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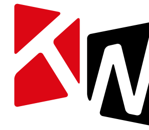

Knightsbridge Wealth

technical news

For professionals working with international clients

Golden Visa schemes under the spotlight

Governments around the world are targeting globally mobile wealth, with a record 26% of global Ultra High Net Worth individuals planning for emigration this year. A growing number of citizenship and res-idency by investment schemes are cropping up across the globe – the latest introduced in Moldova and Montenegro.

36% of Ultra High Net Worth individuals already hold a second passport. In emerging markets, in particular, growing economic risk is likely to boost demand for such schemes as money is channelled to safer havens.

Some countries are actively enticing wealthy individuals to relocate with favourable tax regimes. There is, however, concern that foreign buyers of residential property drives up prices for existing res-idents. Some countries are introducing overseas buyer taxation on residential purchases. Singapore, Australia, New Zealand, Canada and the UK are amongst the countries who will make wealthy non-residents jump through ever larger hoops to access their property markets. In England and Northern Ireland, a consultation on an overseas buyer's taxation has already began.

In a recent report, The European Commission warned EU member states that the "golden visa" schemes used to attract the wealthy to make investments in exchange for residency rights or citizen-ship, have exposed the continent to corruption and organised crime.

The 28 EU member states have earned about £22bn of foreign direct investment in the last decade from a variety of different offers to wealthy people under which investors can secure the right to free movement in the bloc. Bulgaria, Cyprus and Malta sell citizenship in return for investments ranging between approximately £800,000 and £1.6m, while 20 member states offer residence permits for cash.

Before her murder, the journalist Daphne Caruana Galizia was investigating an alleged abuse of the scheme in Malta. Sophie in 't Veld, a Dutch member of the European parliament, who is the Vice Chair of its committee on civil liberties, justice and home affairs, said the EU had been slow to re-spond to the abuse.

She said: "I welcome the fact the European commission is, albeit belatedly, sounding the alarm. We need a ban on these schemes, which are exploited by organised criminals who often receive limited background checks, and to align rules for acquiring citizenship. After all, by acquiring citizenship of an EU member state, you get EU citizenship automatically. Golden visas and passports are essentially state-facilitated corruption and money-laundering schemes."

The commission's report highlighted the varying standards across the EU in terms of the background checks on applicants. Whilst not having any legal consequence, the Commission has urged govern-ments to adopt common approval criteria and be more transparent about their internal processes. A long-running court case in Portugal on the alleged abuse of the government's golden visa scheme led to two people being given suspended sentences and two Chinese nationals fined earlier this month. Visas have been offered by the government since 2012 to wealthy foreigners willing to invest Đ500,000 in property, make a capital transfer of Đ1m or create 10 jobs.

The UK are currently reviewing 700 Investor Visas issued to wealthy Russians under its scheme. In December, the British government announced it would suspend its Tier 1 (Investor) Visa programme, which provides a fast-track route to settlement for people willing to invest in the UK, while new rules were being formulated. But the government did not follow through on that pledge, and it remains an option for those looking to secure UK residency rights.

In March, the UK's Home Office announced reforms to its Tier 1 (Investor) route, ensuring the country is better protected from illegally obtained funds, whilst ensuring that genuine investors have access to a viable visa route. Applicants will be required to prove that they have had control of the required £2 million for at least two years, rather than 90 days, or provide evidence of the source of those funds. It also no longer allows investors to buy UK Government Bonds, meaning investment must be made directly into British business – through their bonds or equities.

Cyprus has also made changes to its Investment programme. Applicants will need to declare if they have applied for citizenship in another EU state and, if they have been rejected, they will not be able to apply. It has also made changes to its scheme. In addition to the requirement to invest

at least Ð2m in property, applicants now have to donate Ð150,000 to government initiatives.

Residency is an important aspect of advice for international clients and Knightsbridge Wealth work with the most experienced immigration advisers to ensure they receive the highest quality of advice in a fast-changing environment.

