SYCAMORE WEALTH

INTERNATIONAL PORTFOLIO BONDS

An Offshore Wrapper is a very useful structure for clients who want access to a range of funds with low costs of access and ease of administration. The particular Wrapper we recommend is supplied by Old Mutual and is known as the International Portfolio Bond (IPB).

An IPB – or 'Offshore Wrapper' – is an excellent investment structure for capital sums in excess of £500,000. It is not a 'scheme', but operates under the 'Chargeable Event' legislation, as it has for more than 25 years. It is tax mitigation based on specific legislation, so the position is clear and beyond HMRC's challenge.

Some of the advantages of an Offshore Wrapper are:

- Gross roll-up – Investments can grow tax free within the 'offshore' wrapper and there is no liability until the money is encashed.
- 5% tax deferred allowance on each amount invested can be taken in each policy year for 20 years without incurring an immediate income tax liability. Similarly, if you were to draw 2.5% as an annual income, then the tax-free income would continue for 40 years – i.e. until the original capital has been fully withdrawn. As this is cumulative, if you decide not to take any income for say, 5 years, then in the 6th year you could draw up to 30% of the original capital as a tax-free (and penalty-free) lump sum.
- If administered and advised upon properly, only the growth on the bond will ever be liable to income tax. And that is only when a 'chargeable event' occurs – e.g. withdrawing more than 5% of the invested amount in any one tax year, or on surrender of the whole bond. There is no tax on investment growth while in the Offshore Wrapper.

We achieve this through 'segmentation', whereby your bond is technically split into many 'mini bonds'. This allows for 'whole Policy' type surrender, where partial surrender could result in a significant tax liability on a chargeable event.

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- Realised chargeable gains may benefit from 'top slicing' relief, which can reduce or remove any higher rate tax liability.
- Top-up investments by individuals can benefit from top-slicing from the commencement of the Bond.
- Offshore Bonds can also benefit from Time Apportionment Relief for investors who are UK resident for only part of the investment period.
- Offshore Bonds are non-income producing assets so there are no annual tax returns for individuals or Trustees. You need only report a 'chargeable event'.
- Funds can be switched within the Bond (no charge by Sycamore Wealth) without giving rise to a Capital Gains Tax (CGT) or Income Tax liability and with no reporting requirements.
- The Bond can be assigned by way of a gift without giving rise to an income tax charge. Assignment is not a chargeable event. By settling into a Trust arrangement, it can also mitigate Inheritance Tax (IHT). Similarly it can be gifted into Trust and assigned out of Trust without giving rise to Income Tax or a CGT charge.
- The Bond affords wide investment parameters.
- Offshore Bonds are not normally included where means testing is applied by a local authority for residential care.
- Where a Bond terminates and a chargeable loss is made due to a previous excess event, Deficiency Relief may be available.

Other scenarios where an Offshore Wrapper can be beneficial are:-

1. On death, the investment does not need to be surrendered, but can be assigned to a relative and continue in that person's name until they are ready to surrender the Bond themselves. Assignment is not a chargeable event and the Assignee will adopt the cumulative 5% allowance. On a chargeable event, income tax is calculated at the Assignee's marginal rate.
2. For Retirement purposes – particularly if you have reached the maximum investment allowed into Pension or have reached the 'Lifetime Allowance' (LTA) – an offshore wrapper can be used for tax-free growth (gross roll-up), without the limitation of the LTA, and can provide tax-deferred income.
3. For Inheritance Tax (IHT) purposes. The IPB could be used to mitigate IHT on your estate using an appropriate Trust arrangement – e.g. a Discounted Gift Trust (this is particularly appropriate for parents and/or grandparents). Offshore investment bonds have 'gross roll up' meaning the investments in the bond are not taxed during the growth period. There is no capital gains tax to pay at any time.
4. If you were to move/retire abroad – particularly to a country with a lower tax rate than the UK or one that has tax exceptions for income from investments held offshore – then using an Offshore Wrapper can be even more tax efficient.

Contact us about International Portfolio Bonds on 020 3114 2112
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