

TAX INFORMATION CLIENT GUIDE



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This item has been issued by Utmost International Isle of Man Limited and Utmost PanEurope dac.

3

BEFORE YOU BEGIN

5

UTMOST WEALTH SOLUTIONS

6

OFFSHORE BONDS - THE ESSENTIAL TAXATION POINTS

8

TAKING MONEY FROM THE BOND

9

WILL I PAY TAX ON MY AD HOC OR REGULAR WITHDRAWALS?

12

WILL I PAY TAX WHEN I SURRENDER SEGMENTS IN MY BOND?

15

YOUR TAX RETURN

15

FURTHER INFORMATION

16

CONTACT US

BEFORE YOU BEGIN

TO HELP YOUR UNDERSTANDING

Throughout this guide we refer to 'you', 'we' and 'us'.

'You' refers to you personally.

'We' and 'us' means Utmost International Isle of Man Limited or Utmost PanEurope dac.

Tax and the taxation of offshore bonds can be complex. We have designed this guide to help you understand the areas of taxation you should consider when taking out an offshore bond.

This guide is not a comprehensive guide to tax planning and does not cover all aspects of taxation. It has been designed to help you understand the tax treatment that may be applied when you take money out of an offshore bond whilst resident in the UK for tax purposes. Certain products may have conditions that mean that parts of this guide are not applicable to your chosen product. Please remember that this tax guide should be read alongside the relevant product literature. This, together with advice from your financial adviser, will ensure that any recommendation is specific to your circumstances and financial needs before you decide to take out any offshore bond.

SCOPE OF THIS GUIDE

The product provider of the Evolution and Estate Planning Bond is Utmost International Isle of Man Limited and the product provider of the Selection, Delegation and Generation Planning Bond is Utmost PanEurope dac.

The information in this guide relates to offshore bonds held by UK resident individuals only and should not be used if the policy is held by a corporate entity. If you are a corporate investor or an investor in another jurisdiction, then your tax position will be different to that explained in this guide. If this applies to you then you should speak with your financial adviser about your specific circumstances.

Some parts of this guide will apply to trustees holding a bond but it is not specifically designed for cases held in trust.



Wherever you see this icon it highlights that further information on the subject can be found within the separate specified document.



UTMOST WEALTH SOLUTIONS

Utmost International Isle of Man Limited is based in the Isle of Man and Utmost PanEurope dac is based in Ireland. Both jurisdictions provide a favourable tax environment for our products.

In the Isle of Man and Ireland we do not pay capital gains tax or income tax on investments held on behalf of investors. Any investment gains are allowed to roll-up free of these taxes, this is often referred to as a 'gross roll-up'. The only tax payable on investments made into our funds is withholding tax; this is non-reclaimable tax which is deducted from certain funds. Your financial adviser will advise you if your funds are liable for this tax.

When you take withdrawals whilst UK resident (including any adviser charges payable to your financial adviser) from, or surrender, a life assurance or capital redemption bond there could potentially be a UK tax liability. This will depend on a number of factors including the length of time you've held your bond and your own personal circumstances. If the bond has been placed in trust, this will also affect the way in which any proceeds are taxed.



The following information is based on our interpretation of current law and taxation practice in the Isle of Man, Ireland and the UK as at 31 March 2023, which could change in the future. There is therefore a risk that the value of any tax treatment provided by the bond you have chosen may change. Please note that the responsibility for any personal tax liability on the proceeds of your investment is yours, or where appropriate, your trustees or beneficiaries and usually depends on individual circumstances.

OFFSHORE BONDS - THE ESSENTIAL TAXATION POINTS

One of the main differences between offshore and onshore bonds is the different taxation treatment given to the underlying investment funds. We have identified some essential taxation points you should be aware of when you invest in an offshore bond.

To help your understanding, we refer to the underlying investments chosen by you with your adviser (subject to product restrictions), which can be held within the offshore bond, as funds. When we speak of the provider, this is the company who offers the bond. In this guide the offshore product provider is either Utmost International Isle of Man Limited or Utmost PanEurope dac, although this document is only intended as a general guide to offshore bonds.

UK BASED PROVIDER (ONSHORE) BOND

With an onshore investment bond, the underlying funds are subject to tax on the income and capital gains generated within the funds. The amount of tax payable will depend on the effective tax rate a UK based provider must pay on its policyholders' funds and on the underlying asset mix because a UK based provider is taxed differently on different types of assets.

