PERSONAL PORTFOLIO BONDS (PPBs)

KEY POINTS

- Where policyholders are resident outside the UK and hold policies of life insurance or capital redemption policies, it is very important that they seek professional advice and understand the Personal Portfolio Bond (PPB) legislation if they plan to become UK tax resident. Failure to understand the rules could lead to disproportionate and penal tax charges being applied under UK tax legislation.
- Where a policyholder is planning to become UK tax resident and has a policy that doesn't align with the required UK rules, they will need to arrange to have their policy endorsed and dispose of any 'offensive' assets before the next policy anniversary to prevent any PPB event tax charge. This can lead to some timing issues.
- There is no 'motive test' for PPB gains and thus there is little scope to mitigate this tax when it occurs. Nevertheless, Time-Apportioned Reductions (TAR) can assist to reduce PPB gains, especially in the first years of UK residency.
- In some cases, TAR may be of little benefit; this would include where the policy has been assigned to someone other than their spouse or civil partner and just before the assignee becomes UK resident and creates a PPB.
- Top-Slicing Relief (TSR) cannot be applied to reduce a deemed PPB gain.
- The way PPB events (and other overseas events) are reported by the insurer can differ from the way they are taxed and advisers and their clients should make sure they understand the differences here.

INTRODUCTION

This Technical Briefing outlines what constitutes a PPB, considers in detail how such policies are taxed and looks at some other related areas that an adviser may wish to understand.

The Personal Portfolio Bond (PPB) legislation was first introduced in 1999 following the case of The Commissioners of the Inland Revenue v Willoughby. This legislation, now contained within sections 515 to 526 of the Income Tax Trading and Other Income Act 2005 (ITTOIA), was primarily introduced to stop policyholders linking the value of their policies to highly personalised assets such as private company shares.

As the PPB legislation is anti-avoidance legislation, the resulting tax charge that can occur when a policy is deemed to be a PPB is very draconian. In this regard, there are few scenarios where it would be beneficial for a policyholder to continue to hold a PPB if they are UK tax resident.

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WHAT MAKES A POLICY A PPB?

A policy is categorised as a PPB if it meets two tests:

1. Firstly, the assets that can be selected by the policyholder, or any connected person, to link to the value of the policy must be ones that are not permissible under UK tax legislation (see section below).
2. Secondly, the policyholder, or any connected person, must have the ability to select the assets under point 1 (above) that link to the value of their policy. Connected persons are defined in s993-995 of the Income Tax Act 2007 and include the policyholder's spouse or civil partner, their relatives and their spouses or civil partners, relatives of their spouse or civil partner and their spouses or civil partners. Here 'relative' means brother, sister, ancestor or lineal descendant.

WHEN IS A POLICY NOT A PPB?

Where the policyholder has the ability to select, but the assets that can be selected are permissible assets then the policy will not be a PPB. Conversely, where the policyholder, or any connected person, does not have the ability to select the assets that can be linked to the value of the policy, under the policy terms, then the policy cannot be a PPB. However, HMRC make it clear that the ability to select is drafted 'widely' and includes influence over the assets. They also stipulate that the presence of personalised assets would 'test the analysis' here. HMRC are essentially making it clear that, despite what the policy terms may say, if highly personalised assets were linked to the value of the policy then they may determine that the policy is a PPB.

WHEN DO PPB EVENTS OCCUR?

The test for a PPB only happens at end of the relevant insurance year as provided under s525(2) ITTOIA and a PPB cannot occur in the final insurance year as per s515(2). Other than in a final insurance year, the insurance year begins on the day the policy is taken out and ends on the day before the 12 month policy anniversary each year. This is defined in s499 ITTOIA and in HMRC's Insurance and Policyholder Taxation Manual (IPTM) 3505. For simplicity we will occasionally refer to PPBs arising at the policy anniversary within this briefing, which means the final day of the relevant policy year.

THE PERMISSIBLE ASSETS AND AVAILABILITY

The first test looks at the permissible assets under the policy. Where the policyholder, or any connected person, has the ability to select the assets, the policy will not be a PPB if the 'property' (assets) or index that can be selected falls within a permissible category and the insurer makes the property or index available to all, or to a class of, policyholders. We will explore these two points further in this section.

PERMISSIBLE ASSETS

The types of permissible assets are listed in s520 ITTOIA, where it is referred to as property, as set out below. For convenience the table also includes the legislative references in respect of each category.

