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Private Wealth Newsletter 2025

First Edition

TAX FROM EVERY ANGLE

Editors' note

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On behalf of Baker McKenzie's Global Wealth Management & Alternative Capital Practice Groups, we are pleased to publish and present to our clients, friends, and colleagues the first edition in 2025 of the Private Wealth Newsletter.

The UK "res non-dom" regime has now come to an end with effect from 6 April 2025, but this monumental change in the private client world has been overshadowed by new global trade and tariff developments. With the backdrop of global trade disagreements, our lead article from Marnin Michaels asks the question whether taxes, tariffs, and sanctions should be thought of as all part of the same "revenue generating" function of governments and not independent subjects. If this premise is correct, what are the consequences for governments and their taxpayers?

Turning to the Middle East and Asia, the current edition features updates on Taiwan's CFC regime and related wealth management issues and on the developments in the UAE pushing it to the forefront of wealth planning jurisdictions for private clients and family offices. In the UAE's case, it figures to be a bellwether for new regional planning hubs as its family foundation and trust offerings continue to increase in popularity and viability.

For readers with interests in US and international tax planning for private individuals, closely-held businesses, and family offices, our PWN Meets series introduces Robert (Bobby) Moore, a Tax Partner based in our Miami office. Bobby take us through his exciting practice, how he helps our clients, and what are the biggest risks he sees for private individuals and family offices with cross-border issues.

We hope you find something interesting, informative or thought-provoking in this edition, whether it be one of our feature articles or a piece from the Around the World section, compiling relevant and important cases, and legislative developments from across the world.

Our editors, Elliott Murray and Phyllis Townsend, or any of the authors listed throughout the newsletter, can be contacted with any feedback or questions.

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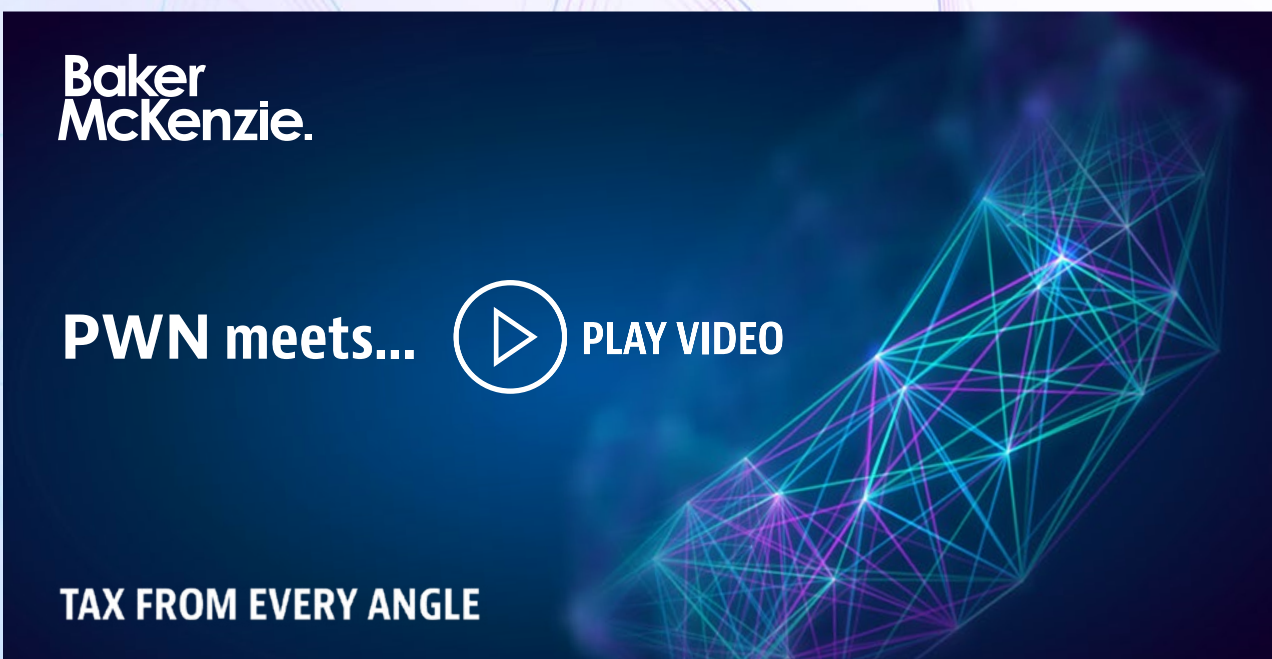
PWN meets...

