DEEMED GAINS TAX ON YOUR EXECUTIVE BOND IF YOU ARE PLANNING TO BECOME UK RESIDENT AND/OR UK TAX RESIDENT

QUESTIONS & ANSWERS

Q. WHY COULD I BE LIABLE TO TAX ON MY EXECUTIVE BOND ('PERSONAL PORTFOLIO BOND')?

A. Are you planning to move or return to the UK to become UK resident and/or UK tax resident? If so, you need to be aware that the Executive Bond you hold is primarily designed for use by non-UK residents.

This is because the wide range of assets it can hold means it is classified as a type of investment (called a 'personal portfolio bond' under UK tax rules) which has stringent income tax consequences for investors who are tax resident in the UK. However, your Executive Bond is designed so, on your request, it can be adapted in most situations, should you become UK tax resident in future.

Here is a list of all our products that this applies to:

- EUROPEAN EXECUTIVE INVESTMENT BOND
- EXECUTIVE INVESTMENT BOND
- EXECUTIVE INVESTMENT PLAN
- EXECUTIVE REDEMPTION BOND
- EXECUTIVE INVESTMENT ACCOUNT
- INVESTMENT ACCOUNT
- SWEDISH EXECUTIVE PORTFOLIO
- SILK LIFE PLAN
- WEALTH MANAGEMENT PLAN

Q. WHO DO THE TAX RULES APPLY TO?

A. Because of the Executive Bond's classification under UK tax rules, a deemed gains tax charge is applicable to UK tax resident policyholders. If you now have a UK address or plan to have a UK address and become UK tax resident, this charge may apply to you.

Q. WHEN DOES THE DEEMED GAINS TAX CHARGE OCCUR AND WHEN IS IT PAID?

A. The deemed gains tax charge occurs each policy anniversary and is subject to UK income tax. The tax is paid in your annual self-assessment tax return. The deemed gain accrues even if you are not UK resident, but you are not subject to tax until you become UK tax resident (see example below).

Q. WHAT IS A DEEMED GAIN AND HOW IS IT CALCULATED FOR THE ANNUAL DEEMED GAINS TAX CHARGE ON MY BOND?

A. Rather than being based on the actual gains that your bond has made, the tax charge assumes a gain of 15% of the amount you invest (known as a 'deemed gain').

For the purposes of the tax calculation, this gain is assumed to be cumulative for each year that the policy is in force, as shown in the example below.

Example – calculating the cumulative premium for the deemed gain

- £100,000 is invested into an Executive Bond.
  - **Year 1** The deemed gain liable to income tax is £15,000 (£100,000 x 15%).
  - **Year 2** The deemed gain liable to income tax is £17,250 (£115,000 x 15%).
  - **Year 3** The deemed gain liable to income tax is £19,838 (£132,250 x 15%). The investor moves back to the UK at this point and so they pay tax based on a deemed gain of £19,838.
  - **Year 4** The deemed gain liable to income tax is £22,813 (£152,088 x 15%). The investor is still living in the UK and so for this year, they pay tax based on a deemed gain of £22,813.

As you can see from the example above, the investor only starts paying the deemed gain tax charge when they return to the UK. The amount of tax they pay in the year they return and subsequent years reflects the length of time they've held the bond and the cumulative treatment of the gain (but they don't have to pay any tax for the years they haven't been tax resident in the UK).

Deemed gain tax charges do not apply in the final year of the bond. This includes bond years which have been extended. A bond year is extended where it starts and ends in the same tax year.

If we take the above example using a commencement date of 03/09/2015 and assume the bond was closed on 02/10/2019, the final bond year is 03/09/2019 – 02/10/2019. As this is in the same tax year, the final year is extended and becomes 03/09/2018 – 02/10/2019. This has the effect of removing the deemed gain tax charge (£22,813) at the end of year 4 because it occurs in the last bond year.

Q. WHAT RATE OF TAX APPLIES?

A. Tax is charged on the assumed gain at your highest rate of income tax. If you are an additional rate taxpayer, the rate will be 45% (tax year 2019/20).

