STRUCTURING FAMILY WEALTH OFFSHORE

A GUIDE FOR MIDDLE EASTERN FAMILIES AND THEIR ADVISORS
Executive Summary

One of the most prosperous jurisdictions in the world, the Middle East is home to 72 of the world’s richest people. A high percentage of this massive wealth creation has come from family owned and managed businesses, often headed by the family patriarch. Whilst this vibrant region continues to flourish, there are certain issues and challenges that are becoming more prevalent, namely succession planning and wealth preservation.

In this paper, we look at how specific methods of structuring family wealth can also benefit the often complicated business and family hierarchal structures of the successful MENA (Middle East and North Africa) family business.
About the Authors

Katherine Ellis, Group Director

For two decades Katherine has been active in the UAE as a specialist in luxury asset structuring and restructuring, predominantly yachts and aircraft. The introduction of the Family Office model in the UAE around 2008 proved a natural evolution for Katherine’s skill set and in 2012 she was appointed to drive Boston’s international growth strategy.

“The one thing I have learned in my many dealings with families in the UAE is the importance of absolute trust and confidentiality. Up until a few years ago, I was primarily involved in helping clients structure their personal assets, predominantly yachts and aircraft. Now, with the growing internationalism of wealth generation from successful families, we are increasingly involved in personal and business assets, and with that comes an enormous responsibility both to the current owners, and their successors.”

Katherine is a fellow of the Association of Chartered Accountants and is a former Isle of Man President of the Association. She also holds an Institute of Directors Diploma in Company Direction and has been instrumental in the development of the Isle of Man’s shipping and aircraft registries.

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Sarah Ingrassia, Client Director

Sarah is a Director of Boston Limited and is responsible for a number of key clients, as well as overseeing one of our administration teams. Sarah brings extensive experience in the trust and corporate service provider industry, in a career spanning three decades with blue chip companies such as Barclays Private Bank and Trust and Ernst and Young. Sarah is a member of the Society of Trust and Estate Practitioners, gaining distinction in 2005. She served as a Director of STEP Isle of Man for over seven years, is an associate of the Chartered Management Institute and was part of the winning team in the Manx Executive Challenge. In 2010, Sarah presented at Jesus College, Oxford as part of the prestigious Willoughby Prize event.

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Alex McNee, Managing Director, Fiduciary

Alex is responsible for Boston Group’s fiduciary business. His appointment as Managing Director was driven by our ambitions to deliver an unrivalled service to a growing fiduciary client base. Alex has a wealth of experience serving international ultra-high-net-worth individuals, as well as lending his experience to the Boards of numerous trading companies. He holds the STEP diploma in International Trust Management. He is a member of the Institute of Directors and a Fellow of the Institute of Chartered Managers.

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Why Structure Family Wealth?

Unlike other regions around the world, a very high percentage of private sector businesses are family-owned. Many of the successful businesses are managed by first generation founders, often the family patriarch. As these businesses have matured and grown, there is an increasing need to protect the core business assets, and the families’ personal assets. Succession planning and wealth distribution, in what can be a highly complex family structure, is also an important element in the founders’ thoughts for the future.

For many years, family businesses in the region have enjoyed substantial growth and prosperity. More recently, falling oil prices and global economic upheaval have impacted and whilst the general trend remains extremely positive, there is an increased focus on implementing strategies for asset protection. Political instability and nation state sovereignty issues have also caused concerns in the region.

It is not surprising that in such a positive and buoyant economy, the notion of longer term asset protection has not been high on the corporate agenda. Now though, amid the political and economic challenges and the successful founding patriarchs need to consider succession planning, wealth and asset protection are increasingly important considerations. The rise of popularity in what has been coined as the ‘Family Office’ is testament to this changing thought process.

“In light of recent political and economic instability, the Family Office is an excellent vehicle for preserving the wealth and assets created by successful Middle Eastern families and their businesses.”

What is a Family Office?

In its most simplistic form, a Family Office is a private wealth management advisory firm which serves an ultra-high-net-worth individual or family. This can also be termed a ‘Single Family Office’ (SFO). The ‘Family Office’ (FO) generally performs centralised management of investments, assets, estate planning, tax planning and philanthropic planning.

An MFO (Multiple Family Office) is a specialist company, like Boston, which manages the affairs of multiple ultra-high-net-worth individuals and families. The popularity of the specialist MFO has grown quickly as confidence in the major financial institutions has eroded.

A Family Office service is about more than just providing the right mix of concierge, administration, and advisory services; there are some important institutional criteria to be considered. First, absolute independence is essential. If you have interests other than those of the family to consider, then you are not offering a genuine Family Office service. Institutions in which staff are incentivised to win assets under management or have product sale targets are incapable of this degree of independence.
Second, Family Office services require an in-depth, even intimate understanding of a family and its different dynamics, politics, and concerns. The level of detail to be considered is far beyond that which many financial institutions are used to handling. High staff turnover makes this entirely unachievable; relationships in this service area should be measured in decades, not years, so your relationship managers need to have jobs for life.