In the latest instalment of our series of interviews, Robert Moore talks to us about his experience of working at the Firm and involvement in Wealth Management.

Robert Moore
Partner, Miami



Article

The confluences of taxes, trade and tariffs

Almost 30 years ago I started my career, and I wanted to be a trust and estates lawyer. I even received an LL.M. in estate planning. For much of my career that meant a focus on tax related issues with smattering of trust and foundation law, some regulatory issues and eventually an evolution into criminal tax related issues. However, the emphasis was on TAX.

Approximately 15 years ago I noticed a global trend: whether correct or incorrect policy, governments were at the time pressured to reduce taxes, but at the very same time finding greater sources of revenue because of increasing debt loads, an aging population and unemployment amongst certain groups (in some countries over 50% unemployment for people under the age of 30). At the exact same time, democratic states became increasingly polarized, with the result that elected officials from opposite side of the spectrum became less able/willing to cooperate with each other.

Fast forward to 2022 and the Ukraine war: while eventually many nation states provided economic and military aid to Ukraine, the initial and concurrent attempt to weaken Russia was through sanctions. Unlike the providing of funds or military weaponry which required legislative action, sanctions could be executed by executive fiat.

In this article I posit that in the last five years we have seen three independent sources of law: (1) taxation; (2) tariffs; and (3) sanctions became one topic: revenue generation. We will explore the concept and specifically how each of the three are a form of revenue generation with the latter, in effect, being a tax increase without the public (voting public to be specific) appreciating that tariffs are, in effect, a form of value added taxation.

Taxes, tariffs, and sanctions are different mechanisms employed by governments to generate revenue and influence economic behavior. However, their convergence into a unified topic of revenue generation is a recent phenomenon driven by global economic pressures and political dynamics.

Taxes

Taxes have been the primary tool for governments to collect revenue. They come in various forms including income tax, corporate tax, excise tax and value added tax, each contributing to the financing of governmental operations. As scrutiny and political resistance to direct taxes have grown, governments have sought alternative revenue streams.

Tariffs

Tariffs were initially designed to protect domestic industries from foreign competition by imposing duties on imported goods. They have also become a significant source of revenue. When direct taxation faces political hurdles, increasing tariffs on imported goods can be a more politically palatable option. However, the costs of these tariffs are often passed on to consumers, effectively acting as a hidden tax.

Sanctions

Sanctions are a geopolitical tool to exert economic pressure on nations, entities, or individuals. Although the primary goal of sanctions is punitive rather than revenue generation, they often come with economic benefits for the sanctioning country. For example, by restricting trade with certain nations, domestic industries may see increased demand and, consequently, higher revenue through tariffs.

The Confluence of the Three

We now see blurring of the three mechanisms. Governments, facing greater financial demands and political gridlock, now use tariffs and sanctions not just as tools of economic policy, but as revenue-generating measures. Sanctions have evolved into a form of indirect taxation. By limiting trade with targeted nations, governments can manipulate market dynamics in favor of domestic industries, leading to increased tariff revenue.

Legislation vs Executive Fiat

Another difference between these revenue-generating mechanisms in in their creations. New taxes typically require formal legislation, involving extensive debate, approval processes, and potential public backlash. This legislative hurdle often makes it challenging for governments to introduce or increase taxes without facing significant opposition from the voting public. In contrast, tariffs and sanctions can be enacted more swiftly and with fewer procedural obstacles, normally through executive fiat. Tariffs can be adjusted by executive orders or through administrative decisions, allowing for more immediate changes to revenue streams. Sanctions often require only executive decisions and can be implemented rapidly. The agility makes tariffs and sanctions attractive alternatives for governments seeking to boost revenue without engaging in protracted legislative battles.

Tariffs vs VAT

Tariffs and VAT both serve as sources of revenue generation. However, they operate differently within the economic framework. Tariffs are imposed on imported goods to protect domestic industries and generate revenue, whereas VAT is a consumption tax levied on the value added to goods and services at each stage of production and distribution. Both impact consumer price. Tariffs are more linked to governmental policies. VAT is a domestic tax affecting all levels of production within a country.

The Risk of The Absence of Checks and Balances

Unchecked sanctions and tariffs carry several risks and far-reaching consequences on both the imposing and targeted nations. For example, it was not clear to me that the imposition of tariffs on Ontario would lead to the Ontario Liquor Control Board (the largest purchaser of alcohol in Canada) from refusing to purchase US liquor.

