

A close-up photograph of a fountain pen with a silver barrel and a dark, ornate nib, resting on a stack of books. The top book has a rich, textured red cover. The background is a soft-focus grey surface.

**SOVEREIGN™**

# **SOVEREIGN PRIVATE CLIENT**

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**TRUSTS, WEALTH MANAGEMENT AND SUCCESSION PLANNING**



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# ABOUT SOVEREIGN

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Sovereign began in Gibraltar in 1987 and has since grown into one of the largest independent corporate and trust service providers in the world. We currently manage over 20,000 clients that include companies, entrepreneurs, private investors or high net worth individuals (HNWIs) and their families – and have assets under administration in excess of US\$10 billion.

## SOVEREIGN CORPORATE SERVICES

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Offers company formation and management across all major jurisdictions, together with the necessary support to assist companies of all sizes to establish and sustain operations successfully.

## SOVEREIGN RETIREMENT PLANNING

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Designs and administers individual and corporate international pension schemes that offer choice, transparency and portability across multiple jurisdictions.

## SOVEREIGN PRIVATE CLIENT SERVICES

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Provides trustee services, wealth management and succession planning to internationally mobile families and entrepreneurs.

## SOVEREIGN INSURANCE SERVICES

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Offers bespoke corporate and personal insurance services for our clients, wherever they are domiciled.

We have established a network of offices or agents in all major international finance centres allowing our clients to access a global service from a local point of delivery. We hold 34 professional licences to act as corporate service provider and/or professional trustee from the jurisdictions in which we operate around the world.

**20+**

international offices

**20,000+**

clients

**US\$10B+**

assets under  
administration







# WHAT WE DO

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Sovereign's Private Client services assist families and entrepreneurs around the world to structure their assets in a way that will help to grow their wealth now and preserve it for future generations. We advise on all aspects of the design and implementation of structures, using trusts, foundations, companies and funds, in domestic as well as overseas jurisdictions, to hold assets and investments for secure, efficient wealth and succession planning.

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

We also provide the support to maximise opportunities and achieve long-term sustainability, from full family office solutions to assistance with tax and regulatory

compliance. This includes, but is not limited to, asset management, accountancy, foreign property ownership, retirement planning, residency, immigration and citizenship, insurance, yacht and aircraft registration and management, as well as specialist tax advice.

First and foremost Sovereign needs to understand your requirements, strategies and goals. We will never recommend any structure that would not be effective if scrutinised by regulators and tax authorities, either in foreign jurisdictions or in your home country. Sovereign provides progressive solutions that will work on both a practical and a legal basis to secure your personal objectives.

This brochure is intended as a general guide to our private client offering. We would always encourage prospective clients to contact their most convenient Sovereign office for an initial consultation. This will be given without fee or commitment. Should you choose to proceed, we will provide accurate time and cost estimates before undertaking any work on your behalf.

Please also visit our website at [SovereignGroup.com](https://SovereignGroup.com). You will find updates to this information together with many other items that may be of interest. You may also wish to subscribe to our client newsletters.



# SOVEREIGN TRUST AND TRUSTEE SERVICES

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Families have been using trusts to preserve and manage their wealth for the benefit of their heirs for centuries. Trusts provide people with a means of protecting their assets and controlling how they are used after they have been given away. Unlike corporate vehicles, the lack of rigid formal requirements for the creation and operation of trusts, and the tremendous flexibility of trust instruments, make them uniquely useful for estate and succession planning.

Although many of the tax benefits that were associated with trusts have been eroded in recent years by anti-avoidance legislation, they still offer great advantages – particularly for individuals who are changing, or planning to change, their domicile, residence or citizenship; those with families resident abroad; those seeking asset protection; and those whose principal motivation is not to avoid taxation but to dispose of their estate on death freely and without recourse to a lengthy and expensive probate procedure.

## THE 'TRUST' CONCEPT

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At its simplest, a trust is an arrangement whereby property or assets are transferred from one person (the 'settlor') to another person (the 'trustee') to hold the property for the benefit of a specified list or class of persons (the 'beneficiaries'). A trust can be created solely by verbal agreement but it is usual for a written document (the 'trust deed') to be prepared. This evidences the creation of the trust, sets out the terms and conditions upon which the trustees hold the trust assets and outlines the rights of the beneficiaries.

The practical advantages of a trust are gained from the distinction that is drawn between the formal or legal owner of property, the trustee, and those people that have the use or benefit of the property, the beneficiaries.

It is vital that the trustee remains independent and exercises proper control over the trust property. A trust may be deemed to be invalid if the settlor continues to exercise power over the trust assets by retaining benefit or control, or by giving directions to the trustees.



Those unfamiliar with the trust concept are often concerned by the idea of transferring ownership of their property to a trustee. This concern can be alleviated if the trust concept and the distinction between legal and beneficial ownership is properly understood and it is clear that the trust is governed by a reliable trust law that can be enforced in a reputable jurisdiction.

Trust law imposes strict obligations and rules on trustees. There is a basic rule that a trustee may not derive any advantage, directly or indirectly, from a trust unless expressly permitted by the trust – for example, where a trust provides a professional trustee with the right to charge for its services. Full disclosure of the basis and amount of charges is required.

- Trustees must follow the trust deed and are subject to very strict rules governing the way in which their powers and discretion may be exercised. The courts regard a trust as creating a special relationship that places the most serious and onerous obligations on the trustee.
- Best interests of beneficiaries – Trustees must at all times exercise their powers in the best interests of the beneficiaries of the trust, and disregard the interests of others, including the settlor.
- Act prudently – Whether or not a trustee is remunerated, he or she must act prudently in the management of trust property and will be liable for breach of trust if – by failing to exercise proper care – the trust fund suffers loss. In the case of a professional trustee, the standard of care that the law imposes is higher. Failure to exercise the requisite level of care will constitute a breach of trust for which the trustees will be liable to compensate the beneficiaries. This duty can extend to supervising the activities of a company in which the trustees hold a controlling shareholding.



