DE-ENVELOPING OF UK RESIDENTIAL OFFSHORE PROPERTY STRUCTURES

What is De-enveloping?

De-enveloping is the restructuring of UK residential property held in Offshore Companies by transfer or acquisition to alternate offshore structures.

Background

In April 2012 the UK Government announced that they proposed to introduce a radical new tax regime for UK residential property held in Offshore Companies with a value in excess of £2million. Stamp Duty Land Tax for any purchases was increased to 15%, the proposed introduction of Capital Gains Tax on any disposal by an offshore Company and also the proposed introduction of an annual charge (of approx. 0.7% of the property’s value) for properties that remain in Offshore Companies.

Alternative Options

It is therefore necessary to look at tax efficient alternatives to using an Offshore Company for purchasing and holding residential property.

For a purchase of an owner occupied residential property a Double Trust structure could be utilised. Two Trusts are set-up by the offshore Trustee, one Trust will be settled with funds, whilst the other Trust purchases the property. By establishing a Double Trust Structure it is possible to protect the property from any of the proposed charges.

In certain circumstances, the creation of a Limited Partnership would be a viable alternative. The Limited Partnership would be established offshore - the Trustees acting as the General Partner and the beneficiaries acting as Limited Partner - and would purchase the property directly. This structure also mitigates the proposed charges.

Timing

The proposed changes to legislation are to be introduced in April 2013 so time is of the essence in regards to initiating the planning. Providing clients are proactive it is possible for us to complete the planning within a two to three week timeframe.

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Please note that this information does not constitute advice of any kind and tax advice should be taken by a proposed client prior to entering into an offshore tax structure.
These are just two examples of the advantages that trusts may provide, and there are many other ways in which we see structures such as this utilised on an on-going basis. If you think that a trust of this sort may be of benefit to you please call us to discuss your personal circumstances and requirements.

**Summary of advantages of trusts**

- A flexible arrangement which can be used for a wide range of purposes including estate planning, tax planning and wealth preservation;

- Confidentiality – a trustee has a duty to keep accounts and to account to the beneficiaries of a trust. There is however no record of the trust or its assets on any public registry;

- Allows wealth to be preserved for the benefit of future generations;

- Allows the individual to maintain the excluded property status of foreign assets and therefore provides a potential shelter from UK Inheritance Tax;

- Can provide deferral of Capital Gains Tax;

- Allows tax efficient and effective distributions to non UK resident beneficiaries;

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