Offshore Savings **Guide**

Bring up offshore savings in conversation and it is likely the rich and wealthy will be the first thoughts to pop into many people's heads. But while such associations might have had some validity in the past, today they are wide of the mark.

Low opening balances and the availability of a wide range of accounts mean offshore saving is open to a broader audience than ever before. Key to the appeal of offshore accounts are the tax advantages on offer.

As interest on the accounts is paid gross, the responsibility for declaring interest to the taxman falls on the individual. In turn, however, this allows savers greater choice over when to accept the tax liability. Indeed, some offshore accounts are designed specifically to let savers defer taking their interest, providing an invaluable option when it comes to managing tax affairs.

Choice of accounts

In very simple terms, offshore savings can be described as money held in an account not based in the UK. Some of the most popular locations from which offshore accounts are run are the Channel Islands, the Isle of Man and Gibraltar.

Nowadays, most high street banks have an offshore arm, with the choice of accounts on offer tending to mirror those available in the onshore market. As a result, offshore savings can be notice accounts or no notice accounts,

continued overleaf

Key Facts

- **Potential tax benefits and lower investment requirements mean saving offshore now enjoys mass appeal.**
- **As interest from offshore savings accounts is paid gross, the onus is on savers to declare income received to HMRC.**
- **The delay in declaring interest and the ability to defer taking interest can provide significant tax advantages to offshore savers.**
- **Offshore savings in the Channel Islands, Isle of Man and Gibraltar are protected by the locations' own compensation schemes rather than the FSCS.**
- **Offshore accounts which accept deposits in various currencies and allow withdrawals in different countries are ideal for overseas workers and frequent travellers.**

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offer a fixed rate of interest or a variable rate, and can pay income monthly or annually. Which type of account is the best for a saver will ultimately depend upon their circumstances and needs.

A common misconception is that offshore saving is solely for the wealthy. Although there are many accounts that do require a minimum investment of £5K or £10K, there are also others that can be opened with as little as £1. Minimum investment requirements permitting, the majority of people are likely to be eligible for offshore saving if they so wish.

Offshore appeal

Once upon a time, it was common for offshore accounts to pay better rates of interest than their onshore counterparts. However, with little difference usually now apparent between the returns available, savers tend to be drawn to offshore accounts for the other advantages they can offer.

That offshore accounts do not necessarily have to be held in sterling is of great appeal to frequent travellers and people who work abroad. Accounts are available which accept deposits in dollars, euros and other currencies, and then allow cash to be withdrawn or cheques written in other countries.

Anyone using an offshore account for this purpose, however, should consider the negative impact that unfavourable exchange rates and the associated charges can have on savings converted to a different currency.

Tax advantages

For many people, however, the most appealing aspect of saving offshore is the potential to gain from the tax rules that govern the accounts.

That interest from offshore savings is usually paid gross, without any income tax deducted, is key to the tax advantage that offshore accounts can deliver. It is imperative, however, to remember that the interest still has to be declared as income. Offshore savers must fill out a self-assessment return to make sure they eventually pay any income tax due. Failing to declare this interest equates to tax evasion and a potential crossing of swords with HMRC to whom anyone caught will have to pay the tax owed plus interest and a fine.

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However, keeping on the right side of the law, that there could be a significant delay between earning interest and having to pay tax on it can work to the saver's benefit. All the time the interest is held gross in an account, it is earning an additional amount of interest that would not be forthcoming to anyone saving in an onshore account where interest is paid net. Anyone with substantial savings, in particular, could enjoy a considerable boost to their final payout.

Deferred interest accounts

The ability to defer payment of their income tax also provides offshore savers with extra room to manoeuvre when it comes to managing their tax affairs. In this respect, several offshore providers offer deferred interest savings accounts which, as their name suggests, allow savers to put off taking their interest.

On some accounts, savers can take the interest as and when they please, and continue with the account, while others require that the account be closed. The end result is that savers can delay taking any interest until a point in the future when their tax status is more advantageous. This will prove particularly useful, for instance, when someone's income is close to taking them into the next tax bracket; by putting off taking the interest, perhaps until their other income drops, an individual can avoid having to pay a higher rate of tax.

Things to be aware of

As to the potential downsides associated with saving offshore, there are a couple of scenarios of which to be aware. In some instances it is possible to be liable for both overseas tax and UK tax on interest that is earned.

Investigating whether this is likely to occur is essential, although in most cases an agreement will be in place to help prevent the situation arising. Over 100 such double taxation agreements exist between the UK and other countries that determine which country shall tax certain forms of income and gains.

Meanwhile, anyone thinking of opening an offshore account should find out where the bank they will be saving with is based. This is because whether deposits are protected should a bank go bust, and to what extent, will depend on where the money is held.

Importantly, the UK's Financial Services Compensation Scheme does not cover offshore accounts held in places such as the Channel Islands, Gibraltar and the Isle of Man. Fortunately, many offshore locations do have their own compensation schemes, governed by their own laws, although it should be noted guarantees can vary between them. Our separate guide on Depositor Protection explores this issue in greater depth.

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