## TYPES OF TRUSTS

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Trusts are inherently flexible. They can take many legal forms and have multiple practical applications. The following legal forms are among the most commonly encountered:

### - Bare Trust

Under a 'bare' or 'simple' trust, a trustee holds legal title to assets on behalf of a beneficiary who has absolute and immediate right to the assets. The trustee would not typically have any active duties to perform. Bare trusts may be created orally but are usually established by way of a simple document known as a 'Declaration of Trust'.

Bare trusts are commonly used to transfer assets to minors who lack legal capacity to deal with those assets. The trust typically endures until the beneficiary reaches majority, at which stage the assets are transferred absolutely. A bare trust may also be useful in circumstances where an individual wishes to acquire shares without that acquisition becoming a matter of public record. To maintain confidentiality, legal title to the shares is vested in a trustee to hold on behalf of the true owner.

Bare trusts are 'look through' for tax purposes, such that the beneficiary, rather than the trustee, remains liable for any taxes arising.

### - Discretionary Trust

Under a discretionary trust, the trustee may pay or apply income and/or capital of the trust for the benefit of specified beneficiaries in such manner or proportions as the trustee may, in its absolute discretion, decide. Discretionary beneficiaries do not

have an interest in trust assets and may not compel the trustee to exercise its discretion in their favour.

To assist the trustee in the exercise of its discretion under a discretionary trust, the settlor of the trust may provide a 'memorandum of wishes' detailing how he would like the trust assets to be distributed. However, it should be noted that the memorandum of wishes is merely a guide and imposes no legal obligation on the trustee to exercise its discretion in a particular manner.

The tax implications of establishing a discretionary trust can be significant and therefore specialist tax advice should always be obtained.

### - Fixed Interest Trust

Under a fixed interest trust - sometimes called an 'interest-in-possession' trust or a 'life-interest' trust - the trustee has no discretion in the distribution of assets. Beneficiaries of the trust have a predetermined, fixed interest in a specific portion of the income or capital of the trust.

A beneficiary may be granted a present entitlement to the income of the trust for a specific period of time, for example, their lifetime. On the expiration of that 'limited interest', the trust assets vest automatically and absolutely in a specified beneficiary. It is also possible for the settlor to provide for a succession of limited interests before the ultimate vesting of the assets.



## USES OF TRUSTS

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These trusts can be used individually or as part of an overall strategy. A properly drafted and managed trust can confer advantages under any or all of the following heads:

### - Estate planning

Failure to plan your affairs in advance of death can mean leaving your estate in disorder, to be sorted out by your successors – often at great expense and inconvenience. Many people seek to order their affairs by making a will. Under this arrangement the named executors must apply for a grant of probate, take possession of the assets and distribute them according to the terms of the will. Such arrangements can result in lengthy delays (even a simple estate may take a year to be wound up), high administration costs (typically around 4% to 6% of the total value of the estate), and often tax liabilities.

The best alternative to a will is for the individual to set up a trust during their lifetime. Many people do not want their assets to pass outright to their heirs, whether chosen by them or as prescribed by law, and prefer to make more nuanced arrangements. These might include: providing a source of income, but not capital, for a spouse for life; making provision for the education of children but not letting them have access to capital until later in life; or providing a fund to protect members of the family in the event of sudden illness or other calamities. A trust is probably the most satisfactory and flexible way of making arrangements of this kind.

### - Tax planning

Assets transferred into trust are no longer considered as belonging to the settlor, so the income and capital gains generated by those assets are taxed according to the rules governing the legal owner – the trustee(s). Inheritance tax can be eliminated because the trustee(s) continue in existence after the death of the settlor. Anti-avoidance legislation in the home country of the settlor or in the location of the trust assets may seek to counteract this outcome, but a correctly structured and administered trust may offer substantial tax efficiencies.

### - Confidentiality

Proving a will is a public procedure. Domestic authorities will need to receive a complete list of all the property owned by the deceased in order to assess the amount of estate duty payable before the property can be transferred to the executors for distribution. This procedure is entirely unsuitable for those who wish to keep details of their assets confidential. The only other legal form of transfer is via a trust and this would generally save estate duty and keep the trust assets confidential.

### - Asset protection

Trusts can be one of the most effective ways of protecting assets. In simple terms, assets transferred to a properly constituted trust no longer form part of the settlor's property and therefore cannot be seized if a settlor gets into financial difficulties. A court may, under certain circumstances, order the transfer into trust to be set aside and the trust assets returned to the settlor, but a trust can form an important part of a risk-mitigation strategy.



**- Avoiding forced heirship**

Many civil law jurisdictions and countries of Islamic tradition have 'forced heirship' provisions, which create a legal obligation to distribute a certain percentage of a deceased's assets to their next of kin and/or children. If forced heirship rules are at odds with your intentions, a trust will enable a wider or different distribution of the estate.

**- Protecting the weak**

A trust is a useful vehicle for people who may want to provide for those who are unable to manage their own affairs, for instance infant children, the aged, the sick or disabled. Trusts can allow for the independent support of those who require it most.

**- Preserving family assets**

Preserving family assets, or growing them, is often a motive for setting up a trust. An individual may wish to ensure that wealth accumulated over a lifetime is not divided up amongst the heirs, but rather is retained as one fund to accumulate further. A trust offers a mechanism for preserving family assets while having the flexibility to allow payments to beneficiaries as the need arises. This can be further enhanced with a unified fund for investment/asset management.

**- Continuing a family business**

An entrepreneur who has built up a business will often be concerned to ensure that it continues after his or her death. If the shares in the company are transferred to trustees prior to death, a trust can be used to prevent the unnecessary liquidation of a family company and to ensure that the individual's wishes are observed. These might include provision for payments

to be made to members of the family from dividend income, with the trustees retaining the shares and keeping the company operational except in special circumstances justifying sale of control or liquidation. This may be particularly advantageous where family members have little business experience of their own or where they are unlikely to agree on the correct way to manage the business. This is never more applicable than in an Initial Public Offering (IPO) situation. The creation of a pre-IPO trust for major family or employee shareholdings can offer a raft of individual benefits.

