

THE PRINCIPESSA

Milton Grundy

When she was entertaining her British friends, the Principessa was fond of saying – and she did not mean it entirely as a joke – that Italians treated taxes more as suggestions than commands. And now that she was coming to live in England, she was discovering that British taxes were much the same – for the “Non-doms” at least. She would come to England for a maximum of nineteen years, and if she invested only abroad and kept her income and capital abroad, she could forget about income tax and capital gains tax, and about inheritance tax too. She knew that after the first seven years she would have to pay £30,000 a year for the privilege, but that (after the recent decline in the Sterling exchange rate) did not strike her as unreasonable. But it left two problems unsolved – first, what was she going to do for spending money, and second, how could she own a home in the United Kingdom?

She first addressed her mind to the problem of remitting money to the United Kingdom without incurring a tax charge. The money she had before she arrived – the “old money”, she could remit without any tax liability, but the income she received and the gains she made afterwards – the “new money”, she must keep abroad. If she each year accumulated a 5% return on her investments as new money, and spent 5% of the old money, she could live in England for twenty years without any tax, and still keep her fortune intact. It seemed like a good plan. What she needed was some machinery for keeping the new money abroad while being at liberty to remit the old money.

To solve this first problem, she turned to her brother Giorgio. Giorgio had established a trust for the benefit of his grandchildren, in the Island of Guerjesman. He had started it with €10,000, but had never got round to settling more (or perhaps, she wondered, had never – after recent events in the financial markets – been in a position to do so). The Principessa had a proposition for him: she would deposit her money – most of it anyway – with his Guerjesman Trustee for twenty-one years, on the following terms:-

- (i) the deposit would carry a trifling rate of interest, and could be withdrawn (as a whole or in part) at any time;
- (ii) at the end of the twenty-one years or (if earlier) when the last withdrawal was made, the Trustee would pay her, by way of further reward for the use of her money, 99% of the benefits it had received – that is, the aggregate of the income and gains the Trustee had accumulated, less any losses and less the interest payments, provided that in no circumstances should the liability of the Trustee exceed the assets in the trust fund.

She appreciated that this was an unusual arrangement, but evidently it was not unheard of: one of her Muslim friends had a Sharia-compliant bank deposit in Dubai, which was not very different, and a little while ago she had met a very clever young man, who used a UK version of such a deposit as a way of turning income into a capital gain. And she explained to Giorgio that this arrangement could – if all went well – be a good deal for his grandchildren. Of course, there was the risk that they would be left with nothing, but if he would appoint her the Protector of the trust, she would use her position to ensure that the Trustee made sensible investments. At the same time she would ensure that the Trustee invested only outside the United Kingdom.

She then turned to her second problem. She had never lived in rented accommodation, and she was not going to start now. She would buy herself a nice house – in Belgravia maybe, or Notting Hill Gate. But such a house would bring with it a potential inheritance tax liability. That must be avoided. But how?

She remembered that her brother Giorgio used to have a collection of Ming vases or – more precisely, he had a Liechtenstein Anstalt which owned the collection of Ming vases. Only last year he sold the Anstalt to a “Non-dom”, who wanted to convert unremitted foreign income into a decoration for his London home without incurring a tax charge. That was not her problem – and never would be, but the purchase of the Anstalt gave her an idea. She knew Giorgio was looking for a purchaser for his collection of Tang vases – or, more precisely, for his Guerjesman company which owned them. These vases were quite a recent acquisition and were not worth any more than cost. Giorgio agreed to sell the company to her for the cost price of the vases. What happened next was choreographed by her solicitor (with the advice of Counsel), but the upshot is that:-

- (i) most of the company’s shares are preference shares, and they are owned by a “thin” Guerjesman trust she created (i.e. on trust for herself for life and subject thereto as she may appoint);
- (ii) the company has sold the vases and lent the proceeds to the Guerjesman Trustee on arm’s length terms;
- (iii) the Principessa has borrowed the proceeds from the Trustee interest-free and used them to buy a house; she has charged the house to the Trustee, which has charged the debt to the company;
- (iv) each year, the Trustee waives its right to a preference dividend, in consideration for which the company waives its right to interest.

The Principessa is happy to have the title to the house in her own name, and pleased that she will enjoy principal private residence relief on any sale. The one cloud on her horizon is the UK Government's propensity for changing the rules, sometimes with retrospective effect. She hopes they have learnt their lesson from the loss of taxpayers which followed their last changes, but if not, she can always look at Switzerland or Monte-Carlo, or at Gibraltar, Barbados or Seychelles, and – come to think of it – she has a cousin who retired to the Algarve with some offshore structure which left him with a very manageable tax liability.