Third, confidentiality is supremely important to most wealthy families. Whilst all financial service providers should offer strong client confidentiality, there is a perception that complete confidentiality is more difficult to ensure with larger organisations. Small organisations built around tight-knit teams are, in my experience, perceived by clients as better able to control access to information.

Together, these key issues rule out many financial institutions and intermediaries from offering a ‘true’ multi-Family Office (MFO) solution. Large organisations will find it particularly difficult to deliver services within these parameters, as they are more likely to have their own product portfolio within the business or group, it is more common for them to work to AUM targets, and they frequently have higher staff turnover than smaller companies.

**When would a family need a Family Office?**

Recent economic instability, particularly in two of the most important and historical asset classes in the Middle East, oil and property, has incentivised families to diversify their asset-base to ensure the huge amount of wealth they have amassed is sustainable, well-structured and can be passed from generation to generation.

To add to the mix, the introduction of FATCA and the implementation of the OECD’s Common Reporting Standard (CRS) have introduced alien concepts to a region that has never had to consider financial reporting and compliance. With such diversification of wealth and assets, and potentially multiple holding vehicles involved, meeting these common reporting standards will be time consuming, costly and challenging.

These relatively new assets are often international, which creates the opportunity to hold them outside of the Middle East, thereby spreading the potential risk from future economic or political instability. The Family Office is an excellent vehicle for both governance and security of this asset diversification.

A lot of the family wealth in the Gulf countries (GCC) remains unstructured, a much higher percentage than in many other wealthy regions of the globe. As a result, the wealth is vulnerable in several ways, and most notably so at the point of familial succession. Indeed, during a recent forum in Dubai, a figure was quoted of USD 16 trillion of wealth held by UHNW individuals which will be passed on to the next generation within the next three decades.

This is one of the primary reasons for the rise of the Family Office in the Middle East. Many founders are now nearing the point where succession planning needs to be considered, and whilst the often-metonic growth of the business has created enormous wealth, it has often also created enormous complexity in the makeup of wealth and assets. So, for many, the priority now is to understand exactly where the wealth is, then to protect and preserve it.
The importance of asset segregation

One of the most important benefits a Family Office can bring is governance and structure, particularly for the Middle-Eastern family business owner. Often, the family businesses can be highly complex with multiple generational strands, bloodlines and marriage lines to consider. The Family Office provides a controlled structure for successfully separating what is personal wealth from family and business wealth.

The first important step is the basic segregation of personal and business assets. This ensures that in the event of a business failing – and family business, like wealth, are most vulnerable during changes of leadership – the owning family’s personal assets remain secure, at least. This basic step is yet to be taken by many GCC families, yet it is only the start of a process. Ideally, both personal and business assets should be further segregated based on geography, asset type, and risk profile.

By way of an example, let’s consider a family with onshore and offshore business assets as well as personal assets in various territories including multiple properties and a private jet. The starting point, after a comprehensive audit, would be to separate the onshore business from the offshore business, separate the business assets from the personal assets, and then further segregate the aircraft ownership as this is a higher risk asset than residential property. These are the basic first steps and they allow better control, management, reporting, and legal protections.

Managing succession planning

The Middle East often has extremely complex family structures, which is where succession planning for the family patriarch or business founder can be challenging, as Katherine explains.

“For over a decade, I have been dealing with ‘asset protection’ in the Middle East and have been fortunate to work with many successful and influential family business founders. This has given me a rare insight into the family hierarchal structure where the founder has quickly amassed enormous wealth. Often, this wealth has been used to create more wealth, through a range of international investments. Because of the relatively short timescales involved in the family business’s growth, these investments can be disorganised, and even occasionally forgotten about.”

Alongside this wealth creation comes aspirations for future generations and many of the second and third generations have enjoyed, or are enjoying, superior international educations. This growing international awareness is also adding to the growing diversification of investments and assets in new areas. It is not unusual for personal assets to be confused with business assets, particularly when you have multiple generations investing separately.

For the founder, all of these evolutionary, political and social changes add enormously to the complexity of the family business and its wealth distribution, which is why the Family Office, based around the principles of governance and asset protection, has become increasingly popular. It provides the structure that is often lacking and ensures the founder’s wishes for wealth distribution, asset protection and succession planning are met. It also provides tax-efficient structures for inheritance tax on international investments and assets.
There are various ways to hand over to the next generation – some families may keep the wealth together; some may wish to see it separated amongst inheritors. Some may wish for it be held in trust under different dispensation and beneficiary rules; some may wish to see full command and control inherited with the wealth. Some may wish only to hand over personal assets, others to confer their businesses. In all these cases, governance structures and plans must be in place – and best practice is to get them in place before the family head reaches old age, which is why many GCC families are leaving planning later than they should.

Another consistent concern is often over the eligibility of the next generation to handle wealth properly. Again, there are no quick answers to this sort of issue, only long term solutions borne of hard work. Part of it goes back to the family governance structures already mentioned, and part of it comes down to building a long-term relationship with committed, experienced, and independent advisors like Boston MFO, who can not only advise the current wealth-holders, but help to mentor and educate the wealth holders of the future.