**- Increased flexibility**

The best-laid plans can rapidly become obsolete due to unforeseen circumstances but a discretionary trust can provide a mechanism for managing property that is capable of adapting as conditions demand. No beneficiary has any fixed or absolute interest in the trust assets under a discretionary trust. Instead, the settlor can simply nominate a class of beneficiaries and give the trustees discretionary powers to distribute trust assets as and when they see fit. Beneficiaries only have a contingent interest and ordinarily would avoid any tax liability until such time as they receive a distribution.



## WHERE TO ESTABLISH A TRUST?

There are a number of different countries worldwide that have enacted trust legislation but the quality and suitability of that legislation can vary. When selecting the best jurisdiction for establishing a trust it is important that it offers:

- A strong tradition of enforcing trusts
- An English common law system
- An established reputation for trust business
- Modern legislation, including contemporary trust concepts
- Low or no taxation for trusts.

Some countries are not recommended due to legal or political uncertainties or because their courts or professionals have limited trust experience. Other jurisdictions, whilst being noted for their expertise, have not kept pace with the modern trust legislation that offers additional benefits and protection to trust assets. Other countries are unsuitable because of their high tax regimes.

Although there are other jurisdictions offering similar advantages, Sovereign recommends that Gibraltar, Hong Kong, Guernsey, Malta, the Turks & Caicos Islands and the Isle of Man are amongst the best available. Gibraltar and the Turks & Caicos Islands, in particular, have introduced strong asset protection legislation. Sovereign Trust (Isle of Man) Limited, Sovereign Trust (Gibraltar) Limited, Sovereign Trust (Guernsey) Limited, Sovereign Trust (Hong Kong) Limited, Sovereign Trust (Malta) Limited, Sovereign Trust (Cyprus) Limited, Sovereign Trust (Mauritius) Limited, Sovereign Straits Trust Limited in Singapore and Sovereign Trust (TCI) Limited are fully licensed to act as professional trustees in their respective jurisdictions.

## DISADVANTAGES AND SOLUTIONS

### i. Irrevocability

It is incorrect to assume that trusts cannot be revoked. Trusts can be made revocable but this usually has consequences in respect of tax, estate duty, asset protection and stamp duty. Revocability is a matter to be discussed when the terms of the trust are considered.

### ii. Loss of control of assets

Many potential settlors are reluctant to transfer assets to trustees because they fear relinquishing their control. For those who wish to continue to exercise effective control over the trust assets after the transfer, careful planning – together with an understanding of the fundamental legal requirements of a trust – is required if the trust is to remain valid or useful for its intended purpose. If a settlor retains too much control, there is a risk that the trust will not be effective and the settlor will continue to be regarded as the legal owner. If this happens all the advantages of having the assets held in trust may be lost.

However, there are degrees of control and information rights that may be retained to give comfort to a settlor:

#### - Memorandum of Wishes

When setting up a discretionary trust it is common for the settlor to indicate to the trustees how the settlor would have dealt with those assets if he had retained ownership. The trustees will make a comprehensive note of these wishes in a written memorandum, to which they will refer when dealing with the trust property. The wishes of the settlor will not be binding on the trustees but, in practice, trustees would be reluctant to deviate unless a change in circumstance or other matters would make it clearly disadvantageous to the beneficiaries to act in such a way.

**- Protector**

A 'protector' may be appointed to exercise some degree of control over the trust property. It is usual for a trusted friend, family relative or professional adviser of the settlor to be appointed as protector, but it is also becoming increasingly common to use the services of a professional trust company. For this reason Sovereign is able to serve as a professional protector, utilising our trust expertise, where we are not retained to act as trustees.

In our view, it is unwise for a protector to be given anything other than negative powers – that is, limited to vetoing identified decisions or actions of the trustees. A protector that is empowered to direct the trustees actively might be deemed as a "quasi-trustee", which could have harmful consequences for the trust, especially if the protector is resident in a high tax country.

**- Two-tier company and trust structure**

Greater flexibility can sometimes be achieved if the underlying assets are owned by a company that is in turn owned by a trust. The settlor, or an appointee of the settlor, can act as the director of the company, enabling them to exercise day-to-day control over the underlying assets with minimal interference or need to refer to the trustees. This two-tier structure can be used to good effect in certain circumstances but could have tax and other disadvantages if the director of the company is resident in a high tax country.

**- Joint trustees**

A trust can be structured using joint trustees such that the agreement of both is required for any action. The second trustee could be the settlor or a company controlled by the settlor. Again, there may be negative tax or

other consequences resulting if the settlor is resident in a high tax country. Alternatively, a 'check and balance' may be obtained by having two different professional trust corporations acting as joint trustees. This can be cumbersome and expensive but it may be suitable for certain trusts.

**- Private Trust Companies**

A Private Trust Company (PTC) is a company formed for the specific purpose of acting as trustee of a single trust or a group of related trusts. Family members can participate in the management of the PTC and therefore in the decisions that need to be taken by the PTC as trustee, including decisions relating to the control and management of companies owned by the trustee. Such participation would not be possible if the trustee was a third party professional trust company.

A third party professional trust company may not be in a position to offer the settlor the degree of flexibility and the speed of response that they require and its employees cannot be expected to be as familiar with the business of companies owned by the trust as the family members themselves. Decisions may have to be referred internally or external advice obtained before they can be put into effect.

These issues can be largely avoided by using a PTC structure. Directors familiar with the business can make the decisions and, if a change of direction is desired for the management of the trust, this can be achieved by changing the board of the PTC. A PTC can therefore provide greater comfort for the settlor that his or her objectives in creating the trust will be met.

It is usual and advisable to have at least one director who is a trust expert because running a trust company is very different to running a standard company. To avoid arguments that a trust is a sham, we believe it is vital to have expertise on the board to add substance and credibility to the PTC and to ensure that the PTC – and the trust(s) it administers – is run correctly.