OFFSHORE BASED PROVIDER (OFFSHORE) BOND

Within an offshore investment bond, any income and capital gains on the underlying funds roll up free of taxes (referred to as 'gross roll-up'). This is because taxation of an offshore bond is dependent on the tax regime of the territory where the provider is established. The previously described favourable tax environment in the Isle of Man and Ireland means that income and capital gains on investments we hold on behalf of investors are not taxed locally. The only tax to which the funds may be liable is withholding tax.

THE BOND SET-UP

It is important to understand how we set up the bond as this may affect your decision on how you take withdrawals from the bond, including any charges for advice, and any future tax payable as a result of adviser charges paid to your financial adviser.

Your bond is issued as a series of individual policy segments (referred to as 'segments' in this guide), instead of just one policy, and we refer to this as the 'bond'. For ease of administration, your policy documents will show all the issued segments on one document. However, each individual

segment is a valid contract in its own right and has its own share of the initial premium and the surrender value.

Your bond can be set up with a maximum of 9,999 segments subject to the minimum investment as stated in the applicable **Product Guide**.

The number of segments, the premium value and surrender value attributed to each segment will depend on the type of product chosen and the total premium for the bond.

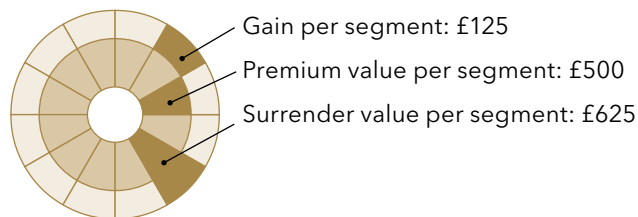
In the examples below we have assumed that a total premium invested was £120,000 and that the

bond surrender value as a whole has grown to £150,000. We have also assumed that no policies have been surrendered since the bond was established and that 240 segments was selected.

THIS DIAGRAM ILLUSTRATES THE CORRESPONDING SEGMENT SURRENDER VALUE AND THE CORRESPONDING PREMIUM VALUE.



This example illustrates the effects of segmentation only. It does not show any real rate of return.



ADVISER CHARGES PAID TO A FINANCIAL ADVISER - TAX IMPLICATIONS

An adviser charge is a fee that you agree to pay your financial adviser in return for any personal recommendations (product based advice) which are not specific to the underlying investments of the bond. Depending on the product chosen, the charge can be paid inside or outside of the bond.



You can find more detailed descriptions of these methods in the applicable charges guide for your chosen product.

Where adviser charges are paid from the bond, these can only be made through a partial surrender (withdrawal across all segments). We will not be able to fully surrender individual segments to cover these charges. As a result, any adviser charges to be paid from the bond will be treated as a withdrawal across all segments and will form part of your total 5% annual tax-deferred entitlement. This could have potential tax consequences and you should talk to your financial adviser before making a withdrawal, surrender, or payment of adviser charges from the bond. Later in this guide where we refer to

'withdrawals' and have examples for any withdrawals taken from the bond, please note these will assume the inclusion of any adviser charges, if these are taken from the bond.

There may be additional Inheritance Tax (IHT) consequences for certain trust arrangements, depending upon whether the adviser charges are paid by the Settlor or Trustees.



Please refer to our **Guide to Trusts** for more information.

TAKING MONEY FROM THE BOND

It is important to understand that taking money from your bond is different from taking money from other financial products, such as a bank account. The method you choose to take money out of the bond will affect the way in which your money is taxed. These two methods are described in detail below. Each option has its own tax treatment and will depend on the product you choose, your financial needs and requirements, and should be discussed with your financial adviser.



Before taking any money from your bond we strongly recommend that you speak to your financial adviser.

WILL I PAY TAX ON MY AD HOC OR REGULAR WITHDRAWALS?

You may have a liability to income tax on the ad hoc or regular withdrawals you take from the bond. This will depend on a number of factors including the level of withdrawals, the frequency of these withdrawals, and your personal tax circumstances. Below we have outlined how your withdrawals may be taxed whilst you are UK resident.

Depending on the product chosen, you will have various options for taking regular withdrawals. Please read the relevant **Product Guide** for more information on withdrawals.

