



Offshore Protected Cell Company Bond

The Finance Act 2008 introduced new rules for the taxation treatment of those resident but non-domiciled in the UK. This arrangement allows funds, up to a certain level, to be remitted to the UK annually without tax charge provided that it is created and managed properly. By transferring assets into a single premium insurance bond, capital gains and income tax can be reduced, deferred or avoided entirely. Within the bond gains and income can be rolled up and taxed only on redemption of the bond. In addition for UK resident domiciled individuals, it may be possible to pay capital gains tax rather than income tax.

Strategy

The easiest way to understand the various transactions is by way of an example. In this case the client has £20m worth of assets. Suppose the individual has £16m of assets and £4m in non qualifying assets, the £16m can be transferred into the bond without any tax consequences. The tax consequences relate to the £4m of non qualifying assets which may comprise hedge funds etc.

Step 1 - The client transfers the qualifying assets (£16m cash) to a protected cell within a Guernsey Protected Cell Company.

Step 2 - The PCC transfers the qualifying assets into the insurance bond, to be provided by an approved insurer.

Step 3 - Bank lends the cell £4m against the value of the insurance bond (i.e. 25% of the bond value in this case).

Step 4 - On receiving the £4m the cell employs a Discretionary Investment Manager to invest the money by buying the non qualifying assets from the client. The non qualifying assets can now be included within the insurance bond as they are being managed by a Discretionary Manager. At this point we have a loan of £4m outstanding against an insurance bond worth £20m and the client has £4m cash.

Step 5 - The client transfers the £4m cash to the cell as an additional contribution which is then used to repay the loan. At this point the client has no cash or assets in his own name but has shares in a cell within a PCC which in turn is owned by an insurance bond worth £20m. The client in the UK can receive 5% each year tax free of the value of his contribution to the policy. Gains are rolled up in the policy and the tax on redemption can be avoided if he is non-resident when the policy is redeemed.

Advantages

- Provides a tax free source of funds in the UK for resident non-domiciled individuals
- Funds are held in a safe offshore environment
- The investment growth remains offshore and is not subject to UK taxation until encashed
- Bond can be encashed or allowed to mature once the settlor has left the UK and is not resident for UK tax purposes
- Can avoid payment of £30,000 "remittance basis charge", if circumstances allow

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