TAXATION OF AN OFFSHORE LIFE ASSURANCE POLICY FOR YOUR UK RESIDENT ISRAELI CLIENTS, MOVING OR RETURNING TO ISRAEL

utmost WEALTH SOLUTIONS

This is a summary of the taxation of Utmost International (UI) life assurance products for individual policyholders only. The tax position for corporate or trustee policyholders will differ. Where UK resident Israeli clients return to Israel, they may be liable to both UK and Israeli tax.

UK RESIDENTS – TAX BENEFITS OF UTMOST INTERNATIONAL LIFE ASSURANCE POLICIES

Gross roll-up

Utmost International's International Portfolio Bond and European Portfolio Bond ('our bonds') are based in the Isle of Man and in Ireland respectively and as such, are not liable to payment of Isle of Man or Irish tax on gains or income attributable to our policyholder funds (including portfolio funds). There may be an amount of withholding tax on income. As a result, the assets in the bond can grow free from tax; the effect of this is cumulative, as the investment benefits from this 'gross roll-up'.

UK Tax reporting

Our bonds are classed as 'non-income producing investments' which means that they don't need to be referenced in a tax return until a chargeable event occurs.

Any chargeable event gain will be reported to the policyholder by Utmost International and any gain will also be reported to the UK's HM Revenue & Customs where the gain exceeds 50% of the basic rate income tax threshold. The policyholder is responsible for submitting tax returns in relation to any chargeable event gains.

Our bonds are not subject to capital gains tax unless they are sold. Therefore, changing assets linked to our bonds will not trigger a taxable event.

Chargeable events

There are certain 'chargeable events' which may trigger a 'taxable gain'. A chargeable event happens when:

- withdrawals from our bonds are taken by partially cashing in policies above the 5% tax deferred allowance
- one or more policies in our bonds are fully cashed in
- the bond is fully cashed in
- the last life assured dies
- one or more policies in our bonds are assigned for consideration of 'money or money's worth'
- the bond matures.

When a chargeable event happens, the policyholder is normally subject to income tax on the gain at the rate applicable to them at the time. However, as we explain on the subsequent pages of this document, there may be several ways of reducing this liability. These include:

- top slicing relief
- cashing in the policies in our bonds when the policyholder is not UK resident
- time apportionment relief
- using the 5% tax deferred allowance
- policy segmentation
- assignment
- timing of withdrawals.

The value of investments may fall as well as rise in value and investors may not get back what they paid in. This document is based on Utmost International's interpretation of law and tax practice as at April 2020. We believe this interpretation to be correct, but cannot guarantee it. Tax relief and tax treatment of investment funds may change in the future. Full details of the products available from Utmost International are available on our website.

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www.utmostinternational.com

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

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Registered in Singapore Number T08FC7158E. Authorised by the Monetary Authority of Singapore to conduct life assurance business in Singapore.
Member of the Life Insurance Association of Singapore. Member of the Singapore Finance Dispute Resolution Scheme.

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Top slicing relief

Top slicing relief allows the policyholder to assess their chargeable event gain across the number of years the policy has been in force which can reduce or remove liability to the higher or additional rate of tax.

Cashing in the policies in our bonds when the policyholder is not UK resident

If the policies in our bonds are cashed in when the policyholder is not a UK resident for income tax purposes, there will be no liability to UK income tax, although the policyholder may be liable to tax in the country where they are resident.

Time apportionment relief

If the policyholder is UK resident at the time of a chargeable event, but has been UK resident for only part of the period that the policies are in force, the gross amount of any gains will be reduced to a net amount called the chargeable gain. This will reflect the number of days they have been resident outside the UK.

The chargeable gain is calculated as follows, looking at the period from the commencement date of the policy to the date the gain arises under the policy during the period the policyholder has owned the bond.

GROSS GAIN

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Number of days the policyholder has been resident in the UK

Number of days the policies have been in force

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CHARGEABLE GAIN

Using the 5% tax deferred allowance

Each policy year for 20 years, withdrawals up to (and including) 5% of the amount of each premium paid can be taken without incurring an immediate UK tax liability. If any of the 5% tax deferred allowance is not used in any policy year, it can be carried forward to the following policy years.

For example, if a single premium is paid and the 5% tax deferred allowance is not used for six policy years, 30% of the premium paid can be withdrawn without an immediate liability to UK income tax.

Policy segmentation

Our bonds consist of multiple policies to help maximise the UK tax efficiency of the investment when the policyholder wants to access their money.

Each segment is a policy in its own right. Therefore, they can be cashed in individually or they can be assigned to a new owner to reduce the tax payable when access to the money is required.

Unless the policyholder specifies otherwise, our bonds will be set up with a cluster of 12 policies. However, this number can be increased or decreased when they initially apply for one of our bonds, subject to the minimum cluster value of £400 (or currency equivalent) and the minimum premium requirement on the bond.