The directors of the PTC must remember that all decisions that they take in relation to the trust must be in the interests of the beneficiaries as a whole. They should not be unduly influenced by their personal circumstances or desires.

More important than the constitution of the board will be the ultimate ownership of the PTC because this will, if the owners feel it necessary, allow them to remove directors and replace them. However the settlor will retain a significant degree of control if they are acting as sole or majority shareholder or alternatively the guarantor member of the PTC. Careful consideration of the overall trust, PTC and family structure must therefore be undertaken if the objectives of settling the trust are to be met.

Many jurisdictions specifically exempt PTCs from the requirement to be licensed and regulated, provided that the PTC acts solely as trustee of a specific trust or group of trusts, and does not solicit from, or provide trust company business to, the public. In most cases there is also no requirement to submit any reports or accounts to any statutory body of either the PTC itself or of the trusts for which it acts.

The costs of establishing both a PTC as well as the trust or trusts for which it will act are generally higher than the cost

of simply establishing a trust. However the ongoing costs may be less than the trustee fees that would be charged by an independent third party trustee. This is particularly the case where the trust assets are very substantial because independent trustees will often charge fees based on a percentage of the assets.

### iii. Costs

It is often assumed that the costs of running a trust are prohibitive. It is true that many of the major banks and other financial institutions charge substantial fees for setting up a trust while also charging a percentage of the trust assets in annual administration fees together with basis points fees for the underlying trust's cash investments.

The fees charged by independent trust companies are generally more reasonable and make trusts affordable even to relatively modest estates. As specialists, independent trust companies offer a more tailored approach that will allow settlors and beneficiaries to achieve their objectives. It also means they can be consulted on technical matters and are free to select the best investments for the trust without being under pressure to place trust money with in-house investment advisers to secure disguised remuneration.



## **FAMILY INVESTMENT COMPANY (FIC)**

UK Inheritance Tax (IHT) is a major issue for individuals who are UK-domiciled or who hold assets within the UK. This will include many expatriates who may have been non-UK resident for many years. Individuals who are UK-domiciled will be subject to IHT at a rate of 40% on the total value of their worldwide estate above the tax-free threshold of £325,000 (the 'nil-rate band'). 'Potentially Exempt Transfers' (PETs) enable an individual to make gifts of unlimited value that become IHT exempt if the donor survives for seven years. Care must be taken that the transferor does not continue to receive a benefit from the gifted property otherwise the 'Gift with Reservation' (GWR) rules can apply and the property will still be liable to IHT on the transferor's death.

Many individuals would like to minimise their IHT exposure and do not envisage needing the capital in their own lifetime but they are unwilling to give the assets away and then have to rely on family members to maintain them. A 'Family Investment Company' (FIC) provides a mechanism for control of assets to be retained whilst their value, or most of it, is transferred. In addition to IHT benefits, FICs can also provide substantial income and capital gains tax advantages.

Shares generally have three distinctive characteristics: voting powers; the right to receive income in the form of dividends; and the right to capital (e.g. ownership of the underlying assets). It is, however, possible to create shares that carry only one or two of these characteristics and it is this flexibility that enables an FIC to minimise IHT exposure.

An FIC is a private company. The structure of an FIC can have many variations but, in a typical scenario, an individual could transfer assets into an FIC in return for its shares, which might be divided into three different classes:

- **Class A shares that carry votes, but no right to capital or income**
- **Class B shares that carry rights to income, but no votes and no right to capital**
- **Class C shares which carry no votes and no right to income, but all rights to capital.**

Assets are transferred to the FIC and the transferor initially holds all three classes of shares. There is consequently no chargeable transfer for IHT purposes because the assets have simply been exchanged for the shares and there is no resulting loss to their estate.

The Class C capital shares can then be gifted to family members in proportions decided upon by the transferor. The substantive value of the underlying assets is thereby transferred. Provided the transferor survives for seven years from the date of the transfers, IHT does not apply.

The Class A voting shares have no assessable value for IHT but enable the transferor to maintain control of the FIC and make decisions about how the assets are invested and the timing of any income distributions.

The transferor can also retain the Class B income shares or as many as they need to maintain themselves. These shares will have an assessable value for IHT but this will be minor or insignificant compared to the value in the Class C capital shares.



Another version of the FIC is that the Class B income shares are settled into an overseas discretionary trust from which the transferor is excluded. Provided that the value of the income shares settled into trust does not exceed £331,000 (the nil rate band plus available annual exemptions), this transfer will not attract an IHT charge.

The advantage of this model is that the income, or some of the income, will accrue to the trustees and not to the Class C shareholders. This will assist the transferor to maintain family ownership of the company if that is an objective. It will also mean that the income can be reinvested in assets overseas, offering the potential for income and gains to be rolled-up free of tax.

A further substantive advantage of an FIC is that it removes the need for the costs and delays associated with the probate process after death. An FIC enables the transferor to arrange their affairs while they are still able to supervise the process rather than leaving it to less well-informed executors. The benefits of this to family members should not be underestimated. Even a simple international estate can take at least two years to administer while the costs can consume four to six percent of the total value of the estate.



# PENSIONS AND RETIREMENT PLANNING

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Saving for a comfortable and prosperous retirement should be at the top of your financial planning list, wherever you live and work, because life expectancy is higher today than ever before. Pensions are also one of the most tax-efficient ways to save, particularly for higher-rate taxpayers. A flexible retirement plan can help you accumulate long-term capital and provide a worthwhile return while taking advantage of pension-related tax benefits.

For the internationally mobile individual, there are many additional aspects of retirement planning to consider and it is essential that the chosen solution should be correctly structured to suit your circumstances. Operating across a number of jurisdictions worldwide, Sovereign provides a “one-stop shop” for retirement planning. We offer local and international retirement planning products and solutions, for individuals and corporates.

Recent UK legislation has given expatriates significant advantages – but many people remain locked into plans that do not make full use of these benefits. We will assist you to find the most cost-effective and appropriate solution to suit your personal circumstances, objectives, resources and risk profile.