‘Slowbalisation’ of global property

In five of the world’s most desirable cities—Hong Kong, London, New York, Sydney and Vancouver—home prices climbed steadily for several years after 2009. Now, though, particularly in the priciest, “prime” areas of such cities, excess is being shed.

In Vancouver, where prime prices have fallen by 12% in the past year, agents advertise significant discounts on its larger properties. In Hong Kong, prices started dropping in August and have now fallen by 9%. Developers there were unnerved when their bids for a vacant parcel of land in the world’s most expensive neighbourhood – The Peak – failed to even meet the government’s minimum reserve price in October.

In Manhattan, prices fell by 4.3% last year; StreetEasy, an online-listings firm, calculates that 60% of homes offered for $1m or more in 2018 failed to sell. In Sydney, prime prices have slipped by 16% since 2017.

In London, prime-property prices have fallen by 20% from their 2014 peak. Sales of homes worth over £1m are 20% lower than in 2016. Reseach by Savills, says the reasons are falling cross-border capital flows; government policy; the cost of money; and increased supply.

These factors are common to other global cities, too. House-price movements have become increasingly correlated across the world, and the link is greater between big cities than between countries. That is because housing is becoming a more global asset class rather than a purely local one. The prevailing winds of the international market-place affect prime residential property much as they do shares and bonds. The IMF notes that international correlation increases at the time of severe recessions and can help predict the risk of a downturn.

One factor underlying that correlation is growing wealth creation – particularly in Asia. A good portion of new found wealth finds its way into properties, at home and abroad. But the number of new millionaires has been falling. A Swiss bank recently forecast that the rate of increase in the number of new millionaires will slow by 20% in the five years to 2023.

In China, home to one-sixth of the world’s new millionaires, it has become increasingly difficult to move money out of the country. In 2015-16, $1.3trn flowed out of China (excluding foreign direct investment). But the authorities have since cracked down on corruption and tightened enforcement of a limit of $50,000 per person on access to dollars and other foreign currencies. That has affected residential markets far and wide. America’s National Association of Realtors estimates that Chinese buyers spent $30bn on homes in America in the year to March 2018, down by 4% from a year earlier. In Australia, where international buyers are restricted to new-builds, Chinese investment in new development fell by 36% to A$1.3bn ($970m) in 2018. Yet the Chinese still account for a quarter of international buyers, as they do in London.

Politicians have played their part, too. Encouraged by disgruntled citizens who have found themselves priced out of property markets, city and national governments have sought to cool market excesses. Vancouver raised its transaction tax on property purchases by non-residents from 15% to 20% in 2018. Britain’s government has increased transaction taxes. It levies as much as £288,000 on a £2.5m home purchase, up from £100,000 in 2010. It has also imposed extra taxes on non-citizens. New Zealand has gone furthest, introducing a blanket ban on foreign purchases of existing homes last October.

Rental yields have been forced down in part by the weight of supply too, making property a less attractive investment. Both London and New York are now awash with new, luxury, apartments.

Taken together, these factors reflect a world in which “slowbalisation” (the unwinding of two decades of global economic integration) has taken hold. Although less well-heeled residents of those cities will be glad of a fall in prices, a cooling of foreign interest may have unwelcome consequences for the wider market. A report in 2017 by the London School of Economics found that, on balance, international investment in the city’s residential property helped to create housing supply that would otherwise not have materialised.

Meanwhile, estate agents, whose duty it is to be eternally optimistic, contend that these markets cannot lie low for long. The theory goes that these cities are desirable for a reason and that land is limited; so prices will recover. This argument has a kernel of truth. Demand for property chronically outstrips supply in Hong Kong, for example, and investors from mainland China feel safer there. Yet any rebound is unlikely to be as strong as the last one.

UK Commercial Property in the Autumn Budget

The Government announced that from April 2019 tax will be charged on gains made by non-residents on the disposal of all types of UK immovable property (including commercial property), extending existing rules that apply only to residential property.

