UK Tax treatment for Individual Policyholders
of SEB Life International's UK Portfolio Bond

The UK Portfolio Bond is a single premium whole of life assurance Policy that provides global investment opportunities within a tax efficient environment. All Policy administration is undertaken by SEB Life International. While SEB Life International is unable to give tax advice, it is our understanding that the UK Portfolio Bond should be treated as follows under current tax regulation.

UK Tax Residents

As a general rule, HM Revenue and Customs (HMRC) consider an individual UK resident if they live in the UK for 183 days or more in any tax year. Policy gains when taken are subject to income tax at the Policyholder's marginal rate of income tax. The taxation of the Policy is governed by the Chargeable Events regime for individual Policyholders which is contained within Chapter 9, Part 4 of the UK Income and Tax legislation (Income Tax (Trading and Other Income) Act (ITTOIA) 2005).

Chargeable Events

Chargeable Events arise on partial or full encashment of the Policy or on assignment. Changes in the investment funds underlying the Policy should not constitute taxable events, provided they do not involve partial encashments. Any gain arising from the chargeable event is considered investment income and is subject to tax at the Policyholder's marginal rate of income tax. There are two types of chargeable event – Final and Excess Events.

1. Final Events

The following chargeable events are considered final because, as a result of each event, the Policy should be terminated or the full ownership should change.

- **Death of the Relevant Life Assured**
  On the death of the Relevant Life Assured the Encashment Value of the Policy is included in the calculation of chargeable gain.

- **Full Encashment**
  The Policyholder may request a full encashment of their Policy at any time. The value for the calculation is the Encashment Value of the Policy.

- **Full Assignment of a Policy**
  This event should only occur where the Policy is fully assigned irrevocably to a new owner by the current Policyholder by a deed of assignment and the original Policyholder receives cash or assets/property in return for the ownership of the Policy.

  Note: SEB Life International does not calculate the chargeable gain on full assignments. It is only required to report the details of the assignment, the premium and withdrawal history and the commencement date of the Policy. The Policyholder must calculate and declare the gain in their personal tax submission.

- **Maturity (if applicable)**
  Certain policies may have a specific term and at the end of that term the Policy matures.

  Note: As SEB Life International's UK Portfolio Bond is a whole of life Policy, it does not have a maturity date.

2. Excess Events

The following chargeable events are considered as excess events when a periodic calculation at the end of the Policy year has shown a partial encashment in excess of the 5% tax deferred allowance (see below).

- **Partial Encashment or Regular withdrawals and the "5% Rule"**
  Certain Policy withdrawals of up to 5% per Policy year (on a cumulative basis based on the premiums paid) may be deemed a return of capital and may allow for tax deferral. Any unused allowance can be carried forward to be used in future Policy years. On full encashment, a final assessment should be undertaken to assess the amount subject to tax. The calculation takes into account the premiums paid, deemed returns of capital and taxable gains.

  Note: When Adviser Charging is used (client instruction to pay fees to the Adviser for on-going advice) the amounts taken are treated as withdrawals (i.e. can use up part of the 5%).

- **Partial Assignment**
  A partial assignment is a transfer of the ownership of the Policy where at least one of the Policy owners after the transfer is the same as one or more of the Policy owners before the transfer. The value of the consideration is the proportion of the Policy value relating to the Policy owner giving up their ownership.

  The "event date" for excess events is the last day of the Policy year.

Calculations

The calculation formula for ***final events*** in respect of whole policies (or clusters / segments) is, broadly:

Encashment Value on event date adding back previous partial encashments	-	Paid premiums + previous excess gains (see Excess Event above)	=	Chargeable Gain/Loss

The calculation formula for ***excess events*** is, broadly:

Amount of partial encashment *(or the value of the consideration for part assignment)*	-	Cumulative tax deferred allowance	=	Excess Gain

Note: If there is no chargeable gain, no income tax is payable. If there is chargeable loss, this may be used to offset higher rate income tax liability in certain limited circumstances. For more information see Deficiency Relief below.

Policyholder Tax liability as a result of chargeable events

In general, the Policyholder is liable to pay the income tax due on chargeable events. In the case of a jointly owned Policy, the liability to income tax on the chargeable gain is split between the Policyholders in proportion to their ownership shares.

A chargeable gain should be treated as part of Policyholder income if the Policyholder is:

- the beneficial owner of the rights under the Policy. The payer of the premium is normally the beneficial owner and entitled to any benefits under the Policy.
- the owner of rights under the Policy which is held as security for a debt of yours, such as mortgage.

A gain may be treated as income of personal representatives in the event of a death where it arises on a Policy where it is:

- not treated as income of a deceased individual, and
- not treated as having been previously taxed

SEB Life International's Tax Reporting Obligation for Chargeable Events

A UK resident Policyholder must notify HMRC of any chargeable gain irrespective of nationality and irrespective of when and where the Policy was purchased.

