The Fry Group

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The Pros and Cons of Life Wrappers

In this E-Bulletin we attempt to summarise the reasons why those planning to return to the UK at some point might consider using a life wrapper (also known as an offshore or insurance bond).

Rather bizarrely, holding investments in an insurance bond – rather than directly – produces a different tax result. This might be helpful and of course comes at some cost. These notes can only give background rather than advice but hopefully they will be helpful.

The tax treatment

Let's start with probably the best known feature of life wrappers - the ability to take 5% of the original investment whilst UK resident without tax liability at that time. Bond holders can store up the 5% and withdraw a lump sum if they prefer. So, after five years, where no other withdrawals had been made an investor could draw out 25%.

Nothing though is for nothing. After the investor has had 100% of the original investment returned all other drawings are fully taxable as income. Clearly the 5% gives an immediate advantage but can carry a "sting in the tail".

Bonds can be used more effectively in other ways. First, where a non resident owner has owned a bond for some years prior to living in the UK that period of time can reduce any eventual tax. More on this topic, and on using highly personalised bonds, is available – please do get in touch for more detail.

Don't forget Capital Gains Tax

Secondly, where the owner has sufficient capital then future capital gains tax could be a concern. Switches between assets held in a bond do not attract UK capital gains tax. On the other hand, holding assets in a bond does not allow the owner to take advantage of the capital gains tax exemption in the UK. That allows GBP10,100 of profit to be realised without any tax at all.

Making plans

Although using a bond is often a sensible step, the question is how much and when to start?

The answer to 'how much' depends on the amount of capital available and likely income needs. 'When' is easier – sooner is better.

When considering investments, most wrapper providers now allow access to a large range of individual funds, and some will allow individual stocks or for a portfolio to be managed by a discretionary manager.

The wrapper has the advantage of allowing switches without the owner having to produce more anti-money laundering paperwork at every stage – making life just that little bit easier. But the same benefit is available through non-life platforms.

Important Considerations

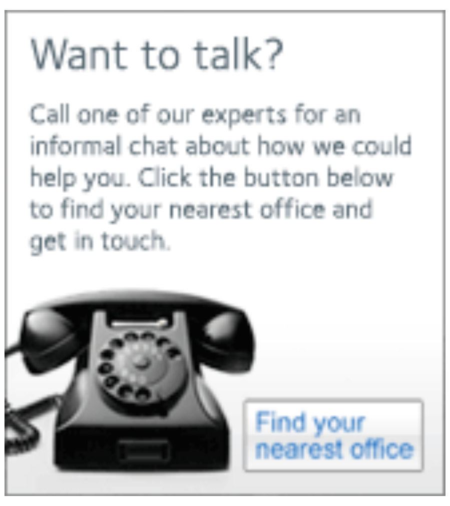
Other factors to ponder will include security and cost. Just because the assets are held via a life company, often one with a prestigious name, it does not automatically lead to greater security. Do bear in mind though that your assets would not usually be a part of the life company's assets so if it 'gets into trouble' your assets remain yours.

Cost is the big bugbear with these wrappers. All too often, greedy advisers use them as a means of disguising initial commissions as high as 7% (and tales abound of 11% in one recent example). That is more a criticism of the adviser than the wrapper. Even with a reputable adviser a bond will add an extra layer of charge but that need not be overly high and can actually bring savings in the costs of management on the underlying funds.

Conclusion

Hopefully this summary will help in understanding more about life wrappers. They can certainly help in tax planning but are just one of a range of tools available. There is rarely one right answer to a problem as complex as reducing tax, and running an effective investment portfolio but wrappers do deserve consideration.

Should you wish The Fry Group to assist please *click here* to get in touch with your usual Fry contact or call 01903 231545.



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