Countries affected by sanctions or tariffs may respond with their own set of countermeasures that go beyond counter-tariffs. A tit-for-tat escalation can result in a prolonged period of economic instability.

Another risk is the unintended impact on unplanned populations. Sanctions can lead to severe economic hardships for ordinary citizens and can result in shortages of essential goods, inflation, and increased unemployment.

Relying heavily on tariffs and sanctions can erode trust between trading partners, making it more difficult to negotiate future agreements and collaborations. Prolonged use of these measures can lead to inefficiencies within domestic industries, as they become dependent on protectionist policies rather than innovation and competitiveness.

Unchecked sanctions and tariffs can also have significant geopolitical ramifications. They can strain diplomatic relations and escalate conflicts, potentially leading to military confrontations. The global economy is interconnected, and economic pressures in one region can ripple through to others, causing widespread financial instability and hindering global economic growth.

As an example, historically, Switzerland would have been the location of any serious negotiations that needed to be held in a third-party country. Because Switzerland imposed sanctions on Russia, the Russia-Ukraine peace negotiations now take place in Saudi Arabia.

Conclusion

The confluence of taxes, tariffs, and sanctions into a single topic of revenue generation marks a significant shift in economic policy. This convergence allows governments to circumvent the direct political fallout associated with tax increases while still meeting their financial needs. Re-thinking these issues is crucial for comprehending the evolving landscape of global economic policy and its implications for both domestic and international markets.

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Article

Tax developments impacting family wealth vehicles in the UAE

Introduction

Introduction

The United Arab Emirates (UAE) has emerged as a leading wealth management center for regional and international wealth. New estate planning vehicles, such as foundations and trusts, have been introduced at the federal level and in several financial free zones, and regulations to encourage establishment of single family offices (SFOs) and multi-family offices have been introduced at an accelerated pace over the past 20 years.

The interplay of this vibrant new regulatory framework with the recent introduction of a UAE federal corporate tax means that the fiscal landscape presents open questions and challenges for wealth owners and private wealth vehicles. This article surveys how the corporate tax changes impact typical wealth planning structures in the UAE.

By way of background, the UAE consists of seven emirates: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain. Legislation is promulgated at several levels: federal laws (covering, for example, company law, value-added tax and corporate tax) and emirate-level regulations (addressing local matters such as real estate ownership). In addition, over the past two decades, the UAE has established several financial free zones and international corporate registries, including the Abu Dhabi Global Market (ADGM), Dubai International Financial Centre (DIFC), Dubai Multi Commodities Centre (DMCC), Dubai World Trade Centre (DWTC) and Ras Al Khaimah International Corporate Centre (RAK ICC). These zones have been instrumental in creating sophisticated regulatory frameworks for private wealth structures and family offices, significantly enhancing the UAE's position in international wealth management.

SFO regimes

DIFC: The DIFC Family Arrangements Regulations of 2023 establish a comprehensive framework for SFOs that wish to operate from the DIFC. Family offices — which can be structured as limited companies, partnerships or foundations — must be licensed with the DIFC Registrar and are eligible under this regime only if the family owns net assets of at least USD 50 million. Obtaining a license as a DIFC family office allows the entity to engage in a wide range of services including strategic business advisory, investment management, tax planning and fiduciary services. While typically limited to serving a single family, with appropriate authorization, a family office may service multiple families, thereby becoming a multi-family office.

DMCC: The DMCC allows DMCC free zone limited liability companies to apply for a specific license to provide family office services to a single family, either directly to such family or to related family entities. A DMCC SFO must be owned by family members or related legal vehicles (if it is possible to establish that the ultimate beneficial owners are members of the same family). Transfers of shares outside the family are prohibited.

DWTC: The DWTC allows DWTC free zone establishments and companies to apply for a specific license to provide professional services and administrative services to a single family. A DWTC SFO must be ultimately owned by a single family, the board of the SFO must be at least 51% controlled by the family, and the family office must have an office space in the DWTC.