SEB Life International does not deduct the tax at source but is obliged to report certain payments and events affecting UK tax resident Policyholders to HMRC. Following a Chargeable Event, SEB Life International should issue a UK HMRC Chargeable Event notice as required by law to Policyholders. Policyholders are responsible for reporting all relevant gains to HMRC. See Personalised Portfolio Bonds below.

Time Apportionment Relief

If the Policyholder has been non UK resident for some of the time they have owned the Policy, since the commencement date, the chargeable gain may be reduced to reflect the period that they were not UK resident. The gain after the Time Apportionment Relief is subject to tax at the Policyholder's then rate of tax. The reduction is calculated as being the number of days as a non-resident as a proportion of the number of days the bond has been in force.

Time Apportionment Relief may not apply where the Policy has been owned by a Trust previously.

Top Slicing Relief

Top Slicing Relief can reduce, in some circumstances, the tax liability arising on a chargeable event.

This relief is designed to ensure individuals are not immediately paying at a rate of tax higher than they would normally as a result of a one-off chargeable gain. Policyholders can use this method to assess their gain across the number of complete years the Policy has been in force to reduce their liability to either

I. higher rate income tax for basic rate taxpayers; or
II. additional rate income tax for basic rate or higher rate taxpayers

Top Slicing Relief is not available for additional rate taxpayers before total income tax exposure is assessed. Also top slicing relief cannot reduce a taxpayer's liability below the basic rate of income tax.

If Time Apportionment Relief applies (see above) for the Policyholder, then Time Apportionment Relief is applied before calculating Top Slicing Relief. For example if the Policyholder was abroad for 3 out of 10 full years then the number of years applicable for Top Slicing Relief should be 7 years.

Top Slicing Relief should apply to all chargeable gains occurring in the same tax year.

Deficiency Relief

There is no relief under the chargeable event regime in any circumstances for a loss sustained on a Policy. Neither can a loss on one Policy be set against a gain on another. Deficiency Relief, however, may be available to individual Policyholders only when a Policy or contract comes to an end.

An individual Policyholder should be entitled to Deficiency Relief if all the following criteria apply:

- the calculation of the gain on the final event (other than full assignment), shows a loss;
- one or more gains arose on excess events or partial encashment or assignments in earlier tax years on which

the individual Policyholder was liable;
- the individual Policyholder is the person liable to income tax on a gain on the final event, had the calculation shown a gain.

Deficiency Relief is a tax reduction that is off-set against a Policyholder's income tax liability for the year however, it should not reduce the amount of tax due on income liable at the additional rate of the income tax.

SEB Life International should still calculate the gain (or loss) including all previous excess events, but when the Policyholder comes to complete their self-assessment form, they need to increase the gain or reduce the loss by any excess event gains (including deemed gains) made while they were non-UK residents.

These changes apply to all final event calculations.

Returning to the UK with a "Highly Personalised" Portfolio Bond

The UK's Personal Portfolio Bond ('PPB') rules are a set of anti-avoidance provisions which apply to certain life insurance policies, where:

- the underlying assets which determine the Policy value are able to be selected by the Policyholder, and
- Policy terms and conditions do not restrict asset selection to 'permitted property'.

Highly Personalised Bonds are taxed at potentially much higher rates of tax than standard Portfolio Bonds.

Generally speaking, internal insurance funds, UK / EEA approved unit trusts and funds are acceptable assets, whereas individual equities or closed ended funds for example would not be acceptable and could cause the whole Policy to be deemed to be "Personalised".

Most non-UK Portfolio policies are highly personalised in nature. If there are no restrictions on either the ability to select property, or the property available for selection within a life insurance contract (irrespective of whether a Policyholder has actually selected non-permitted property) the Policy could fall within the definition of a PPB, under these UK rules.

Where the Policy is deemed Highly Personalised, an annual 15% taxable deemed gain arises on the excess of premiums paid into the Policy plus any 'portfolio bond excess' gains made in previous Policy years, less any partial surrender gains. An example of this is set out at IPTM 3650
http://www.hmrc.gov.uk/manuals/iptm/IPTM3650.htm

Because the excess charge is on both previous Policy year PPB excess gains AND premiums paid, this is effectively an accumulating tax charge on the investment made (i.e. premium paid) into the Policy. It is essential that if moving to the UK with a Personalised Bond that certain steps are taken.

Planning ahead

Provided that the Policyholder endorses their Policy to restrict the assets in their Policy to those permitted within the PPB legislation (Section 520 of ITTOIA 2005) before the end of the Policy year in which the Policyholder becomes UK resident, then no UK income tax for the PPB deemed gain should be payable.

The full detail of the PPB rules is available via HMRC's Insurance Policyholder Taxation Manual (IPTM) at section IPTM7700:
http://www.hmrc.gov.uk/manuals/iptm/IPTM7700.htm

The information set out above is based on SEB Life International's understanding of current tax legislation and practice in the UK. It is important to note that SEB Life International does not intend the above information to substitute for professional tax advice. Whilst every care has been taken, SEB Life International cannot accept responsibility for its interpretation or any subsequent changes.

We recommend that individuals seek professional tax and/or legal advice specific to their own circumstances before investing. SEB Life International does not provide tax advice.

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