**Sharia law compatibility**

An important element in the creation of a Family Office will be meeting the requirements of Sharia law. For each family this is a very personal issue, with some following a strict and absolute compliance to others who are Sharia observant. Sharia law beliefs can also determine a founder’s succession planning and the wealth distribution to male and female members of the family.

Philanthropy, or charitable giving, is often an important part of Sharia compliance too and can be successfully integrated into the Family Office, with the primary motive to ensure the patriarch’s wishes are maintained in perpetuity.
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Wealth Structure Vehicles

Whilst the term ‘Family Office’ is used extensively, it is not an entity in its own right, but actually relates to the company managing the family’s affairs. Rarely are two Family Offices structured the same, as each one is designed to meet a family’s specific and individual needs. Therefore, it is important to understand the elements used to help improve governance and asset protection of the complex family and business structure.

The core elements of a Family Office are:

1. Trusts
2. Foundations
3. Private Trust Companies (PTCs)

Each of these are detailed on the following pages and illustrate both the structure and the benefits. However, successful Family Offices always start with a comprehensive audit and analysis of the business, personal wealth, and asset structure. For the Middle-Eastern entrepreneur, this can often be challenging as the increasingly diverse range of assets and investments is spread across the globe, and across multiple asset classes.

Responsible for the creation of many Middle-Eastern Family Office structures, Katherine explains the importance of this first step in the process:

“The first thing to understand is that a Family Office is not a product you buy off the shelf: it is an intrinsically personal thing designed to absolutely deliver on the family’s wishes. So, the initial process is one of discovery to understand exactly what the family has and wants. This would often include a comprehensive understanding of the family dynamic, putting some governance and structure around the family business, implementing succession plans and discussing potential vehicles for asset protection.

“Once we understand our clients’ needs, we then need to understand their issues and assets. Is there a range of international assets? How are these owned? Are tax and compliance up to date? What structures are they held in? What is the family paying for the management of these assets? Which part or parts of the family own the assets? Is inheritance tax planning in place for internationally held assets?

“We would then create a comprehensive analysis and pictorial representation of the entire structure, which proves hugely beneficial to our clients. The audit is the most time-intensive part of the process and often takes months, depending on the complexity of the family’s structure.

“Recently, I have been working with a family which already has a very well-organised single Family Office in place for its UAE-based assets. My role has been to audit their offshore-based assets and investments and recommend a structure to effectively manage and protect them. As their business continues to grow, they add more assets, both business investments and personal luxury items, and these are all then amalgamated within the new Family Office structure we are creating.”
Trusts

Trusts are often central to the Family Office structure, and whilst they have been used for centuries in the Western world, they are a relatively new concept to the Middle East as Sarah Ingrassia, Client Director of Boston, explains.

THE HISTORY OF TRUSTS

Trusts for Middle Eastern families will be quite an alien concept as they are really, exclusively, an Anglo Saxon invention. The law of Trusts first developed in the 12th Century in England and arose out of the development of a system of separate but coexistent courts, the courts of law and equity. The ‘Common Law’ courts administered the established, but limited, common law legal principles while the ‘Chancery Courts’ developed more flexible legal principles known as the principles of equity.

From these early beginnings, primarily focused on rightful ownership of land, Trusts were born.

So, whilst they are a strange quirk of the English legal system, they effectively differentiate between a person owning something and a person having a ‘beneficial’ ownership of something. Unlike the very black-and-white principles of ‘civil law’, where if it isn’t in the code it isn’t legally covered, English law continually evolves and reverts to statute case law. The concept of a Trust can be difficult for people to understand but the critically important part of a Trust is that they have been proven over hundreds of years, and with that comes lots and lots of case law that you can refer back to. It is this heritage of law that provides confidence in the use of Trusts to beneficially manage ownership of assets.

WHAT IS A TRUST?

A Trust is a ‘fiduciary’ relationship where the owner of an asset (The Settlor) may pass ownership to another party (The Trustee) for the benefit of a third party (The Beneficiary). A fiduciary is a person, or organisation like Boston, that owes to another the highest legal and ethical duty to act in the best interests of the beneficiaries.

A Trust comprises of three parties: The Trustees, who become the legal owners of the asset, The Settlor, who gives away the assets to the Trustees and The Beneficiaries, who have the beneficial or equitable interest in the assets.

HOW TRUSTS WORK

One of the first questions we are always asked is ‘why on earth would I give my assets away?’. This reaction is absolutely understandable, especially when you consider the relative lack of awareness of Trusts in certain parts of the world. So, the first point we always make is the history of the Trust in English Law, and with that history comes the security and certainty of a proven and established concept that can be legally justified based on the masses of case law.

For us here at Boston, it’s something we have a very deep understanding of.

