



When business as usual becomes unusual

Session 6: Private Client tax update

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Introduction

Format of the webinar

Asking questions

Further webinars and updates

Reference to materials / webinar playback





Webinar presenters



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Agenda

General Isle of Man and UK tax updates

Taxation of trust distributions in the hands of UK beneficiaries

Winding up trust structures – key UK tax issues

Wrap up and questions





UK & IOM Budgets (& more)

David Parsons – Partner, Tax





Isle of Man Tax: Budget and Covid-19

- No material changes to tax/ NIC rates and allowances
- NI holiday scheme extended for a further year
- Key Employee Concession: now in legislation
 - New residents essential to development of new business on Island
 - Results in additional employment on Island
 - Favourable tax regime for first 3 years
- Tax cap: 10 year cap introduced (£200k single person/ £400k married couple)
- Working from home arrangements: £8/ week or £35/ month
- Personal tax return filing deadline: moved to 6 November





UK tax: Miscellany of measures



Budget measures

- Entrepreneurs' Relief (now Business Assets Disposal Relief)
 - Life time allowance now £1m (again)
- SDLT surcharge of 2% for non-UK residents buying UK residential property (April 2021)
- No other major changes to IHT or CGT

Other measures

- 30 day CGT reporting (and payment) on UK residential property
- Personal residence: exceptional circumstances
- Off payroll working (IR 35) measures: deferred to April 2021
- Additions to trusts and transfers between trusts involving changing domicile of settlor



Trust Distributions

Katie Kneale – Senior Manager, Tax





Non settlor-interested trusts: the benefits charge

- Definition of “settlor-interested” different for income tax and CGT purposes
- Relevant income: ss731 ITA 2007 *et seq* and ss720 ITA 2007 *et seq*
- Stockpiled gains: s87 TCGA 1992 and s3 TCGA 1992
- Offshore income gains
- Unmatched benefits carried forward
- The motive defence
- Beneficiaries who are remittance basis users
- Essential for trustees of non-UK resident trusts with UK resident beneficiaries to calculate and update the relevant income, OIG and stockpiled gains pools every tax year and carry out an annual “matching” exercise





Settlor-interested trusts

- UK domiciled settlor including returners: taxed on an arising basis under s624 ITTOIA 2005, s720 ITA 2007, s86 TCGA 1992 and s3 TCGA 1992. Watch out for capital payments
- Deemed UK domiciled settlor as long stayer, trust not tainted: taxed on an arising basis in relation to UK income and OIG, otherwise benefits basis
- Deemed UK domiciled settlor as long stayer, trust tainted: as per UK domiciled settlor, plus potentially benefits charge
- Non UK domiciled settlor: taxed on an arising basis in relation to UK income and potentially OIG, otherwise benefits basis subject to the remittance basis of taxation
- Benefits provided to someone other than the settlor
- Indirect distributions and onward gifts





Winding up or restructuring offshore structures

Justine Howard – Senior Manager, Tax





Reasons to wind-up/restructure

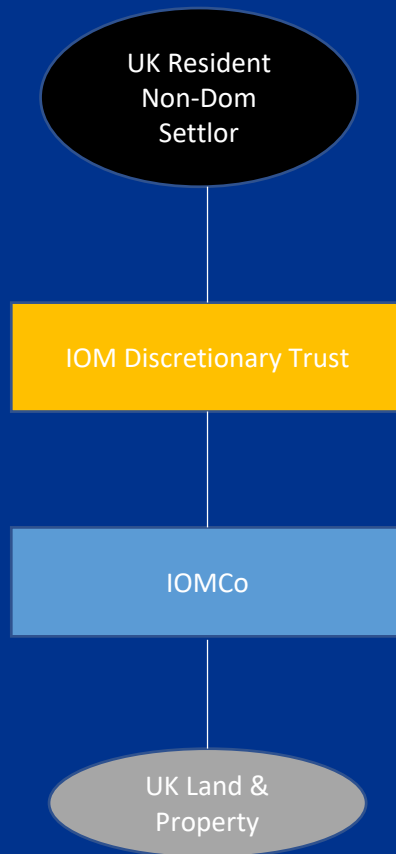
- **No longer tax-efficient**
- **To simplify the structure**
- **To minimise running costs**
- **May not have a choice if funds are needed for distributions to fund living expenses and/or failing businesses**
- **Options for winding up:**
 - Dividend in specie pre liquidation or dissolution
 - Transfer of assets in course of voluntary liquidation



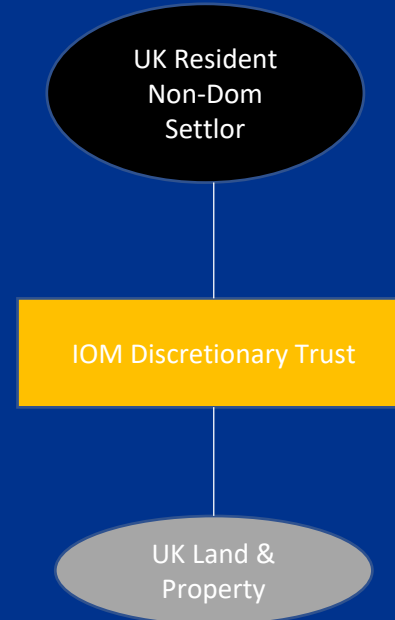


Example of restructuring/winding up scenario

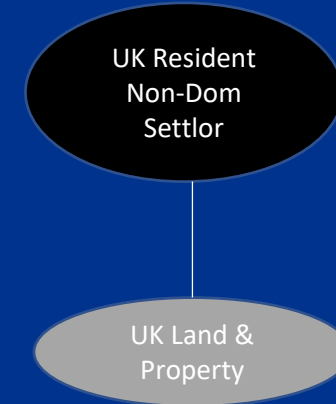
Before



After



or





Reasons to wind-up/restructure

- **No longer tax-efficient**
- **To simplify the structure**
- **To minimise running costs**
- **May not have a choice if funds are needed for distributions to fund living expenses and/or failing businesses**
- **Options for winding up:**
 - Dividend in specie pre liquidation or dissolution
 - Transfer of assets in course of voluntary liquidation





Dividend in specie vs voluntary liquidation

Dividend in specie

- Immediate charge to CT on IOMCo
- Capital gain under s3TCGA subject to motive defence
- Creates relevant income for s731 ITA purposes

Voluntary Liquidation

- Immediate charge to CT on IOMCo
- Capital gain under s3TCGA subject to motive defence
- Immediate charge to CGT on Trustees on liquidation (indirect disposal of shares)
- Creates stockpiled gains for s87 purposes



UK Tax Considerations

- Residential or commercial property?
- Relevant income/stockpiled gains levels and who will ultimately benefit from trust?
- Income producing? Trading or Investment purposes?
- Settlor interested or for the use of another beneficiary?
- Future intentions re property eg any planned future sales or for future generations
- Any debt on the property and who is the debt with?
- Is the property occupied by a beneficiary and is PPR relief available?
- NB rebasing of property to 2015 or 2019 – could be a good time to do it now while market values are low?
- Other assets within the company?
- Immediate UK tax costs that will need to be paid and filing obligations.





Compliance reporting considerations

- Inheritance tax accounts – IHT100
- Trustees dispose of UK land - non-resident capital gains tax return
- Trustees dispose of shares in a property rich company - non-resident capital gains tax return
- Underlying company disposes of UK land - corporation tax return
- Transfer of UK property within structure – SDLT return
- The UK's Trust Registration Service





Wrap up and questions

Katie Kneale – Senior Manager, Tax





Thank you



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