For each investment made into the bond, UK tax residents are currently entitled to withdraw 5% of the initial (and each subsequent) investment each policy year for 20 years and defer any income tax payable. If you do not take your full 5% annual tax-deferred entitlement in any policy year, the unused amount is carried forward. For example, if you choose an annual withdrawal of 4% of your initial investment, you are entitled to take withdrawals for 25 years free of income tax at the time of the withdrawal.

If you select an annual withdrawal of 5% of your initial investment and these continue beyond 20 years, i.e. from year 21 onwards any withdrawal will be liable to income tax, the rate of which will be determined by your personal circumstances.

Any adviser charges, to be paid to your financial adviser, from the bond will be treated as a withdrawal and will form part of your total 5% annual tax deferred entitlement. This could have potential tax consequences and you should discuss this with your financial adviser before making a withdrawal, surrender or payment of adviser charges from the bond.

A BRIEF OVERVIEW OF CHARGEABLE GAINS AND CHARGEABLE EVENTS

A chargeable gain is the taxable element on any gain arising from a chargeable event. Chargeable events occur when certain payments are made from life and investment products. They may or may not create a tax charge. These payments include withdrawals over the 5% annual tax-deferred entitlement, surrenders, certain assignments and the death of the last surviving life assured.

Withdrawals that exceed 5% per year of the initial investment (or for the Regular Investment Account the 'annual premium') each policy year will therefore give rise to a chargeable gain and you may become liable to income tax.



UK resident investors must include details of any chargeable gain arising in their UK tax return. Any withdrawals over the annual 5% tax-deferred entitlement, including any adviser charges, may also affect the availability of the personal income tax allowance (where the chargeable gain, when added to income, exceeds £100,000 p.a.) and any age-related allowances.

REGULAR INVESTMENT ACCOUNT

The Regular Investment Account (RIA) is no longer available. This product was issued as a regular premium life assurance bond. If you have a RIA, we have included calculations for the 5% entitlement here.

HOW IS THE 5% ENTITLEMENT CALCULATED FOR A REGULAR INVESTMENT ACCOUNT?

The entitlement for RIA is calculated against the total premiums paid in each policy year, known as the 'annual premium', and includes both regular and lump sum payments.

If you select an annual withdrawal of 5% of your 'annual premium' and these continue beyond 20 years, i.e. from year 21 onwards, any withdrawal

will be liable to income tax, the rate of which will be determined by your personal circumstances.

Each year's additional premium has its own entitlement and so the entitlement increases as the regular premiums are paid. However, assuming the entitlement is not used each year, it will not simply be calculated as 5% of the total premiums paid but will instead increase by 2.5% each year.

EXAMPLE

A policyholder invests in an offshore regular premium bond at a rate of £2,000 per month, i.e. £24,000 per year.

Under the product terms regular withdrawals cannot be taken until contributions have stopped (until the bond is 'paid up').

Their cumulative entitlement for the first 3 years and the 20th year would therefore be as follows:

YEAR	TOTAL PREMIUM PAID	CUMULATIVE 5% ENTITLEMENT	TOTAL ENTITLEMENT AS % OF PREMIUMS PAID
1	£24,000	$£24,000 \times 0.05 = £1,200$ (the entitlement from year 1)	5%
2	£48,000	$£24,000 \times 0.05 \times 2 = £2,400$ (year 1 entitlement) + $£24,000 \times 0.05 \times 1 = £1,200$ (year 2 entitlement) Total entitlement = £3,600	7.5%
3	£72,000	$£24,000 \times 0.05 \times 3 = £3,600$ (year 1 entitlement) + $£24,000 \times 0.05 \times 2 = £2,400$ (year 2 entitlement) + $£24,000 \times 0.05 \times 1 = £1,200$ (year 3 entitlement) Total entitlement = £7,200	10%
20	£480,000	$£24,000 \times 0.05 \times (20+19+18+\dots+1)$ (the cumulative built up entitlements from years 1-20) or $£24,000 \times 0.05 \times (21 \times 10)$ Total entitlement = £252,000	52.5%