Since April 2015, Non-Resident Capital Gains Tax (NRCGT) applies to gains accruing on disposals of UK residential property interests by non-resident individuals, trustees and personal representatives, and by certain companies. The measure announced in the Budget expands the scope of the UK's tax base to disposals of immovable property by non- residents in two key ways:

- All non-residents who make gains on disposals of direct interests in UK land will be chargeable
- Gains made by non-residents via indirect disposals of UK land will also be chargeable.

These measures will have a wide-reaching impact for both individual and corporate non- residents. However, the Government has announced that property values will be rebased at April 2019 so that only the gains attributable to changes in value from 1 April 2019 (for companies) or 6 April 2019 (for other persons) will be chargeable.

The overall aim of the policy is that any gain made by a non-resident on a disposal of UK immovable property will be chargeable to UK tax. The Government has pointed out that UK tax legislation is out of step with most other major jurisdictions who already tax the disposal of real property situated in their country.

More UK homes falling within the inheritance Tax net

The Government has confirmed that it will extend the charge to UK IHT on UK residential property held indirectly by non-doms through an offshore entity (e.g. a company, overseas partnership or a trust). The new rules will apply both to non-dom individual shareholders or partners and to trusts with non-dom settlors and apply to all chargeable events (e.g. a death, exit charge or a trust 10 year anniversary) after 5 April 2017.

Under the pre 6 April 2017 rules, UK property owned by an offshore company or partnership can fall outside an IHT charge and be treated as 'excluded property' where either the owner of the entity is not UK domiciled or, if deemed domiciled for IHT purposes, is owned by a trust which was set up before the settlor was deemed UK domiciled.

Making a technical change to the definition of offshore excluded property will mean that the shares in such offshore companies (broadly those controlled by five or fewer shareholders) or partnership interest will fall within the UK estate of non-doms from 6 April 2017 onwards to the extent that the company (or partnership) derives its value from UK residential property. Any qualifying interest in a close company or partnership will be ignored where its value is less than 5% of the total rights or interests in that company or partnership. This will affect all non-doms whether or not they are UK resident.

Debts secured on the property will be deductible from the value charged to IHT as will connected party loans used to acquire the property. There may be a restriction on the amount deductible where the company or partnership has other assets. However, such a loan would then be treated as a UK relevant loan for the creditor for IHT purposes, potentially bringing other persons within the scope of IHT who previously were not. This will apply, for instance, to loans made by trustees to help beneficiaries acquire UK residential property (including structures already in place).

Responsibility for paying the IHT will fall on the executor, trustees or beneficiaries of the deceased although the Government will reconsider its previous thoughts to enforce collection through directors where an offshore company owns the property.

The Government is also bringing in a targeted anti-avoidance rule to disregard any arrangements whose whole or main purpose is to avoid or mitigate an IHT charge on residential property.

Complications can arise where the property has been subject to a change in use (e.g. from commercial to residential) and the Government has decided to apply the actual status of the property at the time of the relevant chargeable event rather than a hybrid formula.

The rules will also introduce a deeming period; e.g. where shares in a property holding company are sold after 5 April 2017, the proceeds will be considered to be deemed as UK residential property for the following two years (even if they are reinvested into another asset). In addition, where property is gifted (e.g. through giving away company shares), these events would fall within the normal rules for IHT such as the need to survive for seven years from the date of transfer.

While these rules may lead some individuals to unwind structures owning UK residential property, this can give rise to unexpected tax charges

and the Government has reiterated that it will not provide any incentive to encourage 'de-enveloping' of UK properties (i.e. removing them from offshore structures).

This represents a major change for non-doms, making it more difficult to manage IHT exposure on UK residential property. Affected non-doms should review existing arrangements, including comparing the merits of maintaining existing structures and paying the ongoing ATED charge against unwinding and paying any one-off taxes at that point.

Contact us

If you require further information about our services and how we can assist your clients, then please call us or send us an email about how and when we can contact you.

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