ADGM: Unlike the specialized family office regimes established within the DIFC, DMCC and DWTC frameworks, the ADGM currently does not have an ad hoc dedicated regime for family offices. Instead, family offices operating within the ADGM typically structure their operations as special purpose vehicles, such as restricted scope companies. As a restricted scope company, an ADGM SFO is subject to a streamlined version of the company law regulations applicable to ADGM companies, and is owned by one natural person or a group of natural persons who are members of the same family. The ADGM Registration Authority initiated a public consultation to consider potential amendments to the ADGM SFO regime, including clarifying the list of permissible SFO activities, and introducing minimum capital requirements for an SFO. The consultation period concluded on 14 July 2024, suggesting regulatory changes in the ADGM are likely to take place in the coming months.

Family Foundations

The UAE offers three separate foundation regimes: in the ADGM, DIFC and the RAK ICC. While the ADGM, DIFC and RAK ICC foundation regimes differ in specific provisions, they share a common framework derived from civil law traditions. These similarities create a recognizable structure across all three jurisdictions.

Each foundation regime requires a foundation council comprising at least two members to manage the foundation's affairs, with no strict residency or licensing requirements for councilors. Founders can maintain substantial control through extensive reserved powers. All three frameworks establish the position of guardian to provide oversight of the council's activities, though the requirement becomes mandatory under different circumstances across the jurisdictions. The regimes also demonstrate flexibility through continuance provisions, allowing foreign foundations to qualify as local foundations and enabling conversion from corporate entities to foundations in several instances.

UAE corporate tax

On 9 December 2022, the UAE Ministry of Finance issued Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses ("**CT Law**"), effective for accounting periods beginning on or after 1 June 2023. The CT Law establishes the following tax treatment framework:

- Free zone entities: UAE free zone entities (**"Qualifying Free Zone Persons**") benefit from 0% corporate tax on qualifying income, with non-qualifying income taxed at 9%. Qualification requires meeting specific conditions under Article 18, including maintaining adequate substance in a UAE free zone.
- Mainland businesses: Entities operating outside free zones face a 9% corporate tax on taxable income exceeding AED 375,000, unless they qualify within narrow exemptions that are designed primarily for government entities, extractive businesses, qualifying public benefit entities and qualifying investment funds.

Family Foundations are generally classified as taxable persons required to register with the UAE Federal Tax Authority (FTA) and subject to corporate tax. However, Article 17 of the CT Law provides an alternative treatment option, allowing Family Foundations to apply for classification as Unincorporated Partnerships when meeting all these conditions:

- It is established for identified or identifiable natural persons, a public benefit entity or both.
- The principal activity is limited to receiving, holding, investing, disbursing or managing assets or funds associated with savings or investment.
- Family Foundations should not conduct activities that would constitute a business if undertaken directly by founders, settlors or beneficiaries (which, for these purposes, does not include real estate investment and personal investment activities).
- Tax avoidance should not be the main or principal purpose.
- Any additional conditions prescribed by the UAE Minister of Finance should be satisfied.

Family Foundations qualifying as Unincorporated Partnerships effectively receive tax-transparent treatment, with taxation determined at the level of the beneficiaries/partner in case of distributions.

On 28 October 2024, the UAE Ministry of Finance issued Ministerial Decision No. 261, providing key clarifications regarding Unincorporated Partnership elections for Family Foundations, as follows:

- Irrevocability provision: FTA-approved applications for Unincorporated Partnership treatment become irrevocable apart from exceptional circumstances requiring explicit FTA approval.
- Reporting requirements: Upon election approval, the Family Foundation must designate a responsible partner who must inform the FTA of any changes in beneficiary classes during the relevant tax period.

- Subsidiary treatment option: Legal entities wholly owned and controlled by a Family Foundation that independently satisfy Article 17 conditions may also qualify for Unincorporated Partnership treatment, thereby accessing the same tax-transparent status.

SFOs that are incorporated as separate legal entities under the DIFC, DMCC, DWTC and ADGM regimes described above are also treated as taxable persons required to register with the UAE FTA and are subject to UAE corporate tax on their profits.

SFOs are unlikely to qualify as exempt persons for purposes of the CT Law, as they generally do not qualify as government entities, extractive businesses or public benefit vehicles. Despite operating in the investment domain, SFOs also do not qualify as Qualifying Investment Funds because this classification requires interests to be traded on exchanges or marketed widely to investors — a structure incompatible with free zone SFO licensing requirements that restrict shareholding outside a single family.

