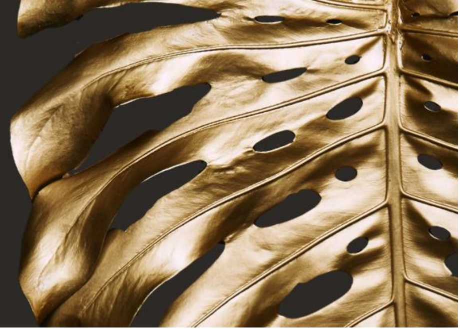

INVESTMENT QUORUM
UNIQUE, BOUTIQUE WEALTH MANAGEMENT

Offshore Investment Bonds

What is an Offshore Investment Bond?

An offshore investment bond is an investment wrapper that is typically provided by a life insurance company domiciled in a jurisdiction with a more favourable tax regime, such as the Isle of Man, Dublin, Luxembourg or Guernsey. Offshore investment bonds are a tax-efficient way for you to invest money over the medium to long term. This is usually over five years or more. With an offshore investment bond, you can invest a lump sum or regular payments. Investing your money means it could potentially grow tax efficiently over time because you won't normally pay as much tax on investment growth, income, or dividends within the bond, which could give you more savings for the future. This is often referred to as '**gross roll-up'.**

Taxation

The offshore investment bond can be used as an investment vehicle to control:

1. when you pay tax;
2. how much you pay; and
3. to whom you pay it.

Tax may apply as and when you come to withdraw funds, but UK liability depends on your UK personal tax status at the time and whether you bring the funds into the UK or not. It's also possible to withdraw up to 5% per annum from the bond without an immediate UK tax charge, for up to 20 years. This 5% allowance is cumulative, meaning that you could withdraw 15% of your bond's initial value without an immediate tax charge in year 3, had you made no prior withdrawals.

Should you withdraw more than your cumulative 5% allowance, cash in your bond in full, or the bond reaches its maturity, then a UK chargeable event will occur. A chargeable event will give rise to gains made within the bond being subject to your marginal rate of UK income tax.

We would normally recommend structuring the bond on a 'capital redemption' basis as opposed to 'lives assured'. This allows the bond to continue for 99 years without the need for a chargeable event to occur due to the death of the lives assured.

There are also tax reliefs such as 'time apportionment' and 'top-slicing' that can be used to reduce your UK tax liability should a chargeable event occur.

Time apportionment relief applies where an offshore bond is held by a chargeable person who is a UK resident for only *part* of the period between the policy's inception and the chargeable event. Where this happens, any chargeable gain is proportionately reduced based on the number of days absent from the UK, divided by the number of days since the policy commenced.

Top slicing relief can reduce higher rate tax on a chargeable event gain by allowing the bondholder to spread the investment gains over the number of years the bond has been held. This may help to further reduce any tax liability.

Key Benefits

The UK tax rules for offshore bonds mean that:

- The underlying fund selection can be switched without generating a personal liability to capital gains tax as the switch is done within the bond itself. This allows your investment manager more flexibility to change investments without concern for your personal tax liability.

- Any dividend income received within a fund from UK equities is free of UK tax. Dividends from other countries may be subject to a withholding tax and this cannot be reclaimed.

- Annual withdrawals of up to 5% of the amount invested (subject to 100% of the funds invested) can be taken from your offshore bond without giving rise to an immediate UK tax charge. This annual withdrawal allowance is cumulative, which means that if not used it can carry forward year on year. This gives you the ability to control the timing of any potential tax liability.

- You also have the option of assigning segments of the bond to chosen beneficiaries over the age of 18. Future chargeable events would then be liable to the marginal rate of income tax of the new holder(s). The act of assigning segments does not give rise to an immediate tax liability.

- An offshore bond can also be placed within a trust structure for the benefit of others, potentially without giving rise to a chargeable event.

- Offshore bonds are not deemed to be 'income producing assets' - which negates the need for individuals or trustees to complete self-assessment tax returns unless a chargeable event occurs. This helps to reduce the administrative and reporting burden for individuals and trustees.

- Should you be a non-UK resident at the time of a chargeable event, then any gains made within the bond will not be subject to UK tax. You may, however, be subject to tax in your local jurisdiction.

Investment Options

The offshore investment bond wrapper offers you the ability to invest in a wide range of investments from around the globe and can typically be denominated in Sterling, Euro, or US Dollars. The permissible investments include:

- Funds from the UK; unit trusts and Open-Ended Investment Companies (OEICs)
- Investment trusts, including Real Estate Investment Trusts (REIT)
- Certain Exchange-traded funds (ETFs)
- Cash holdings
- Hedge funds
- Other funds from recognised financial jurisdictions such as the Bahamas, Channel Islands, Bermuda, Switzerland, Cayman Islands, Hong Kong, and so on.

You will not be able to make investments in direct equities and corporate bonds.

You will also have the flexibility to select the investments within the bond yourself or to appoint a discretionary investment manager.

Who is an Offshore Investment Bond suitable for?

Offshore investment bonds can be particularly tax-efficient for:

- Investors wishing to benefit from the 'gross roll-up' effect, where their investments can grow without the ongoing drag of immediate taxation.

- Those who wish to withdraw a regular amount from their investment within the cumulative 5% allowance.

- Individuals who have used up their ISA, Pension and Capital Gains allowances.

- Those who may have a lower rate of income in the future, due to retirement or other reasons.

- Investors wanting to place their investment within a trust for Inheritance Tax mitigation purposes.

- Investors who are or likely to be non-UK residents and living in a lower tax jurisdiction at the time of a chargeable event.

- Those who plan to gift part or all of their investment at a later date.

When is an Offshore Investment Bond not suitable?

You should consider utilising other investment wrappers if the following applies:

- You do not wish to take undue investment risk.
- You have a short investing time horizon of typically fewer than 5-10 years.
- You are likely to be a higher rate of taxpayer in the future than you are now.
- You plan to withdraw large ad hoc sums from your investment outside of the cumulative 5% allowance.
- You have not already utilised your ISA, Pension, and Capital Gains allowances.

IQ INVESTMENT QUORUM

We endeavour to ensure that all information provided is correct, but we do not give any express or implied warranty to its accuracy. We accept no liability in the event of errors or omissions.

November 2022.

Guildhall House, 85 Gresham Street

London

EC2V 7NQ

Tel: +44 207 337 1399

Email: info@investmentquorum.com

investmentquorum.com