Sovereign is a market leader in the provision of international pensions. We were named “International Retirement Provider of the Year – Product” at the International Adviser Product and Service Awards 2016

for “products that are differentiated from competitors as innovative and backed by consistent service and support.”

Our proposition encompasses both personal and occupational schemes, and includes:

- **Self-Invested Personal Pensions (SIPPs) - UK**
- **Small Self-Administered Schemes (SSAS) - UK**
- **Qualifying Recognised Overseas Pensions Schemes (QROPS) - Gibraltar, IOM, Malta**
- **Qualifying Non-UK Pensions Schemes (QNUPS) - Guernsey, IOM, Malta**
- **International Pension Plans (IPPs) - Guernsey, IOM**
- **Retirement Annuity Trust Schemes (RATS) - Guernsey**
- **Self-Invested Personal Pensions (SIPPs) - IOM**
- **International Corporate Pensions Schemes (Guernsey, IOM)**
- **End of Service Gratuity Schemes (EOSGS) - Guernsey**
- **Occupational Retirement Schemes (ORSOs) - Hong Kong**

In addition to product provision, Sovereign’s services cover a broad spectrum including scheme administration, technical pensions’ know-how, pension transfer guidance, investment management, actuarial services, tax planning and wealth structuring.

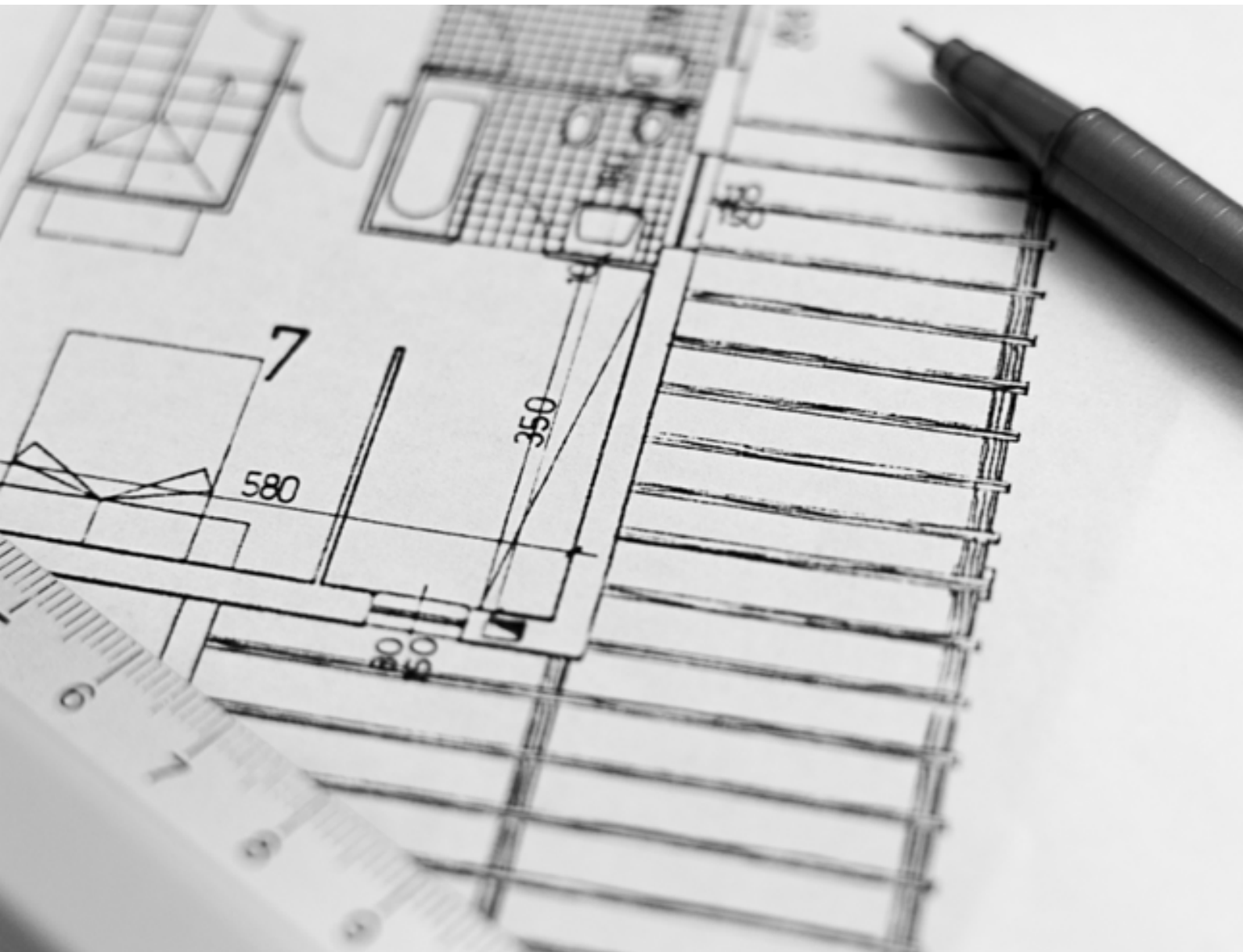
We have established ourselves as a market leader in international pensions through substantial investment in our network, administration systems and infrastructure. This multi-jurisdictional capacity, combined

with the technical knowledge provided by our in-house specialists and qualified actuaries, enables us to cater for any alterations to a member's situation over time, providing suitable options should residency and/or other circumstances change.

Sovereign's pensions' administration teams in Guernsey, the Isle of Man, Gibraltar, Malta and the UK work together with dedicated relationship managers in key global hubs –

including the Middle East, Far East, UK and South Africa – to ensure that service can be maintained to clients and introducers around the clock. Sovereign Group is authorised, wherever necessary, by financial regulators to conduct pensions business.

For further details on pensions and retirement planning, please see Sovereign's dedicated **Pensions Brochure**.



# RESIDENCE, IMMIGRATION AND CITIZENSHIP

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Most countries encourage immigration by HNWI, either by granting residency that can lead to citizenship or by granting citizenship itself in return for investment. Such schemes are generally known as 'Immigrant Investor Programmes' (IIPs), 'Citizenship-by-Investment' programmes or 'Golden Visas'.