When we’re working with families from the Middle East we are rarely discussing tax issues as a reason for the creation of a Trust. Instead, it is much more about organising the assets and wealth, often from an international investment portfolio and including personal luxury assets from racehorses to private jets. Many successful families struggle to keep a handle on their wealth and assets which is where a Trust can sweep it all into one structure that holds the assets for the benefit of the documented beneficiaries.
In many countries, there are laws governing ‘forced heirship’, meaning the owner of the assets may not be able to decide who to leave them to. A Trust overcomes that because effectively the owner has given away their wealth, irrevocably, before they die. The Trustees will then administer and manage the Trust in accordance with the Settlor’s wishes. It is very important to understand it is in fact a binding obligation in law.

The jurisdiction where the Trust is held is another key consideration. You should always look to create a Trust in a jurisdiction where the concept is widely understood and regulated and can successfully call on and utilise proven case law. The Isle of Man is an obvious choice as it is widely considered one of the best regulated, and respected, offshore jurisdictions with close links to the United Kingdom. Clients using the Isle of Man can also have confidence in the oldest parliamentary system in the world with a stable economic and political infrastructure. Even then, Trusts can include a flee clause, allowing the Trust to move jurisdictions for the purposes of administration and overarching law in light of serious, catastrophic events.

Confidentiality is another benefit of a Trust. Unlike a company, Trusts do not have to file accounts anywhere: it is a wholly private arrangement between the Settlor and the Trustees.

**STRUCTURING A TRUST**

Some clients who are less familiar with the Trust concept may include a ‘Protector’. This is generally someone well known to the family, often a legal or financial adviser, who can retain certain powers of veto meaning the Trustees would have to go to the Protector for approval. This can give the Settlor (the person giving the asset away) additional comfort knowing that whilst they cannot influence decisions, they have a trusted person within the Trust. However, clients who are familiar with common law usually see this as unnecessary and something that could delay the decision-making process.

A trust settled in the Isle of Man or Malta is under the jurisdiction of competent and respected regulators. In addition, all regulated Trust companies will carry a mandatory level of professional indemnity insurance, although it is important to stress that the trust company administering the Trust does not own the assets and they do not form part of their own balance sheet. This is where the collective expertise of the company, and the Trustees, plays an important role and Settlors need to carefully choose their Trustees.

There is nothing more effective than a Trust in the structuring of estate planning. The key part of this structure is down to the Trustees to make it as robust as possible, which is one of the reasons the company, and the expertise of its people, is so important for the family.
Foundations

Broadly speaking, Foundations generally fall into the following categories, although they can be established to embrace a wide range of purposes and objectives.

- **Private Foundation** – often used in planning succession management and family matters
- **Corporate Foundation** – used for the continuity of business control and pension / employee benefit schemes
- **Charitable Foundation** – generally formed to serve the philanthropic interests of the founder

Foundations are independent self-governing legal entities established by an official body in the jurisdiction where they are set up. They are designed to hold an endowment provided by the founder for a specific purpose for the benefit of the beneficiaries. Like Trusts, Foundations are set up for the specific benefit of their beneficiaries and neither have shareholders.

As detailed in the following section, ‘Private Trust Company’, Foundations can play an important role in the application of asset protection, succession planning and wealth management, although this will very much depend on the individual circumstances and outcomes required by the founder.

**STRUCTURE OF A FOUNDATION**

As with Trusts, the jurisdiction in which the Foundation is established may have specific requirements as to the formation and structure, but usually a Foundation will consist of the following:

- **Founder**
  The Founder is identified as the person who sets up the Foundation or on whose behalf it has been set up.

- **Foundation Charter**
  This is the central document in which the governing rules of the Foundation are stated, generally designed to meet the requirements of the Founder.

- **Foundation Council**
  These are the persons nominated to effectuate the purpose of the Foundation as instructed by the Charter. In so doing, the Council distributes The Foundation’s property, administers assets, signs contracts, transacts and invests on behalf of the Foundation. Council members owe a fiduciary duty to the Foundation.

- **Beneficiary or Purpose**
  The Beneficiary is the person/s for whom the Foundation is created. The Purpose refers to any cause or purpose for which the Foundation has been formed, such as the philanthropic interests of the Founder.

- **Guardian or Protector**
  Whilst optional, the assignment of a Guardian or Protector to the Foundation can give the Founder added confidence as their role is to ensure the Council’s actions comply with the Charter.
CORE DIFFERENCES BETWEEN TRUSTS AND FOUNDATIONS

- A private Foundation is an independent self-governing legal entity while a Trust is a legal obligation between two parties.
- A private Foundation is registered and publicly recorded to the government while the specifics of a Trust are not normally readily available to the public.
- The assets of a private foundation are placed into the foundation on behalf of the beneficiary and not in the custody of any one person; while the assets of the Trust are placed in the custody of a trustee on behalf of beneficiaries.
- Trusts may be used for certain commercial activities while a foundation cannot.

For the more complex business and family structures often found in the GCC, neither Foundations nor Trusts can provide a complete solution for the owner’s asset segregation, wealth management and succession planning. Where a more comprehensive solution is required, both can be utilised to great effect within a Private Trust Company, as detailed in the following section.
Private Trust Companies

In general terms, a Private Trust Company (“PTC”) is a special purpose vehicle established to act as trustee of a family trust or several related trusts. The board of directors of the PTC controls it and as such can direct the fiduciary function of trustee.

