



Session 007

Wrapped or not, on or off and what about trusts?



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning objectives

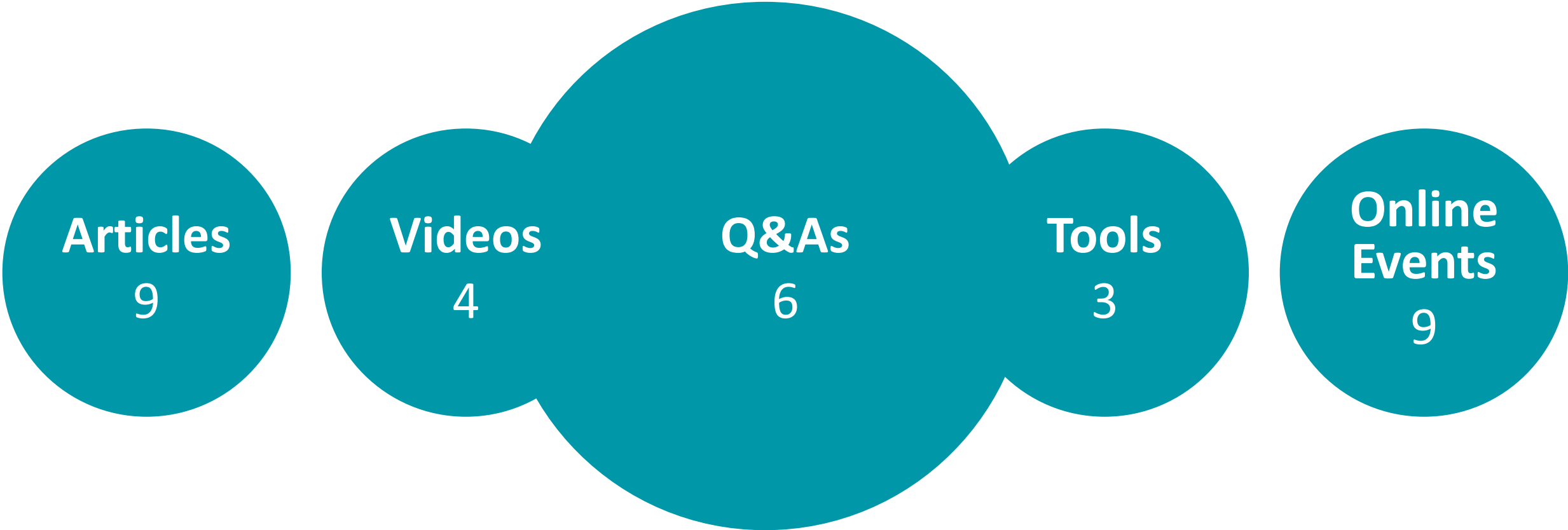
By the end of this session, you will be able to:

Describe when an insurance bond wrapper could improve client outcomes

Evaluate the relative merits of onshore v offshore bonds

Identify when different types of trust may find bonds the best option

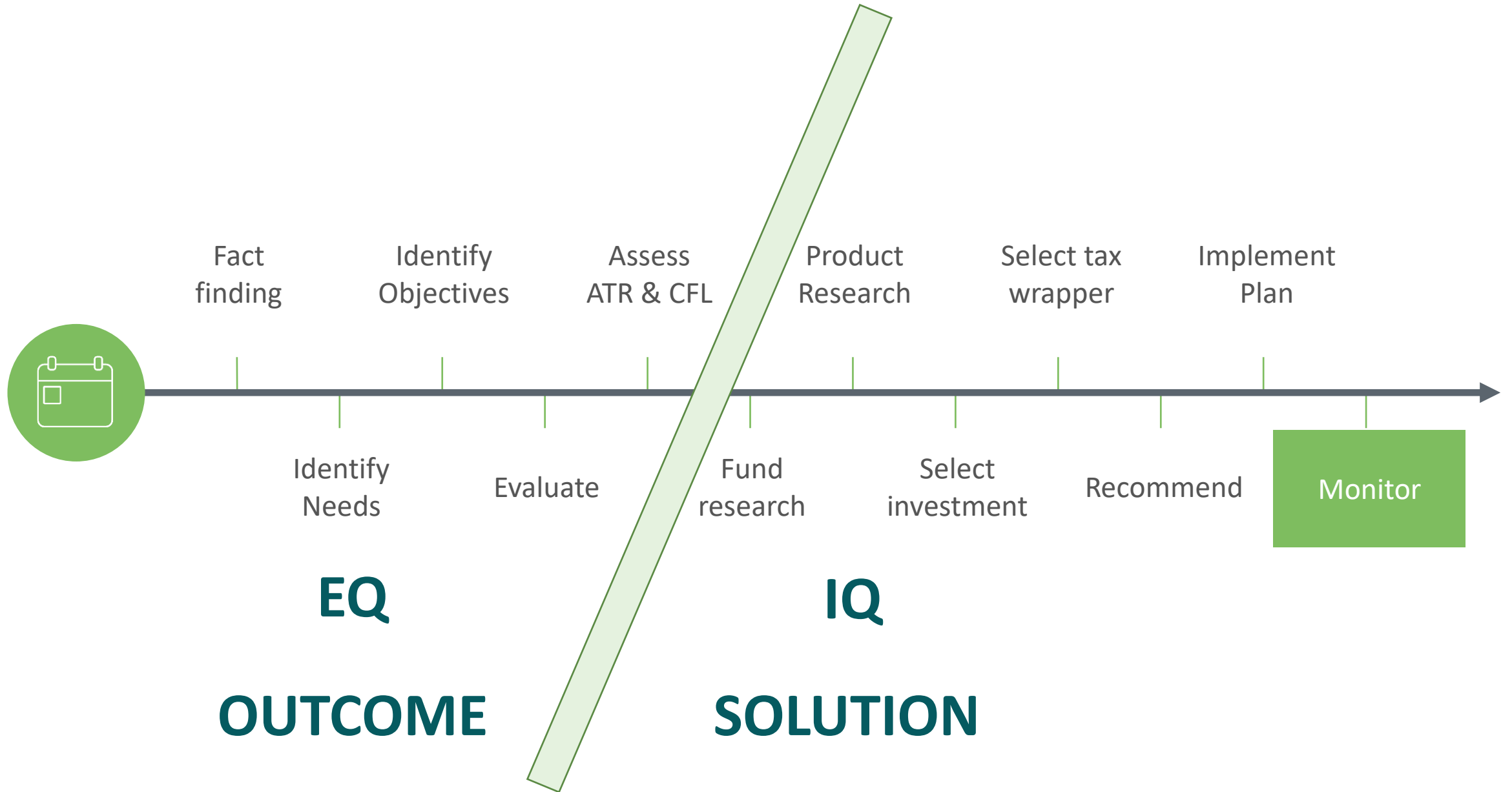
Tech Matters



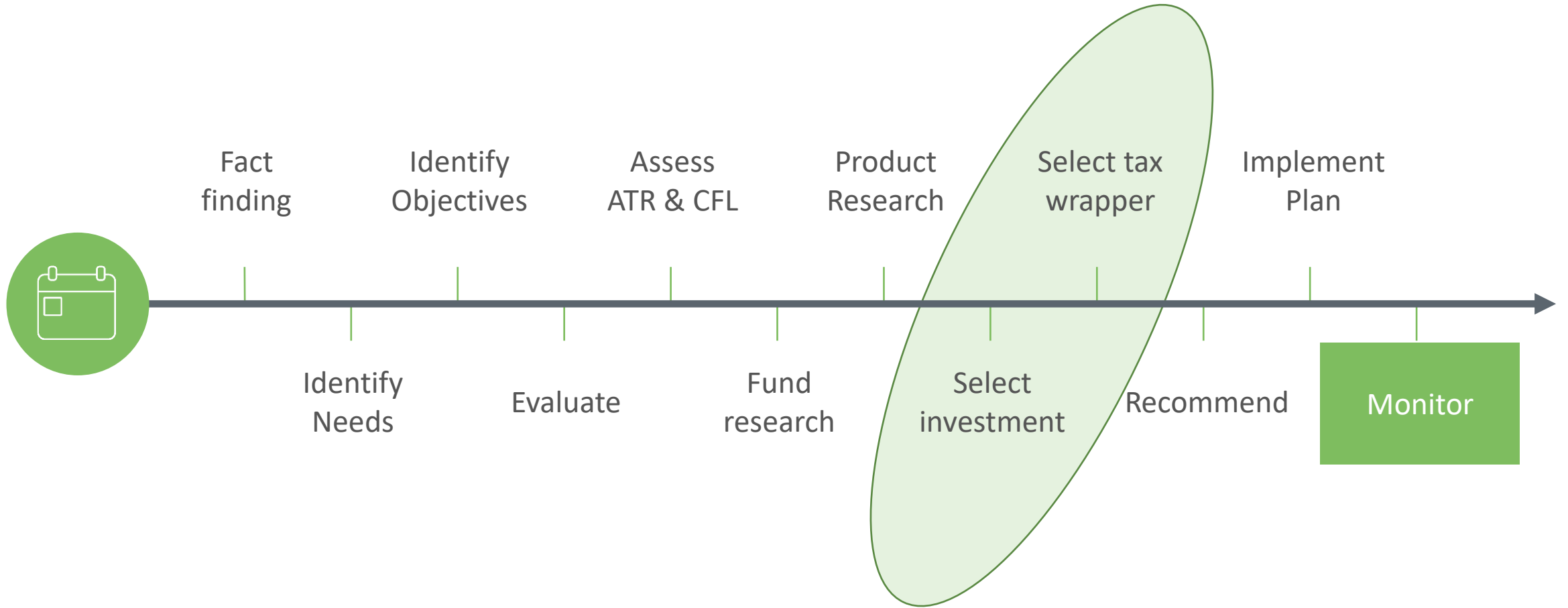