Citizens of countries that are politically or economically unstable often wish to emigrate or take out an alternative residency or citizenship as an insurance policy if things at home take a turn for the worse. If these citizens have money to invest then it makes sense to do so in countries that will give them some kind of formal status in return.

Key drivers for investors are: mobility; quality of life; security, healthcare and education; and tax, retirement and succession planning. IIPs provide an opportunity to legally acquire a new nationality and an alternative or second passport quickly and simply, and with minimum disruption to your life.

If you are considering applying for a second residency or passport under any IIP there are a number of factors to take into account:

- The size of the investment required to gain residency
- The length of time it will take for an applicant to become eligible for citizenship
- The number of days, if any, that an applicant is required to physically reside in a country
- Whether eligibility for citizenship is also extended to an applicant's spouse or other dependants
- Whether the applicant's proposed or home country prohibits dual citizenship
- Whether the proposed country's passport provides visa-free entry to a significant number of other countries
- Whether the proposed country has any requirements related to education or work experience
- Whether the proposed country has any requirements for military or other national service
- The costs of living in the proposed country – including tax rates and tax incidence
- Whether the applicant's existing country applies an exit tax or other penalties.

Many countries have refined their immigration policies to attract only the most talented or wealthiest new citizens looking to relocate their families or invest abroad. To remain competitive, each country offers different financing requirements, immigration procedures and benefits to potential investors.

The UK's Tier Entrepreneur Visa and Investor Visa provide access to the best-ranked passport in terms of visa restriction ratings, while the EB-5 Immigrant Investor Programme offers permanent residency in US by investing \$500,000 into a government approved project.

Malta, Gibraltar, Spain, Portugal, Cyprus, Greece and Latvia all offer residency and visa free travel throughout the EU in return for a modest investment in property. In Dubai a legal right to residency can be established simply by forming a company.

One of the most recent IIPs developed for the international business elite in the last few years is the Bulgaria-EU Investor

Programme for Residence and Citizenship, while a less well-known country offering direct citizenship-by-investment is the Federation of St Kitts and Nevis in the West Indies. Neither of these programmes requires applicants to physically reside in their country.

Sovereign and its specialist external partners can guide clients through the best available IIPs in order to determine which one will suit them best. We keep up-to-date details on these schemes around the world, with their financial conditions, required investments, financing options, government application fees and requirements for the programmes, time frame to obtain permanent residence and to maintain it, as well as requirements for obtaining citizenship.

Sometimes described as the “new alternative investment”, IIPs should be treated like an insurance policy – consider acquiring it well in advance before you need it in an emergency.







# FOREIGN PROPERTY OWNERSHIP

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Sovereign assists many of its clients with the acquisition of real estate worldwide. We advise on tax and structuring and can manage the transaction process and financing arrangements. With our regional knowledge of property ownership laws and regulations, along with our tax planning expertise, we can help clients to reduce any potential exposure.

Most people who own or intend to own property abroad will not be fully conversant with local legal procedures or taxes – stamp duties, municipal and wealth taxes – and may not fully recognise the longer term implications in terms of potential exposures to capital gains tax, inheritance tax or forced heirship rules. Substantial benefits may be derived through the use of corporate, trust or foundation structures to address these issues.

Issues that would-be buyers need to consider include:

- **The purpose of the property**
- **Who will live there**
- **The legal status of the owner.**

Sovereign has long experience in structuring foreign real estate ownership. We appreciate that each family presents a unique set of circumstances and will work to balance their residence requirements with their estate planning needs and to structure ownership of real property to the family's advantage.

Through our global office network we have built particularly close relationships, over many years, with lending institutions, leading agents and foreign lawyers, enabling us to offer our clients a seamless and consistently high-level of service when acquiring real estate across the world.

UK property is a particular area of expertise. Sovereign can assist clients in the sourcing, financing, acquisition and ownership structuring of residential, 'buy-to-let', commercial and development properties, regardless of the client's domicile or their current country of residence.

# YACHT REGISTRATION AND MANAGEMENT

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Gibraltar-based RegisterAYacht (RAY) provides a wide range of maritime and professional services to yacht owners, managers and brokers worldwide. As the marine division of Sovereign, RAY combines the expertise of a dedicated team focused on meeting the needs of yacht owners together with Sovereign's expertise in corporate ownership and tax planning, as well as enjoying access to a global office network that includes Malta, the Channel Islands, the UK, the Isle of Man, Cyprus, the UAE, Singapore and Hong Kong.

Initially established to register vessels under the British Red Ensign, RAY now registers, administers and manages yachts – pleasure and commercial – on a worldwide basis. It also specialises in the provision of ownership structures, VAT and tax planning, yacht importation, safety and technical management, marine insurance and finance, crew administration and payroll, accounting and banking, foreign exchange and international payments.

Registration is the principal test of a vessel's nationality. Yacht owners must give careful consideration to selecting the most suitable Port of Registry to ensure that it reflects their profile and needs. Each Port of Registry has different regulations in place, offering its own advantages and, in some cases, disadvantages. RAY will assist yacht owners to make the right decision according to their particular circumstances.

Registration of a yacht in the name of a company rather than an individual can provide enhanced confidentiality of ownership, as well as a means to pass assets on to heirs without liability to estate duties or inheritance tax.

Legitimate mitigation of potential VAT liabilities is generally available to owners of both pleasure and commercial yachts, particularly if the yacht is purchased through a corporate structure. The options will depend on a full assessment of a yacht's ownership structure and operational requirements, as well as the personal financial circumstances of the owner. RAY is able to assist and guide owners as to the most suitable options and, if required, obtain independent VAT advice. In particular RAY has extensive experience of assisting owners with:

- **The European Union's "temporary importation" (TI) procedure, which enables non-EU resident owners of yachts that are non-EU flagged to use the yacht freely in EU waters for the permitted period of 18 months.**
- **Malta or Cyprus yacht leasing schemes, which allow owners intending to operate a yacht for their private use to pay VAT calculated on the percentage of the time that the vessel is deemed to sail in EU waters and for them to obtain a VAT-paid certificate on termination.**
- **The Malta or Cyprus special VAT schemes for short-term yacht chartering.**

For buying or selling a yacht, RAY can liaise on behalf of a client with agents and brokers and will arrange for all the necessary documentation to transfer the title and successfully complete the purchase or sale.