SFOs also face challenges qualifying for 0% rates on investment management services as Qualifying Free Zone Persons. The FTA's Corporate Tax Guide on Free Zone Persons specifies that wealth and investment management services qualify for preferential treatment **only** when these activities are subject to regulatory oversight by competent investment authorities (Central Bank of UAE, Dubai Financial Services Authority of the DIFC, the Financial Services Regulatory Authority of the ADGM or the UAE Securities and Commodities Authority). SFOs managing investments for a single family operate outside this regulatory framework and would not, therefore, be able to qualify for preferential 0% tax treatment on wealth and investment management services. Expanding services to third parties would ensure the necessary regulatory oversight, but would exceed SFO license parameters, effectively transforming the entity into a multi-family office.

The CT Law requires adherence to arm's length principles for all related party transactions, eliminating the possibility of providing services to family vehicles on a no-cost basis. Nevertheless, given the AED 375,000 threshold before corporate tax applies, and considering that SFOs typically function as cost centers with substantial infrastructure and personnel expenses, the practical UAE corporate tax implications for an SFO can be mitigated with strategic advance planning.

Conclusion

The UAE continues to strengthen its position as a leading jurisdiction for private wealth management through sophisticated regulatory frameworks for family offices and foundations. The introduction of corporate taxation represents a significant shift in the landscape, requiring careful consideration in structuring wealth management vehicles. Despite these changes, the UAE maintains its competitive edge through diverse free zone options, each offering distinct advantages tailored to specific wealth preservation objectives. As regulatory frameworks evolve, professional advisers play a critical role in optimizing structures that balance compliance requirements with tax efficiency, ensuring alignment with both UAE regulations and international reporting standards.

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Article

Taiwan: Asia Pacific Wealth Management – Recent developments and highlights

Highlights

1. After reporting: key considerations for offshore trustee reporting under the controlled foreign corporation regime
2. Updates on the implementation of controlled foreign corporation rules
3. Taiwan as an asset management center in Asia and offshore business opportunities
4. Financial institutions to offer virtual asset custody services and the development of regulations for capital inflows and outflows in Taiwan

Key Developments

1. After reporting: key considerations for offshore trustee reporting under the controlled foreign corporation (CFC) regime

Following the 4 January 2024 and 10 July 2024 rulings, not only Taiwanese settlors and beneficiaries who meet specific conditions are required to report on CFCs, but the offshore trustees, if holding those CFCs, have to submit trust-related information to the Taiwan tax authority by the end of January each year.

(1) On 4 February 2025, the Ministry of Finance (MOF) issued ruling No. 11304678970, supplementing previous rulings by specifying that if an offshore trustee fails to obtain CPA-audited CFC financial statements or other supporting documents before the trust income reporting deadline, they may temporarily use the CFC's self- prepared earnings figures for filing purposes and subsequently amend the report once the required documentation is obtained.

Notably, the ruling also states that offshore trustees who fail to comply with reporting obligations will be subject to penalties under Article 111-1, Paragraph 3 of the Income Tax Act. It further mandates that their tax agents must pay the penalty on their behalf. This update fills a gap in the 10 July 2024 ruling, which did not explicitly state the penalties for non-compliance by offshore trustees. This ruling was issued just before the reporting deadline (which was extended from 31 January to 5 February 2025 due to the Chinese New Year holidays), indicating the MOF's level of attention to this matter. However, as alluded to in our opinions to various trustees, whether penalties can be imposed by way of a ruling is subject to debate regarding its constitutionality. It appears that the tax authority has taken these aggressive steps relying on the belief that certain provisions of the Taiwan Income Tax Act apply to an offshore trustee (who has no legal nexus with Taiwan). We are monitoring closely how the tax authority plans to audit and enforce such penalties. One thing is for certain: the tax authority will learn rapidly how offshore trusts actually operate after receiving filings submitted by compliant offshore trustees.

(2) Key considerations for offshore trustee reporting

A. Tax implications for settlors and beneficiaries

As previously noted in the 4 January 2024 ruling, when a settlor contributes CFC shares or capital into a trust, these holdings are attributed to the settlor or beneficiary's direct CFC ownership ratio. This means settlors and/or beneficiaries are required to report and pay tax on CFC income, even if they have not received any distributions from the trust. Once the trustee reports the CFC's income, this information will be available to the tax authority. At the very least, the trustees may be advised to inform the settlor (or beneficiaries as the case may be) so that amounts and information reported by the Taiwan residents (before the end of May 2025) are consistent with the information already disclosed. In addition, trustees may consider distributing a portion of the income annually to help settlors and/or beneficiaries cover their tax liabilities. This will change the trust practice because in the past, the beneficiaries' tax liability was not a key factor in determining the distribution amount.

