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Specialist Bank

There's bank account segregation and there's proper segregation!

Most trust and fiduciary practitioners will be very familiar with the term UK resident but non-domiciled individual 'non-dom'.

For many years the offshore banks have only had to segregate income from capital i.e. bank interest should not be added to clean capital but instead it should be put in a separate bank account. Sadly even today many highly regarded offshore banks often get this simple requirement wrong, potentially irreparably compromising their client's tax affairs.

Forward thinking banks should have already identified that much more detailed segregation is required to provide a truly out of the ordinary service to their non-dom clients.

Non-doms remain a core element of most Channel Islands trust and fiduciary companies past, present and future business plans, in many cases representing up to 50% of their business. The 2008 Finance Act defined non-doms into various categories and heralded the first major legislative attack on their unique tax status. The most high profile change was the introduction on an annual charge, known as the remittance based charge, for a certain category of non-doms.

Since the 2008 Finance Act, successive legislative changes affecting non-doms have created a cottage industry for accountants, lawyers, tax professionals and trust practitioners but not quite such a workload for banks, but that is changing.

Smarter bankers will be offering their non-dom clients the facility to segregate their income and capital gains into several separate bank accounts. For example, and this list is not exhaustive, potentially a non-dom may require separate banks accounts for:

- Clean capital

- Dividend income
- Funds incorporating a capital gain
- Nominated income
- Bank account interest
- Income & / or gains prior to 6 April 2008

Within the tax professional community there is school of thought that says each and every UK tax year should be represented with different income bank accounts and that a further separate bank account should be used when making the annual remittance based charge.

The annual remittance based charge is presently £30,000pa for non-doms present in the UK for more than 7 out of the past 9 tax years but less than 12 years. For non-doms present in the UK for more than 12 years, the annual remittance based charge is increasing to £50,000 effective from 2012.

Banks have to be even smarter to win non-doms because their number is reducing. *Recent figures reveal that the number of individuals registered with HM Revenue and Customs as non-doms has fallen from a 2007 / 2008 tax year high of 140,000 to 118,000 for tax year 2009 / 2010, a fall of some 16%.

The category of non-doms that pay the aforementioned annual remittance based charge is also falling. For the 2009 / 2010 tax year only 5,100 non-doms paid the £30,000 annual charge, thus raising £153m. for the Revenue's account. This is down from £162m. the Revenue raised for tax year 2008 / 2009.

The future for non-doms does however remain bright following the most recent UK Budget. Where they and their bank have been diligent with segregating their capital gains and income from being mixed with clean capital, the government has announced a scheme to help boost the UK economy by allowing non-doms to remit income into the UK to finance commercial investments 'tax free'.

There will of course be rules that must be followed in order for the non-doms to use this new tax exemption which came into effect from Friday 6 April 2012 but it is a nonetheless very welcome move by the Government and perhaps a reflection that they recognise the contribution non-doms make to the UK economy.

Non-doms can require sophisticated banking to be provided accurately but seamlessly by specialist private banks that have the ability to adapt to their changing needs. Bigger banks can be likened to large ships, they need a long time to change direction and to stop and start. Smaller private banks have the benefit of being nimble and flexible but they must be more thought led rather than price or product led.

They should look for a bank that is out of the ordinary.

*According to law firm McGrigors, which obtained the figure under the Freedom of Information Act.

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