ALLIANZ LIFE LUXEMBOURG S.A.

Main characteristics of the tax regime covering the contract United-Kingdom

UPDATED: JANUARY 2020

If the Policyholder's country of tax residence is United-Kingdom

This document is only relevant to UK resident individuals who will purchase the Bond as a medium to long-term investment. It is not relevant to any other person, or for any other purpose.

The contents of this document are based on our understanding of applicable UK tax law and the published practice of HM Revenue & Customs as at December 2019. UK tax law and the published practice of HM Revenue & Customs, and our understanding of the same, may change in the future without notice.

All references in this document to tax are to UK tax, unless otherwise stated.

QUESTION 1: WHAT IS THE BOND ?

The Bond is a group of 100 single premium whole of life assurance policies. Each of the 100 policies is identical.

The Bond is issued as a group of 100 identical life assurance policies for tax reasons. See Question 5 below.

Each policy in the Bond is a contract between you and us. When you purchase the Bond, you pay a sum of money to usand we give you rights under the contract. These rights are set out in the General Conditions for the Bond. The General Conditions also have Supplements. This document is one of the 4 Supplements.

When you purchase the Bond, we allocate the money you pay us equally between the 100 policies. The money you pay to us is called "premium". If you pay more money into the Bond in the future, each such payment will be allocated equally between the policies which are in existence at that time.

QUESTION 2: ARE THERE ANY TAX ISSUES FOR ME TO CONSIDER WHEN I PURCHASE THE BOND ?

If you use Sterling to pay the first premium to us, then you should not have a tax liability on the payment of that premium.

If you use a foreign currency to pay the first premium to us, then you should not have a capital gains tax bill if you realise a foreign exchange gain on the transfer of that foreign cur-rency to us.

In certain circumstances, we can accept investments instead of cash as premium. In these circumstances, you may have a tax bill on the transfer of the investments. There can be income tax, or capital gains tax, and stamp duty to pay.

We recommend you take independent tax advice before considering transferring investments to us. We do not have to accept your investments and so it is important you speak to us, too.

Finally, as we are located outside the UK, when you pay a premium to us you are making a transfer of assets to a person (us) who is outside the UK. This potentially triggers some anti-avoidance legislation (known as the "transfer of assets abroad" legislation), which could have the effect of taxing you to income tax every year on income and certain gains arising to us from the investment (and re-investment) of the premium you pay. If you purchase the Bond as a medium to long-term investment, then you should not be subject to this anti-avoidance legislation. Of course, there may be other circumstances to your purchase and we recommend you take independent tax advice before purchasing the Bond so that you are clear that this anti-avoidance legislation does not apply to you.

This document is provided to you for your general information only and should not be relied upon by you. Allianz Life Luxembourg S.A. does not give UK tax advice, or any other tax advice. Prospective policyholders should take their own independent tax advice before purchasing the Bond. Allianz Life Luxembourg S.A. is not responsible for the tax consequences arising out of any policyholder purchasing a Bond, making investments through the Bond or taking money out of the Bond, or otherwise in connection with the Bond.

QUESTION 3: IS THERE ANY TAX TO PAY ON INVESTMENT SWITCHES ?

Once we have the first premium payment from you and the policies have been issued, we will invest the premium in accordance with your instructions, and subject to the terms of the General Conditions and relevant Supplements.

So long as the "transfer of assets abroad" legislation does not apply to you, all income and gains arising to us from the investment (and re-investment) of your premiums should not be taxable on you each year. This is called "tax deferral". We may have to pay some taxes from the monies we invest for you, such as withholding taxes on income we receive from different countries or stamp duties, but you do not have to pay these taxes. The cost of them will be reflected in the value of your Bond. We do not pay any tax in Luxembourg on the income and gains arising from the investments we make for you.

QUESTION 4: WHAT IF I PAY ADDITIONAL PREMIUMS TO YOU ?

The answers to Questions 2 and 3 above apply equally to additional premium payments you make to us. You do not have to pay additional premiums to us, for your Bond. If you want to pay an additional premium to us, you must tell us in advance so we can advise you of the minimum additional premium amount we will accept, and send you the relevant form to complete.

QUESTION 5: WHAT TAX IS PAYABLE IF I TAKE MONEY OUT OF THE BOND ?

You can take money out of the Bond in three different ways, or a combination of the first two of them.

- You can take money out of the Bond by "partial surrender" of each policy in the Bond.
- You can take money of the Bond by surrendering, or encashing, one or more policies in the Bond.
- Or you can fully surrender, or encash, the Bond.

