TAX GUIDE FOR UK TAX RESIDENT INDIVIDUALS

HANSARD

Introduction

The purpose of this guide is to give you information about key tax issues relating to Hansard Europe dac (Hansard) unit linked policies from the perspective of a UK tax resident individual policyholder. It is based upon Hansard's understanding of UK laws on personal taxation, HMRC practices, and Irish law - as at November 2023 (all of which are subject to change).

This guide does not deal with the inheritance tax position of policyholders, nor does it deal with the tax issues that may arise for a policyholder who is resident or otherwise liable to tax in a jurisdiction other than the UK. Please seek proper tax advice from a professional advisor if you do change residency, or require any clarity of your own personal circumstances.

The rules relating to this area of taxation can be complex and this information is not intended to offer advice and as such Hansard cannot accept any responsibility for any action taken or not taken as a result of the information in this guide.

Ireland tax authorities/regime

As part of our reporting requirements you may be required to complete a Declaration of Residence outside the Republic of Ireland (EO194O) form to ensure payment can be made without the operation of Irish tax. Your independent insurance intermediary will provide this where necessary or you can obtain the declaration form directly from Hansard.

Change of residency

If you become tax resident in another territory during the term of your policy, the rules of that new territory will apply. Please seek appropriate tax advice from a professional advisor if you change residency, become dual tax resident, or remain tax resident for a period after leaving a territory on consequence of 'splitting' tax years. You should seek advice where you require clarity in respect of your personal circumstances. It is important that you inform us if you change your residency address, as this may affect the treatment of your policy. The tax laws and practices may be subject to alterations which cannot be foreseen and Hansard cannot accept liability for any such alterations.

1. Taxation within the underlying unit funds

Hansard's unit funds accumulate free from Irish tax. However some countries in which underlying unit funds are invested impose a withholding tax at source on investment income which cannot be recovered.

UK tax resident individuals are not personally liable to UK tax on the income earned or the gains made on the investments linked to their policy. Similarly, switching investment from one unit fund to another within a policy will not give rise to any UK tax charge.

2. Taxation of the policyholder

If a policyholder is UK tax resident then a tax liability may arise on a "chargeable event" gain or excess, which can occur in the following situations:

- death of the relevant life assured
- maturity, if applicable
- full surrender (of the policy or of any policy cluster)
- withdrawals above a certain level
- assignment for money or money's worth (of part or all of the policy)
- in the case of a personal portfolio bond (as defined by HMRC), on the final day of each policy year.

UK tax resident individuals are liable to UK income tax, not capital gains tax, on chargeable event gains or chargeable excesses.

3. Withdrawals

In the event of a withdrawal, a UK resident policyholder may be subject to UK income tax on any chargeable gain arising. A chargeable gain will arise where the value of the withdrawal is greater than the accumulated 5% annual allowance in a particular policy year. In most situations, the 'policy year' is a period of one year commencing on the date your policy commenced, or on any anniversary of that date.

4. Assignment

The assignment of a policy for money or money's worth whilst the policyholder is UK resident may create a chargeable event. Unless an assignment is disregarded, UK income tax will be charged on the gain in the same way as a full surrender, or on maturity of the death of the life assured.

5. Full surrender, maturity or death (giving rise to benefits)

In the event of the policy coming to an end, a UK resident policyholder may be subject to UK income tax on any chargeable gain arising. The amount of the chargeable gain is calculated as follows:

(Proceeds[1] + all previous withdrawals) less (total premiums + all previous chargeable excesses).

Example: (Proceeds £105,000 + previous withdrawals £15,000) less (total premiums £100,000 + all previous chargeable excesses £5,000) = £15,000 chargeable gain. There is no basic rate notional tax credit.

6. Top-slicing relief

Top-slicing relief can be applied in certain situations which may include where the chargeable event gain:

- pushes a basic rate taxpayer into a higher rate of tax.
- pushes a higher rate taxpayer into an additional rate of tax.
- reduces an individual's personal allowance.

By careful planning, therefore, it may be possible to reduce your potential tax liability by fully surrendering your policy in a year when you expect your income to be lower - perhaps after retirement, or by way of a spousal or civil partner transfer.

As a chargeable gain often arises on connection with long term investments, it would be unfair to suffer a higher level of income tax due to the gain being realized in one year. Top slicing relief reduces the total income tax liability where the taxpayer has not utilised their basic rate band (ignoring the chargeable event gain) or where they would not be an additional rate payer but for the chargeable event gain. This relief also reduces the UK tax burden where thr savings nil rate band is available and unutilised.

