Wrap Offshore Bond

Onshore versus Wrap offshore

For financial advisers only

This document compares onshore and offshore bonds, the level of investor protection provided and how they differ in their taxation treatment. All content is relevant to UK resident investors.

Policyholder protection

Policyholder protection may be triggered if a firm is unable, or likely to be unable, to meet claims against it, for example if it has been placed in liquidation or administration.

Onshore	Offshore
Should the provider default, policyholders are covered by the UK Financial Services Compensation Scheme (FSCS) of up to 90% of the value of the claim (with no upper limit).	Owners of policies issued an Isle of Man Life Office receive the protection of the Isle of Man Compensation of Policyholders protection scheme, which covers an amount equal to 90% (subject to the provisions of the scheme) of the life office's liability where they are unable to meet their financial obligations. Life offices reserve the right to adjust the returns to cater for any levy or charge made on it under the regulations or similar legislation. Unlike many protection schemes, this applies to all policyholders regardless of where they reside. Further information can be found at: http://www.gov.im/ipa/insurance/regulations/InsurancePolicyholderProtection.xml

Taxation of underlying funds

The main tax benefit of investing in an offshore bond is gross roll-up. Gross roll-up means that any underlying investment gains are not subject to tax at source - apart from an element of withholding tax.

Onshore	Offshore
Investment funds are subject to tax on income and capital gains realised within the funds. Withholding tax may apply (for example, on US Mutual Funds) and is irreclaimable.	Due to the favourable tax environment in the Isle of Man offshore bonds can provide tax efficient way to accumulate income. Capital Gains Tax or Income Tax isn't paid on investments held in the Isle of Man on behalf of investors, so any investment gains are allowed to roll-up free of these taxes. Withholding tax may apply (for example, on US Mutual Funds) and is irreclaimable.

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Taxation of proceeds

The tax on the investment growth can be deferred until you choose to take the proceeds, e.g. when you are in a lower tax bracket at retirement.

	Onshore	Offshore
Non tax payer	No further tax liability on any gains (unless chargeable gains push income into the higher rate tax band). Tax deducted at source on the underlying fund cannot be reclaimed. Withholding tax may apply (for example, on US Mutual Funds) and is irreclaimable.	No further tax liability on any gains (unless chargeable gains push income into the higher rate tax band). Due to the favourable tax environment in the Isle of Man offshore bonds can provide tax efficient way to accumulate income. Capital Gains Tax or Income Tax isn't paid on investments held in the Isle of Man on behalf of investors, so any investment gains are allowed to roll-up free of these taxes. Withholding tax may apply (for example, on US Mutual Funds) and is irreclaimable.
Basic rate tax payer	No further tax liability on any gains (unless chargeable gains push income into the higher rate tax band).	Income tax is payable on the chargeable gain at rate(s) applicable to the investor.
Higher rate tax payer	Any chargeable gain will be subject to the difference between basic rate and higher rate income and Additional Rate tax payers (45% in 2015/16).	Chargeable gain taxed at higher rate (or Additional Rate of 45%).

Residency taxation

	Onshore	Offshore
Investors who become resident outside the UK	Whilst an investor is overseas, a policy could still be subject to UK tax. On realising the investment, any potential tax charge is dependent on your country of residence.	Underlying investments can grow in a tax efficient environment throughout the time held. The only tax to which some underlying assets will be liable is a Withholding Tax which is deducted from dividend income and interest. On realising the investment, any potential tax charge is dependent on your country of residence.
Investors who return to the UK after living abroad	Time Apportionment Relief (TAR) is now applicable to new onshore bonds which commenced on or after 6 April 2013. This relief applies where a bond is held by an individual who is UK resident for only a part of the period between the policy's inception and the chargeable event. Time appointment relief is based on the residence history of the person liable to income tax on the gains - rather than the legal owner, where different. Onshore bonds in existence before 6 April 2013 will only be able to apply TAR if: 1. there is an assignment (includes both gift assignments and gifts for money or monies worth) of the rights or some of the rights conferred on the bond to an individual 2. some or all of the rights conferred on the bond become held as security for a debt of the individual or deceased.	Like onshore bonds, Time Apportionment Relief (TAR) can reduce the taxable amount on a policy gain where the policyholder has been non-UK resident during the period of ownership, however, unlike onshore bonds, this relief applies to pre-April 2013 policies. Time apportionment relief may reduce tax liability on any gains, e.g. if an investor lived outside the UK for 5 years of a 10 year investment, only half the gain is taxable.

Important note

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

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