 **REGISTERAYACHT.COM**

Included in our comprehensive range of services are the following:

- **Corporate ownership**
- **Worldwide yacht registration**
- **VAT and tax planning**
- **Marine insurance and finance**
- **Accounting and banking**
- **Crew administration and payroll**
- **Safety and technical management**
- **Yacht importation**



# AVIATION SERVICES

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RegisterAnAircraft (RANA) is the aviation division of Sovereign. Combining the experience acquired over 30 years in the field of aircraft registration and offshore company management, London-based RANA offers a complete range of professional and highly tailored services to aircraft owners and operators worldwide.

Aircraft can be registered in the name of the owner, but registering an aircraft in the name of a company or special purpose vehicle (SPV) can provide a number of distinct advantages. Access to corporate limited liability and enhanced levels of confidentiality may be the most immediate, but a company structure also offers significant potential benefits in respect of inheritance tax and succession issues, as well as reducing transfer fees in any future sale of the asset.

RANA's services are primarily tailored to private clients with corporate jets, turboprops or helicopters but we can also assist commercial passenger and freight operators as well as general aviation entities and fliers.

All such corporate structures must comply with the current legislation in the home country of the beneficial owner and with international standards. With over 30 years' experience in the field, Sovereign is well placed to advise on these issues.

Whether a client is purchasing a new or a used aircraft, or simply re-registering an existing aviation asset, RANA will liaise with aircraft manufacturers, brokers, technical specialists and registries.

RANA is able to advise on the most appropriate registry for your aircraft. Key considerations will be the proposed use and operating base of the aircraft, the cost of registration, customer service and ease of process, geographical location and language.

In addition to its comprehensive knowledge base, RANA has developed good contacts with aircraft registries in Europe, the Caribbean, the US and elsewhere. Once an aircraft has been registered, RANA can further assist with ongoing liaison with aircraft registries, technical representatives and aircraft managers with particular reference to annual inspections and certifications.

 **REGISTERANAIRCRAFT.COM**



Our offering to clients who operate, or who are looking to acquire aviation assets, covers five clearly defined services, which together add value at each state of the ownership chain or can be provided on a one-off basis to fulfill a particular requirement.

- **Worldwide aircraft registration**
- **Ownership structures**
- **Aviation insurance**
- **Aircraft finance**
- **Aviation consultancy and photography**

For clients looking to purchase corporate aircraft, RANA will undertake an initial assessment of the requirements – including current flying and the intended operating model (using the aircraft solely for private/corporate use or for charter when not required). Based on the findings of this initial assessment, RANA will:

- **Identify suitable aircraft models in respect of passenger accommodation, typical range and the intended operating base.**
- **Suggest other solutions if ownership is not practical or cost effective by exploiting links with aircraft charter brokers, providers of fractional ownership or hours-based flying programmes.**

Our aviation consultancy covers the spectrum from general advice on commercial and corporate aircraft types through to researching available airframes for individual owners or airline operators. RANA has access to extensive worldwide databases and other sources of information and is able to recommend technical specialists to appraise used airframes. We can also recommend suitable managers for the aircraft in respect of both operations and ongoing technical support.



# SOVEREIGN INSURANCE SERVICES

Insurance is one of the most effective ways to manage any risks that could diminish your lifestyle. Developing an insurance portfolio that will not only protect your assets but also provide liquidity is a vital part of the wealth management equation. Sovereign Insurance Services (SIS) provides the insurance component of the Sovereign's Private Client product suite.

SIS is positioned to offer the full range of insurance broking services that any Sovereign client may require. Our role is to work for our client, not the insurer, and to provide the most suitable insurance products for your needs at the most competitive pricing levels available in the international insurance markets.

Licensed by the Gibraltar Financial Services Commission, SIS has developed strategic partnership arrangements with underwriters and partners throughout the international insurance sector to ensure we can meet our client's insurance requirements.

Our range of insurance products includes, but is not limited to, the following:

- **Bespoke international insurance programmes for high value homes, including collections of valuables such as jewellery, artworks, antiques and classic cars**
- **Corporate liability programmes including Directors and Officers (D&O) Liability Insurance, Professional Indemnity (PI) Insurance and Cyber Insurance**
- **Commercial Insurance – Public Liability Insurance, Employers' Liability Insurance and Legal Protection Insurance**
- **Office insurance packages – Office Buildings and Contents Insurance, Business Interruption Insurance, Liabilities**
- **Corporate and Private Healthcare/Medical Insurance**
- **Key Person Insurance**
- **Personal Accident and Illness Insurance, Disability Insurance and Income Protection Insurance**
- **Marine and Yacht Insurance**
- **Private and Corporate Aircraft Insurance**
- **Kidnap and Ransom Insurance.**



# CONFIDENTIALITY AND TRANSPARENCY

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Generally, in all countries that follow English common law there is an implied duty for management companies, bankers and other professionals to keep their clients' affairs confidential. In some countries this common law duty may be supplemented by local legislation that imposes criminal penalties on those who breach confidentiality or attempt to get others to do so.

Confidentiality, of course, is very different from secrecy. In the past two decades there have been a number of international initiatives – listed below – that are designed to increase transparency. When fully implemented, these initiatives will see 'secrecy' disappear completely but this will not concern structures and arrangements that are legally and fiscally compliant.

Structures can still provide efficiencies. Legitimate planning that utilises compliant structures has always been and remains effective. Expert advice is essential not just to ensure the correct planning but also to demonstrate that you have taken care to achieve tax compliance. Anyone with concerns over their existing arrangements would be well advised to contact their nearest Sovereign office for review.