In the PTC structure above, a purpose trust, or Foundation, is established to own the shares in the Trust Company, with Boston acting as its trustee/Foundation Council. The advantage of this is that there are no implications as a result of the demise of the settlor, and no action will be required on this event.

However, this is not always necessary and will depend on the facts in each case and advice received. The alternative is for the holding of the shares via an individual, although this presents several issues. Firstly, once transferred to the individual no further control by the Settlor can be exerted with regards to their ownership. Secondly, the demise of the individual in question will result in the shares being subject to the governing laws applicable to the deceased’s estate.

Both of these can result in a loss of control over the ultimate ownership of the Trust Company. Therefore, we strongly recommend the shares of the PTC are held by a Purpose Trust or Foundation.

The Trust Company is established with either the purpose trust or individuals of the client’s choice as shareholder(s). The directors will usually comprise family members, advisers to the family (e.g. lawyer, accountant, investment adviser) and several client directors from Boston. The exact make-up of the board will be decided with reference to the client’s wishes, along with legal and tax advice received.

The Family Trust is formed and the Trust Company appointed as trustee. It is recommended that a discretionary trust is the most appropriate type of trust as this enables the trustees to exercise discretion over the distribution of trust
income and capital to the beneficiaries. The trust deed will specify a class of beneficiaries and, in a typical case, the trustees will periodically decide whether to distribute trust income and/or capital to one or more of the class of beneficiaries. In most cases, the settlor will provide a “letter of wishes” to the trustees which can provide some guidance to the trustee regarding which of the beneficiaries he would most like to benefit (and how) during his lifetime and following his death.

The Trust Company enters into an agreement with Boston to provide specified administration services, such as:

- Dealing with contractual arrangements and legal matters in making or divesting of underlying investments.
- Bookkeeping.
- Preparing annual trust accounts.
- General and statutory administration.
- Benchmarking investment performance.
- Payment of trust funds to the beneficiaries.

In the Isle of Man, a PTC does not need to be licensed provided that it does not hold itself out as carrying on the business of a trustee and that it only provides trustee services to a specified trust or related trusts, i.e. the Family Trust. This compares favourably with many other jurisdictions.

**BENEFITS OF A PTC**

**Retention of control:** Some individuals may be hesitant to cede complete control over their assets by settling them on a conventional trust and perhaps look to reserve certain powers within the trust deed. Whilst certain powers can be reserved to settlors, the more influence the settlor exerts the greater the risk of prejudicing the objectives of the trust. This is particularly prevalent in civil law jurisdictions where trusts are not widely recognised and the concept of relinquishing control over family assets may be alien. Nevertheless, the requirement to put effective succession planning in place is as recognised in these jurisdictions as in common law jurisdictions, especially where there are, for example, forced heirship rules or Sharia law considerations which make succession planning problematic.

**Succession planning:** In respect of succession planning, the board of the PTC can be constructed to provide continuity through the involvement of family members and trusted advisers. Similarly, the board is likely to have a close understanding of the family business enabling more efficient and knowledgeable management of the trust’s assets. Board members may be added or removed to keep in line with changing requirements of the family.

**Protection of family wealth and flexibility for the future:** The PTC enables family wealth to be safeguarded through the generations. The structure also offers a controlled yet flexible way of distributing benefit for future generations, including:

- The Board of Trustees can make decisions instantaneously.
- Family members and/or trusted advisers can be appointed to the Board of the Trustees.

**Confidentiality and anonymity:** By transferring assets to a structure, this takes away the individual’s name as the owner of the asset, of particular concern today when information is readily available by means of the internet. This is also of benefit to those individuals who reside in jurisdictions where there is concern for their personal security.
**Forced heirship:** The inheritance rules of some countries impose restrictions on a person’s ability to give assets to persons whom they wish to benefit whilst certain relatives are still alive. Depending on the circumstances of the particular case, use of an Isle of Man trust may enable such benefit to be validly conferred under Isle of Man law.

**Centralised holding and reporting:** The use of a structure enables assets to be held and maintained centrally. In addition, income generated as a result of the assets being held within the structure can be consolidated and reported back to the client in a concise and user-friendly manner.

**Ability to bring in a wide variety of asset classes:** A wide variety of assets can be held within both the PTC and the traditional trust structures, including, but not limited to:

- Yachts and private jets,
- Residential and commercial property,
- Private and operating companies,
- Single line stock,
- Intellectual property,
- Art and antiques.

**Tax considerations:** Tax planning is usually secondary to succession planning as a reason for establishing a PTC. That said, however, there may be some tax benefits in certain jurisdictions. In any event, tax advice will be important in each case to ensure that adverse tax consequences do not arise by virtue of the place of management and control of the PTC. From a practical perspective, it may be considered easier to end a purely administrative arrangement with a trust service provider, compared with a combined trustee and administrative function.