For example, for a premium of £400,000 the cluster size could be up to 1,000. This helps give flexibility, for example, when it comes to assigning the policy or when withdrawals are taken but the 5% tax-deferred allowance has already been used.

Assignment

One or more policies can be assigned to another individual. Provided this is not for consideration of 'money or money's worth' a chargeable event will not occur. If the new owner of the policy cashed in the policies, they would be liable to tax at their highest marginal rate on any chargeable event gain.

Timing of withdrawals

Our bonds offer great flexibility for income tax planning. The policyholder can choose when the proceeds are taken and therefore when to incur a tax assessment, for example by waiting until they are in the basic rate tax bracket.

New and returning non-resident Israelis – tax benefits of our bonds in Israel

The tax summary below shows the rules applying to life assurance policies in Israel, so will apply to UI policies provided they are considered life assurance policies, for tax purposes, in Israel. A full exemption from tax and reporting on all non-Israeli sourced assets and income is granted to new and veteran returning residents to Israel, for a period of 10 years (defined as Israeli residents who left Israel and returned after being non resident for 10 consecutive years, or more).

Once the period of 10 years has elapsed, any tax payable would be based on general tax law which is summarised below. In essence, the main advantage for individuals returning to Israel with our bonds is tax deferral until the benefits are taken from the policy.

TAX CATEGORY/EVENT	TAX APPLICATION
Tax on full and part surrender	Part surrenders and full surrenders will be taxed at the general rate of 25%. Where annual income is more than Israeli New Shequels (ILS) 651,600, (for tax year 2020/2021), the income tax rate is 28%. However, the risk element may be exempt from tax. For a policy with a death benefit of 101%, the risk element is 1% of the surrender value. The tax on part surrenders or full surrenders will be assessable on a pro-rata basis on the respective savings element of the part surrender. Any income received by an Israeli policyholder would have to be reported.
Tax on death of a policyholder where there are remaining lives assured	The policy continues to exist and, as there is no inheritance tax in Israel, such an event should not be taxable.
Tax on death of a policyholder where there are no remaining lives assured	Any funds which are received on the death of a person under an insurance contract do not form part of the estate of the deceased unless the policy specifically names the estate of the deceased as the beneficiary of the policy.
Tax on death of the last life assured	In addition to the general rate of 25%, an additional 3% tax applies (28%) where annual income is more than ILS 651,600, (for tax year 2020/2021). The savings element of the death benefit proceeds will generally be taxed at 25%. The savings element is 100% of the surrender value. The risk element of the death benefit proceeds will be tax exempt, provided the beneficiaries are relatives of the life assured, the premium was not deducted as an expense by the policyholder, and it is not an employment-linked fund. For a policy with a death benefit of 101%, the risk element is 1% of the surrender value.
Inheritance tax, forced heirship and gift tax	There is no inheritance tax, forced heirship or gift tax in Israel. However, there have been discussions about introducing inheritance tax to Israeli tax laws in the future.
Tax reporting	Policyholders must report the policy as a foreign asset in their tax return if the value of the policy exceeds ILS 1,883,000, even though the income may not be taxable. They would also be obliged to report the policy in a wealth declaration which is submitted upon the request of the Israeli Tax Authority approximately every few years. Any income received at surrender by an Israeli policyholder would have to be reported. Beneficiaries must file a tax return when they receive income.
Top ups	Premiums invested into life assurance policies do not qualify for tax relief. In specie transfers into the policy may be subject to capital gains tax calculated based on the original purchase price and the value at the date of the transfer of the assets to the policy.
General anti avoidance rules	Israel has anti-tax avoidance rules set out in Section 86 of the Ordinance. This section provides that the ITA may disregard a transaction which reduces, or is liable to reduce, the amount of tax payable by any person if, in the opinion of the ITA, the transaction is artificial or fictitious or that one of the principal objectives of the transactions is an improper reduction of tax, even if the transaction is lawful. Generally, the Israeli court has interpreted this to mean transactions where the sole or principal purpose was to avoid or reduce tax. If a beneficiary or policyholder has the ability to influence and/or control the insurance,or if they are entitled to ask for and receive assets (other than redeeming the policy),it may provide a reason for the ITA to challenge the policy under the general anti-avoidance rules in the Ordinance.

Taxation benefits of our bonds for UK residents moving or returning to Israel

If the policies in our bonds are cashed in when the policyholder is not a UK resident for income tax purposes, there will be no liability to UK income tax.

Provided the policies in our bonds are cashed in within the first 10 years that the individual returns to Israel, they will obtain a full exemption from tax and reporting. This is because the policies and all the assets linked to the policies are non-Israeli assets.

The main tax advantage of our bonds in Israel, if they are cashed in after the first 10 years that the individual returns to Israel, is tax deferral until benefits are taken from the policy.