

Offshore Savings



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What are Offshore Accounts?

The term 'offshore banking' simply refers to banking outside of the UK. In the past, offshore banking has often been considered to be an underground form of banking associated with criminal activity, this is purely a myth.

Offshore banking is a legal way to bank your money and pay little or no tax whilst the funds remain in the account. For UK investors some of the most favourable offshore places to bank are Channel Islands, Luxembourg, Isle of Man, and as far away as Bermuda.

Just as high street banks and building societies offer a variety of financial solutions so do offshore banks; from cheque and savings accounts to overdraft facilities. The main motivation behind all these accounts is definitely the benefit of paying little or no tax on the funds along with the total confidentiality they offer from the tax man and other creditors.

Offshore accounts may have fees attached. It is definitely worth checking these out.





The different types of Offshore Accounts

Most high street banks and building societies offer an array of financial products, this is the same for offshore banks. The majority of good offshore banks will have facilities to provide reliable advice on tax, savings, mortgages, overdrafts and general day to day accounts.

Some of the more common account types and facilities include:

- ✓ Savings accounts
- ✓ Internet accounts
- ✓ Credit cards
- ✓ Cheque accounts
- ✓ Overdraft facilities
- ✓ Insurance
- ✓ Bonds
- ✓ Mortgages

All of these accounts and facilities are offered with little or no tax implication whilst the funds remain in the account. With most offshore accounts, deposits can be made in a variety of currencies making these accounts ideal for the person who travels frequently.

It was always thought by many people that offshore accounts were only for those who had masses of money or those who were dealing in things that they shouldn't! Both of these are common misconceptions, in fact, the majority of people are eligible for offshore banking if they so wish.

Offshore banking is protected by legislation, meaning that any action which occurs within your account is totally confidential and secretive. This offers protection to the account holder from the tax man and other creditors.



It may be advisable to discuss your personal banking requirements with an Independent Financial Adviser





Day to day banking

Offshore accounts have always been an attractive option because of the high interest rates which they guarantee in comparison to onshore accounts, however this is not so much the case today. The biggest advantage of these accounts is the tax protection they offer.

To open an account, many offshore banks require a minimum deposit of £5000 but this does vary so it is worth shopping around.

The account can be used in exactly the same way as an onshore current account. A cheque book can be attached to the account as can a debit card, credit card or even an overdraft facility. Management of the account can be done via the Internet which gives full control over the funds.

Deposits to the account can often be made in a variety of currencies, which is particularly useful for travellers or people who go overseas regularly on business.

Offshore accounts can and often do have set up costs associated with them, so when comparing the different account options this is an important consideration.

Funds become
applicable for tax once
withdrawn from the
offshore account





Offshore Savings Accounts and Bonds

Offshore Savings Accounts are available for savers who want access to their funds but also may want to save over the short term ie; a couple of months to a couple of years.

Offshore Bond Accounts usually require a minimum deposit of around £10,000, but shop around as the minimum requirement does vary. This is then invested for periods of time of 2 years or more. The longer you are able to leave the money in the account the more it will grow.

Although withdrawals are not readily available it is possible to draw up to 5% per year of the initial deposited amount without incurring any penalties or losing the fund's tax free status.

These accounts are commonly used for people who are considering retirement abroad as the funds could potentially remain tax free. Otherwise tax is payable once the funds are withdrawn and enters the UK.

Offshore savings accounts and offshore bonds provide a good long term investment solution. As the accounts are subject to little or no tax, the account holder can watch their investment grow by receiving interest, which is often at a fixed rate, without having any tax eat into it. Therefore allowing the investment to grow quicker than it would if it had have been invested into an onshore savings account.

Offshore saving accounts and bond accounts gain tax free interest on the lump sum which is sat in the account and benefits from what is known as 'gross roll up'. Meaning the interest paid on the lump sum then starts to accumulate interest, without being subject to income tax.

When will you need to access your fund?





Shopping around for an offshore account

If you are considering using an offshore bank account it wise to do some ground work before you commit. The Internet provides some excellent best buy tables to give you an idea of what is available.

You will find that many of the high street 'big' banks and many building societies have offshore subsidiaries. The different account options can also be discussed with a Financial Adviser, however it is wise to be aware whether the adviser is employed by a financial organisation, they may well be tied to a limited range of products which are used by their company.

Independent Financial Advisers will have a much wider product base to work from and will be able to do all the leg work for you. Coming back with a few suitable options and providing advice and assistance wherever needed.

Before proceeding with any account make sure you have all relevant details and charges which relate to the account. Below are a few to consider:

- ✓ How much is required as an initial deposit?
- ✓ How long is the sum invested for?
- ✓ Are there any penalties if the fund is withdrawn early?
- ✓ Are there any set up fees?
- ✓ Are there any management fees for running the account?
- ✓ How are the funds accessed?
- ✓ What is the interest rate which will be earned on the fund?
- ✓ Will the fund grow tax free or will it be subject to a nominal amount of tax?

An Independent financial adviser can provide assistance and guidance to find the most suitable product for your individual needs.



Frequently asked questions



Are there any guarantees on deposits made into offshore accounts?

All banks and building societies in the UK are regulated by the Financial Services Authority (FSA), it is this authority which created and is responsible for the Financial Services Compensation Scheme. However, because the funds are being invested offshore this scheme does not apply in most instances.

Some offshore banks will have insurance protection in place, but this is something which individuals should seek further advice on. Nobody wants to see a repeat of the 2008 collapse of 'Landsbanki' in Guernsey and 'Kaupthing Singer & Friedlander' in the Isle of Man, where many people feared for the loss of their funds.



Are all offshore accounts tax free?

There are many accounts which are held offshore which are exempt from income tax. These are known as 'Tax Havens'. By shopping around on the Internet or by using an Independent Financial Adviser to do the leg work for you, it is possible to find countries which will hold your account tax free.

Popular places for UK investors to hold their money are:

- The Channel Islands
- Luxembourg
- Isle of Man
- Bermuda



Is there an alternative to offshore savings accounts which offer good rates of interest?

The finance sector of the UK offers a vast array of different saving products. The right type of account really depends on a variety of factors such as:

- The amount of money to be deposited
- The access required to funds
- The amount of risk associated to the account

If it is a tax free investment scheme that is required, an ISA would fulfill this criteria. Alternatively there are lots of other options available from National Savings & Investments, which are all government backed products, as well as other products available from the High street banks and building societies. For further information take a look at our guide for Savings Accounts.



What are the benefits to investing in an offshore bond as opposed to an onshore ISA?

Onshore ISA's are great savings products as they allow the fund to grow free of tax. The downside to them is they have a capped investment of £5100 per tax year. If this allowance has been used and you are fortunate enough to still have funds left over which you want to invest, an offshore savings account or offshore bond account can prove effective.

