

Succession Planning - The Use of An Isle of Man Trust

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By **Paul Harvey**, 24th June 2020

A trust can be used for a variety of reasons including for estate and succession planning and administering family assets or wealth. A trust may often be used with underlying companies and Dixcart Isle of Man can help with such formation and administration services. The Isle of Man is a leading offshore jurisdiction for trusts with its own trust legislation.

What is a Trust?

Simply put, a trust is a legal arrangement where the ownership of the "Settlor's" assets (such as property, shares or cash) is transferred to the "Trustee" (usually a small group of people or a trust company) to hold and manage for the benefit of third parties known as the "Beneficiaries" under the terms of a Trust Deed.

A trust can provide flexibility as it can set out terms on how and when assets may be distributed after the death of the Settlor and often without burdening the beneficiary with the weight of responsibility that immediate wealth inheritance can bring.

What are the Main Reasons for Establishing a Trust?

- *Preservation of wealth*

The entrusting of the legal title of the assets in a Trustee prevents the ownership of the assets being diluted by successive generations, whilst allowing individuals to continue to

benefit from the assets, such as a family business. As the legal title to the assets remains with the Trustee, this prevents the dilution of ownership that would occur if the assets were distributed from the original owner to second and third generations.

- *Circumvention of forced heirship laws*

By divesting assets during the lifetime of the Settlor, the trust will not form part of his estate upon his death, avoiding forced heirship rules which may apply under laws in the Settlor's country of residence.

- *Succession planning*

As the Settlor no longer owns the assets, the need to obtain probate or similar formalities on his death can be avoided. A trust is therefore an efficient vehicle for transferring the benefits of property through generations, providing a useful tool for Settlers as part of tax and financial planning.

- *Asset protection*

The Isle of Man offers a secure and stable political environment in which to hold assets and protect them from strategic risk. In addition, a trust can offer protection from creditors or other third parties in the country of domicile or residence of the Settlor.

- *Confidentiality*

On the settlement of assets into a trust, those assets cease to form part of the estate of the Settlor. The legal title passes to the Trustee, whilst the right to future enjoyment can be passed to the Beneficiaries. Private trusts formed in the Isle of Man are not required to have accounts audited or to file accounts with any public body.

The Use of an Isle of Man Trust

Using an Isle of Man trust for estate planning is a popular and efficient way to structure your assets. The Isle of Man is autonomous from the UK and is a self-governing Crown Dependency. This political independence and the Trusts Act 1995 mean that all matters and questions related to an Isle of Man trust are determined solely by local laws. That

said, as much of the island's legislation is based on English Law, decisions of the English High Court and the Court of Appeal will be persuasive in the Isle of Man courts.

The location of a trust and its Trustees is an important factor to consider when creating a trust. We advise clients to establish a trust in a jurisdiction which is reputable and well-regulated. The Isle of Man satisfies such requirements and is considered a suitable location of choice for a trust.

Isle of Man trusts receive many benefits, including:

- An Isle of Man resident trust has no liability to Manx tax provided there are no Manx resident beneficiaries and no taxable Manx source income. Bank interest from Manx banks is exempt if there are no Manx resident beneficiaries.
- No income tax for non-residents: non-resident Beneficiaries can benefit from a zero rate of tax for either distributed or undistributed income.
- No capital gains tax, inheritance tax, gift tax or estate tax.
- There is no restriction on the accumulation of income.
- Privacy and confidentiality: Under current legislation Isle of Man trusts are not required to provide information on public record, offering an additional level of confidentiality protection, for trust Settlers and Beneficiaries, nor do they need to be registered (unless they hold Isle of Man real estate or are charitable).
- The ability to appoint a 'Protector' (such as a trusted professional advisor) to provide an additional layer of oversight for the Settlor and to provide further advice, if required.

Summary

Not only do trusts help to navigate the tax environment and provide long-term security for the Beneficiaries in an efficient manner, they also allow the wishes of the Settlor to be carried out over a longer period of time, with the correct discretion.

Additional Information

The Dixcart Group has provided Trustee and related trust services for over forty-five years and has extensive experience in the formation and administration of trusts.

The Dixcart Isle of Man office can assist with the formation and administration of trusts and also with foundations, private and managed trust companies and other family office services. Our team of professionals, work with private individuals, international families and also with legal and accounting firms around the world.

Dixcart Management (IOM) Limited is licenced by the Isle of Man Financial Services Authority to provide trust and corporate services. The company is also a member of the Association of Corporate Service Providers in the Isle of Man.

For more information, please contact the Dixcart office in the Isle of Man:
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