CATEGORY	PROPERTY	LEGISLATIVE REFERENCE
Category 1	Property which the insurance company has appropriated to an internal linked fund	"Meaning of internal linked fund given by a) The Interim Prudential Sourcebook for Insurer or b) rules made by the PRA under FISMA 2000."
Category 2	Units in an authorised unit trust	None provided – but guidance is given under IPTM7745 **https://www.gov.uk/hmrc-internal-manuals/insurance-policyholder-taxation-manual/iptm7745**
Category 3	Share in an investment trust (or an overseas equivalent)	"Meaning given in by section 1158 of CTA 2010."
Category 4	Shares in an open ended investment company I"OEIC")	"Meaning given by section 236 of FISMA 2000."
Category 5	Cash	"Includes any sum which is deposited a) in a building society account (including a share account) or similar account OR b) in a bank account or similar account but does not include cash which is acquired wholly or partly for the purpose of realising a gain from its disposal."
Category 6	A policy or contact to which this Chapter applies	None provided - but guidance for this is given under IPTM3640 **https://www.gov.uk/hmrc-internal-manuals/insurance-policyholder-taxation-manual/iptm3640**

CATEGORY	PROPERTY	LEGISLATIVE REFERENCE
Category 7	An interest in a collective investment scheme (defined now as either a) a unit trust scheme the trustees of which are non-UK resident or b) any other arrangement which takes effect by virtue of the law of a territory outside the UK, and which under that law creates rights in the nature of co-ownership (without restricting that term to its legal meaning in any part of the UK)	" 'Collective investment scheme' has the meaning given by section 235 of FISMA 2000, and 'interest', in relation to such a scheme, means the beneficial entitlement of a participant in such a scheme."
Category 8	Shares in a UK REIT or an overseas equivalent	"UK REIT has the same meaning as in Part 12 of CTA 2010. Overseas equivalent, in relation to an investment trust or a UK REIT, means a company a) which is resident in a territory outside the United Kingdom in accordance with the law of that territory relating to taxation and b) which is under the last of that territory, the equivalent of an investment trust or a UK REIT (respectively)."
Category 9	An interest in an authorised contractual scheme	" 'Authorised contractual scheme' means a contractual scheme (within the meaning given by section 235A(1) of FISMA 2000) which is authorised for the purposes of FISMA 2000 by an authorisation order in force under section 261D(1) of that Act."

CLASS CONDITION

Where the terms of the policy restrict the policyholder to these permissible assets, the insurer must also make sure that the asset is made available (and marketed) to all policyholders or made available to a class of policyholders. Importantly, the class that the insurer makes the asset available to, or the terms of access for the particular asset, cannot be so narrow as to effectively create quasi selection.

This is quite a complex area but guidance on these rules is given in IPTM7785 and an example of the operation of the rules is given in manual IPTM7790. The example in IPTM7790 shows an overseas unit trust with a minimum investment of £100,000 which is marketed to all policyholders of the insurer but only one policyholder of the insurer invests into it. The fact only one policyholder invests is immaterial, as it was made available to all, and the minimum investment here is described as "objective" by HMRC, i.e. this is not considered to create a disproportionate barrier to entry which could be seen as too narrow and thus limiting selection to perhaps this one policyholder.

CONVENTIONAL UK POLICY TERMS

Most UK policies and policies from overseas insurers which are sold to UK residents and which provide the policyholder, or any connected person, with the ability to select, will restrict the assets that can be selected so that the policy cannot be a PPB. Here it is important to understand that, even where a policy is only linked to permissible assets, it will still be classified as a PPB and taxed accordingly **if the terms do not restrict asset selection**.

OVERSEAS POLICY TERMS

Policies sold to non-UK residents will often have their terms drafted to allow personalised assets when considering the UK rules (subject to any local restrictions). In other words, these types of policies will not restrict the selection of assets to those previously described under UK rules. In order to prevent a PPB tax charge, such policies will need to be endorsed to remove the ability to select personalised assets if the policyholder becomes UK tax resident, as outlined in the endorsement section of this briefing.

CALCULATION OF PPB DEEMED GAINS

The calculation of a PPB deemed gain is based on 15% compounded gain from inception of the policy. The PPB calculations are reduced by part-surrenders made in the year where that part-surrender creates an excess. The calculations are covered in

HMRC manuals IPTM3650 and IPTM3660.