Where you have been non-UK resident for some of the time you have owned the bond, relief is available to reduce the gain so that only a proportion of the gain relevant to the period you have been UK tax resident is chargeable.

Using the example above, where a bond commenced 03/09/2015, if the policyholder returned to the UK on 01/03/2018, the two deemed gains shown in the example above would be reduced accordingly:

End of year 3 - £19,838

The bond has run for 1095 days of which 910 have been whilst non-resident. The reduction allowable is 910/1095 * £19,838 = £16,486.

The taxable gain is therefore £19,838 - £16,486 = £3,352
End of year 4 - £22,813

The bond has run for 1460 days, of which 910 have been whilst non-resident. The reduction allowable is 910/1460 * £22,813 = £14,219.

The taxable gain is therefore £22,813 – £14,219 = £8,594.

Q DOES THE DEEMED GAINS TAX CHARGE APPLY ON DEATH, SURRENDER OR MATURITY?

A. The deemed gains tax charge does not apply on death, surrender or maturity of the bond. However, a 'chargeable event tax charge' may apply in these situations. If you have already paid UK tax on any deemed gains, you will receive a credit for tax paid on the deemed gain - therefore potentially reducing any gain made.

Q. HOW IS THE DEEMED GAINS TAX CHARGE PAID?

A. You are responsible for any personal tax reporting and tax liability in relation to your bond as required by the relevant tax authorities (not just in the UK). Your country of residence can affect how your bond is taxed, and you should seek professional tax advice to ensure you understand your personal liabilities.

If you have a UK address or plan to have a UK address and become UK tax resident, the gains on your bond should be declared each year in your self-assessment tax return under the section 'Gains on Foreign Life Insurance Policies'.

If you haven't previously declared a tax charge whilst you have been tax resident in the UK, you should contact Her Majesty's Revenue & Customs (HMRC) self-assessment helpline to discuss how you arrange late payment of any tax due.

Q. IS THERE ANYTHING I CAN DO TO REDUCE OR ELIMINATE THIS TAX CHARGE IN THE FUTURE?

A. Your adviser may suggest that you restrict the type of investments which you are able to invest in through your bond a process we call 'endorsing' your policy. If you want us to endorse your policy for you free of charge, please complete this form and return it to us. Once your policy is endorsed, it will no longer be considered a 'personal portfolio bond' and you will no longer be liable to pay the 15% deemed gains tax charge going forward.

Q. IT IS EXTREMELY IMPORTANT THAT YOU SPEAK TO YOUR FINANCIAL ADVISER BEFORE YOU MAKE ANY INVESTMENT DECISIONS.

A. Endorsing your bond may mean that some of your assets will need to be sold and therefore it is important to consider the amount of the tax charge alongside the current market value of your assets and the potential for future growth.

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Your adviser can also make a recommendation based on your personal circumstances and whether or not you need to have access to the widest range of investment options allowed within your bond.

Q. WHAT SHOULD I DO NEXT?

A. We strongly recommend that you speak to your financial adviser or tax adviser about the tax implications of your bond and what to do next. If you do not have a financial adviser, you can find authorised advisers in your area **at www.unbiased.co.uk**

Alternatively you can contact us using the details below and we will be happy to help, but please remember we are not authorised to give you tax or financial advice.

Telephone: +44 (0) 1624 655555.

Q. WHAT HAPPENS IF I CHOOSE NOT TO ENDORSE MY EXECUTIVE BOND?

A. If you choose not to endorse your bond, you are responsible for reporting your deemed gains tax liability via your annual self-assessment. Utmost International will send you certificates and a copy to HMRC.

It is extremely important that you speak to your financial adviser before you make any investment decisions.

Utmost International is not permitted or licensed to give tax advice, and accepts no responsibility for any tax liability that has occurred by you holding a policy, whilst UK tax resident or non UK resident.

Your investment may fall or rise in value and you may not get back what you put in.

This document is based on Utmost International's interpretation of the law and HM Revenue & Customs practice as at January 2020. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

Important note: The product(s) named in this document and to which this document relates is accurate as at December 2021 and is subject to change. To ensure applicability with respect to a product and, if applicable, a related policy, before taking any action, please liaise with your adviser and/or contact us directly.

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