B. Disclosure of beneficiary ratios

Trustees may decide whether to disclose the beneficiary ratios when filing reports. If the trustee chooses not to disclose the beneficiary ratios, the tax authority will allocate income equally among all beneficiaries by default in the case of a Ta-Yi trust. An irrevocable trust is likely considered a Ta-Yi trust.

C. Additional reporting considerations

Trustees must report not only the trust's own income, expenditures, and asset lists but also financial information on any CFCs held by the trust. Trustees should obtain CPA-audited CFC financial statements

2. Updates on the implementation of CFC rules

In May 2024, individual taxpayers in Taiwan reported their CFCs and calculated the alternative minimum tax (AMT) applicable to their 2023 income for the first time. According to the newsletter issued by the Ministry of Finance (MOF), the tax collected from the CFC reporting is higher than expected. The total tax collected based on CFC reporting for 2023 was TWD 27 billion (approximately USD 843 million), which consisted of TWD 22 billion from 2,600 corporation taxpayers and TWD 5 billion from 1,440 individual taxpayers. One could imagine the tax authority may use these existing filings to find other unreported shareholders of the same CFC. We are already seeing and handling several CFC audit cases arising from this information source.

Although the CFC tax collected from individual taxpayers was only TWD 5 billion, the MOF has indicated that they expect the final tax collection to likely increase as they strengthen their investigation of individuals' CFCs. In practice, we have seen the tax offices collect information using various methods, including from applications filed with the Department of Investment Review of the Ministry of Economic Affairs, which are mandatory when foreign investments are involved. In some cases, we have even seen the tax offices review the prospectus of foreign companies when they are trying to be publicly listed in offshore markets, in order to determine the potential Taiwan taxpayers. The biggest existing database is the foreign control declarations held by the Central Bank of the Republic of China (Taiwan) – we do not know when and how this will become the next target. For trustees, the most awkward situation is when their clients are either compelled to report or choose to report voluntarily, but they decide not to report, or when the settlor passes away and there is a dispute, or there is no dispute but one heir includes the offshore trust assets in the estate tax filing. If a trustee chooses to report without advising clients, the risk is that the clients could be penalized (in addition to the unpaid tax). However if they come forward voluntarily, it is possible that the penalty may be waived. Therefore, to mitigate the trust claim risk and manage the client relationship, the best approach is to allow the clients sufficient time to act properly.

Considering that some offshore trustees have decided to submit documents to the Taiwan tax authority regarding the CFCs of settlors, we expect that the tax authority will have access to a greater amount of tax information and become more sophisticated in their understanding of certain offshore structures. It is strongly advised that clients take the potential impact of the CFC rules more seriously and do a health check on their current assets holding structure. Queries have also been made on whether a revoked trust is reportable – this should be assessed on a case-by-case basis.

3. Taiwan as an asset management center in Asia and offshore business opportunities

The Financial Supervisory Commission (FSC) is promoting the expansion of wealth management in Taiwan by proposing regulatory amendments to encourage banks to serve high-net-worth clients. To position Taiwan as an asset management center in Asia, a local asset management pilot zone ("Zone") will be set up in Kaohsiung City. Banks are encouraged to set up business bases and conduct specific financial businesses and cross-border financial services under appropriate risk control measures.

Key business items that a bank may apply to conduct on a trial basis in the Zone include:

(1) Open Bank International Banking Units (OBUs) may act as securities trading facilitators and open composite accounts with domestic securities firms to place orders on behalf of clients for foreign-currency securities that are of an equity nature (e.g., stocks, ETFs, etc.).

(2) OBUs may enter into service agreements with domestic securities investment trust enterprises to sell PE funds in which its subsidiaries act as general partners and PE funds entrusted by the securities investment trust enterprises.

(3) Sales procedures for high-net-worth clients who purchase unlisted financial products through a trust are subject to the suitability control of the client's asset portfolio, not pre-listing review regulations. According to Article 3 of the Regulations Governing Banks Conducting Financial Products and Services for High-Net Worth Customers, high net-worth clients are defined as, among others, customers who can provide proof of financial capacity equivalent to NTD 100 million (around USD 3.3 million) or above in net value of investable assets and insurance products value; or holds more than NTD 30 million (around USD 1 million) in net value of investable assets at the bank and provides a statement of holding and equivalent to NTD100 million (around USD 3.3 million) or above in net value of investable assets and insurance products value.

