensure that they have a clear understanding of the UK tax system and should make pre-arrival tax planning a priority. UK income tax rates of up to 45% are generally much higher than those in Hong Kong, while the UK also levies tax on capital gains and inheritance.

UK residents are generally taxed on the arising basis of taxation – all worldwide income and gains will be taxable in the UK even if your foreign income and gains have already been taxed in another country. In many cases, relief is given in the UK for foreign tax paid on foreign income and gains under the provisions of the relevant Double Taxation Agreements (DTAs) or via unilateral relief.

If you are UK resident but not domiciled in the UK – often referred to as a 'non-dom' – there are special rules that might apply to your foreign income and gains. You can choose, on an annual basis, whether to use the arising basis of taxation or the remittance basis of taxation on your UK self-assessment tax form. It should be noted that, since changes to UK tax law in 2017, British ex-pats returning to the UK are unable to claim non-domicile status.

The remittance basis of taxation is when you choose to be taxed only on your UK income and gains and only on foreign income and gains of £2,000 or more per year that you bring back to the UK. For the first six years of UK residency, it is free to claim for the remittance basis but, from the seventh year of UK residency, if you want to enjoy this favourable treatment there will be an annual charge known as a remittance basis charge.

The remittance basis charge is £30,000 if you have been UK resident but non-domiciled for seven out of the last nine years, rising to £60,000 if you have been resident for 12 out of the last 14 years. Non-doms that reside in the UK for 15 or more years out of 20 are considered to be deemed UK domiciled and no longer able to pay the remittance basis tax charge – their worldwide income and gains will then be subject to UK taxation. Furthermore, their worldwide assets will also be liable to UK inheritance tax (IHT).

Those moving to the UK from Hong Kong will also be faced with the complexities of acquiring and owning a main residence in the UK. The UK property market has been a magnet for Hong Kong investors and continues to attract investment, but UK tax laws have changed substantially in the last decade to the detriment of overseas investors. These changes include:

- **Increase in Stamp Duty Land Tax (SDLT) for higher value residential properties (the top rate is now 15%)**
- **A 3% SDLT surcharge for purchasers of second homes and for corporate purchasers**
- **An additional 2% SDLT surcharge is be levied (from April 2021) on foreign investors purchasing UK residential property**
- **UK residential property will generally, with some exceptions, be subject to UK Inheritance Tax (IHT) regardless of whether the asset is held by a non-UK structure.**
- **Disposals of UK property assets will, with limited exceptions, be subject to UK capital gains tax, regardless of where the investor is resident**
- **Net UK rental income will be taxable in the UK.**

With a long-standing presence in both Hong Kong and the UK, Sovereign can help you understand the complexities of the UK tax system and ensure that any purchases are structured efficiently to maximise returns and minimise tax liabilities.

Pre-residence planning is essential for all individuals considering working or living in the UK, especially for non-UK domiciled individuals, and this should be effected at the earliest possible stage. They will also face increased regulatory requirements to achieve compliance with anti-tax avoidance and anti-money laundering regimes.

Sovereign has significant expertise in advising international clients how to purchase UK property assets and we specialise in the formation and management of UK and overseas companies, overseas trusts and international pension schemes. If you or your clients are considering moving to the UK or purchasing any UK property asset, please contact us immediately for an in-depth consultation without obligation.
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The Sovereign Art Foundation *announces impact of Jockey Club Expressive Arts Programme for Children*

The finalists exhibition of The 2020 Sovereign Asian Art Prize.

The Sovereign Art Foundation (SAF) is a charitable organisation that was founded in 2003 with a well-defined twin focus: to recognise the growing wealth of contemporary art talent in Asia through the Sovereign Asian Art Prize and to bring the proven benefits of expressive arts to disadvantaged children.

The Prize increases the international exposure of artists in the region, whilst raising funds by auctioning shortlisted artworks and sharing proceeds equally between the participating artists and SAF. SAF uses these proceeds to fund programmes that support disadvantaged children using expressive arts. During 2020 SAF reached an incredible milestone when it passed the US$10 million mark for monies raised for artists and charities worldwide.

In 2017, SAF launched a three-year pilot programme in Hong Kong titled Jockey Club Expressive Arts Programme for Children to evaluate the benefits of expressive arts, based on the workshops SAF has been running through its 'Make It Better' programme. This was made possible with funding from The Hong Kong Jockey Club Charities Trust.

The programme, which was carried out in collaboration with the University of Hong Kong (HKU), served two key beneficiary groups: disadvantaged children, many of whom have special educational needs (SEN), and their teachers and social workers. Children participated in a programme of Make It Better workshops, and educators took part in a Train-the-Trainer programme designed by HKU to help them integrate elements of expressive arts into their teaching practice.

After a challenging final year, during which COVID-19 led to the team successfully moving the entire Make It Better and Train-the-Trainer components online, this programme has finally drawn to a close and SAF held a digital symposium at the end of January to announce the results of the study into the efficacy of the programme and its methods. This presentation was watched by over 200 attendees from the fields of academia and education, art therapy and other non-profit organisations, both local and international.

