OFFSHORE BONDS FOR UK EXPATRIATES

WITH MANY EXPATRIATES EARNING SALARIES IN TAX FREE JURISDICTIONS, OFFSHORE BONDS CAN BE AN IDEAL INVESTMENT FOR INDIVIDUALS LOOKING TO MAKE THE MOST OF THE FINANCIAL PLANNING AND TAX MITIGATION STRATEGIES THEY OFFER. FURTHERMORE, IT IS POSSIBLE TO CHOOSE EITHER SINGLE OR REGULAR PAYMENT PRODUCTS.

An offshore bond is a medium to long term investment, where underlying assets grow free of tax in a gross roll-up environment. In other words, any growth within the bond is allowed to build up without the deduction of Income or Capital Gains Tax.

However, a non reclaimable withholding tax may be deducted at source, on foreign dividend/ income payments received from investments held within the bond.

BENEFITS OF AN OFFSHORE BOND

- Unlike a pension, there is no limit to the amount that can be invested into an offshore bond and the client can access their bond before they reach the age of 55.

  Regular or ad-hoc withdrawals can be taken as and when required. These can be used to supplement pension provision.

- Should an individual client move to the UK, any unused 5% cumulative tax deferred withdrawal allowance can be used without creating an immediate UK income tax liability.

  Similarly, any subsequent available 5% annual allowances can be used for future bond years, until the payments made have been returned (at no more than 5% per year).

- There is an invaluable relief called 'Time Apportionment Relief' (TAR). This gives an individual an exemption from UK tax on the investment gain accruing whilst Non-UK resident.

  For example, if a client held an offshore bond for 10 years, was non-UK resident for 8 years and then UK resident for 2 years, a chargeable gain would be reduced by 80%, therefore only 20% of the gain would be subject to UK income tax.

- Depending on the client's circumstances, top-slicing relief may be available, should a chargeable event occur whilst the client is a UK resident.

- It is possible to assign the ownership of the bond prior to surrender to another family member, which would shift the UK income tax liability for a gain to the assignee at his/her marginal rate.

  If this is assigned between spouses/civil partners who live together, then TAR Relief would still be available irrespective of their residential history.

  Gifts between family members will be treated as 'Potentially Exempt Transfers' for UK inheritance tax (IHT), apart from gifts between UK domiciled spouses/civil partners which are exempt transfers for UK IHT.

RL360°

- Some offshore bonds are 'segmented' into individual bond segments. This provides more flexibility for practical reasons, such as where the 5% cumulative withdrawal allowance has been exceeded and the amount required is much less than the bond value.

  Also, this provides flexibility for tax planning purposes, for example where an assignee has no other income and is looking to utilise the UK personal income tax allowances, so there is no income tax payable on gain within these. This is particularly useful for education fee planning.

- As the assets held within the bond are owned by the offshore bond provider, switching between investment funds within an offshore bond does not trigger any UK Capital Gains Tax.

  This means that the timing of investment decisions are not constrained by tax considerations.

- The offshore bond provider may offer draft trust deeds for legal consideration, sometimes at no cost or very little cost.

  These may be designed simply to avoid probate upon death, so that bond proceeds can be paid without delay, or to potentially mitigate UK inheritance Tax.

- Many offshore bonds offer access to all of the household name fund managers in the UK market plus many more international and specialist fund managers, sometimes with institutional discounts on Unit Trusts and OEIC purchases.

  This allows an investor to access a wider range of asset classes, allowing them to choose from a full risk spectrum of low risk capital guaranteed funds, through to hedge funds and higher risk specialist funds.

IMPORTANT NOTES

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

Please note that every care has been taken to ensure that the information provided is correct and in accordance with RL360's current understanding of the law and HM Revenue and Customs (HMRC) practice as at November 2023.

You should note however, that RL360 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.

RL360 Insurance Company Limited. Registered Office: International House, Cooil Road, Douglas, Isle of Man, IM2 2SP, British Isles. Registered in the Isle of Man number 053002C. RL360 Insurance Company Limited is authorised by the Isle of Man Financial Services Authority.