The New Age of Global Tax Transparency and Registers of Beneficial Owners.

The Compliant Solution

In case anyone hasn't noticed, global tax transparency has been implemented by the Organisation for Economic Co-operation and Development (OECD) which has introduced the Common Reporting Standard (CRS) under the Automatic Exchange of Information (AEoI) legislation. Around 100 countries have agreed to participate.

These countries will now automatically exchange information on residents' assets, bank accounts, interest, dividends, sales proceeds of financial assets and account balances. There is now also a requirement to obtain the complete details of the ultimate beneficial owners. The early adopter countries, numbering 58, began gathering this information for January 2016 and the remaining countries will start in 2017 and 2018.

In simple terms, virtually everything you own and all income and gains will be known. If you have assets in one country but are tax resident in another, the information will automatically be given to your country of tax residence.

In addition to this, another latest initiative is for countries to establish and maintain registers of ultimate beneficial owners. A register has already been introduced by the UK in April this year and an EU wide register is due to become law from June 2017.

The majority of wealthy individuals own their assets in corporate structures. This will provide possible tax advantages but the main reasons tend to be for privacy and asset protection purposes.

The dilemma now is how safe is all this globally known information? Will this increase the risk from hostile businesses, corrupt officials, detached family members and even kidnapping? There is the potential for anyone to find out about what you have and where you have it. These concerns can apply to anyone but from my recent experience, it is a big concern for Russians.

Russia has signed up to the CRS and will begin reporting and receiving information from 2018. This will not only expose personal assets which have not been declared but also identify companies that come under the Controlled Foreign Company Legislation. Whilst there has been an amnesty in existence to report foreign assets, bank accounts and companies, the latest extension of the amnesty is due to expire at the end of June.

With revenues falling drastically in Russia due to the oil price decline, the availability of information under CRS and beneficial registers will no doubt make Russian tax residents an easy target to bring in more revenue from taxes, fines and penalties.

Thankfully, for Russians and other nationalities there is a fully compliant, universally recognised legal contract available. This can be used by itself for assets held in an individual's name or in conjunction with other structures such as companies and trusts.

Known as Private Placement Life Insurance (PPLI), this specialist structure is becoming more widely used as a solution due to its global recognition and compliance. For Russians, it also now recognised as a solution for CFC legislation by many Russian lawyers.

Existing assets, including private company shares, are transferred in to the insurance company which now holds them on your behalf in your PPLI. The value of your policy is the value of the assets transferred in. You are the only one who can take anything out of the policy. No creditors or any other third party can access the policy.

As far as privacy is concerned, the insurance company becomes the legal beneficial owner of the assets. However, you have access to the asset value at any time and can also transfer the assets back to your name at any time, if required.

As far as CRS is concerned, only the value of a life insurance policy is reported. No information is given on the underlying assets or on any income, gains or sales proceeds received.

The assets in the policy are held completely separate from the insurance company in a custodian bank account and therefore off the balance sheet of the insurance company and bank. Completely segregated, safe and officially no longer in your name. The current bank can be the custodian bank and the existing investment adviser remains the same. As Nelson Rockefeller famously said, "The secret to success is to own nothing, but control everything." These are the benefits of PPLI:

The concept of PPLI is similar to a trust but without the hassle of needing trustees. You are in control. In any event, for cross-border purposes, a trust may not be viable as they are not recognised in law in many countries whereas life insurance is recognised throughout the world. However, a trust can own PPLI. This gives an added layer of legitimacy to the trust and simplifies reporting purposes. No breakdown of assets is needed, only the value of the policy.

A further benefit of PPLI is that named beneficiaries receive the value of the assets on death quickly, without the need for probate. The beneficiaries can be changed at any time and there is no identification documentation requirement on beneficiaries until a death claim is made.

There is full tax deferral of income and gains and in many countries, no tax on withdrawals or final encashment.

With the new regime of global identification of everyone and their tax affairs, it does not make any sense to wait and see what might happen. The outcome of the recently released Panama Papers means the perception is guilty until proven innocent, even though many people's affairs are perfectly legal. Whatever your assets, it makes sense to ensure you are compliant and as safe as possible now before it is too late.

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