TAXATION OF HIGHLY PERSONALISED PORTFOLIO BONDS (PPB) FOR UK RESIDENTS

WHAT IS A PPB?

In simple terms, a PPB is a single premium life assurance or capital redemption policy, which gives UK investors the freedom to invest in a wide range of assets beyond those described within the PPB legislation, which are as follows:

- 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.

Where a UK resident policyholder holds highly personalised property (i.e. offensive assets which are outside of the permitted categories above) at the end of the insurance year, the PPB legislation imposes a yearly cumulative deemed gain tax charge of 15% of the premium.

WHAT IS AN OFFENSIVE ASSET?

Offensive assets are things which are ‘personal’ to the plan owner, or rather not freely available to anyone else, however, they can also be structured notes, unauthorised investment trusts and equities.

WHAT IS A DEEMED GAIN?

Essentially, it is an anti-avoidance tax. The legislation can be found in Income Tax, Trading and other income Act (ITTOIA) 2005 Sections 515 to 526.

The tax charge is not based on actual gains within the policy. Instead, the PPB assumes there is a gain of 15% of the premium and the cumulative gains for each year the policy has been in force.

Where the policy owner is UK resident a deemed gain will be subject to Income Tax.

HOW IS THE CALCULATION APPLIED?

The deemed gain is an annual charge and will be applied each year offensive assets are held. The tax charge for the PPB will be taxed at the policy owner’s highest rate of tax.

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EXAMPLE

Harold, a UK resident took out a plan with a single premium of £500,000. He then surrenders the plan in year 6 for £530,000.

If the plan did not hold any offending assets and was never classed as highly personalised, the gain to be assessed for Income Tax would be £30,000 (£530,000 - £500,000).

However, if Harold's plan held assets that made the plan highly personalised, he would have been assessed for UK Income Tax each year on the deemed gain basis. As a result, the tax charge would be approximately £131,175 by the end of plan year 5.

No deemed gain is applied in the plan year that the plan is fully surrendered.

If Harold had lived in another country when he opened the plan, only moved to the UK in plan year 4 and did not sell the offending assets he held by the end of plan year 4, his plan would become a PPB at the end of the plan year. As such, Harold would be issued with a Chargeable Event Certificate for deemed gain of £114,066. If the offending assets were sold before the plan anniversary, there would be no deemed gains as the plan would not be highly personalised.

WHAT RELIEFS AND AVAILABLE?

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

HOW WILL THIS AFFECT MY CLIENT?

Once the client is resident in the UK the policy will need to be endorsed and any offensive assets sold by the end of the current policy year to prevent the policy becoming a PPB.

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

Gains on foreign plans 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 returns.

IMPORTANT NOTES

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Calculation

Plan year (y)	Premiums paid, years 1 to end year (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	No Gain
			Total deemed gains:	£505,679

No deemed gain is applied in the plan year that the plan is fully surrendered.