

Offshore Capital Investment Bonds

Offshore Capital Investment Bonds are offered by a number of life assurance companies resident outside the UK. They will normally be resident in a comparative tax haven such as the Channel Islands, The Isle of Man, Luxembourg or Ireland. Many are subsidiaries of leading UK life assurance companies. **These notes relate to investment in offshore capital investment bonds by UK investors.**

Offshore capital investment bonds provide the opportunity to invest in a variety of unitised investment funds, professionally managed by the companies' investment managers. These funds can specialise in particular investment markets or they can be of the overwhelmingly popular managed, or mixed, fund type. In the managed fund your capital is spread over a number of types of investment with the fund manager varying the spread as investment conditions change. You have the facility to switch between these funds should you wish to do so. Offshore Capital Investment Bonds offer the opportunity to invest in funds that may not be available to onshore Capital Investment Bonds for UK investors.

All income earned internally by the investment funds is rolled up in the funds for capital growth. As a result, the bond is a non income producing asset and particularly suitable for putting in trust as it avoids the trustees having to keep accounts and submit tax returns. Like all investments, offshore capital investment bonds carry management charges which vary from company to company. They are normally in the form of an annual fund charge and either (or both) an initial charge and an early encashment charge. Full details of these are contained in the company literature.

The bond is an extremely flexible investment in that it can be encashed at any time in whole or in part. In addition, regular cash withdrawals can be made at any level that you may decide upon. Under current legislation, provided these regular withdrawals are no more than 5% per annum of the original investment, they will be **tax-deferred** for twenty years. This means there is **no tax** payable at the time of the withdrawal.

Offshore bonds bear no internal tax charge on either their income or their capital gains. They may however, pay "withholding taxes" on income from some of their investments but this is less than the tax rate applying to U.K. bonds. The benefit is a tax free accumulation in the investment fund.

The taxation in your hands of withdrawals or encashment in excess of the 5% p.a. referred to above is based on the "gain" made on the bond. The whole of the gain (including the total of tax deferred withdrawals) is added to your income and is subject to your normal tax rate up to the basic rate of income tax i.e. 20%.

To see if you have any liability to higher rates of tax the gain is divided by the number of complete years you held the bond and the resulting "top slice" is added to your income to establish your tax rate. The percentage of the top slice, if any, that is in a higher rate tax bracket is calculated and an "excess rate" tax charge is applied to the same percentage of the total gain.

The excess rate tax charge is equivalent to being charged tax on the investment gain on the bond at the rate of your highest rate of tax less the basic rate (i.e. 40% less 20% = 20%). Top slicing is explained in detail in the page describing Capital Investment Bonds.

Whilst offshore capital investment bonds offer the benefit of tax deferment, they come into their own if the tax charge on encashment can be avoided. This can occur when for instance:

- The bond is assigned to a non taxpayer as a gift who then encashes it.
- The investor retires abroad and is not a UK taxpayer when the bond is encashed and is not liable to tax in the jurisdiction where they reside at that time.

Offshore capital investment bonds are a medium term investment, by which we mean that we expect it under normal circumstances to last for more than 5 years. The bond can still be encashed earlier, in fact at any time from day one. However, the life assurance company will base its costs on a minimum term of five years and if the bond is cashed in early they will make a withdrawal charge as set out in their personal illustrations and key features documents. After this initial period there is no withdrawal charge.

Before investing in an offshore capital investment bond, you will be given a personal illustration and key features document. You should read, carefully, the section entitled “Risk Factors” on the Key Features Document which highlights any possible disadvantages of effecting the contract.

It should be noted that unit prices can fall as well as rise. In addition, past performance is not necessarily a guide to the future.