



## Non-Resident Capital Gains and International Bonds

### What is the background to these changes?

- Non-resident capital gains tax [NRCGT] was introduced in 2015 to target non-residents who owned UK residential property as non-residents were not subject to the UK capital gains tax regime.
- In April 2019 legislation was introduced to extend NRCGT to all UK property and land, not just residential property, and those investing in funds that hold a significant amount of UK property known as UK property rich collective investment vehicles.
- The Government's intention is that those who invest through collectives are taxed in a similar way to those who invest directly in the underlying assets.
- When referring to non-UK residents this includes individuals and entities, such as offshore bond providers including Canada Life International, CLI Institutional, Canada Life International Assurance (Ireland).
- The draft guidance from HMRC is available here: [http://www.hmrc.gov.uk/gds/cg/attachments/CG-APP15\\_\\_Non-resident\\_capital\\_gains\\_from\\_6\\_April\\_2019\\_Collective\\_Investment\\_Vehicles\\_draft\\_guidance.pdf](http://www.hmrc.gov.uk/gds/cg/attachments/CG-APP15__Non-resident_capital_gains_from_6_April_2019_Collective_Investment_Vehicles_draft_guidance.pdf)

### What investments are impacted by the change?

- The legislation refers to UK property rich collective investments, which for investment funds is any fund where 75% or more of its assets are derived from interests in UK property and land.
- This test applies on disposal of the asset and so the asset allocation of the fund at that time will decide whether the fund is UK property rich or not.
- For providers based on the Isle of Man or in Ireland, REITs are exempt due to clauses in the existing double tax treaties with the UK. For other jurisdictions you will need to check with the provider.
- We have prepared a list of known UK property collectives which can be found on our website, [www.canadalife.co.uk/NRCGT](http://www.canadalife.co.uk/NRCGT). This list is not exhaustive and is only a snapshot of the fund so it is important to check with the fund management company.

### What are the tax implications?

- Any gains realised from the sale of UK property rich collective investments held in an offshore bond will be subject to corporation tax.
- From 1 January 2020 in order to protect policyholders who do not invest in these funds where a liability arises on the sale of an affected fund we will deduct the tax from the policy and the bond value will be reduced accordingly.
- When a bond is subsequently surrendered, although the bond value will reflect the tax that has been suffered, there is no credit for the tax suffered within the bond. This can lead to an element of double taxation.

### What action are we taking?

- We have engaged with HMRC and are working with external tax advisers, the Manx Insurance Association and the Association of International Life Offices. Currently HMRC have not provided an exemption for investments held by offshore bond providers.
- At this point we are not enforcing the redemption of existing holdings of UK property rich collective investments, however our position will remain under review for the foreseeable future.
- We have taken the decision not to allow UK property rich collective investments and collective investments that have the potential to be UK property rich collective investments [except REITs] as admissible property within our products with immediate effect. At this point we are not enforcing the redemption of existing holdings of UK property rich collective investments, however our position will remain under review for the foreseeable future.
- This course of action is to protect policyholders and limit a potential liability that can arise.

### What if I have a regular premium policy?

- Where regular payments are being made into UK property rich collective investments through either the Offshore Savings Account or the Flexible Life Plan, we will be writing separately to affected policyholders and their advisers.
- In these instances future premium payments will be re-directed proportionally across remaining funds being invested in. Where the only fund held is a UK property rich collective investment the investment will be redirected to the CLI Sterling Money fund.
- More details on this fund and how to switch into other funds can be found on our website, [www.canadalife.co.uk](http://www.canadalife.co.uk)

### Will there be an impact on UK property funds?

- The impact of double taxation will increase the cost of using UK property rich collective investments and advisers would need to take this into account when making any review recommendations. This could make the use of such funds less attractive for international bond wrappers but ultimately the decision to continue to use these funds will rest with the policyholder and their adviser.
- In general property funds allow for the fund management company to defer redemptions if there are concerns around liquidity and large redemptions. If this happens it can lead to delays in fund switches or redemptions and could have an impact on the valuations of fund holdings.

### What are the options for advisers and policyholders?

- Policyholders can maintain their current investment if they chose. The decision to continue to allow policyholders access to these funds may be reviewed in the future and will be dependent on demand and the requirement to develop the appropriate systems and processes.
- If an adviser or policyholder completed a switch out of a UK property rich collective fund before 31 December 2019 then we will not pass on any potential tax liability to the policyholder.

### How do I switch investment out of UK property rich collective investments?

- The dealing instruction forms can be found on our website, [www.canadalife.co.uk](http://www.canadalife.co.uk).
- Dealing instructions may also be placed by the registered fund adviser on our online portal, AdviserConnect, at the following address [www.canadalife.co.uk/adviser](http://www.canadalife.co.uk/adviser).

### **Who can provide investment instructions on the policy?**

- Investment instructions may be placed either by the policyholder or their appointed fund adviser.

### **What if an investment instruction to purchase a UK property rich collective investment has already been submitted?**

- Any instruction received on or after 11 February 2020 will not be processed. We will notify you and request an alternative instruction.

### **What if the existing UK property rich collective investment held is suspended from trading?**

- Where the UK property rich collective investment is suspended from trading, then redemption may not be processed until the suspension has been lifted by the fund manager.

### **What actions are being taken where assets are held via a third party, such as Discretionary Fund Manager (DFM) or Investment Platform?**

- We are contacting all DFMs and platform providers with instructions not to make any new investment into UK property rich collective investments with effect from 11 February 2020.



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