Results at a glance

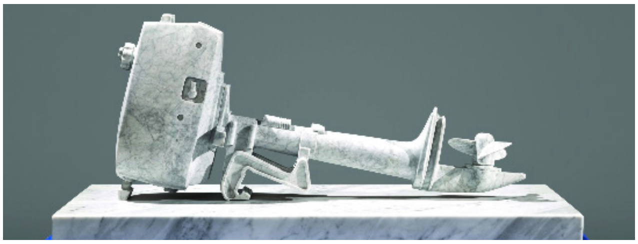
To assess the impact of the programme on the participating children, HKU measured the following key areas: scholastic competence; social competence and peer problems; physical appearance; emotional symptoms, behavioural conduct and hyperactivity; global self-worth and life satisfaction.

Children, especially those with SEN, reported a higher social competency score after participation in the programme. Parents observed substantial reductions in emotional symptoms, hyperactivity/inattention problems, peer problems and overall difficulties of their children. Children were also observed to be more expressive and interactive, with improved problem-solving abilities and autonomy.

Moreover, educators who completed the Train-the-Trainer programme reported significant increases in general self-efficacy, teacher self-efficacy and perceived relationships with students. We can also see that expressive arts practices clearly benefit the vital relationships between children and their caregivers and teachers.

We hope that studies such as this can help to further the conversation about the importance of expressive arts and provide a good foundation for future research.

For anyone who would like to learn more, a recording of the virtual presentation is available, featuring analysis of the results, an interactive workshop and a panel discussion. There are also two publications covering the results of the study. Please contact **art@SovereignArtFoundation.com** to request links for these materials.



Alex Seton – Oilstone 05_Corrosion (2019)
The winner of The 2020 Sovereign Asian Art Prize.

The 2020 Sovereign Asian Art Prize

The 2020 Sovereign Asian Art Prize – the 16th edition of Asia's longest established and most prestigious award for contemporary art – saw 88 independent art professionals from across Asia Pacific nominate mid-career artists from 26 countries, with a total of 611 entries received.

The 31 finalists from 18 countries and territories were shortlisted by a judging panel that included: writer, curator and museum director David Elliott; the Arts Editor of the Financial Times Jan Dalley; art historian, curator and consultant Jiyoon Lee; artist and professor Miao Xiaochun; and artist Zhou Li.

In view of the difficulties imposed by the coronavirus pandemic, the Finalists Exhibition was presented at K11 HACC, K11 ATELIER King's Road in Quarry Bay from 6 June to 19 July. This six-week duration, together with a virtual tour, served to make the exhibition as accessible as possible despite the restrictions.

A Hong Kong-based panel comprised architect, artist, collector and educator William Lim. Asia Society Executive Director Alice Mong and Asia Art Archive Head of Collections Elaine Lin then weighed in with scores from the Finalists' Exhibition, which were aggregated with those of the international panel to determine the final winners.

Australian artist Alex Seton emerged as the winner of the 2020 Sovereign Asian Art Prize and the award of US$30,000 for his work 'Oilstone 05_Corrosion (2019)', a chemically-transformed marble sculpture resembling a Yamaha boat engine. He was nominated by curator, researcher and academic, Dr Mikala Tai, Director of 4A Centre for Contemporary Asian Art in Sydney.

Seton is a multidisciplinary artist working in sculpture, photography, video and installation, but best known for his use of marble carving: playing with, inverting and exaggerating techniques of classical statuary and monument to create works that reflect on the contemporary world.

Pakistan artist Saba Qizilbash was awarded the Vogue Hong Kong Women's Art Prize of US$5,000 for her works 'Inbezelment', an installation of detailed graphite drawings on mylar paper, while Indonesian artist Made Wiguna Valasara picked up the Public Vote Prize of US$1,000 for 'Daily Parade', a hand-stitched, embossed canvas evocative of traditional Balinese painting.

"What a brilliant surprise!" Seton said of his win. "This year's field of artists have my admiration and heartfelt congratulations for their bold and sensitive works, and I'm proud to show alongside them together as artists of the Asia- Pacific region. It is after all, where all the most exciting art is being made now."

All shortlisted artworks, except Seton's, were auctioned online at saapauction.com, with the proceeds being split evenly between the artists and SAF's charitable projects.

SAF Student Prizes

2020 was a record-breaking year on many fronts with the Students Prizes involving more schools and gathering more entries from students than ever before! Although not all prizes could go ahead as planned, SAF managed to launch a brand-new prize in London and succeeded in staging five exhibitions in six of the prize countries. Only in Singapore was this not possible, meaning that the prize had to go virtual.

With seven prizes completed in 2020, SAF was also delighted to launch the inaugural Global Students' Prize, where the winning artworks from each participating region of 2020, are brought together in one online exhibition.

With the Judges' and Public Vote Winners from Guernsey, Hong Kong, London, Malta, Mauritius, Portugal and Singapore, this represents the most diverse and high-quality Students' Prize presentation to date. For this final of finals, a new panel of judges will select their Global Judges' Prize Winner, while the public is invited to vote for their favourite work to determine the Global Public Prize Winner.

In the face of ever-changing and unpredictable circumstances, last year provided many lessons and highlighted the value and adaptability of this initiative. With that in mind, 2021 is off to a great start; the first competition of the year in Malta and Gozo is well underway. Here, the number of entries has nearly doubled compared to last year. Who will the panel of judges select for their finalists? Keep your eyes peeled for an announcement in March.

While it is impossible to know what the future holds, the teachers and students involved in the prizes continually report that such competitions provide a useful outlet and focus for young artists at a time when everything else seems rather insecure. So here's to another strong year ahead.

SovereignArtFoundation.com

Isabella Lee – Inverted – Forest Colours
Judges' winner of The Sovereign Art Foundation Guernsey Students Prize 2020

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