

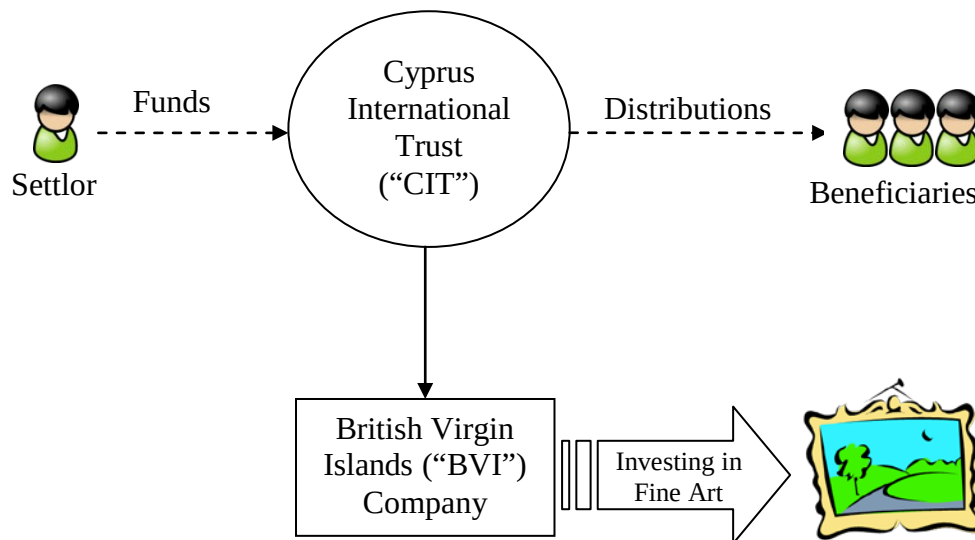
Investing in Fine Art for the Future

May 2010

I. Investing in Fine Art		
The interest for investing in Fine Art has significantly grown over the last few years. Some do it out of passion for art, others for investment purposes and others for both of these reasons. In the US alone, the art market volume surpasses US\$40 billion per year. Given the present uncertain stock market returns and with interest rates at their lowest in decades, investors are now considering alternative investment avenues. An increasing number of people are now considering alternative investments such as fine art, stamps or even vintage wine. For the more serious collector, investment in Fine Art can bring, amongst other, the reward of an outstanding price appreciation and profit potential.		
II. Considerations for the serious Fine Art investor		
The re-emergence of the Fine Art market is upon us. But how does a serious Fine Art investor go on about investing in Fine Art? One could invest in Fine Art through a number of ways, such as: (a) Directly as an individual (b) Through a corporate vehicle (company) (c) Through a Trust (e.g. a family Trust)		
Outline comparison of investing in Fine Art:		
(a) as an Individual person	(b) through a Company	(c) through a Trust
Retain full control and enjoyment of Fine Art objects	Can still retain control and enjoyment of Fine Art objects	Can still retain control and enjoyment of Fine Art objects
Tax risks for capital appreciation and profit from sale of art objects (depending on the laws of the country of which the individual is a tax residence)	If this is an offshore company (e.g. British Virgin Islands), and provided the proper safeguards are in place, there will be no tax on capital appreciation or profit resulting from any of the Fine Art objects	If this is a Cyprus International Trust, and provided the proper safeguards are in place, there will be no tax on capital appreciation or profit resulting from any of the Fine Art objects
Significant tax exposure on transfer of Fine Art objects either upon death (e.g. inheritance tax) or by way of other transfer (e.g. by way of gift)	Inheritance tax and other tax exposures may still exist on the value of the shares of the company	Inheritance tax and other tax exposures can be eliminated
Risk of losing Fine Art objects to creditors	Risk of losing shares of company (and Fine Art objects) to creditors	No risk of losing Fine Art objects to creditors
III. Fine Art Investment using a Family Trust		
From the above outline comparison it is clear that, for the serious investor of Fine Art objects, an		



Art collection is not only better protected under a Trust, but can also have extensive cash savings in potential taxes. Furthermore, the use of a Trust can have additional dynamics, especially when combined with an underlying company through which the Fine Art investments are made.



Workability:

- CIT is set up by a non-Cyprus resident person (the Settlor), who settles funds to the trust as trust property. The CIT has at least one Cyprus resident trustee. The trustee(s) acquire legal ownership of the funds and manage them for the benefit of the non-Cyprus resident beneficiaries of the CIT. The settlor can also be one of the beneficiaries. Various levels of protection and retaining of certain control can be implemented
- The CIT sets up an underlying BVI company through which the investments in Fine Art objects are carried out
- Profits or part of the profits made can be distributed to the beneficiaries without any Cyprus or BVI tax leakage. Under certain circumstances, such distributions may be tax exempt in the hands of the beneficiaries as well

Other dynamics:

- There could be more than one CIT (e.g. one per child) using the same BVI company to invest in Fine Art objects
- There could be more than one underlying company if other investing activities also need to be made (e.g. trading in stocks, investing in bonds, investing in real estate)
- Confidentiality on the identity of the settlor and the beneficiaries is provided
- Allows for better tax, estate duty, will substitution and inheritance tax planning

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.