

# GUIDE TO OFFSHORE PLANS

(this document should be read in conjunction with our UK Taxation guides for Single and Regular Payment Plans).

## INTRODUCTION

The purpose of this guide is to give you information about the use of offshore plans as an investment vehicle, so that you can effectively consider their use when recommending tax and investment strategies to your clients.

**The 5%/tax deferred allowance referred to in this guide is only in relation to UK taxation legislation.**

## WHAT IS AN OFFSHORE PLAN?

For UK tax purposes, an offshore regular payment and lump sum payment plan is a non-qualifying policy which can be written on either a life (whole of life) assurance or a capital redemption basis:

- Where a plan is written on a **life assurance** basis, the plan will come to the end on the death of the sole or last surviving life assured. Of course, the plan can be cancelled at any time, but may be subject to an early exit charge.
- Where a plan is written on a **capital redemption** basis, it has a fixed term and a guaranteed value at the end of that term. At maturity (after 99 years) the plan value is guaranteed to be at least twice the sum invested less any withdrawals. As with a life assurance plan, a capital redemption plan can be cancelled at any time, subject to any early exit charge that may apply.

## ACCESS

For a **UK tax resident**, it is possible to withdraw up to 5% of the total payment(s) paid into a plan each plan year for 20 years, without your client incurring an immediate liability to income tax. If the 5% (tax deferred) allowance is not fully used in a given plan year, the unused portion carries forward to the next

plan year on a cumulative basis.

There is no need to detail these withdrawals on your client's self-assessment tax form until the plan is cancelled or withdrawals in excess of the available 5% allowance are taken.

The 5% withdrawals do not jeopardise any age related allowances your client may benefit from, for income tax purposes.



## INVESTMENT FLEXIBILITY

An offshore plan could be a suitable investment vehicle for those clients that require a broad investment choice. Offshore plans offer a much more expansive choice in comparison to their onshore counterparts. If your client demands a choice between thousands of investment funds, including pooled funds such as unit trusts and open-ended investment companies (OEICs), institutional funds, hedge funds, cash deposit accounts and many more, then an offshore plan may be worthy of your consideration.

## TAXATION

Offshore plans are designed to accumulate income and gains within their funds. Consequently the owners of such plans do not have an ongoing liability to tax if benefits are not taken. There is no tax liability on switching between the underlying funds, should investment conditions and/or individual circumstances change. However, any withholding tax levied at source on certain investment funds cannot be reclaimed. Apart from this, the plan allows for gross roll-up of investment income and capital gains.

## OPPORTUNITIES FOR INCOME TAX PLANNING USING AN OFFSHORE PLAN

Most offshore plans can be issued as multiple individual plan segments (normally up to 100). Whilst only one plan schedule is issued, each plan schedule represents a plan in its own right. This affords greater flexibility especially when it comes to income tax and estate planning.

Where the cumulative 5% tax deferred allowance has been fully utilised, the cancellation of segments can sometimes result in a lower income tax liability. This is because only the gain on each plan segment is liable to income tax as opposed to a partial encashment where the entire excess over the cumulative 5% allowance is liable for tax.

Another example of where it may be more prudent to take capital via segment cancellation is where the client is non-UK resident and needs to take a large withdrawal just prior to returning to the UK.

Any tax liability on a segment cancellation is immediate whereas the liability on a withdrawal in excess of the cumulative 5% allowance is deemed to occur at the end of the plan year in which it is taken (by which time the client could be resident for income tax purposes in the UK and be left with an unexpected and unnecessary tax bill).

## SUITABILITY

How can the features of an offshore plan be used to meet your clients' financial objectives?

### The high net worth individual

Consider:

- the benefits of an investment fund which does not suffer domestic Isle of Man tax.
- the absence of a plan owner tax charge until a chargeable event occurs.
- the ability take withdrawals within the accumulative 5% of the payment each plan year without triggering an immediate tax charge.

- the ability to select the time at which a tax charge arises.
- the ability to change investment strategy without a capital gains tax charge.
- the possibility of holding the plan, with a suitable trust, as part of an inheritance tax planning strategy.
- offshore plans may be suitable for clients who wish to top up their existing pension arrangements because offshore plans suffer no internal taxation apart from non-reclaimable withholding tax on certain investment income.

### The internationally mobile client

Consider:

- the benefits of an investment fund which does not suffer domestic Isle of Man tax.
- the absence of an owner tax charge until a chargeable event occurs.
- the possibility of securing a tax-free encashment should the plan be cancelled whilst the owner is resident in a jurisdiction which does not tax offshore plan gains.
- the possibility of securing a low tax charge should the plan be cancelled whilst the owner is resident in a jurisdiction which gives a measure of tax relief on offshore plan gains.



- the possibility of using the plan, in conjunction with a suitable trust, as part of an inheritance tax planning strategy
- the ability to change investment strategy without a capital gains tax charge
- offshore plans may be suitable for clients who wish to top up their existing pension arrangements because offshore plans suffer no internal taxation apart from non-reclaimable withholding tax on certain investment income
- the possibility of top-slicing relief should a chargeable event occur whilst the owner is a UK tax resident
- the benefits of time-apportionment relief (TAR) giving an exemption from UK tax on the investment gain accruing whilst the owner is non-resident

#### **The (potential) retiree**

Consider:

- the absence of an plan owner tax charge until a chargeable event occurs
- the benefits of an investment fund which does not suffer domestic Isle of Man tax
- the possibility of top-slicing relief should a chargeable event occur whilst the owner is a UK tax resident
- the ability to take withdrawals from the plan within the cumulative 5% tax deferred allowance each plan year without triggering an immediate tax charge
- the possibility of using the plan, with a suitable trust, as part of an inheritance tax planning strategy
- the ability to select the time at which a tax charge arises
- the ability to change investment strategy without a capital gains tax charge



- offshore plans may be suitable for clients who wish to top up their existing pension arrangements because offshore plans suffer no internal taxation apart from non-reclaimable withholding tax on certain investment income

#### **The trustee**

Consider:

- the benefits of an investment fund which does not suffer domestic Isle of Man tax
- the absence of an owner tax charge until a chargeable event occurs
- the ability to take withdrawals from the plan within the cumulative 5% tax deferred allowance each plan year without triggering an immediate tax charge
- the ability to select the time at which a tax charge arises
- the possibility of assigning (transferring) a plan to beneficiary without triggering a tax charge
- the ability to change the trust's investment strategy without a capital gains tax charge
- reduced trust administration in respect of self-assessment tax returns as a plan is a non-income producing asset

#### **IMPORTANT NOTES**

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

Taxation of an offshore plan is subject to the client's residency.

Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and Her Majesty's Revenue and Customs' (HMRC) practice as at January 2019.

You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.