**Summary: the Family Office**

The Family Office utilises all these tools to create a structure that is designed to meet all the requirements of the founding patriarch or owners of Middle Eastern family owned businesses. Whilst the structure can appear complicated, it is important to remember that each element is included for a specific purpose, and always for the benefit of the founder and beneficiaries. A well-structured Family Office provides an holistic approach to resolving many key issues:

- Asset segregation and protection
- Succession planning
- Mitigating foreign investment inheritance tax
- Separating business and family interests
- Managing philanthropic interests
- Provide increased governance to complicated hierarchical corporate and family structures
- Overcome forced heirship concerns
- Provides increased confidentiality and security

The final important decision in the use of a Family Office centres on the location of the operating jurisdiction, as detailed in the following section.
Jurisdictional Analysis

Choosing the right jurisdiction for the Family Office is another important decision. As detailed earlier, for entities like Trusts it is important to form them in jurisdictions where they are already accepted, and where there are substantial case laws to give confidence and security.

Whilst each Family Office is structured differently to meet the bespoke needs of the founder, it is not unusual to have different elements handled in different locations. For locally held assets, the family business may have a GCC based Family Office, something that Boston would manage from our Dubai office. For international assets and investments, they may be managed by a Family Office in one of the respected international finance centres, like the Isle of Man and Malta, both locations where Boston have established offices.

These two international finance centre locations are looked at in more detail on the following pages.
The Isle of Man

The Isle of Man is an Island West of Mainland Britain and East of the Republic of Ireland, in the middle of the Irish Sea. As a British Crown Dependency it is English speaking and has a very similar legal system to Britain, although it is has full legislative independence for domestic matters. It is a remarkably stable jurisdiction, having now experienced over three decades of unbroken economic growth.

Key Industries
- Technology and IT
- Aircraft registration
- Financial services

Government
- The Isle of Man has its own democratically elected and stable legislative and judicial system, similar to but independent from the British model. Its parliament is arguably the oldest continuously running democracy in the world.

Regulation
- A model of political stability, transparency and financial supervision, the Island has been praised by global bodies including the OECD, G20, and IMF for a commitment to financial and supervisory standards. The Isle of Man has signed a number of international tax agreements. Although outside the EU, the Island aims for equivalency with many EU regulations. Early adopter of CRS.

Tax & Economy
- Rated AA+ by S&P, Aa1 by Moody’s. The Isle of Man has a clear and simple tax regime with no Capital Gains Tax, Withholding Taxes or Wealth Taxes. It is subject to UK VAT and indirect taxes. It is an affluent economy with a GDP per capita of over $80,000 for the roughly 90,000 residents. The currency is the British Pound Sterling.

Infrastructure
- The Isle of Man has an excellent telecoms and power infrastructure which has benefited from hundreds of millions of pounds worth of public and private sector investment in recent years. Redundant fibre optic links and under-capacity power stations make its infrastructure more reliable than most or all offshore competitors.

Accessibility
- The Island enjoys excellent transport links to major transport hubs in the UK and Ireland, with 50 flights to London per week and 30 to Manchester. Flight time to anywhere in the UK is around an hour or less.
### Isle of Man Companies

The Isle of Man operates two distinct regimes—the traditional Companies Acts 1931 - 2004, which is based on the UK Companies Act 1929, and the more modern regime under the Companies Act 2006.

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<th>1931</th>
<th>2006</th>
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<tr>
<td><strong>Types of company</strong></td>
<td>Limited by Shares, Limited by Guarantee, Limited by Guarantee and by having share capital and by having a Share Capital with Unlimited Liability.</td>
<td>Limited by Shares, Limited by Guarantee, Limited by Shares and by Guarantee and Unlimited with or without Shares.</td>
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<td><strong>Taxation rates</strong></td>
<td>Companies are subject to income tax and not a separate corporate tax. The rate of income tax, is in most cases, 0%. If companies are engaged in earning profits from Isle of Man land then the rate of tax is 10%. There are no inheritance or capital gains taxes in the Island.</td>
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<td><strong>Double tax treaties</strong></td>
<td>The Isle of Man has signed 83 International Agreements which are currently in force, this includes 9 Double Taxation Agreements and 25 Tax Information Exchange Agreements.</td>
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<td><strong>Capital requirements</strong></td>
<td>Every company must state in its Memorandum the share capital with which it is to be registered and how that share capital is divided into shares. The usual number is £2,000.</td>
<td>No nominal share capital is required.</td>
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<td><strong>Members</strong></td>
<td>Minimum number of shareholders is one.</td>
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<td><strong>Directors</strong></td>
<td>Minimum number of two Directors. Corporate Directors are not permitted.</td>
<td>Minimum number of one Director appointed within one month of incorporation. Corporate Directors are permitted however they must hold the appropriate fiduciary licence.</td>
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<tr>
<td><strong>Secretary</strong></td>
<td>Appointment of Company Secretary is required.</td>
<td>Appointment of Company Secretary is not required.</td>
</tr>
<tr>
<td><strong>Annual meetings</strong></td>
<td>Must hold an AGM each year unless formally dispensed with.</td>
<td>No AGM requirement.</td>
</tr>
<tr>
<td><strong>Accounts</strong></td>
<td>Company must prepare annual accounts which are laid before the members in a general meeting.</td>
<td>Whilst there is no requirement to prepare regular financial statements, a Company must keep reliable accounting records which correctly explain the transactions, enable the financial position to be determined and allow financial statements to be prepared.</td>
</tr>
<tr>
<td>Incorporation method</td>
<td>Submission of signed Memorandum and Articles of Association along with relevant form and fee.</td>
<td>Submission of Memorandum and Articles of Association and fee. All 2006 Act companies must have a Registered Agent in the Isle of Man who holds the appropriate licence and only Registered Agents can incorporate companies.</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Timescales</td>
<td>Timescales include three options - Standard 48 hours, 2 hours or ‘While you wait’.</td>
<td></td>
</tr>
</tbody>
</table>

