

CHANGES TO TAXATION OF UK PROPERTY COLLECTIVE INVESTMENT VEHICLES

- › Recent changes in UK tax legislation mean that certain funds deemed to be “UK property rich” will now be subject to a tax charge (Capital Gains Tax or Corporation Tax) on the disposal of an interest within the fund. This will apply even when the fund is held as a linked asset of an offshore investment bond.
- › This information sheet outlines these tax changes and how this will affect any UK property rich funds linked to a bond with us.

The below information is based on our understanding of current law and HM Revenue & Customs’ practice as at 8 November 2019. Tax rules may change and depend on individual circumstances. This information does not constitute legal or tax advice and must not be taken as such. We can take no responsibility for any loss which may occur as a result of relying on this information.

BACKGROUND AND SCOPE

Recent changes to UK tax legislation have meant that overseas investors* in UK property rich collective investment vehicles (“CIVs”) may be subject to UK Capital Gains Tax (CGT), or Corporation Tax (for companies), on disposal of an interest in the fund. Collective investment vehicles include most of the types of funds that Planholders can choose to link to a bond.

Broadly, a CIV will be deemed to be UK property rich where 75% or more of its gross asset value derives from UK land, which is defined widely under tax legislation and includes both residential and commercial property. The way the fund is taxed is complex and depends upon certain choices made by the fund’s manager.

*Whilst the assets linked to the value of a bond will have been selected by a Planholder or their appointed investment adviser, the owner of any asset linked to a contract of insurance, such as an offshore bond, is the insurance company. We will therefore have to pay UK Corporation Tax on certain gains realised on the disposal of holdings in UK property rich CIVs from 6 April 2019.

Whilst Utmost International Isle of Man Limited is incorporated in the Isle of Man, the double taxation agreements in place with the Isle of Man allow HM Revenue & Customs to charge CGT on immovable property (land) situated in the UK.

These new rules are designed to make sure overseas investors in UK land, including those investors who hold property rich CIVs, pay UK CGT or Corporation Tax as applicable.

BONDS CURRENTLY LINKED TO UK PROPERTY RICH CIV - EXISTING INVESTORS

- › If Planholders chose to link the value of their bond with us to a UK property rich CIV before 8 November 2019 then our intention is that any associated Corporation Tax levied on Utmost International Isle of Man Limited up to the end of 2019 will not be passed onto policyholders. We might need to reconsider this approach if market conditions change significantly between 8 November 2019 and 31 December 2019. Should this be the case then we will issue an update to this note.
- › If the value of a bond is **still linked to a UK property rich CIV on or after 1 January 2020** then we reserve the right to levy an additional charge on that bond. Where the CIV was purchased before 8 November 2019 this charge will be matched against any UK Corporation Tax charge levied¹ on us **from 1 January 2020** - calculated in relation to the retained UK property rich CIV(s) still linked to that bond.

BONDS LINKED TO UK PROPERTY RICH FUNDS FROM 8 NOVEMBER 2019

- › If a Planholder chooses to link the value of their bond to a property rich CIV from 8 November 2019 then we reserve the right to levy an additional charge on that bond. This will be matched against any UK Corporation Tax charge levied¹ on us **from 8 November 2019**, calculated in relation to the retained property rich CIVs linked to that bond since this date.

COLLECTION OF ADDITIONAL CHARGES AND OUR DISCRETION TO RETAIN LINKED-ASSETS

As typically explained in the Policy Conditions, there are circumstances that allow us to take additional charges. For example where tax, or other charges for holding assets, are levied on us as an insurer. Any levy that we pass on to reflect the tax payable by us on the UK property rich CIV fund will reduce the value of a bond.

We retain full discretion as to the availability of any linked assets and we can, at any time, choose not to allow property rich CIVs to be linked to Utmost International Isle of Man Limited bonds. If we choose to exercise our discretion in this way, for example if the administration of this tax charge becomes impracticable in the long term, then we will request that an alternative fund is chosen.

DOES THIS CHANGE IN TAX LEGISLATION AFFECT OTHER TYPES OF FUNDS?

No. This legislation is purely targeted at CIVs that invest in UK property. This will have no impact on other funds, including property funds that are holding overseas property and are therefore, not UK property rich.

¹ A UK Corporation Tax charge levied on Utmost International Isle of Man Limited includes the amount of Corporation Tax that would have been levied on Utmost International Isle of Man Limited ignoring any other Utmost Group relief.

HOW CAN I TELL IF A LINKED FUND IS UK PROPERTY RICH?

The following link provides a list of funds that we have identified as investing in the UK property sector. Please note this is not an exhaustive list, and it is provided for information only. For each fund listed, we are seeking confirmation from the relevant fund manager that the fund is UK property rich. Where we have received confirmation that a fund is UK property rich, it is indicated on the list. Please note that this list and the status of each fund listed are subject to change, and will be updated as and when we receive information from the relevant fund manager(s).

<https://www.utmostwealthdocs.com/mb/D2GZu2>

WHERE CAN I FIND MORE INFORMATION ON THE TAX CHANGES?

Further information on the draft legislation can be found on the HMRC links below:

<https://www.gov.uk/government/publications/taxing-gains-made-by-non-residents-on-uk-immovable-property-in-collective-investment-schemes>

http://www.hmrc.gov.uk/gds/cg/attachments/CG-APP15__Non-resident_capital_gains_from_6_April_2019_Collective_Investment_Vehicles_draft_guidance.pdf

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

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Utmost Wealth Solutions is registered in the Isle of Man as a business name of Utmost International Isle of Man Limited.

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