

## The Isle of Man gateway to UK real estate investment

London real estate is currently experiencing huge inflows of capital from all over the world. £4.13 billion-worth of Central London commercial property was transacted in Q1 2014 – the highest level of Central London investment ever recorded. Over 77% of that investment activity was by overseas investors.



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**F**or reasons that I will expand on, many international real estate investors have chosen to structure their investments into London (and the rest of the United Kingdom) through the Isle of Man.

In recent years, Cains, and many other Isle of Man based advisers and corporate administrators, have been very busy assisting the unprecedented current interest in UK real estate investment and development.

One of the main drivers for the Isle of Man's popularity is its longstanding double taxation agreement with the United Kingdom. The result of this arrangement is that profits – primarily yields through rental income – from investment in UK property may be realised by an overseas investor via an Isle of Man special purpose vehicle (SPV) at a zero rate of taxation.

I would emphasise that this is only possible however where it may be clearly demonstrated that the SPV is not resident in the UK – essentially that it is fully controlled and managed outside of the UK. The geographical proximity between the Isle of Man and

the UK obviously greatly helps in practice with being able to do this – holding board meetings etc in the Isle of Man – and the Isle of Man also has a great number of very experienced real estate professionals able to assist too.

It should be noted, however, that the position where you are developing UK land or buildings for resale is more complicated, not least as a development site may be deemed a permanent establishment in the UK which would lead to UK tax residence. If you thinking about investment in a project of this nature I would recommend taking good UK tax advice as there are still many advantages in structuring in the Isle of Man, not least in relation to capital gains.

Non UK residents have not been subject to capital taxes in the UK since the introduction of capital gains tax in the 1960s. This applies even where a capital gain arises on the sale of UK based assets. Needless to say, this obviously acts as a great incentive and driver to the current attractiveness of

UK property to overseas investors, however, an investor needs to ensure that an SPV holding UK property is tax resident outside of the UK, or potentially be subject to capital taxes on a disposal.

Undoubtedly, however, the key practical advantage of using an Isle of Man company for UK property investment and development, as opposed to a company incorporated elsewhere, is the extension of the UK and EU VAT system to the Isle of Man.

When acquiring UK property it is almost always necessary to register a SPV for VAT, as although a seller is exempt from paying VAT on the sale proceeds, a purchaser will be subject to VAT on the price unless they are registered and can claim the sale to be a transfer of a going concern – often known as a TOGC.

If the SPV is incorporated in the Isle of Man this VAT registration may be effected with the Isle of Man Treasury's Customs and Excise division, rather than in the UK, considerably reducing the time needed to get registered. In a fast



moving real estate transaction this can obviously be a great advantage. It is also possible to VAT group Isle of Man incorporated SPVs with other real estate holding SPVs within an investor's portfolio, reducing and streamlining the related filing requirements.

Furthermore, an investor's ongoing VAT administration will be made much easier by the Isle of Man Treasury's Customs and Excise division's personal touch and high service standards. In my experience, an asset or development manager dealing with the Isle of Man's VAT officials is likely to experience excellent response times in respect of reclaiming VAT, thus greatly assisting cash flow and the ongoing management of an investment property or development project. Indeed, a partner of a leading London accountancy firm once told me that she had written to the Isle of Man Treasury thanking them for their service – surely the first recorded example of an accountant thanking a

taxman for taking their client's money!

Finally, in the last eighteen months, I have seen a great improvement in the availability of finance for both property investment and development purposes, particularly due to the emergence of non-bank lenders in the marketplace.

In my experience, Isle of Man SPVs are well thought of and, indeed, actively favoured by such lenders – not only due to general familiarity with the Isle of Man – but also its straightforward creditor friendly insolvency laws. These laws, almost unique in the world, offer the security of an easy, flexible enforcement process and provide both lenders and borrowers with comfort, peace of mind and a wide range of potential structuring solutions.

Other factors which produce an excellent environment for commercial and high end residential property investors and developers include:

- the similarity of the underlying

principles of the Isle of Man's law (most importantly its flexible and modern company law) to English law enables advisors to property investors to be comfortable dealing with Isle of Man companies, trusts and partnerships;

- a dynamic and flexible regulatory regime for the establishment and operation of open-ended and close-ended property funds; and

- knowledgeable and expert professional advisers on the Isle of Man (lawyers, accountants and bankers) are able to service the needs of sophisticated investment entities and financial institutions.

The Isle of Man's experience and unique offering to international real estate investors, particularly in relation to VAT, eases and facilitates their access to the United Kingdom real estate investment markets, forming a key element of the Isle of Man's overall ambition to boost Great Britain's global competitiveness and standing on the world stage.

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