

Time apportionment relief – case study

Expatriate investors who plan to become UK resident can benefit from an important tax relief available to holders of offshore life assurance and capital redemption policies.

If a policy is surrendered while the policyholder is a UK resident, HM Revenue & Customs makes allowance for the period the policyholder was not UK resident. Each day of non-UK residence from the start of the policy reduces any chargeable gain. This is called time apportionment relief.

Case study

Karen is originally from the UK. On 8 April 2014 she invested £100,000 into a single premium offshore bond. Karen was not UK resident when she invested in the bond and does not intend to return to the UK until 6 April 2020. She is looking to surrender the bond on 4 April 2024 when she retires. Assuming the bond is worth £180,000 when she surrenders it, and that all other things remain the same, the position will be as follows:

Key Events

8 April 2014
Karen pays bond premium of £100,000

6 April 2020
Karen moves back to UK

4 April 2024
Bond surrendered for £180,000

Calculating the total gain

The surrender of the bond will create a chargeable event.

The total chargeable gain will be:

Surrender value of Karen's bond in April 2024	£180,000
LESS premium paid	(£100,000)
Full gain	£80,000

Applying time apportionment relief

Total days Karen's policy in force	3,650 (10 years)
Number of days Karen held policy as non-UK resident	2,190 (6 years)

The amount of time apportionment relief is calculated as:

Full gain x (Number of days Karen held policy as non-UK resident / Total days policy in force)

$$\mathbf{£80,000 \times (2,190 / 3,650) = £48,000}$$

Karen's full gain is reduced by the amount of time apportionment relief as follows:

Full gain	£80,000
LESS time apportionment relief	(£48,000)
Reduced gain	£32,000

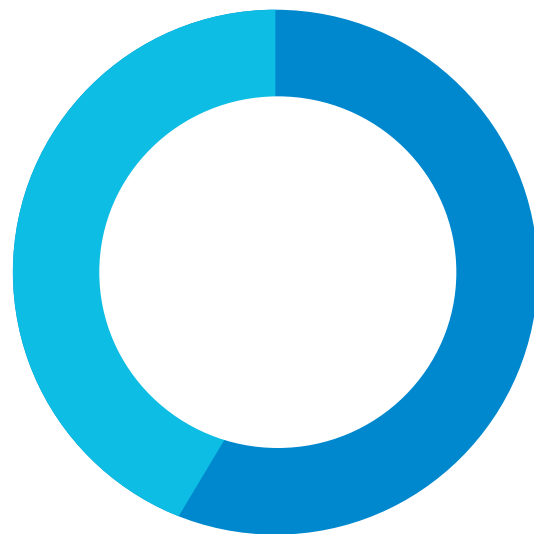
Conclusion

Claiming time apportionment relief will reduce Karen's taxable gain by £48,000 to leave only £32,000 of her £80,000 gain on her policy subject to UK income tax.

Karen may also be able to benefit from other reliefs and allowances, such as top slicing relief.

Karen's full gain = £80,000

Reduced gain = £32,000



■ Non-Resident – £48,000 not taxable in the UK

■ UK-Resident – £32,000 taxable in the UK

Important information

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