Asian investor, UK assets? Caveat Emptor, careful structuring is required

To what extent do Singaporean and other Asian owners of properties and other assets in the UK expose themselves to UK taxes? And can those exposures be managed and mitigated? Helen Woods, Managing Director, Equiom Solutions, Equiom Group, says that the answer involves somewhat complex notions of residence and domicile.

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RESIDENCE, SHE EXPLAINED to the assembled audience in Singapore on November 2, is where somebody is living at any one time and it is indeed possible to be resident in more than one jurisdiction, especially as these days people spend more time in various jurisdictions. "It is important to consider that one might be resident in a jurisdiction even though one thought one was not," she explained.

Domicile is much more complex and impacts potential exposure to inheritance tax in the UK. Woods noted that domicile is not so easy to pin down as residence, but, in

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simplified terms, it is where the permanent home is, even if that might not be where someone is living at the time.

"It is where the heart is, where you would like to end up eventually, where you would like to be after your working life," Woods explained. "Quite often people move to a jurisdiction like Singapore and believe they have acquired a domicile in Singapore, but that may not be the case. It is far more than just spending time in a jurisdiction. Working this out is vital."

Woods added that for UK tax purposes there is also the concept of deemed domicile. "So even if you do move to a jurisdiction with the intention of making it your permanent home, you could still be deemed domiciled in, for example, the UK if that is where you have moved from. The downside is that there is a potential exposure to inheritance tax - and the UK rate of inheritance tax is 40% - and that is a lot of tax for the inheritors to have to find, especially if it comes as a surprise."

To mitigate this exposure Woods advises clients to consider using an offshore company, which in turn holds the UK assets. The offshore company is not a UK asset for inheritance tax purposes and there would therefore be no requirement for the executors to obtain probate in the UK, which can be time consuming and ever more expensive.

Trusting a trust

For estate planning purposes a trust structure might also protect the beneficiary of the assets against a variety of UK taxes, for example UK income tax rates at up to 45%, capital gains tax at 28% and inheritance tax of 40%.

The trust structure provides a lot of advantages, being completely outside the scope of inheritance tax, as well as protecting against some aspects of UK income tax and capital gains tax. But Woods cautions it must be professionally established and the assets correctly transferred.

In conclusion Woods sees a variety of positive solutions to these issues that, if correctly organised, will provide Asian investors with predictability for future assets disposals or asset transitions if they own assets overseas, especially in the UK. ■