**Isle of Man Trusts**

<table>
<thead>
<tr>
<th>Types of trust</th>
<th>Discretionary Trusts, Life Interest or Interest in Possession Trust, Charitable Trust, Non-Charitable Purpose Trust, Employee Benefit Trusts and Private Trust Companies.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation rates</td>
<td>No capital gains tax, inheritance, gift or estate taxes in the Isle of Man. Where income is generated outside of the Isle of Man and beneficiaries are not Isle of Man resident there is no Manx taxation for Trust income.</td>
</tr>
<tr>
<td>Trust assets</td>
<td>The initial corpus may be any amount. Typical assets include, but are not limited to, shares, stocks, bonds, units, bank accounts, property, art and intellectual property.</td>
</tr>
<tr>
<td>Trustees</td>
<td>There are no prescribed rules although existing trust deeds may specify requirements</td>
</tr>
<tr>
<td>Protector</td>
<td>Optional.</td>
</tr>
<tr>
<td>Trust deeds</td>
<td>Trust Deeds are not publicly accessible.</td>
</tr>
<tr>
<td>Accounts</td>
<td>There is a requirement to prepare trust accounts but these are not publicly available. There is no requirement for trustees to have the accounts audited.</td>
</tr>
<tr>
<td>Timescales</td>
<td>1-3 working days.</td>
</tr>
</tbody>
</table>
In addition to beautiful Celtic landscapes, the Isle of Man offers a very competitive tax environment backed up by a supportive government which invests heavily in new and relocating businesses. Recently it has introduced a £50 million sovereign wealth fund for co-investment into new Island-based businesses.

<table>
<thead>
<tr>
<th>Isle of Man Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Types of foundations</td>
</tr>
<tr>
<td>Taxation rates</td>
</tr>
<tr>
<td>Foundation assets</td>
</tr>
<tr>
<td>Founder</td>
</tr>
<tr>
<td>Enforcer</td>
</tr>
<tr>
<td>Council members</td>
</tr>
<tr>
<td>Instruments</td>
</tr>
<tr>
<td>Accounts</td>
</tr>
<tr>
<td>Timescales</td>
</tr>
<tr>
<td>Incorporation method</td>
</tr>
</tbody>
</table>
Malta

Malta is a collection of several islands South of Sicily in the Mediterranean Sea. Having been fully independent from Britain and self-governing since 1964, it is nevertheless English speaking and has a strong British business culture. Although Malta is the European Union’s smallest member state it has become a leader in international business and boasts one of the fastest growing economies in Europe.

<table>
<thead>
<tr>
<th>Key Industries</th>
<th>Technology and IT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Superyacht registration and leasing</td>
</tr>
<tr>
<td></td>
<td>Financial services</td>
</tr>
<tr>
<td></td>
<td>Tourism</td>
</tr>
</tbody>
</table>

| Government                                         | Malta is an independent sovereign state with a stable democratic parliament. The Islands are a member of the European Union (including the Eurozone and the Schengen Area), the United Nations, and the Commonwealth. Its legal system is similar to the English judicial system. |

| Regulation                                          | Malta is a highly compliant jurisdiction subject to EU regulations such as GDPR and the 4th Money Laundering Directive, as well as international standards such as CRS. It is ranked 37th least corrupt country in the world by Transparency International. |

| Tax & Economy                                       | Rated A- by S&P, A3 by Moody’s. Malta offers a highly efficient tax regime and is the only remaining imputation system in the EU which is approved by the EU and OECD. Individuals and companies paying up to a maximum of 35% on income and some revenues are subject to tax refunds for resident and non-resident shareholders. Malta also has numerous double taxation treaties in place. The population of over 400,000 enjoys a GDP per capita of over $36,000. |

| Infrastructure                                      | Malta has an excellent telecoms and power infrastructure through satellite technology and high capacity fibre-optic submarine cables which link Malta to the rest of Europe. It is renowned for its natural harbours and shipbuilding yard. |

| Accessibility                                       | The Islands enjoy excellent transport links to major transport hubs in Europe with short travel times. It is easily accessible from most European countries and has regular flights to other major cities in North Africa and the Middle East. Malta forms part of the Schengen area which allows travel between member states without international border controls. |
### Malta Companies

