

# OFFSHORE BONDS FOR UK COMPANIES

**If you have a small to medium enterprise (SME) with cash reserves sitting on deposit, it may be worth you considering investing a portion of this capital in offshore bonds.**

## Background

Many SMEs have funds on deposit, principally to support their business on a day-to-day basis. However, many SMEs could afford to invest a proportion of their reserves over a longer term, giving a potentially greater return on their capital.

Historically, this type of investment has taken the form of pension contributions, taking advantage of virtually tax-free growth on the investment and corporation tax relief on the contributions. However, pension contributions lack flexibility and, critically, they do not offer access to the capital until age 55 (based on current rules).

One alternative is to invest in offshore bonds. This type of bond not only offers some of the tax benefits associated with pension investments, but also brings a range of additional benefits.

## Why Offshore Bonds?

- *Virtually tax-free growth*
- *Greater return on capital compared to investing in deposits*
- *Wide range of investment freedom and choice*
- *Access to capital if needed*
- *Key tax advantages associated with offshore investments*

## Benefits of Offshore Bonds:

### Tax Treatment

Investment growth on offshore bonds can be tax-free, although there may be small amounts of irrecoverable withholding tax payable on investment funds in some countries.

As the bond is a non-income producing asset, the tax on any investment growth can be deferred until the bond is fully encashed, rather than appear in an annual tax bill (which would be the case for deposit-based investments). This gives the company the opportunity to control when the tax is paid—perhaps in a period of trading losses or low profits.

### Access to Capital

SMEs can get access to the capital invested in offshore bonds. They give the SME tax advantages not offered by the more liquid

deposit route, whilst having the benefit of access to the capital which is not found with the pension contribution option.

Withdrawals of up to 5% per annum, or fully encashed segments can be taken by SMEs without incurring tax—and this benefit is cumulative with any unused amount carried forward into future years.

### Investment Choice

Offshore bonds can offer:

- A wide range of investment funds, covering varying risk profiles.
- Access to top UK fund managers plus international or specialist fund managers.
- Alternative investments such as hedge funds, giving greater portfolio diversification.



## Flexibility and Choice

Offshore bonds can be written in two alternative ways:

- Life Assurance basis
- Capital Redemption basis

Investors will generally be offered the freedom to choose which basis best suits their needs.

### Life Assurance Bonds

Typically, a life assurance bond is set up to insure the lives of the shareholding directors on a last survivor basis. This reduces the risk of a pay-out on a director's death, which would trigger a potential corporation tax liability. Often the bond will include the option for the

lives assured to be changed, giving the company the facility to make adjustments in line with changes in their board.

### Capital Redemption Bonds

This type of bond does not require any lives assured, and has a typical term of 99 years. This set-up avoids the risk that a chargeable event will occur on the death of a specific director.

Bonds set up on a capital redemption basis may be suitable for companies who don't want to have the responsibility for making the necessary changes to the lives assured as directors leave or retire.

## Tax on Companies *(source: Association of International Life Offices)*

### Definition

UK Corporation Tax is levied on the taxable worldwide profits of UK resident companies and on the UK profits of branches and other permanent establishments located in the UK. A company will be considered as UK tax resident if it is incorporated in the UK

### Rates 2006-07

Taxable Profits	% Tax
£1-£300,000	19%
£300,001-£1,500,000	32.75%
Over £1,500,000	30%

### Allowances

Various allowances exist for assets utilised in the trade and ongoing trading losses can be carried forward indefinitely or carried back one year.

### Capital Gains Tax

Any gains made form part of taxable profits with an indexation allowance which adjusts the deductible base cost for inflation. Capital losses can only be offset against capital gains with indefinite carry forward but there is no carry back.

For further help and guidance on this subject, give us a call on

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