IMPORTANT INFORMATION FOR THE ESTATE PLANNING BOND, GENERATION PLANNING BOND AND DISCOUNTED GIFT TRUST

When you set up an Estate Planning Bond, Generation Planning Bond or a Discounted Gift Trust you must take an 'income'. 'Income' is a withdrawal of capital. **The 'income' payments you take cannot be stopped or amended during your lifetime.** If you select to increase your 'income' in line with the change in the UK Retail Prices Index (RPI) or at a fixed rate of escalation

and this then exceeds your cumulative 5% annual tax-deferred entitlement, there will be a chargeable gain and income tax may be payable in future years. This income tax charge will be assessed on you (the Settlor) if you are UK resident and your 'income' exceeds the cumulative 5% entitlement in any year. It is important that before selecting an 'income' that will increase either in line with RPI or by a fixed percentage, you fully understand the potential chargeable gain liability and remember that you cannot surrender the bond, amend or stop 'income' during your lifetime.

Any ongoing and/or ad hoc adviser charges agreed between the Trustees and yourself can be facilitated either outside of the bond or from the bond. If the trustees agree to pay adviser charges to a financial adviser from the bond, this can only be done as a withdrawal of fund value and will count towards the annual 5% tax-deferred entitlement of the Settlor/Donor.



Please read the relevant **Product Guide** for further information.

WILL I PAY TAX WHEN I SURRENDER SEGMENTS IN MY BOND?

For UK resident investors, our bonds are treated as investment bonds for tax purposes. When you surrender the bond, or any segments within the bond, you may have to pay income tax on any increase in value above the amount of your original investment (i.e. the chargeable gain). This means that income tax on any investment gains may be deferred until you choose to take the proceeds from the bond and

trigger a chargeable event. A reason for doing so would be to give you an opportunity to defer paying tax until you are in a lower tax bracket. You must bear in mind if using such a strategy that tax legislation is complex and is subject to change.

HOW THE CHARGEABLE GAIN ON SEGMENT SURRENDER IS CALCULATED FOR UK RESIDENTS

On the surrender of any segment within your bond you will be liable to tax on any chargeable gain. The calculations will depend on how many segments you are surrendering. For example:

- › If you are surrendering all of your segments then the value given will be for the bond as a whole. The premium therefore will be the full amount you paid to us to set up the bond and the surrender value will be the surrender value of the whole bond
- › If you are surrendering only some of your segments within your bond, then the calculation will involve the value of each individual segment surrendered and the corresponding premium amount.

The chargeable gain is calculated as follows:

$$\text{GAIN} = (\text{SURRENDER VALUE} + \text{PREVIOUS WITHDRAWALS}) - (\text{PREMIUM(S) PAID} + \text{PREVIOUS CHARGEABLE EVENT GAINS})$$

If you pay additional premiums to your bond then these will be added equally to all your segments within your bond. The additional premium will therefore be reflected in each segment and must also be considered in any calculation.

The final gain or loss will take into account all previous withdrawals (partial surrenders) and chargeable event gains on that particular segment. However, following changes in the Finance Act 2012 withdrawals taken whilst the policyholder was non-UK resident can no longer be offset in the calculation above in order to reduce the tax payable in the UK. This change applies to policies issued or varied after 21 March 2012.

The amount of tax paid on any investment growth will depend on your personal circumstances at the time when you choose to surrender your policy. If you would like to know more about chargeable events please speak to your financial adviser.

Income tax is payable on the chargeable gain at the rates applicable to you. As chargeable gains are treated as savings income for income tax purposes, the starting rate for savings and the personal savings allowance may still apply depending on the amount of gain.

Depending on any other income you may have, the whole gain could be taxed at either the basic rate, higher rate or additional rate of tax. If the gain, when added to other income, is liable to any higher or additional rate tax then top-slicing relief could apply to reduce the tax payable.

TOP-SLICING RELIEF

Top-Slicing Relief can be used to reduce your exposure to higher or additional rates of tax on the happening of a chargeable event, which includes but is not limited to a segment surrender, full surrender or a withdrawal which exceeds your 5% cumulative tax-deferred entitlement (see page 9). The relief calculations can be quite complicated and are beyond the scope of this guide. You should discuss with your financial adviser whether you can claim this relief prior to taking any proceeds from your bond.

Note: Top-Slicing Relief will **not** be available where the full chargeable gain, when added to your other taxable income, doesn't take your taxable income into higher rate. For the tax year 2023/24 top slicing relief will therefore not be available where your taxable income (including the gain) doesn't exceed £37,700. Top-Slicing Relief will also not be available where you are already an additional rate taxpayer due to other taxable income, i.e. if your taxable income from other sources already exceeds £125,140 for 2023/24.