Partial Surrender

If you take money out of the Bond by partial surrender, you will withdraw money from each policy in the Bond equally. The tax system in the UK allows a policyholder to make tax-free withdrawals from a Bond each year, subject to two "caps". The first cap is that you can only withdraw up to 5% of the premium (or each premium) you have paid into the Bond tax-free in any one year. A year for this purpose is the year running from the date you purchase the Bond to the anniversary of that date. However, this first "cap" is cumulative; so, if in year 1 you do not withdraw any money from your Bond by partial surrender, you can take out 10% tax-free in year 2, and so on. The second "cap" is that you can only withdraw, by partial surrender, up to the amount you have paid in as premium tax-free. So, suppose you purchase a Bond with a first premium of £1m. This will enable you to withdraw £50,000 a year tax-free for 20 years, or £25,000 for 40 years, and so on, up to a maximum of £1m.

Policy Surrender

If you need more than your annual 5% withdrawal allowance in any year, you should certainly take independent tax advice. The reason for this that it will usually be better for you to consider surrendering individual policies within the Bond rather than taking what is known as "an excess partial surrender". An excess partial surrender occurs when you make a partial surrender above your annual 5% withdrawal allowance. The excess amount you withdraw is taxable to income tax, irrespective of the value of the Bond at that time. However, if you surrender individual policies within the Bond to give you the sum of money you need (or some of it), you will only pay income tax on the profit you realise when you surrender those policies. So, you will pay tax on actual profits, not deemed or hypothetical profits or gains, which is usually better for you.

For example, suppose you purchase a Bond with a first premium of £1m, and that after 3 years the Bond is worth £1.2m. Let's further suppose that in year 4 you need to withdraw £500,000 from the Bond to make an investment, and that you have not withdrawn any money from the Bond before that time and that you have not paid any additional premiums since you purchased the Bond. So, you still own 100 policies and each has a premium of £10,000 allocated to it.

If, in year 4, you withdraw £500,000 by partial surrender of the 100 policies, you will trigger an income tax liability. In year 4, you can withdraw £200,000 from the policies under the annual 5% withdrawal allowance tax-free. So, the excess over that allowance – £300,000 – will be the excess partial surrender and it will be taxable to income tax. You will pay income tax on that sum at 45%, if you are an additional rate taxpayer already (because of your other income). That is a tax bill of £135,000.

However, if instead of making a partial surrender for the full £500,000 you make a partial surrender of £200,000 across the 100 policies first, and then you surrender individual po-li-cies within the Bond to make up the balance, your tax liability will be as follows:

- Withdrawal of £200,000 – tax liability, nil.
- Surrender 30 policies; each of the 100 policies has a cash surrender value of £10,000 after £2,000 has been taken from each policy to fund the £200,000 withdrawal. The profit for income tax purposes in each policy is £2,000.

So, the surrender of 30 policies triggers a taxable sum of £60,000, on which you will pay income tax at your highest marginal rate. At 45%, that is an income tax bill of £27,000.

It follows that if you need to raise £500,000 net of income tax on the profit, you will need to surrender 34 policies to give you the £300,000 plus £30,600 for the income tax (and a surplus of £9,400). You will have 66 policies left in your Bond.

It is for this reason that we issue 100 policies within the Bond. For policy-holders who inadvertently trigger a large excess partial surrender gain they can apply to HM Revenue & Customs can have the gain reviewed. If HM Revenue & Customs considers that the gain is wholly disproportion-ate then it will be recalculated on a just and reasonable basis (i.e. as if individual policies had been surrendered instead) and the decision notified to the policyholder.

Full Surrender

If you fully surrender the Bond, you will pay income tax on any profit re-leased from the Bond. Previous partial surrenders are taken into account in computing the taxable profit.

Continuing the example from the pre-vious section, if you fully surrendered the remaining 66 policies (each with a value of £10,000, of which £8,000 is the remaining premium after the £200,000 partial surrender and £2,000 of which is profit) then you will receive £660,000 and pay income tax on £132,000. At 45%, that is tax of £59,400.

In addition, other issues arise for UK resident, non-UK domiciled, individuals. *Please see Question 8 below.*

QUESTION 6: WHAT TAX IS PAYABLE ON THE DEATH OF THE LIFE ASSURED, OR THE SECOND LIFE ASSURED (IF THERE IS ONE) ?

On the death of the Life Assured, or the second Life Assured (if there is one, and the policies are written on a joint life, second death, basis), the death benefits become due. The death benefits are a cash sum.

There may be income tax to pay on the death benefits, if you are UK resi-dent immediately before the death of the relevant Life Assured. It may be that your death results in the death benefits becoming due. The taxable profit on death is the dif-ference between (a) the cash surrender value of the policies immediately before the death of the relevant Life Assured plus any partial surrenders taken from the policies, and (b) the premium(s) paid into the policies. There will be a profit if (a) is greater than (b). That profit will be taxable to income tax. If your death results in the death benefits becoming due, then you (even though you are dead) are liable for the income tax, but in practice your executors will arrange for the income tax to be paid from your estate.