EXAMPLE 1

A policy was established with a premium of £1,000,000 on 5 January 2015 when the policyholder was in Hong Kong. The terms of the overseas policy allow the client to select assets that are wider than those permissible under UK PPB legislation. The client moves back to become UK tax resident on 10 December 2023 and doesn't endorse their policy before the next anniversary. The policy is deemed to be a PPB on 4 January 2024 which is the day before the next policy anniversary following the policyholder's return to the UK.

On the day before the anniversary of the policy, and with no withdrawals having been taken, the surrender value is £950,000 so the policy is actually in a loss position when compared to the premium paid. However, the PPB deemed gain calculation would roll up until 4 January 2024 as set out in the table below. As a result, a PPB deemed gain of £458,853 would occur on 4 January 2024 and be taxable in the 2023/24 tax year despite the fact the policy was actually in a 'loss' position.

YEAR (POLICY YEAR)	TAX YEAR IN WHICH POLICY YEAR ENDS	PREMIUM(S) PAID FROM YEAR 1 TO END YEAR	CUMULATIVE AMOUNT OF PPB GAINS	CUMULATIVE PART-SURRENDERS	PPB GAIN FOR YEAR (CUMULATIVE PPB GAIN + PREMIUMS PAID) - PARITAL SURRENDERS X15%)
2015 (1)	2015/16	£1,000,000	£0	£0	£150,000
2016 (2)	2016/17	£1,000,000	£150,000	£0	£172,500
2017 (3)	2017/18	£1,000,000	£322,500	£0	£198,375
2018 (4)	2018/19	£1,000,000	£520,875	£0	£228,131
2019 (5)	2019/20	£1,000,000	£749,006	£0	£262,350
2020 (6)	2020/21	£1,000,000	£1,011,357	£0	£301,703
2021 (7)	2021/22	£1,000,000	£1,313,060	£0	£346,959
2022 (8)	2022/23	£1,000,000	£1,606,019	£0	£399,003
2023 (9)	**2023/24**	**£1,000,000**	**£2,059,021**	**£0**	**£458,853**

EXAMPLE 2

Let's assume the same circumstances as in example 1 but here the policyholder made a partial surrender (withdrawal across all policies) of £200,000 on 10 January 2016, i.e. in policy year 2. As the premium was £1,000,000, the withdrawal of £200,000 in policy year 2 creates an excess event of £100,000, i.e. it exceeds the available 5% entitlement on the policy which is £100,000 (£1,000,000 x 5% x 2). Then, in policy year 7 the policyholder takes a further £300,000 that exceeds the 5% entitlement by £50,000. Note it makes no difference here, under the PPB calculations, as to whether or not these excesses occurred when the person was abroad and thus not subject to UK tax.

YEAR (POLICY YEAR)	WITHDRAWAL	CUMULATIVE 5%	EXCESS	PREMIUM(S) PAID FROM YEAR 1 TO END YEAR	CUMULATIVE AMOUNT OF PPB GAINS	CUMULATIVE PART-SURRENDERS	PPB GAIN FOR YEAR (CUMULATIVE PPB GAIN + PREMIUM PAID) - CUMULATIVE PARTIAL SURRENDERS IN PREVIOUS YEARS X 15%)
2015 (1)	£0	£50,000	£0	£1,000,000	£0	£0	£150,000
2016 (2)	£200,000	£100,000	£100,000	£1,000,000	£150,000	£0	£172,500.00
2017 (3)	£0	£50,000	£0	£1,000,000	£322,500	£100,000	£183,375.00
2018 (4)	£0	£100,000	£0	£1,000,000	£505,875.00	£100,000	£210,881.25
2019 (5)	£0	£150,000	£0	£1,000,000	£716,756.25	£100,000	£242,513.44
2020 (6)	£0	£200,000	£0	£1,000,000	£959,269.69	£100,000	£278,890.45
2021 (7)	£300,000	£250,000	£50,000	£1,000,000	£1,238,160.14	£100,000	£320,724.02
2022 (8)	£0	£50,000	£0	£1,000,000	£1,558,884.16	£150,000	£361,332.62
2023 (9)	**£0**	**£100,000**	**£0**	**£1,000,000**	**£1,920,216.79**	**£150,000**	**£415,532.52**

We can see here the PPB gains in both scenarios and the resulting deemed gain is disproportionate to the actual policy gain itself. We need to remember here that the PPB rules are designed as a deterrent to stop people who are UK tax resident creating personalised bonds. In example 2 the excess events reduce the deemed gain despite the fact they may have not been subject to UK tax, but the gain itself is still significant considering the fact that the policy is in a loss.

