



WEEKLY TAX BULLETIN

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Tax, duty and lost trust deeds: Advisers beware

by *Matthew Burgess, Director, View Legal*

The case law in relation to lost trust deeds appears to be growing at an exponential rate in recent years.

For example, the decision in *Application of DEK Technologies Pty Ltd as trustee for DEK Technologies Unit Trust & Ors* [2023] NSWSC 544 was handed down in the same week as the further 2023 case featured below.

In this first decision, the key data retained by the deed provider (such as type of trust, trust names, establishment dates, settlement sums, applicable laws and details of the settlors, trustees and beneficiaries) was combined with the likely base deeds from the relevant era maintained by the deed provider to allow the court to approve the trustees managing and administering multiple trusts pursuant to the relevant terms.

While certainly the KYC (or know your customer) regime has had a material impact on the increase in court applications, there is also arguably a convergence of related issues, including:

- increased awareness of advisers about the significant risks associated with relying on anything other than a wet (ie not electronically) signed original trust deed;
- trustees also being more aware of arguably the single most important trustee duty of any form of trust - that is to know the terms of the trust deed and keep the original trust instrument safe and secure (a duty that is arguably impossible to discharge if the trust deed is lost);
- beneficiaries (and their advisers) being increasingly aware of their rights against trustees and advisers for a failure to discharge trustee duties, arguably fuelled by widely reported decisions including in this Bulletin involving high net wealth families such as Rinehart, Smorgon, Twigg (“Cleanaway”), McLaren (“Jalna yoghurt”) and Cardaci - as well as many other similar cases involving families not with as high public profile, such as Mantovani, Re Owies and Cleeve;
- the intergenerational wealth transfer from the baby boomer generation - many of whom were the first to embrace trust structures in modern Australia;
- the, anecdotal, focus on controllers of trusts wanting to limit benefits being provided to lineal descendants or bloodline family members, and needing to know the exact terms of the original trust deed in order to achieve their objectives.



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Revenue consequences

While generally not the focus of the reported decisions, the related revenue consequences that likely flow from lost trust deeds are significant and arguably can be seen as a further element of the convergence causing the increasing number of cases.

The potential revenue related issues of lost trust deeds are considered in detail in this Bulletin at 2021 WTB 50 [1201].

The decision in *BAGI Pty Ltd trading as atf Nick Ristevski Family Trust v Marka Ristevski* [2023] NSWSC 567 however offers an instructive example of the complications that can arise commercially and the stamp duty consequences.

The factual matrix involved an arguably typical situation of a lost - and then (partially) found - trust deed for a discretionary trust. In particular:

- The trust deed of the Nick Ristevski Family Trust was executed in 1989 but the original signed deed went missing some time in the early 2000s.
- When neither the original nor a copy of the deed could be found in 2015, the trustee arranged for the original deed to be replaced with a new trust deed (titled as a 'confirmation deed') - without any knowledge of what the original terms of the trust deed were; the case does not explore whether the approach was even permissible at law, nor the tax or stamp duty consequences of the approach.
- In 2020 an incomplete copy of the 1989 deed was found, which contradicted the 2015 confirmation deed in a number of areas, including the definition of the beneficiaries of the trust - although fortunately the copy of the original deed did contain a power of variation that in essence validated the ability under the deed to enter into the 2015 confirmation deed.

In confirming the court would rectify the erroneous terms of the 2015 confirmation deed, the court also confirmed the trustee was justified in otherwise acting in the administration of the trust on the basis of the confirmation deed.

Stamp duty

While the court made no comments on the stamp duty consequences of the factual matrix, to the extent any of the trust property was dutiable, there appears to be an exposure to duty in most states

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with the adoption of a confirmation deed, particularly in New South Wales (the relevant jurisdiction in this case).

That is, any deed of confirmation approach could be seen (depending on the location of trust assets) as a resettlement, trust acquisition or (at least under the NSW duty regime) a declaration of trust.

For example, even where a full photocopy of the original trust deed is held, there is a risk in NSW that based on the accepted interpretation of the definition of a 'declaration of trust' any declaration (a very broadly defined term in this context) which meets the statutory description is in turn a 'declaration of trust' for stamp duty purposes. Thus, a confirmation deed, even if it in fact has no legal effect, as may well have been the situation with the 2015 confirmation deed in this case, will still cause a duty event, based on the unencumbered market value of the dutiable property of the trust at the date of the deed (see *D.K.L.R. Holding Co. (No. 2) Pty. Ltd. v. Commissioner of Stamp Duties (N.S.W.)* (1982) 149 CLR 431).

While there are cases that conclude that a merely confirmatory declaration is not dutiable, these decisions are arguably irrelevant as they focus on the concept of a 'settlement of trust' rather than the broader concept of a 'declaration of trust' (see *Wedge v Acting Comptroller of Stamps (Vic)* [1941] HCA 1). That is, confirmation deeds clearly should not amount to a settlement (as long as there is sufficient evidence to prove up the existence of the trust), however there is also clearly a declaration which arguably meets the statutory description under section 8(1)(b)(ii) of the NSW Duties Act, which does not require there to be a declaration of 'new' trust.

At least in NSW, the counter argument is that the 'double duty' exemption in section 18(6) might apply to confirmation deeds, that is 'the duty chargeable on a declaration of trust that declares the same trusts as those upon and subject to which the same dutiable property was transferred to the person declaring the trust is \$10 - if ad valorem duty' was paid on the initial transfer.

Furthermore, if the terms of the original trust are unclear, the prospects that a tax resettlement are triggered by confirmation deeds must also be considered.

Conclusion

Ultimately, at a minimum in relation to trusts holding dutiable property, consideration should be given to ensuring the following steps are taken, assuming the conservative solution of court application is deemed uncommercial:

- making it clear that the underlying beneficial interests of the beneficiaries of the trust remain unchanged, despite the provisions of the deed of confirmation or rectification; and



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- including clauses in any deed of confirmation or rectification to nullify anything that otherwise triggers stamp duty, noting that the validity of such provisions, from a trust law perspective at least, is questionable.

