

For customers | International investments

Offshore bonds and non-UK domiciled individuals

If you're non-UK domiciled, offshore bonds could be an effective way to help secure your financial future.

What is domicile?

Domicile is a legal concept meaning 'where a person has their permanent home to which they intend to return'. You can usually work out your domicile position as follows:

Domicile of origin

This is usually the same as your father's domicile when you were born. It's possible that this won't be the country you were born in.

Domicile of law or dependency

Your domicile is the same as that of the person you legally depend on. If that person's domicile changes, you automatically acquire the same domicile in place of your domicile of origin.

Domicile of choice

If you're aged 16 or over, you can legally acquire a new domicile. This isn't straightforward – you have to change your residence and provide evidence that you intend to permanently move to a particular country.

Why is your domicile important?

In a word, tax. And following a change to how non-domiciled individuals are taxed after 6 April 2008, if you're in this position you might find investing in an offshore bond a tax-efficient option.

Tax rules before 6 April 2008

If you were resident in the UK but non-domiciled, you were only liable to tax on your UK-sourced income – foreign income was only liable when it was remitted (sent back) to the UK.

Tax rules from 6 April 2008 onwards

From 6 April 2008, if you're UK resident but non-domiciled the remittance basis still applies if:

- you're under 18
- you have foreign income and gains amounting to less than £2,000 for the relevant tax year
- you've been resident in the UK for less than seven out of the previous nine years, or
- you're aged 18 or over, have been resident in the UK for at least seven out of the previous nine years, have claimed the remittance basis and are subject to the remittance basis charge (RBC)

The RBC is currently £30,000 and is due for each year you claim the remittance basis. To claim, you need to submit a self-assessment tax return before 31 January following the end of the relevant tax year. You'll lose your entitlement to personal tax allowances and the annual exemption for capital gains.

If you're UK resident but non-domiciled and you don't claim the remittance basis, your worldwide income and gains will be subject to UK tax. This is known as the arising basis.

How can an offshore bond investment help?

If you're a UK non-domiciled individual, investing in an offshore bond may help you minimise the impact of the current rules.

Any gains and income produced by the underlying investments in your bond are attributed to the offshore bond provider and not you. This means any growth within the bond wrapper will have no bearing on the level of income and gains you're assessed for. You could still have other foreign income and gains of up to £2,000 in a year before needing to consider the arising or remittance basis.

You can withdraw 5% of your original investment on a tax-deferred basis each year without creating an immediate tax charge. The payment is treated as a return of capital on the original investment, and isn't classed as foreign income and gains for tax purposes.

Any chargeable event gains made while you're UK resident will be subject to UK tax, whether you've paid the RBC or not. Chargeable event gains can arise in a number of circumstances, for example if you've surrendered your bond or taken a withdrawal of more than the 5% tax-deferred allowance. Your financial adviser should be able to explain this in more detail.

Check the source of your funds

You need to be careful if the funds invested in your offshore bond include any previously unremitted foreign income and/or gains, as any withdrawals could create a tax charge when remitted back to the UK. This will affect amounts taken even within the 5% tax-deferred allowance.

Tax overview

While UK resident

Growth while invested in the bond
On 5% withdrawals
Any chargeable event gains

Once left the UK and no longer tax resident

Taking benefits

Offshore bond

No UK tax liability
No UK tax liability
UK tax liability

No UK tax liability*

*Please note, a tax charge may apply in the country where you are tax resident at the time of taking benefits.

Summary

- If you're a UK non-domiciled individual, you may be able to manage your affairs by investing in an offshore bond and avoid the current tax charges.
- If you take this route, you'll need to take care over the source of funds.
- If you're affected by these rules, you should speak to your tax adviser to find out whether the income tax and capital gains tax payable on the arising basis would be more than the £30,000 RBC.

This is a very complex issue and we recommend you take professional taxation advice on this.

All references to taxation are based on our understanding of current taxation law and HM Revenue & Customs practice in the United Kingdom, which may change. The amount of tax relief you may get depends on your financial circumstances.