

## CASE STUDY: UK TAXATION OF OFFSHORE TRUST DISTRIBUTIONS

**People set up trusts for numerous reasons, not all of which are tax related. In the US, trusts are a popular vehicle for succession planning, often facilitating asset management over a number of generations. However, complexities can arise if trust beneficiaries later move outside the US, for example, where an individual with an interest in a US domestic trust relocates to the UK, whether for the long-term or on a temporary basis.**

**We are experienced in advising UK resident individuals and their families on the tax exposures resulting from their non-UK trust interests and, moreover, how these can be mitigated through careful planning. Quite understandably, new clients are often unaware of the potential pitfalls. Where there are historical factors to consider, we will often make the initial approach to HM Revenue & Customs (HMRC) to bring the UK compliance affairs of the individual and the trust up to date.**

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### WHAT WERE THE ISSUES?

Mrs A is a US citizen, resident in the US. She establishes a US Revocable Living Trust as part of the family's succession planning strategy. The trust holds a US investment portfolio diversified across a range of asset classes.

Her grandson, Mr Z, a beneficiary of the trust, later moves to the UK with his job, where he becomes resident for tax purposes. He knows that in two years he will become absolutely entitled to a share of the trust assets. But, as a UK resident for tax purposes, he will be liable for tax on the receipt of funds from the Trust.

As part of his wealth planning strategy for the next few years, Mr Z wants to know how much UK tax will be payable on the trust distributions he is due to receive.

### HOW WE HELPED

Frank Hirth was engaged to provide advice in relation to the trust distributions, and to quantify the UK tax payable as a result of his absolute entitlement to trust assets.

We concluded that any capital gains realised on disposals made by the trustees since April 2008 would be matched to the distributions made to Mr Z, which would give rise to a tax charge for him personally.

We liaised with the US trust administrators to obtain the statements needed to calculate the trust's UK tax basis capital gains, converting the US tax basis source material from April 2008 onward in order to confirm Mr Z's capital gains tax liabilities.

As part of the analysis, we reduced the Capital Gains Tax (CGT) payable by submitting a rebasing election to HMRC that could effectively remove the pre-6 April 2008 appreciation in the trust assets from the charge to CGT.

Mr Z engaged us individually to prepare his self-assessment tax return and to report the attributed capital gains to HMRC.

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