ENDORSEMENT ON RETURNING TO THE UK

To prevent it being treated as a PPB, the policy should be endorsed as follows when the policyholder becomes UK resident:

1. The assets that can be selected are restricted to those permitted under UK legislation as explained earlier; and
2. Any non-permissible assets must also be sold prior to the anniversary, i.e. it is not sufficient to simply endorse the policy; the asset links must also be removed. HMRC make this particular point clear in IPTM 7793 and IPTM 7735 – see extracts below from HMRC's manual IPTM7735:

EXTRACT FROM MANUAL IPTM7735

"Property and indices for a policy that is varied to cease being a PPB.

Where the terms of a policy are varied in order to take it outside the definition of a PPB, all the property held that is not permitted property of the type listed in IPTM3640 has to be disposed of. It is not sufficient for the policy terms to be changed for future selections of property.

The retention of an existing selection for determining the value of benefits is just as much evidence of an ability to select as is an ability to make future changes to the property that determines the policy benefits.

Similarly, if the benefits are linked to an index that is not of a type permitted by IPTM3630 then that link must be broken. It is not sufficient simply to change the terms for future selections of indices whilst retaining existing links to indices which are not permitted."

This can present issues where the policy is holding assets that are unable to be sold, although here it may be possible to effect a surrender in-specie so that the offensive assets are removed from the policy and put into the policyholder's name. However, in other cases a policyholder may need to weigh up the cost of selling an offensive asset, at a potential loss, against the impact of the deemed gain charge (and the tax on that charge).

As explained earlier in this briefing, a policy becomes a PPB on the anniversary of the policy so this can also present timing issues if assets cannot be sold quickly or without penalty.

EXAMPLE 3

Simon is currently resident in Hong Kong and his policy allows selection of assets that are wider than those provided for under UK legislation. The policy was issued on 1 February 2015 and Simon mentions to his adviser on 1 August 2023 that he will be moving to the UK before the end of the year. At the moment Simon is invested in assets that would be permissible under UK tax legislation but also mentions to his adviser that he is interested in linking his policy to a loan note ('near cash' instrument) that is not permissible property under UK legislation. Further, the loan note he is reviewing has restrictive surrender terms which mean that surrender penalties are applied if the note is sold by the insurer (as holder of asset) within the first 5 years. The insurer has already advised Simon that the loan note is acceptable to link to the value of the policy whilst he is an overseas resident.

Simon's next policy anniversary is 1 February 2024 and thus a PPB gain will arise the day before (31 January 2024) if he is UK resident at that time. To avoid this PPB gain Simon will need to contact the insurer to endorse the policy **and** remove any links to non-permissible assets prior to the 31 January 2024.

Simon's adviser suggests that he should avoid linking his policy to this loan note, as this will create an issue when he moves to the UK as it cannot be sold without a significant charge. Whilst it is possible that the loan note could be surrendered in-specie once Simon returns, this may also give rise to chargeable event implications and not all policies will permit such an action.

If policyholders are looking to move to the UK in the future the assets that are held should be reviewed in good time, preferably long before the move. Further, great care should be taken where assets are being considered that may incur penalties when sold.

This can allow more time for any offensive assets to be removed from the policy, perhaps at a price that may be acceptable to the policyholder. Avoiding links to assets that may not be able to be sold then avoids issues where the policyholder may have to weigh up the potential PPB charge against the potential losses or penalties that may apply if the asset is disposed of soon after purchase. Clearly in some cases this may be unavoidable, especially if the client is not aware of their future plans at the time of purchase. Further below we consider strategies that may considered to alleviate tax in these scenarios.

PPBs, TIME-APPORTIONED REDUCTIONS AND TOP-SLICING RELIEF

Top-Slicing Relief (TSR) cannot be used to reduce the charge to tax on a deemed PPB gain as detailed in s535(6) ITTOIA. However, Time-Apportioned Reductions reductions (TAR) can be used to reduce the chargeable gain.

In many cases TAR will help to reduce the tax payable on any PPB gain especially where the policyholder, due to timing issues, hasn't endorsed their policy. However, where a policy is taken out post 6 April 2013 any reduction for periods spent overseas is aligned to the period for which the current policyholder (liable to tax) has been overseas resident only. Where there is an assignment between spouses and civil partners this period is combined so that any time spent abroad prior to the assignment can also apply.

