Teachers Financial Planning

Onshore and offshore investments

This article explores the difference between onshore and offshore investments and the relative merits of each.

Millions of pounds flow in and out of the UK every day as people take advantage of the global market place for goods, services and investments. Thanks to the global communications revolution, a person with money to invest can now look far beyond the borders of their country of residence for opportunities.

But we do not live in a truly global system, and no transfer of money is ever completely free. States still require their citizens to pay tax and are increasingly turning their attention to those who are trying to avoid their tax obligations by moving their money abroad.

So how can someone take advantage of what the world has to offer while still remaining on the right side of UK law?

Complex environments

Choosing whether you want to invest onshore or offshore is a complex decision that must take a number of factors into consideration. Firstly, one must be clear on the distinction between the 2 central terms:

- **onshore** means domiciled within the UK and therefore subject to domestic rules and regulations
- **offshore** refers to those domiciled outside of the UK and subsequently regulated by authorities in another country.

With regards to investing, the terms onshore and offshore often refer only to legal structure.

Any investment that a person makes takes place within a specific structural setting that will have an effect on how that investment performs. If you want to make an investment inside or outside the UK, you are going to need to consider factors such as:

- the political system in operation
- legal and regulatory environments
- market health and volatility
- local infrastructure and service provision
- time differences.

The individual markets that you may invest in are also part of a larger macro-system of global floating exchange rates, governance and trade. So while the regulatory structure of a country may seem to make investing a great idea, a look at the current exchange rate may show otherwise.

Talk to us today about your investments.

Offshore investments: pros and cons

The potential advantages of offshore investments:

- legally minimising your tax bill
- greater choice in potential specialist investments
- to protect assets from potential liabilities, most notably tax, via the use of a trust.

The potential disadvantages:

- greater choice can add an additional degree of complexity to investment decisions
- tax administration and reporting – many offshore investments will require tax returns and reporting
- can be more expensive
- language and regulatory differences can make management more difficult
- some jurisdictions have lower protection, and sometimes none at all, for investors compared to the UK.

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Onshore and offshore investments

Investment types

For those who are considering investing offshore, there is a multitude of potential options for where to put your money.

Ownership investments

When you make an ownership investment, you are purchasing an asset that you hope is going to rise in value or generate a yield.

The most common types of offshore ownership investment are:

- stocks
- business
- real estate
- precious objects.

As part of the Finance Act 2010 HMRC has increased the penalties it can apply to the use of offshore investments to further the non-compliance of income or capital gains tax.

Lending investments

Lending investments involve buying a debt that is going to be repaid in the future. These are generally considered to carry a lower risk and a lower reward than some kinds of ownership investment, although any type of investment can be made across a number of risk levels. The creditworthiness and solvency of the borrower is an important consideration when dealing with debt.

Bonds

Debt bond

An offshore bond is a debt investment whereby you essentially loan money to an entity, usually a government or business, for a fixed period at an agreed interest rate.

The main benefit of investing in offshore bonds for investors is that they are not deemed to be income, and therefore there is no liability to pay income tax on any income earned from it.

Insurance bond

An investor can make regular withdrawals from their bond, and many people find that there are benefits with regards to using them in conjunction with trusts to mitigate inheritance tax during the transfer of wealth.

Savings accounts

Offshore savings accounts allow you to save your money in a variety of currencies other than sterling. This can be useful for people who are regular travellers, whether for business or for pleasure.

While you may be able to open an offshore savings account with any amount of money, there is usually a minimum initial payment required. There may also be higher withdrawal fees than you would find in onshore savings accounts.

Opening an offshore savings account is not a ticket to completely tax-free saving. Most of the time your interest will be credited to you as gross (without tax deducted), and you will still be liable for any UK income tax. You may also be liable for overseas tax on your offshore account as well, effectively meaning you are taxed twice.

With regards to onshore savings accounts, it is worth considering the personal savings allowance being introduced on 6 April 2016, which allows basic rate taxpayers to pay no tax on the first £1,000 of interest.

Funds

Funds are a general term for a group of investments and can be thought of as a pool of money that is professionally managed in order to try and achieve the best return for the investors. The money you invest can be used to buy a variety of assets.

There are a number of different kinds of fund that can be invested into:

- **mutual funds** are essentially another term for investment fund where investors purchase units or shares in a fund which then purchases assets in order to make a return
- **index funds** are mutual funds that track a specific aspect of the market such as the S&P 500 stock market index
- **exchange traded funds** are similar to index funds but can be traded like stocks and subsequently adjust their prices throughout the day
- **hedge funds** are like mutual funds but with a much broader range of potential investments, potentially higher risk, and which can't usually be promoted to normal retail clients.

Different investment funds will exist in different regulatory environments, which will have a bearing on the kinds of things that they can invest in. If you want to keep a relatively good idea of what your money is going towards, it might be a better idea to invest in a more tightly regulated fund.

As a final point, it is worth stating that trying to avoid paying tax by using offshore investments is illegal and can land you in serious and expensive hot water with HMRC.

If you are planning on using offshore investments to try and legally reduce your tax obligations, you need to be 100% sure of where your planned move is going to put you legally. Luckily, we can help you with that.

Get in touch with our team to talk about investing.

Important Notice

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of investments can fall as well as rise and you may not get back the amount you originally invested.

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