Friends Provident International

7 Benefits of an offshore policy

For advisers only. Not for use with customers.

This document will look at some of the key UK taxation benefits of a Friends Provident International policy for returning UK expatriates as well as those moving to the UK for the first time.

1 Gross roll up

- UK tax legislation allows FPI policies to accumulate income and gains without incurring an ongoing tax charge. This is known as 'gross roll up'.
- Dividend and interest income received by the funds is not taxable*. **Disposals when making any fund switches or re-balancing the policy are not subject to any capital gains tax.** Therefore, no requirement to test income / disposals against available allowances.
- With gross roll up, a tax liability will generally only arises on withdrawals and surrenders. This allows any taxation to be delayed to a time when the client is a lower rate tax payer.

2 Tax deferred withdrawals

- The ability to take tax deferred withdrawals is a unique feature of insurance based investment products.
- 5% of the total premiums paid can be withdrawn each policy year with no immediate UK income tax liability.
- Any unused 5% tax deferred allowance can be rolled forward to a future policy year.
- **Some FPI policies permit the reinvestment of previously taken withdrawals, subject to internal guidelines**

3 Time apportionment relief

- Any UK tax will be reduced proportionately for time spent as a non-UK resident.
- Additional investments are deemed to be made at the commencement of the policy, thereby increasing any time apportionment relief given.

4 Top slicing relief

- Allows any gain to be annualised so that tax is paid at a rate equivalent to the rate that would have applied if the gain had been taxable in each year it were made.
- Gain is averaged out over the number of years the policy has been owned and charged accordingly.

5 Gifting of policy

Assignment by gifting allows ownership of the policy to be changed to a third party:

- No UK income or capital gains tax charge on original owner.
- Future UK income tax charged at new owner's marginal rate of tax.
- Allows planning opportunities to transfer income tax liability to lower rate tax payer.

6 Segmentation

- Follows same principle as an assignment but with additional flexibility.
- Individual policy segments can be gifted to a third party.
- Future UK income tax charged at new owner's marginal rate of tax.
- Allows planning opportunities. Policy segments could be gifted to help with children's education or a house purchase.
- **FPI policies allow 1 to 100 segments**

7 Trusts

Placing a policy into trust can:

- Can help reduce or eliminate any potential UK inheritance tax liabilities.
- Can help assist with succession planning.
- Can remove the requirement for obtaining Isle of Man probate.
- Is not treated as a disposal for UK capital gains tax purposes.

Important notes

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

This document is based on our understanding of HM Revenue and Customs (HMRC) practice and may be subject to change.

* Non-reclaimable withholding tax may apply to any dividend or interest income before it is received.

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