The Finance Act 2013 changed the rules here and much will depend on whether the policy was taken out prior to 6 April 2013 or varied after this date. The operation of these rules is complex and beyond the scope of this particular Technical Briefing. A comprehensive guide to TAR is provided in our briefing entitled Time Apportioned Reductions dated September 2022 which is available on our uTech site:

https://utmostinternational.com/wealth-solutions/our-wealth-solutions/united-kingdom/utech/technical-briefing/

EXAMPLE 4

Mike is currently resident in Dubai and moves to the UK with a policy that permits selection of linked assets wider than that allowed under UK tax legislation. The policy was issued on 10 April 2010 and Mike moves to become UK tax resident from 6 April 2023. Here the policy will be a PPB a few days after his arrival in the UK leaving him little time to endorse it.

As Mike, the person liable to the PPB gain, has been overseas for the majority of the time prior to the PPB event arising, TAR effectively reduces the deemed gain charge to almost zero. However, if Mike failed to endorse the policy, the deemed gain that would arise in future years will start to increase as the impact of TAR reduces.

REPORTING ISSUES WHEN SURRENDERING – REPORTING DIFFERS FROM TAXATION

The Finance Act 2012 closed down a loophole in tax legislation that allowed for chargeable events that occurred overseas to be deducted from the gains calculation.

On surrender a gain arises where the benefits received exceed the deductions as given in s491 ITTOIA. The formula can be set out as follows:

(Surrender Value + Previous Withdrawals) – (Premium Paid + Gains Arising on Calculation Events) = Gain on surrender

Here the benefits include any capital sums paid previously (such as under the 5% entitlement) and the sum payable because of the surrender. The deductions then include the amount of any premiums paid before the event and any gains arising on previous 'calculation events' which include excess events (amounts above the 5% entitlement) and PPB events. Prior to the change in the Finance Act 2012 it didn't matter whether the gains that arose on these previous calculation events were subject to tax in the UK. This meant that where PPB or excess events had occurred overseas these could be deducted from the final surrender calculation. The Finance Act 2012 changed the rules here so that, when considering the tax paid on surrender, previous gains that were not subject to tax are now ignored.

However, there are two important aspects of this rule:

1. This amendment only applies in relation to the charge to tax and insurers are not required to report the chargeable gains in alignment to this rule, i.e. the reporting rules contained in ICTA 88 were not amended to accommodate this change. This is because it would be very difficult for insurers to understand whether a policyholder was UK tax resident and liable to UK tax.
2. If a policy was taken out prior to 21 March 2012, and has not been varied, then the gains on the previous calculation events are still deductible for tax purposes. In other words, some older policies remain unaffected unless they are varied after 21 March 2012.

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The table below provides guidance on where reporting may not align with the tax that may be due. It is of course the policyholder's responsibility to inform HMRC of the actual gain via their self-assessment return regardless of whether the insurer provides a chargeable event certificate.

POLICY ISSUE DATE	TAX POSITION ARE PREVIOUS EXCESS GAINS OR PPB GAINS DEDUCTIBLE FOR TAX PURPOSES?	REPORTING POSITION FOR INSURERS
On or after 21 March 2012	Gains arising on previous calculation events (PPB events or excess events) are only deductible if subject to UK tax.	**Could be different to tax position.** Insurers are required to report on the basis that any previous PPB events or excess events were subject to UK tax. This may lead to no certificate being produced if there were overseas PPB events or excess events.
Prior to 21 March and the policy **has not been varied since 21 March 2012** in the following manner: 1. The policy has been topped up to increase the benefits secured; 2. The policy has been assigned (whether or not for money or money's worth) 3. Some of the rights on the policy are held as security for a debt	Yes, the tax position will follow that of the reporting position. Gains arising on previous calculation events (PPB events or excess events) are deductible even if no UK tax was paid.	**The same as the tax position.**
Prior to 21 March but the policy **has been varied since 21 March** (see above)	Gains arising on previous calculation events (PPB events or excess events) are only deductible if subject to UK tax.	**Could be different to tax position.** Insurers are required to report on the basis that any previous PPB events or excess events were subject to UK tax. This may lead to no certificate being produced if there were overseas PPB events or excess events.

TRAPS TO WATCH OUT FOR

We will conclude this briefing by looking at some traps to watch out for and how to potentially mitigate a PPB gain.

ASSIGNMENTS PRIOR TO BECOMING UK RESIDENT

Firstly, as shown earlier in this briefing, care is needed when making assignments prior to returning to the UK. An assignment may alter the ability to claim TAR and may also mean that previous calculation events are no longer deductible when the client becomes UK resident.

