Technical

Friends Provident International

Obligations of UK trustees

For financial advisers only.

The purpose of this document is to provide information on how an offshore policy held in trust can benefit UK trustees by easing the ongoing administration and reporting on the trust.

General duties of a trustee

Trustees must make ongoing decisions regarding the trust and act in the best interest of the beneficiaries. Trustees resident in the UK are also responsible for the reporting and paying tax liabilities in regards to the trust to HMRC.

Gross Roll Up

UK tax legislation allows an offshore policy to accumulate income and gains without incurring an ongoing tax charge. Dividend and interest income that is received by the policy are not taxable. There is also no capital gains tax charge for switching funds. This helps in reducing the ongoing administration of the trust as the trustees would only have to file a UK self-assessment when there is a chargeable event.

Non-income producing asset

Unlike assets such as shares and bonds that can produce a regular income, which would require regular accounting by the trustees and possible distribution to the beneficiaries, an offshore policy is a non-income producing asset. Therefore, no ongoing accounting or distribution of income is required by the trustees.

Tax deferred withdrawals

Withdrawals of up to 5% of the total premiums paid can be withdrawn each policy year without triggering an immediate UK income tax liability, which is viewed by HMRC as a return of the original investment. This reduces administration on trustees and allows them to make regular tax deferred withdrawals from the policy without creating a chargeable event, with no requirement for the trustees to report and file an annual UK self-assessment.

Assigning the policy to a beneficiary

The assignment of the policy to a beneficiary is not a chargeable event. The trustees can assign the ownership of the policy to a beneficiary without creating an immediate tax liability. Future chargeable events will fall on the new owner at their marginal rate of tax instead of the standard trustees' rate of 45%, which would require accounting by the trustees. As there is no income tax liability there is no requirement for the trustees to report and file a UK self-assessment.

Segmentation of the policy

Assignment of individual policy segments to adult beneficiaries is not a chargeable event and does not trigger an immediate tax charge. This allows a tax-efficient way for the trustees to distribute the trust fund as future chargeable events will be taxable on the new owner, so there is no requirement for the trustees to file a UK self-assessment. This is also beneficial to trustees who are looking to distribute the trust fund equally to multiple beneficiaries.

Other considerations

Where a trust is set up under the Bare provisions any tax liability will fall on the beneficiary at their marginal rate, with the beneficiary required to file a UK self-assessment and not the trustees.

It is the responsibilities of the trustees to ensure that the trust is registered with HMRC if required. There is lots of helpful information available on HMRC website to assist with registering the trust. An adviser or tax agent can also register the trust on behalf of the trustees.

When distributions are made to the beneficiaries, an exit charge could apply. Distributions could include withdrawals, surrenders, assignment (segments or in full) as well as the trustees using certain powers of appointment contained within the trust deed, even where nothing leaves the trust.

Overall, providing the trustees stay within the 5% tax deferred allowance, an offshore policy as opposed to other types of investment is significantly less onerous for trustees.

Important Notes

For financial advisers only. Not to be distributed to, nor relied on, by retail clients.

This document is based on our understanding of HM Revenue and Customs (HMRC) practice and may be subject to change.

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