ONSHORE VERSUS WRAP OFFSHORE

This document compares onshore and offshore plans, the level of investor protection provided and how they differ in their taxation treatment. All content is relevant to UK resident investors.

POLICYHOLDER PROTECTION

Policyholder protection may be triggered if a firm is unable, or likely to be unable, to meet claims against it, for example if it has been placed in liquidation or administration.

Onshore	Offshore
Should the provider default, policyholders are covered by the UK Financial Services Compensation Scheme (FSCS) of up to 90% of the value of the claim (with no upper limit).	Owners of policies issued in the Isle of Man receive the protection of the Isle of Man Compensation of Policyholders protection scheme, which covers an amount equal to 90% (subject to the provisions of the scheme) of the life office's liability where they are unable to meet their financial obligations. Life offices reserve the right to adjust the returns to cater for any levy or charge made on it under the regulations or similar legislation. Unlike many protection schemes, this applies to all policyholders regardless of where they reside. Further information can be found at: https://www.iomfsa.im/media/1508/lifeinsurancecomp.pdf

TAXATION OF UNDERLYING FUNDS

The main tax benefit of investing in an offshore plan is gross roll-up. Gross roll-up means that any underlying investment gains are not subject to tax at source - apart from an element of withholding tax.

Onshore	Offshore
Investment funds are subject to tax on income and capital gains realised within the funds. Withholding tax may apply (for example, on US Mutual Funds) and is not reclaimable.	Due to the favourable tax environment in the Isle of Man offshore plans can provide tax efficient way to accumulate income. Capital Gains Tax or Income Tax isn't paid on investments held in the Isle of Man on behalf of investors, so any investment gains are allowed to roll-up free of these taxes. Withholding tax may apply (for example, on US Mutual Funds) and is not reclaimable.

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TAXATION OF PROCEEDS

The tax on the investment growth can be deferred until you choose to take the proceeds, e.g. when you are in a lower tax bracket at retirement.

	Onshore	Offshore
Non tax payer	No further tax liability on any gains (unless chargeable gains push income into the higher rate tax band). Tax deducted at source on the underlying fund cannot be reclaimed. Withholding tax may apply (for example, on US Mutual Funds) and is not reclaimable.	No further tax liability on any gains unless chargeable gains exceed any available allowances (e.g. personal allowance, starting rate for savings or personal savings allowance). Due to the favourable tax environment in the Isle of Man offshore plans can provide tax efficient way to accumulate income. Capital Gains Tax or Income Tax isn't paid on investments held in the Isle of Man on behalf of investors, so any investment gains are allowed to roll-up free of these taxes. Withholding tax may apply (for example, on US Mutual Funds) and is not reclaimable.
Basic rate tax payer	No further tax liability on any gains (unless chargeable gains push income into the higher rate tax band).	After any available allowances, the amount of the chargeable gain that falls within the basic rate band is taxable at a rate of 20%. Top-slicing relief may be available, to reduce the amount of tax payable.
Higher rate tax payer	Any chargeable gain will be subject to the difference between basic rate and higher rate income and Additional Rate tax payers (45% in 2019-20).	After any available allowances, when the chargeable gain is added to other income, the amount that exceeds the basic rate band is taxable at a rate of 40%. Top-slicing relief may be available, to reduce the amount of tax payable. Furthermore, the amount of gain that exceeds the higher rate threshold (currently £150,000) is taxed at the additional rate 45%. Again top-slicing relief may be available to reduce the amount of tax payable.

RESIDENCY TAXATION

	Onshore	Offshore
Investors who become resident outside the UK	Whilst an investor is overseas, a plan could still be subject to UK tax. On realising the investment, any potential tax charge is dependent on your country of residence.	Underlying investments can grow in a tax efficient environment throughout the time held. The only tax to which some underlying assets will be liable is a Withholding Tax which is deducted from foreign dividend income and interest. On realising the investment, any potential tax charge is dependent on your country of residence.
Investors who return to the UK after living abroad	Time Apportionment Relief (TAR) is now applicable to new onshore plans which commenced on or after 6 April 2013. This relief applies where a plan is held by an individual who is UK resident for only a part of the period between the plan's inception and the chargeable event. With the exception of gifts between spouses/civil partners, time appointment relief is based on the residence history of the person liable to income tax on the gains - rather than the legal owner, where different. Onshore plans in existence before 6 April 2013 will only be able to apply TAR if: 1. there is an assignment (includes both gift assignments and gifts for money or monies worth) of the rights or some of the rights conferred on the plans to an individual 2. some or all of the rights conferred on the plan become held as security for a debt of the individual or deceased. 3. the plan terms and conditions allow additional investments into the existing plan segments, therefore increasing the benefits secured under the plan.	Like onshore plans, Time Apportionment Relief (TAR) can reduce the taxable amount on a plan gain where the plan owner has been non-UK resident during the period of ownership, however, unlike onshore plans, this relief applies to pre-April 2013 plans. Time apportionment relief may reduce tax liability on any gains, e.g. if an investor lived outside the UK for 5 years of a 10 year investment, only half the gain is taxable.

IMPORTANT NOTE

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and Her Majesty's Revenue and Customs' (HMRC) practice as at July 2019.

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