TAXATION OF PERSONAL PORTFOLIO BONDS FOR UK RESIDENTS

WHAT IS A PERSONAL PORTFOLIO BOND?

A personal portfolio bond (PPB) is a single premium life assurance or capital redemption policy, which gives investors the freedom to select some or all of the underlying assets.

Under UK legislation, where a policy is considered a PPB a deemed gain tax charge will apply. A policy will not be considered a PPB if the selection of the underlying assets is limited to those listed in the permitted property categories.

PROPERTY CATEGORIES

- Property appropriated by the insurer to an internal linked fund;
- Units in an authorised unit trust;
- Shares in an approved investment trust, or an overseas equivalent;
- Shares in an open-ended investment company (OEIC);
- Cash (but not acquired for speculative purposes);
- Interests in collective investment schemes, which are units in non-UK unit trusts or any other arrangement that creates rights in the nature of co-ownership under the law of a territory outside the UK;
- Shares in a UK Real Estate Investment Trust (REIT) or an overseas equivalent
- An interest in an authorised contractual scheme.

Assets such as structured notes, unauthorised investment trusts and equities are not within the permitted categories.

WHAT IS A DEEMED GAIN?

A deemed gain is an anti-avoidance tax. The deemed gain is not based on an actual gain. Instead, the legislation assumes a gain of 15% of the premium paid and is cumulative for each policy year the policy has been in force.

The test to determine if a policy is a PPB is ongoing. Only if the policy is considered a PPB on the last day of the policy year will the deemed gain charge apply. The charge can be applied each year until the policy is no longer considered a PPB.

WHAT ACTION SHOULD I TAKE?

Contact our office as soon as you return or are considering your return to the UK. We can review your policy and confirm what assets held would not be permitted.

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WHAT RELIEFS ARE AVAILABLE?

Whilst top slicing relief is not available, it may be possible to mitigate some of the gain by applying Time Apportionment Relief (TAR).

HMRC may accept applications where the policyholder has 'inadvertently generated a wholly disproportionate gain' to have the gain recalculated on a just and reasonable basis.

HOW IS A CHARGEABLE GAIN DECLARED FOR UK INCOME TAX PURPOSES?

Gains on our policies should be inserted into the 'Foreign' pages of the tax return referenced as 'SA106'. HMRC help sheet HS321 (Gains on foreign life insurance plans) provides further information and guidance for completing UK tax return.

EXAMPLE

Harold is a UK resident who invested £500,000 into a life assurance policy when he was resident in the UAE. In policy year 5, he returned to the UK. The policy is currently worth £600,000 so has a gain of £100,000.

The policy holds a number of assets that are outside of the permitted categories:

- If the assets are not sold by the end of the policy year that Harold returns to the UK, the policy will be treated as a PPB. A chargeable event certificate showing a deemed gain tax charge of £131,175** will be issued.

The deemed gain tax charge is approximately £30,000 higher than the actual gain of £100,000 that the policy has made,

If the policy was considered a PPB at the year of policy year 6, a further chargeable event certificate would be issued for a deemed gain of approximately £150,851**. Harold would have a further income tax liability on this deemed gain on top of the tax already paid on the £131,175 deemed gain for policy year 5.

- If the assets were sold before the end of the policy year the policy would not be considered a PPB and no chargeable event certificate is required.

** See Calculation Example

IMPORTANT NOTES

RL360 accept no liability for any action taken or not taken by an individual or a firm as a result of the contents of this material. The tax treatments and information contained in this document are based on our understanding of current tax law and HM Revenue & Customs (HMRC) practice as at January 2025 and may be subject to change in the future.

Calculation Example

Policy year (y)	Premiums paid, years 1 to end year y (A)	Cumulative amount of PPB excesses for year 1 to (y-1) (B)	Aggregate part surrender gains for years 1 to (y-1) (C)	PPB gain for year y= 15% (A+B-C)
1	£500,000	Nil	Nil	£75,000
2	£500,000	£75,000	Nil	£86,250
3	£500,000	£161,250	Nil	£99,188
4	£500,000	£260,438	Nil	£114,066
5	£500,000	£374,503	Nil	£131,175
6	£500,000	£505,679	Nil	£150,851

No deemed gain calculation is carried out in the policy year the policy is surrendered.

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