(4) The scope of Lombard Lending includes insurance policy financing and premium financing.

(5) OBUs may engage in joint marketing or joint account opening with the international securities business branch and the international insurance business branch in the same financial holding group, provided that the personnel meet the required professional qualifications and with the consent of the client. It may also cooperate with other businesses for promotional activities or joint account openings.

Given the above, a key aspect of the Zone is the flexibility in insurance products, allowing offshore insurance units (OIUs) to sell more flexible insurance products, including those not yet approved in Taiwan but available abroad. This may include policy financing, which was not allowed for Taiwan banks in the past. With an approved pilot proposal, foreign brokers may apply for insurance broker licenses in Taiwan and work with domestic insurance companies' OIUs to sell insurance products (that are not allowed in Taiwan as of now) to high-net-worth customers and facilitate insurance policy financing with local banks.

In summary, it is expected that offshore bankers and brokers will be able to provide more flexible cross-border financial products and services in Taiwan in the foreseeable future, leading to a greater variety of financial services and increased business opportunities. In addition, offshore trusts could also be one possible relaxation under the pilot scheme. Another new area is that in the past, family office services provided by a bank were more add-on than chargeable services. Now, the pilot scheme could allow such a service to be charged by a bank. Any innovation could happen, subject to the FSC's approval of the pilot scheme.

4. Financial institutions to offer virtual asset custody services and the development of regulations for capital inflows and outflows in Taiwan

On 28 November 2024, the FSC announced the launch of a pilot program for virtual asset custody services. This program opened for applications from financial institutions on 1 January 2025. Many major domestic banks and financial holding companies in Taiwan have expressed interest in this program. The program aims to introduce various innovative financial services, including virtual asset custody, to enhance the security of Taiwan's virtual asset trading environment.

Based on our assistance to financial institution clients applying for the pilot program, we notice that banks and financial holding companies primarily target high-net-worth individuals (HNWIs) and professional investors for their virtual asset custody services. The virtual assets planned for custody mainly include cryptocurrencies such as Bitcoin and Ethereum.

On the other hand, the Taiwanese government has recently actively promoted policies to transform Taiwan into an asset management hub in Asia. Several policies have been enacted to relax capital utilization restrictions. For instance, the limit on annual cumulative foreign exchange settlements for individuals was raised from USD 5 million to USD 10 million starting from 1 November 2024, and for companies, from USD 50 million to USD 100 million.

With the encouragement of financial institutions engaging in virtual asset businesses, these institutions are expected to play a custodial role in virtual asset transactions. HNWIs looking to transfer funds into or out of Taiwan may find that exchanging fiat currency for virtual currency offers a more flexible option. All combined, it is anticipated that the channels for fund transfers in and out of Taiwan will become more innovative, especially under the pressure of geopolitical risk.

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Article

Implications of the *Vermilion* Supreme Court decision for fund managers

Overview

The relatively recent Supreme Court decision in the Vermilion Holdings Ltd. v. HMRC case has significant implications for self-employed fund managers, particularly those who sit on the boards of portfolio companies. This landmark ruling has the potential to reshape the landscape of carried interest awards, potentially classifying awards as employment-related securities (ERS) and subjecting them to employment income charges.

Background of the *Vermilion* case

The *Vermilion* case revolved around the application of the deeming provisions in the UK ERS rules. The individual concerned provided consultancy services on a self-employed basis and received stock options as a form of payment for these services. Years later, the company ran into financial hardship, and, as part of a rescue package, the individual became a director of the company. His stock option agreement (along with other investors) was renegotiated, and a new option was granted. The option appeared to be provided for the individual's prior role as a self-employed consultant, but the renegotiated option had been provided at a time when he was a director of the company, and so it was a question of whether the deeming provision would apply and render the option as "employment related."

Key takeaways from the decision

1. **Broad interpretation of ERS rules:** The Supreme Court's ruling highlighted the extensive reach of the ERS rules. It suggests that securities awarded to individuals who are partners in an asset management business, but also serve as directors of entities within the fund structure, can fall within the scope of ERS rules. This is particularly relevant for fund managers who participate in carried interest and coinvest arrangements.
2. **Deeming provisions:** The decision underscored the importance of the deeming provisions in the ERS rules. These provisions can result in securities being treated as employment-related if the opportunity to acquire them is made available by an employer or a person connected with an employer.
3. **Tax implications:** If carried interest awards are deemed to be ERS, they could be subject to employment income charges. Along with being subject to higher rates of income tax, this would also likely result in payroll withholding along with employee NICs. Such charges can arise both on and following acquisition.

