

International Wealth Account

At a glance guide to personal UK taxation



This guide is intended for UK resident planholders of Zurich International Life's International Wealth Account (IWA) plans.

UK taxation is becoming increasingly complex and Zurich International Life does not provide specific advice in this area. We strongly recommend that you seek professional advice before embarking on any course of action that may have tax implications.

Zurich International Life's current understanding is that HM Revenue and Customs classify the IWA plan as an offshore or foreign non-qualifying life policy.

Any proceeds taken from life policies held by UK resident individuals are normally subject to UK income tax under the chargeable event legislation.

Please note that IWA plans do not fall within HM Revenue and Customs definition of 'Personal Portfolio Bonds' and therefore will not be taxed under the 15% deemed gain regime introduced in the Finance Act 1998, now contained in Sections 515 to 526 of Income Tax (Trading and Other Income) Act 2005 (ITTOIA).

Income tax

Zurich International Life's range of funds is not subject to any Isle of Man or UK corporation tax on income and/or gains made within the funds. This is different to a UK domestic life policy, where the insurer would be subject to UK corporation tax within the underlying funds.

The incidence of tax within Zurich International Life's range of funds is limited to an element of unreclaimable withholding tax deducted at source from investment and dividend income in some countries.

The IWA plan is a non income producing asset (unlike a bank deposit, for example) and therefore any gains or income derived from the underlying funds or other assets held by the plan do not create an ongoing liability to tax on the planholder. In other words, if the plan is left to grow and no withdrawals are taken, no ongoing liability to UK income tax arises. In addition, a client can withdraw up to 5% each year free from immediate tax liability.

A personal liability to income tax may arise upon the occurrence of a chargeable event (this is described further below). Any liability will be charged at the planholder's highest marginal rate of income tax.

The full gain is liable to income tax, as unlike a UK domestic life policy, an offshore life plan has not already assumed to have satisfied basic rate income tax within the insurers life fund.

Chargeable events

Simplified, and in relation to IWA a chargeable event is defined under Section 484 of ITTOIA 2005 as:

- a) death of the last life assured;
- b) surrender or part surrender of the plan;
- c) assignment for money or money's worth.

The IWA is structured as a single contract made up of a series of 100 underlying individual policies or clusters. This structure enables planholders to withdraw funds in two distinct ways:

- as partial withdrawals across all the underlying clusters, or
- as a full surrender of some or all of the individual clusters.

The advantage of this structure is that each of the two methods of withdrawal is treated differently for tax purposes in the UK and planholders can choose the option best suited to their circumstances at the time.

Generally speaking, partial withdrawals across all clusters are used to take advantage of the 5% rule described below. Where a withdrawal of this kind is within the 5% allowance, then there is no immediate income tax liability on the withdrawal. However, where a withdrawal of this kind exceeds the 5% allowance, then an immediate liability to income tax is triggered on the part of the withdrawal that exceeds the allowance.

In the case where entire clusters are fully surrendered, any gain arising from the withdrawal is immediately taxable.

5% allowance rule

In this regard, the IWA is treated in the same way as any onshore or domestic UK life plan. The planholder may withdraw up to 5% of the total contributions paid in each plan year without incurring an immediate liability to income tax. Any full or part 5% 'tax deferred allowance' not utilised may be carried forward on a cumulative basis for use in future years, subject to a maximum relief of 100% of total contributions.

Any excess over the 5% allowance is immediately liable to income tax.

Available income tax relief

UK resident life planholders can claim a number of income tax reliefs against any potential income tax charge, including:

- Non-residence relief
- Top slicing relief
- Corresponding deficiency relief

Non residence relief

If a planholder has been non-UK resident whilst owning an IWA plan and subsequently becomes UK resident, then they will be able to claim 'time apportionment relief'. This means that any final chargeable gains made under the IWA plan is reduced by a fraction relating to the number of days that the planholder was non-UK resident, and the number of days that the plan was held in total.

Please note that this relief is not available if the IWA plan had at any time been owned by non-UK trustees, or from 17 March 1998 a 'foreign entity' which includes non-UK resident companies.

Top slicing relief

Top slicing relief applies when the addition of the chargeable gain to the planholders other taxable income takes the total income into the higher rate (40%) or additional rate (50%) tax band.

Corresponding deficiency relief

There is no relief available for an investment loss suffered on a life plan; however, a relief called 'corresponding deficiency relief' may be available when a life plan ends. This relief only benefits planholders with taxable income (before any gains or top slice gains are added) above the basic rate limit. For basic rate tax payers the relief is not available.

Capital gains tax (CGT)

Disposals of an IWA plan by an individual will not normally create a CGT liability. Any increase in the value on disposal will be charged to income tax under the chargeable events legislation, as detailed overleaf.

When a UK resident investor has disposed of assets to fund the purchase of an IWA plan, the disposal of such assets may trigger a CGT liability.

Switches between funds within an IWA plan will be free of UK CGT.

Inheritance tax (IHT)

UK IHT is levied at death on a UK domiciled individual's worldwide estate and certain transfers of assets they may have made in their lifetime. Those individuals who are UK resident but non UK domiciled at the time of death may only be subject to IHT on their UK assets.

Zurich International Life offer a range of IHT planning trust options which may be used to mitigate UK IHT. This is a complex area and we would strongly recommend that you seek advice from your relevant financial professional if you are interested in exploring this further.

Tax planning, and international tax planning in particular, is a complex area and we recommend that you seek professional financial advice.

This guidance note is for information only, does not constitute advice and is not to be relied on as part of any recommendation. It is based on our understanding of UK taxation legislation as at January 2012. Tax is not the only determining factor when deciding how to take capital from an IWA, and Zurich International Life strongly recommends that planholders seek advice from their relevant financial professional before taking any action.

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The protection only applies to the solvency of Zurich International Life Limited and does not extend to protecting the value of the assets held within any unit-linked funds linked to your plan.

The value of any investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

Planholders will not have the protection of the UK Financial Services Compensation Scheme.

For full details of the International Wealth Account, please refer to the product brochure and the plan terms and conditions, copies of which are available on request.

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