

Spain and the United Kingdom

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Spain treats life insurance gains as savings income on surrender or maturity. Unit-linked policies benefit from deferral only if the policyholder cannot choose individual assets and the investments are restricted to specified categories, including internal funds managed by the insurer according to an investment policy fixed in the contract. Where these conditions are not met, the income is attributed to the policyholder annually. When the beneficiary is a person other than the policyholder, the benefit is subject to inheritance and gift tax, which is regulated largely by the autonomous communities, with considerable differences in rates and exemptions between regions.¹

The United Kingdom taxes life insurance under the chargeable event regime. While the insurer pays no tax on the income and gains of an offshore policy, the policyholder is taxed at his marginal income tax rate on the gain realised on a chargeable event, such as surrender, death or the assignment of the policy for value. The policyholder may withdraw 5 per cent of the premium each year for twenty years without an immediate charge, since these withdrawals are treated as return of capital until the policy ends. Top-slicing relief reduces the effect of the progression when a large gain falls into a single year. Time apportionment relief reduces the gain for periods in which the policyholder was not resident in the United Kingdom.²

The British rules contain a provision directed against policies with dedicated portfolios. A personal portfolio bond, in which the policyholder can select particular assets or the assets are chosen for him in a way that is not open to the public, gives rise to an annual deemed gain of 15 per cent of the premiums and previous deemed gains, regardless of actual performance. The rule has the same function as the German provision on asset-managing contracts and the American investor control doctrine, although its technique is a deemed charge. The abolition of the remittance

basis and the introduction of a residence-based regime from April 2025 have changed the planning for wealthy individuals moving to or leaving the United Kingdom. Their effect on offshore bonds should be examined in each case.³

1 Notes

1. Art. 14.2.h of the Spanish Personal Income Tax Act (Ley 35/2006) and the regulations on the conditions for deferral of unit-linked policies; the inheritance and gift tax (Ley 29/1987) and the regulations of the autonomous communities. To be verified. ↩
2. Income Tax (Trading and Other Income) Act 2005, Part 4 Chapter 9 (gains from contracts for life insurance), including the rules on 5 per cent withdrawals, top-slicing relief and time apportionment relief. To be verified. ↩
3. Income Tax (Trading and Other Income) Act 2005, ss. 515 ff. (personal portfolio bonds, deemed gain of 15 per cent). On the replacement of the remittance basis by a residence-based regime for foreign income and gains from 6 April 2025, see the Finance Act 2025. Status to be verified. ↩

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