<table>
<thead>
<tr>
<th>Types of company</th>
<th>Private Limited Liability Company.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation rates</td>
<td>Companies are subject to income tax and not a separate corporate tax. The rate of income tax, is in most cases, 35%. Malta operates a full imputation tax system whereby tax paid by the company is imputed to the shareholder in the event of a dividend being made. Shareholders are able to claim a refund of 6/7ths of tax paid, thus reducing the rate of tax paid to 5%.</td>
</tr>
<tr>
<td>Double tax treaties</td>
<td>Malta has signed 63 Agreements which are currently in force.</td>
</tr>
<tr>
<td>Capital requirements</td>
<td>The minimum authorised share capital is €1,165. The minimum issued share capital is €1,165 with 20% paid up.</td>
</tr>
<tr>
<td>Members</td>
<td>Minimum number of shareholders is two.</td>
</tr>
<tr>
<td>Directors</td>
<td>Minimum number of one Director. Corporate Directors are permitted.</td>
</tr>
<tr>
<td>Secretary</td>
<td>Appointment of Company Secretary is required and it must be an individual.</td>
</tr>
<tr>
<td>Annual meetings</td>
<td>No requirement.</td>
</tr>
<tr>
<td>Accounts</td>
<td>Company must prepare annual accounts and they must be audited.</td>
</tr>
<tr>
<td>Incorporation method</td>
<td>Submission of signed Memorandum and Articles of Association along with relevant form and fee. Deposit of paid up share capital into a bank account.</td>
</tr>
<tr>
<td>Timescales</td>
<td>2-3 working days.</td>
</tr>
</tbody>
</table>

### Malta Trusts

<table>
<thead>
<tr>
<th>Types of trust</th>
<th>Discretionary trusts, Fixed Interest Trusts, Life Interest Trusts, Charitable Trusts, Protective Trusts and Unit Trusts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation rates</td>
<td>Income and gains attributed by the Trust will be chargeable to tax at the rate of 35%. It is possible under an optional transparency model for all income and gains to be attributed directly to the beneficiaries, dependant on residence and domicile of beneficiaries.</td>
</tr>
<tr>
<td>Trust assets</td>
<td>Minimum corpus €10. Typical assets include, but are not limited to, shares, stocks, bonds, units, bank accounts, property, art and intellectual property.</td>
</tr>
<tr>
<td>Trustees</td>
<td>Must be a Malta authorised Trustee.</td>
</tr>
<tr>
<td>Protector</td>
<td>Optional.</td>
</tr>
<tr>
<td>Trust deeds</td>
<td>Trust Deeds are not publicly accessible.</td>
</tr>
<tr>
<td>Accounts</td>
<td>No statutory requirement for private trust arrangements.</td>
</tr>
<tr>
<td>Timescales</td>
<td>1-3 working days.</td>
</tr>
</tbody>
</table>
As an EU member, Malta is an excellent low-tax jurisdiction for building European businesses and owning luxury assets. Its superyacht sector, for example, is significant. It also has an excellent ‘citizenship by investment’ programme which provides a route to gaining an EU passport for wealthy individuals and their families.

### Malta Foundations

<table>
<thead>
<tr>
<th>Types of foundations</th>
<th>Private or Purpose Foundations.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation rates</td>
<td>A foundation can be taxed as a company or a trust. If a company it can benefit from Malta’s imputation tax system (effectively 5% under the 6/7ths rule). On the other hand, if elected to be treated as a trust for tax purposes (transparent for tax purposes) then 0% assuming beneficiaries are not Maltese resident.</td>
</tr>
<tr>
<td>Foundation assets</td>
<td>Initial funds must be at least €1,200 from establishment. Typical assets can include money, shares, investment, property and stocks. Primarily used for passive holding purposes.</td>
</tr>
<tr>
<td>Founder</td>
<td>Will be publicly available information on Consulting Deed. Often preferable to establish an SPV to act as the founder for greater level of confidentiality.</td>
</tr>
<tr>
<td>Enforcer</td>
<td>Also known as a Protector. This is optional and can be a corporate or an individual.</td>
</tr>
<tr>
<td>Council members</td>
<td>Also known as Administrators. Minimum number is 1 and this can be a corporate or individual.</td>
</tr>
<tr>
<td>Instruments</td>
<td>Consulting deed which contains name, address, purpose, administrator’s details and initial funds of Foundation. This is publicly available.</td>
</tr>
<tr>
<td>Accounts</td>
<td>Annual audited accounts must be prepared.</td>
</tr>
<tr>
<td>Timescales</td>
<td>1 – 2 weeks</td>
</tr>
<tr>
<td>Incorporation method</td>
<td>Registered by submission of statutory form alongside consulting deed (rules of the Foundation).</td>
</tr>
</tbody>
</table>
Further Information

If you would like to know more about this topic, please get in touch with us directly. We are always happy to provide additional information or a review of your current requirements, with no hidden fees or charges. Our experts on this topic are Katherine and Rachael. Their direct contact details are below and they can be contacted during Middle Eastern and European office hours.

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