## **KNOW YOUR CUSTOMER (KYC) PRINCIPLES/DUE DILIGENCE**

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The Financial Action Task Force (FATF) developed a series of Recommendations that are recognised as the international standard for anti-money laundering (AML) and combating the financing of terrorism (CFT). First issued in 1990, the FATF Recommendations have been revised to ensure that they remain up to date and relevant, and they are intended to be of universal application. As a result, all corporate and trust service providers and financial institutions have a statutory duty to implement KYC procedures for all clients, new and old. Clients must expect to supply proof of identity, proof of residential address and references. They must also explain the source and business purpose for any substantial movement of funds. Compliance with these standards brings additional costs and inconvenience but is entirely unavoidable. KYC is now mandatory under local and international regulations and/or laws.



## **AUTOMATIC EXCHANGE OF INFORMATION (AEOI)**

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### **- OECD Common Reporting Standard (CRS)**

At the G20 summit in 2013, the world's 20 largest economies mandated the OECD to create a single global standard for the automatic exchange of information. The CRS provides for annual automatic exchange between governments of financial account information, including balances, interest, dividends and sales proceeds from financial assets, reported to governments by financial institutions and covering accounts held by individuals and entities, including trusts and foundations. As of May 2016, over 100 jurisdictions around the world had committed to implement the CRS. More than 50 began their first exchanges in 2017, with the remainder following in 2018.

### **- US Foreign Account Tax Compliance Act (FATCA)**

FATCA, which was enacted in 2010 and came into effect in 2014, is designed to target non-compliance by US taxpayers using foreign accounts. It requires foreign financial institutions (FFIs) and certain other non-financial foreign entities to report information to the IRS, either directly or via their local revenue authority, about financial accounts held by US taxpayers, or held by foreign entities in which US taxpayers hold a substantial ownership interest. If not, they will be subject to withholding on withholdable payments. FATCA compliance will differ depending on whether or not an FFI is in a country with an intergovernmental agreement (IGA) with the US. There will be further differences according to the type of IGA – Model 1 or Model 2 – and whether the IGA has provisions requiring US reciprocity.

## **BENEFICIAL OWNERSHIP**

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In April 2016, the UK, Germany, France, Italy and Spain announced a pilot scheme to exchange beneficial ownership information relating to "companies, trusts, foundations, shell companies and other relevant entities and arrangements". It will be exchanged "in a fully searchable format" and will include "information on entities and arrangements closed during the relevant year. The exchange is to operate as a pilot, during which participating economies will explore the best way to exchange this information with a view towards developing a "truly global common standard". Ultimately, the system should develop into one of "interlinked registries containing full beneficial ownership information".



# WHATEVER YOUR NEEDS – CHOOSE SOVEREIGN

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The Sovereign Group has been involved with the set up and administration of an estimated 30,000 structures worldwide since 1987. We now employ, directly, well in excess of 400 trained and experienced staff throughout the world, and there are many more staff working in our joint ventures and managed operations.

We have established a compelling, specialist offering in the provision of private client services that few of even the largest international legal or accountancy firms can match. The depth and breadth of this offering means we have built up a huge reserve of in-house knowledge, expertise and experience. There is very little that we haven't seen before and there are few areas where we cannot be of help.

This brochure sets out Sovereign's core specialisations but there is much more we can do to help and we would be delighted to do so. If we can't assist our clients with an aspect of their personal or business affairs, we will almost certainly know someone who can. So whatever your need, just ask and we will do our best.

## CONTACTS

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### ASIA

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#### CHINA, BEIJING

Tel: +86 (0)10 5661 7052  
[china@SovereignGroup.com](mailto:china@SovereignGroup.com)

#### CHINA, SHANGHAI

Tel: +86 21 5211 0068  
[china@SovereignGroup.com](mailto:china@SovereignGroup.com)

#### HONG KONG

Tel: +852 2542 1177  
[hk@SovereignGroup.com](mailto:hk@SovereignGroup.com)

#### SINGAPORE

Tel: +65 6222 3209  
[sg@SovereignGroup.com](mailto:sg@SovereignGroup.com)

### CARIBBEAN

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#### BAHAMAS

Tel: +1 242 322 5444  
[bh@SovereignGroup.com](mailto:bh@SovereignGroup.com)

#### BRITISH VIRGIN ISLANDS

Tel: +1 284 495 3232  
[bvi@SovereignGroup.com](mailto:bvi@SovereignGroup.com)

#### TURKS & CAICOS ISLANDS

Tel: +1 649 946 2050  
[tci@SovereignGroup.com](mailto:tci@SovereignGroup.com)



## EUROPE

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### CYPRUS

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

### GIBRALTAR - TRUST & PENSIONS

Tel: +350 200 76173  
gib@SovereignGroup.com

### GIBRALTAR - YACHT REGISTRATION

Tel: +350 200 51870  
ray@SovereignGroup.com

### GIBRALTAR - INSURANCE SERVICES

Tel: +350 200 52908  
sis@SovereignGroup.com

### GIBRALTAR - WEALTH MANAGEMENT

Tel: +350 200 41054  
sw@SovereignGroup.com

### GUERNSEY - TRUST & PENSIONS

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

### ISLE OF MAN - TRUST & PENSIONS

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

### MALTA - TRUST & PENSIONS

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

### PORTUGAL

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

### SWITZERLAND

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

### UNITED KINGDOM, LONDON

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

### UNITED KINGDOM - AIRCRAFT REGISTRATION

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

### UNITED KINGDOM, WIRRAL

Tel: +44 151 328 1777  
ukpensions@SovereignGroup.com

## MIDDLE EAST & AFRICA

---

### BAHRAIN

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

### MAURITIUS

Tel: +230 244 3210  
mu@SovereignGroup.com

### SEYCHELLES

Tel: +248 4321 000  
sc@SovereignGroup.com

### SOUTH AFRICA

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

### UNITED ARAB EMIRATES, ABU DHABI

Tel: +971 2418 7640  
ad@SovereignGroup.com

### UNITED ARAB EMIRATES, DUBAI

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



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