Practical implications for fund managers

For fund managers, the *Vermilion* decision necessitates a careful review of their compensation structures and the nature of their roles within portfolio companies. Here are some practical steps fund managers should consider:

1. **Board roles and responsibilities:** Fund managers who serve as directors of portfolio companies should evaluate the implications of their directorships on their carried interest awards. It may be necessary to reconsider the extent of their involvement in these roles to avoid triggering the deeming provisions of the ERS rules.
2. **Tax planning and compliance:** Given the potential for increased tax liabilities, fund managers should engage in proactive tax planning.

Conclusion

The *Vermilion* Supreme Court decision marks a pivotal moment for the asset management industry. By broadening the interpretation of ERS, the ruling has significant implications for fund managers, particularly those involved in carried interest and coinvestment arrangements. Fund managers must now navigate this complex landscape with heightened awareness of the potential tax implications and take proactive steps to mitigate their exposure.

As the industry adapts to this new reality, it will be crucial for fund managers to stay informed and seek advice to ensure compliance and optimize their compensation structures in light of the *Vermilion* decision.

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Around the world

EMEA

Belgium - Introduction of a capital gains tax for private individuals

After eight months of negotiations, the new Belgian government finally reached its coalition agreement detailing its ambitions for the government term (2025 – 2029). This agreement also includes an extensive array of tax reform and policy measures. One of the key measures is the introduction of a 10% capital gains tax (called "solidarity contribution") for private individuals[1].

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Alain Huyghe | Julie Permeke | Marie Krug

France - Abuse of law through artificial interposition of companies and reclassification of dividends as salaries (French Tax Supreme Court, 29 November 2024, Nos. 487706, 487707 and 487793)

The French Tax Supreme Court ruled that the artificial interposition of companies allowing salary income to be taxed as distributed income under the parent-subsidiary regime constitutes an artificial arrangement with an exclusively tax-driven purpose.

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Author:

Agnès Charpenet | Emilie Suryasumirat

France - Manual gift of assets located abroad - reminder on the need to anticipate a transfer of tax residency to France (RM O. Richard, SENATE 10-03-2024, QE No. 00845)

In response to a senator's question, the minister for the economy stated that the taxable event for manual gift occurs upon its disclosure to the French tax authorities.

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France - Finance Bill for 2025

Differential contribution applicable to certain taxpayers receiving high income.

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1 Note that there are other relevant tax measures mentioned which can be relevant for a private wealth practice, such as an exit tax in the hands of Belgian tax residents shareholders upon the transfer of seat of a Belgian tax resident company.

AMERICAS

United States - Tax Court holds strong on Farhy penalty assessment issue under Golsen rule

For cases that are appealable outside the DC Circuit, the US Tax Court, citing the Golsen rule, continues to hold that the IRS lacks the authority to assess the penalties under section 6038(b)(1) and, therefore, cannot proceed with the collection actions against the taxpayer related to those penalties via the typical levy or lien procedure as prescribed in the Internal Revenue Code (IRC).

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United States - FinCEN issues Interim Final CTA Regulations limiting BOI reporting rule to foreign companies

On March 21, 2025, FinCEN issued Interim Final Regulations (IFRs) that narrow the beneficial ownership information (BOI) reporting requirements under the Corporate Transparency Act (CTA). Under the IFRs, only entities previously defined as "foreign reporting companies" are required to comply with the BOI reporting requirements of the CTA. In addition, "US persons" are now exempt from being reported as beneficial owners of foreign reporting companies and from having to provide their beneficial owner information regarding such companies.

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APAC

Philippines - Tax amnesty on real property taxes under the Real Property Valuation and Assessment Reform Act

The Bureau of Local Government Finance (BLGF) issued Memorandum Circular No. 003-2025, dated 6 January 2025, reiterating the implementation of the tax amnesty on real property taxes under Republic Act No. 12001 ("RA No. 12001"), also known as the Real Property Valuation and Assessment Reform Act (RPVARA). The tax amnesty offers relief for unpaid real property taxes incurred prior to 5 July 2024 and is available until 5 July 2026.

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