Top-slicing relief is only available where chargeable gains are assessed on an individual (either as an investor or as the Settlor/Donor of a trust he/she has created). It is not available where gains are assessed on trustees, although it can be used if the bond is held in trust and segments are first assigned to an adult beneficiary.

For an individual investor, top-slicing relief is reduced for any time spent overseas, although you may be able to claim time apportioned reductions for these periods. Time apportioned reductions are explained under the relevant heading later in this section.



Calculations for top-slicing relief are quite complex and beyond the scope of this guide. If you wish to find out whether you could use this reduction on any gain you should speak to your financial adviser for more information.

PERSONAL ALLOWANCE AND AGE-RELATED ALLOWANCE

- › Any chargeable gains that exceed £100,000 when added to other income, will reduce your personal allowance by £1 for every £2 that is over this limit
- › Chargeable gains will be added in full to your income when calculating your entitlement to any age-related personal allowances (where applicable).

You should speak to your financial adviser if you require more information.

POLICYHOLDERS WHO BECOME RESIDENT OUTSIDE OF THE UK

If you become resident outside of the UK you may be liable to tax on your bond and/or any proceeds taken from it but this will depend on the tax law in your new country of residence. You are strongly advised to seek independent local tax advice to determine what tax might be payable.

Whilst you may not pay tax in the country you are resident in, or be required to complete a tax return, you may still be suffering tax on the underlying funds. In some instances, underlying investments linked to the bond will continue to be subject to UK taxation, for example funds with UK sourced income.

POLICYHOLDERS WHO RETURN TO THE UK AFTER LIVING ABROAD AND THE BENEFITS OF TIME APPORTIONED REDUCTIONS (TIME APPORTIONMENT RELIEF)

If at any time you live abroad whilst holding a bond, you may be able to benefit from a tax relief called time apportioned reductions (previously known as time apportionment relief), on your return to the UK.

Time apportioned reductions can reduce the tax liability on any gains made on the investment. For example, if you lived outside the UK for 5 years of a 10 year period of an investment, only half the gain would be taxable, due to 5 years being outside the UK.

Time apportioned reductions do not generally apply to policies held in trust, so if the bond is currently in trust the trustees cannot claim this reduction - even if the trust is deemed to be resident overseas. However, if the policy has been previously held by an overseas resident prior to being settled into a UK resident trust, then time apportioned reductions may still apply in certain circumstances.



Please be aware that any claim for time apportioned reductions will affect any claim for top-slicing relief.

YOUR TAX RETURN

One of the benefits of offshore bonds is the ease of administration, as there is usually no need to include details of the bond on your UK tax returns as offshore bonds are non-income producing assets.

Withdrawals within the 5% annual tax-deferred entitlement, including any adviser charges paid to your financial adviser, do not have to be included on your UK tax return, but when a chargeable gain arises, you must include the relevant details in boxes 43-45 of the Foreign Pages supplement to the Self Assessment return (as at 6 April 2022).

Any withdrawals in excess of the 5% annual entitlement, or any other chargeable gain, when combined with other income, may affect your entitlement to both the personal allowance and the higher age-related personal allowances.

All applicable tax return forms are available from the HMRC website, www.hmrc.gov.uk

NON UK TAX ON BENEFITS TAKEN

If you, the trustees and/or beneficiaries are resident outside the UK, it will be your/their responsibility to declare to your/their local tax authority any taxable benefits in accordance with the local tax rules and to pay any tax that is due in your/their country of residence.

WILL I BE SUBJECT TO CAPITAL GAINS TAX (CGT) ON ANY GAINS?

Offshore bonds generally do not incur a CGT liability as investment gains arising on offshore bonds are charged to income tax. Also, fund switches made within onshore or offshore bonds do not trigger a UK CGT liability.

FURTHER INFORMATION

Your financial adviser will be able to tell you more about:


- › The tax implications specific to your circumstances
- › Utmost Wealth Solutions.

Please contact your financial adviser:

- › If you have a question
- › If you would like more information
- › If you would like a **Personal Illustration** for any of our investment bonds.

CONTACT US


To find out more about the investment options available with specific products we offer, please speak to your financial adviser or contact us:

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AWI PR 0192 | 04/23