EXAMPLE 5

Jane takes out a policy in Dubai in 2000 and is offered a lucrative job in the UK. Jane lives with her partner Aidan but they are not married nor have they entered into a civil partnership. Aidan will be moving with her to the UK and will be a full time carer for their four children and is not immediately intending to take up employment. Jane is advised to assign her policy to Aidan to benefit from his status as a non-taxpayer, i.e. any gains can make use of his personal allowance and the fact he has no other taxable income. Jane assigns the policy to Aidan on 1 April 2023 just before they move to become permanent UK residents. If any gains now arise on this policy, including PPB gains, TAR will be limited to Aidan's overseas days only (as policyholder) and the combined period of ownership cannot apply as Jane and Aidan are not married. Further, as the assignment takes place after 21 March 2012 any overseas calculation events previously created by Jane will no longer be deductible for tax purposes.

ASSIGNMENTS BY WAY OF DEATH AND WIDOW/WIDOWER IS OR BECOMES UK RESIDENT

Where a policyholder dies and the policy is assigned to their widow/widower via the will then this assignment will not meet the conditions of s487(c). This means that if the assignment takes place, or has taken place, post 6 April 2013 then only the widow/widower's period of non-residency will count for TAR due to the way the legislation is drafted. Conversely, if the assignment takes place before death (whilst they are still married) the combined period of residence will count for TAR purposes although the assignment, if it takes place after 21 March 2012, will remove any ability to offset previous 'calculation events'.

EXAMPLE 6

George was born in the UK but has lived in Singapore for many years having moved there with his wife, Sandra, when he was offered employment back in 2010. George took out an overseas life policy in 2015 that allowed him to select assets wider than those permitted under UK legislation. George becomes terminally ill and assigns his policy to Sandra prior to his death in early 2023. Sandra decided to return to the UK to be nearer her family and, due to being busy organising her affairs, omits to inform the life company that she has moved. As the policy is not restricted to UK permissible assets, a PPB event is created on the first anniversary following her return. Luckily here, as the combined period of ownership can be used to reduce the gain under TAR rules the deemed gain is reduced significantly to almost zero. Had the policy been assigned via the will following George's death, then Sandra may have faced a significant PPB tax charge that could only be reduced by the proportion of the time she was overseas resident.

This particular point has been raised with HMRC via industry representatives as something that may need to be reviewed as being particularly draconian.

MITIGATION OF PPBS

One way to ensure a PPB event does not arise when a person moves to the UK is to endorse the policy as explained earlier. If a PPB event does arise, TAR may be used to reduce the tax on the gain but, as outlined above, this may not work in some situations. It is important to understand that there is no equivalent s507A ITTOIA rule here, i.e. unlike where disproportionate excess events occur, the policyholder cannot write to HMRC to "set aside" PPB gains as this is anti-avoidance legislation and thus it is our understanding that HMRC therefore have little leeway to consider circumstances.

However, a PPB event cannot arise in the final insurance year as per s515(2) ITTOIA. Where a PPB event would arise in a particular tax year then this can be 'washed out' if a surrender takes place that would be taxed in the same tax year as the PPB event. This surrender strategy is perhaps the final 'lifeboat' available for policyholders that fail to endorse their policies after becoming UK resident and will only be available where the policy year end (where the PPB gain arose) is in the same tax year as surrender.

EXAMPLE 7

Billy takes out a policy on 1 September 2010 and moves to the UK in early 2023 and becomes UK tax resident. He fails to endorse the policy and thus the policy becomes a PPB on 31 August 2023 which would be taxable in the 2023/24 tax year. If Billy surrendered before the end of the 2023/24 tax year (so before 5 April 2024), the final year would be extended and the PPB gain arising on 31 August 2023 would be ignored.

CONCLUSION

The PPB legislation is more draconian and complex than it first appears. Any clients with overseas policies should make sure they understand this area of UK legislation if they are considering moving to the UK and seek professional advice. Care should be taken where such overseas policyholders are considering asset links which cannot be sold quickly or where such a sale would cause a substantial financial loss. Further, these clients should seek advice if they are looking to assign policies to persons who are, or who may become, UK tax resident as this can lead to positions where the PPB charges cannot be avoided or mitigated depending on timing issues.

With good planning the PPB legislation can be mitigated and, as with all areas of financial planning, the key is to make sure you understand your client's objectives and future plans.

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