The General Conditions contain a provision which enables you to name one or more persons to receive the death benefits from us, but you can only exercise this right if you are not resident, and not domiciled in the UK for tax purposes.
If you have not exercised this right, then the death benefits are always payable to you, or your estate. Exercising this right creates tax compli-cations for you, which is why we insist on you not being resident and domiciled in the UK before the right is exercised.

QUESTION 7: ARE THERE ARE ANY OTHER TAXES TO CONSIDER ?

Yes, there are. If you die owning the Bond, the value of the Bond will be within your estate for inheritance tax purposes. Inheritance tax is payable at 40%, subject to exemptions and reliefs. You should speak to your independent tax adviser about inheritance tax plan-ning in relation to the Bond. Each policy in the Bond can be assigned by way of gift to another person, which may help you.

If you are a UK resident, non-UK domi-ciled, individual, then the Bond may be "excluded property" for inheritance tax purposes.
Please see Question 8 below.

QUESTION 8: I AM UK RESIDENT, BUT NOT DOMICILED IN THE UK. WHAT ADDITIONAL ISSUES SHOULD I BE AWARE OF ?

The first point to note is that income tax on profits released from the Bond – on an excess partial surrender, on a policy surrender, on a full surrender and on death – are taxable to income tax on you on the arising basis, not the remittance basis, even though the Bond is an asset situated outside the UK. So, if you claim the remittance basis of taxation it will not help you avoid income tax on the profits – you have to pay the income tax, as if the profits arose in the UK.

If you pay any premium into the poli-cies from untaxed foreign income and gains (i.e. income and gains to which the remittance basis has applied) then if you later bring the proceeds of partial surrender, policy surrender or full surrender to the UK you will be treated as remitting those untaxed foreign income and gains and so you will have an additional tax liability (over and above any tax liability you have as described above).

Finally, in relation to inheritance tax, if you are not domiciled in the UK for in-heritance tax purposes then the value of the Bond should not be included in your estate for inheritance tax purposes; it should be "excluded property". However, if you are deemed to be domiciled in the UK for inheritance tax purposes, or become deemed domiciled in the UK for inheritance tax purposes, the value of the Bond will be included in your estate for in-heritance tax purposes.

From 6th April 2017, non-UK domiciled individuals who have been UK resi-dent for 15 years or more are no longer be able to claim the remittance basis of taxation. Accordingly, they are now taxed on their world-wide income and gains. However, in respect of income and gains which arose before 6th April 2017 in a year in which the remittance basis was claimed, that income/those gains will continue to be taxed on the remittance basis from 6th April 2017. So, the circum-stances described in the second paragraph of this Question 8 will still be relevant to a non-UK domiciled individual who has been UK resident for 15 years or more and who has paid any premium into the policies from untaxed foreign income and gains of a year to which the remittance basis applied.

We recommend you seek independent tax advice in relation to your tax position if you are a UK resident, non-UK domiciled, individual.

QUESTION 9: WHAT FILING REQUIREMENTS DO I HAVE ?

So long as your independent tax adviser is comfortable that the "transfer of assets abroad" legislation does not apply to you, then you do not have to notify HM Revenue & Customs about the purchase of the Bond.

When a taxable event occurs in relation to your Bond (a so-called "chargeable event"), we will notify you of the chargeable event by issuing a certificate. It is your responsibility to return the taxable profit on your self-assessment return and pay the income tax due.

QUESTION 10: IS THERE ANYTHING ELSE I SHOULD BE AWARE OF ?

If you ask us to pay a fee to your independent financial adviser for advising you in connection with the Bond, at the outset or from time to time thereafter, the payment of the fee may result in a partial surrender of the policies in the

Bond. This is called "adviser charging". The payment of commission to your independent financial adviser does not result in a partial surrender of the policies in the Bond.

However, we cannot pay commission to independent financial advisers who are in the UK.

We have made every effort to ensure that the Bond should not be regarded as a "personal portfolio bond" for income tax purposes. Personal portfolio bonds are subject to an adverse tax regime in the UK.

In accordance with our obligations under the Common Reporting Standard, we are required to report certain information about you and the Bond each year to the Luxembourg tax authorities, who will then pass that information to HM Revenue & Customs

The answers given above are by their nature general. There may be other facts or circumstances which are relevant to your tax position, for example if you have made an excess partial surrender in respect of the policies, if you have assigned the policies (or one or more of them) in the past, or if you are a basic rate taxpayer (in which case top-slicing relief may be available to you). You should seek independent tax advice if you are concerned about your tax position in relation to the Bond.

I, the undersigned ____recognise that I have read the above clauses.

Executed in ________________________________ on ____ / ____ / ________

First Policyholder or sole Policyholder	Second Policyholder
Signature	Signature

ALL-Ax_Fiscale_UK_sign(EN) 0120

Allianz Life Luxembourg S.A. - 14, boulevard F.D. Roosevelt - L-2450 Luxembourg
Tél.: (+352) 47 23 46-1 - Fax: (+352) 47 23 46-235
www.allianz.lu

Allianz