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[1] For a death case, proceeds will be taken to be the surrender value of the policy on the day before the date of death.

7. Periods of foreign residence: time apportionment relief

A policyholder may be entitled to time apportionment relief for any periods when they were non-UK resident during the policy period.

8. Deficiency relief

Where a partial withdrawal exceeds the (accumulated) 5% allowance during the life of the policy and gives rise to a tax charge at that point, but there is no overall gain when the policy is fully surrendered, "deficiency relief" may be available in the final year to effectively compensate for the tax paid on the earlier withdrawal.

9. Personal portfolio bonds

The UK Finance Act 1998 imposed an annual tax charge based on deemed gains equal to 15% of the premiums paid on personal portfolio bonds, with the calculation of this charge being cumulative.

A policy will not be a personal portfolio bond provided that, broadly, the only investments that the policy is permitted to invest in are:

- Hansard Europe dac internal unit funds;
- UK Approved Investment Trusts;
- units or shares in certain other collective investment schemes (including UK Authorised Unit Trusts and UK REITs); and
- cash (other than cash held for speculative purposes).

The ability to invest in, for example, quoted equities or bonds, or closed ended investment schemes (other than investments that are permitted as per the above) will result in the policy falling within the scope of these rules.

A non-UK resident individual that moves to the UK whilst holding a personal portfolio bond will be impacted by these rules (as will a UK tax resident individual that takes out such a policy); however it may be possible to amend the policy terms (and dispose of any non-permitted investments) to avoid being subject to this tax charge.

If you consider that you are potentially impacted by these rules please contact us as soon as possible for more information.

10. UK reporting requirements

A policyholder who is UK tax resident is obliged under the UK Self Assessment tax regime to report a chargeable event gain to HM Revenue & Customs (HMRC) via their Self Assessment tax return. In addition, under the provisions of the Overseas Insurers (Tax Representatives) Regulations 1999, Hansard is required to provide HMRC with information (via the issuance of a Chargeable Event Certificate) in certain circumstances as follows:

Policies issued before 6 April 2000: Where a policy is terminated and the aggregate of all terminal payments in the tax year under all Hansard policies held by the policyholder concerned exceeds a sum equal to twice the current basic rate tax limit (this can be obtained from the HMRC website: www.hmrc.gov.uk or from your tax advisor).

Policies issued after 5 April 2000: In respect of each chargeable event (with the exception of an assignment for money or money's worth) in any tax year in which the aggregate of all chargeable gains on policies held by the policyholder concerned exceeds a sum equal to one half of the current basic rate tax limit (this can be obtained from the HMRC website: www.hmrc.gov.uk or from your tax advisor). For an assignment for money or money's worth a Chargeable Events Certificate will be issued to HMRC irrespective of the size of the gain.

In addition, for **policies issued after 5 April 2000**, Hansard is required to issue a Chargeable Event Certificate to the policyholder in respect of all chargeable event gains (regardless of whether or not the gain is required to be reported to HMRC). The Chargeable Event Certificate issued will not necessarily deal with all matters relevant to the computation of the taxable gain for the policyholder, such as time apportionment relief. We recommend you seek proper tax advice from a professional advisor if you require any clarity of your own personal circumstances.

Non-UK domiciled taxpayers: Remittance basis taxation does not apply to chargeable event gains. Such gains are taxed on an arising basis. Policies may still provide advantages for non-UK domiciled taxpayers as partial surrenders below the 5% threshold are considered a return of capital, so if the original sum invested was made using clean capital, withdrawals within this limit can be made tax-free.

Important notes

The information contained in this guide is based on our understanding of Irish law, UK laws on personal taxation and HMRC practice as at November 2023. While Hansard makes every attempt to keep this guide up to date, Hansard does not and cannot accept any responsibility or liability for any country's tax or legislative measures which might affect a Hansard policy. These laws and practices may be subject to alterations which cannot be foreseen and Hansard cannot accept liability for any such alterations.

Hansard does not give advice on the tax liabilities or on the suitability or otherwise of its products for individual clients. Hansard's products have been distributed via Independent Insurance Intermediaries on the basis that the Independent Insurance Intermediary has acted on behalf of the client.

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