Advice Matters

Planning for clients

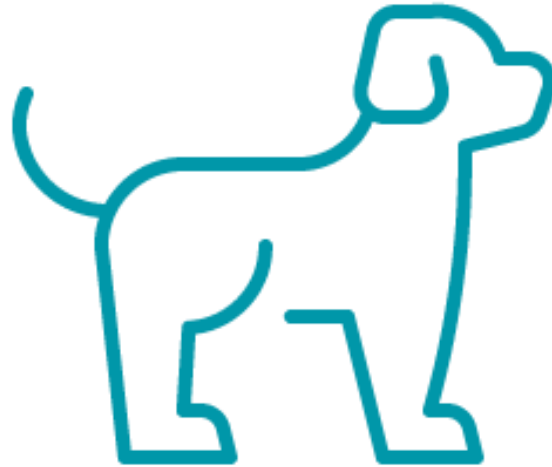


Planning for clients



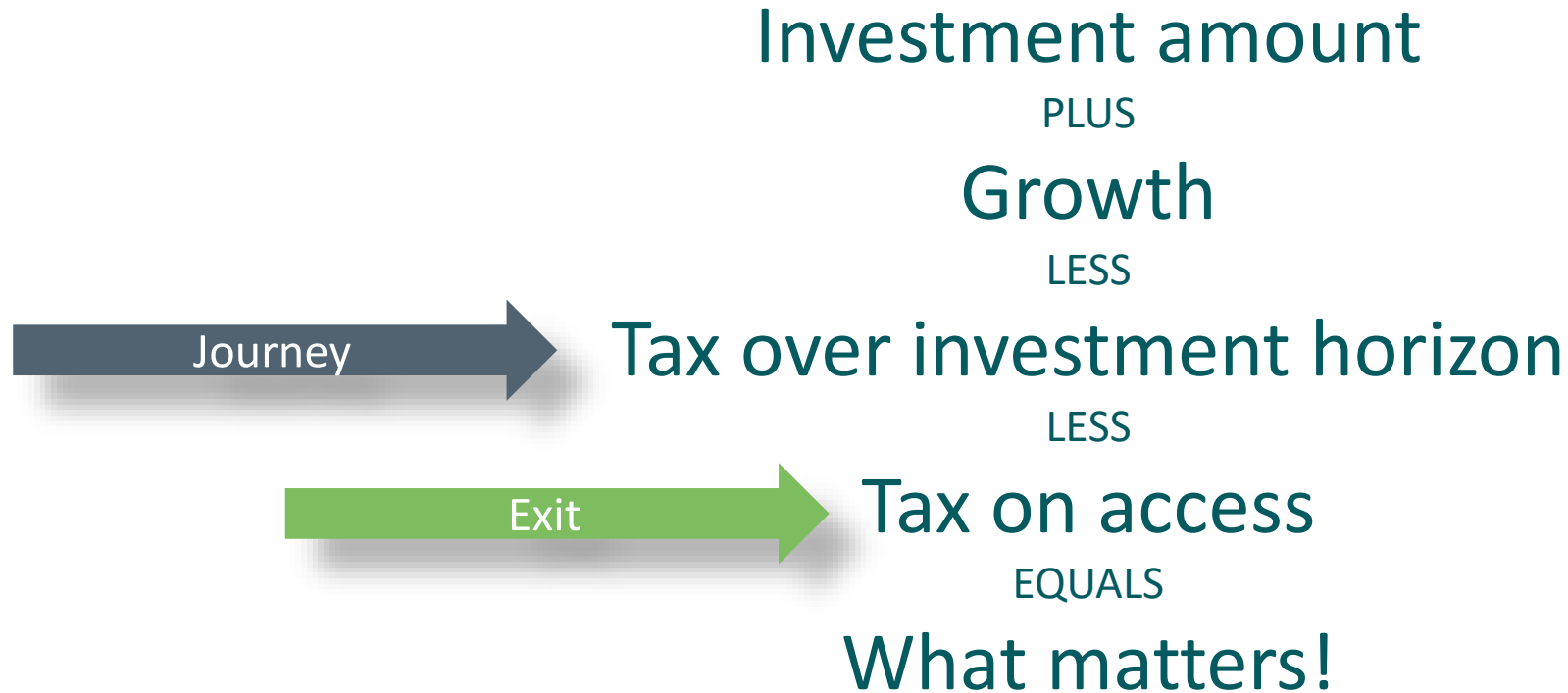
The plan

Should you let the
tax tail wag the
investment dog?



Should you let the
solution tail wag
the outcome dog?

The crux

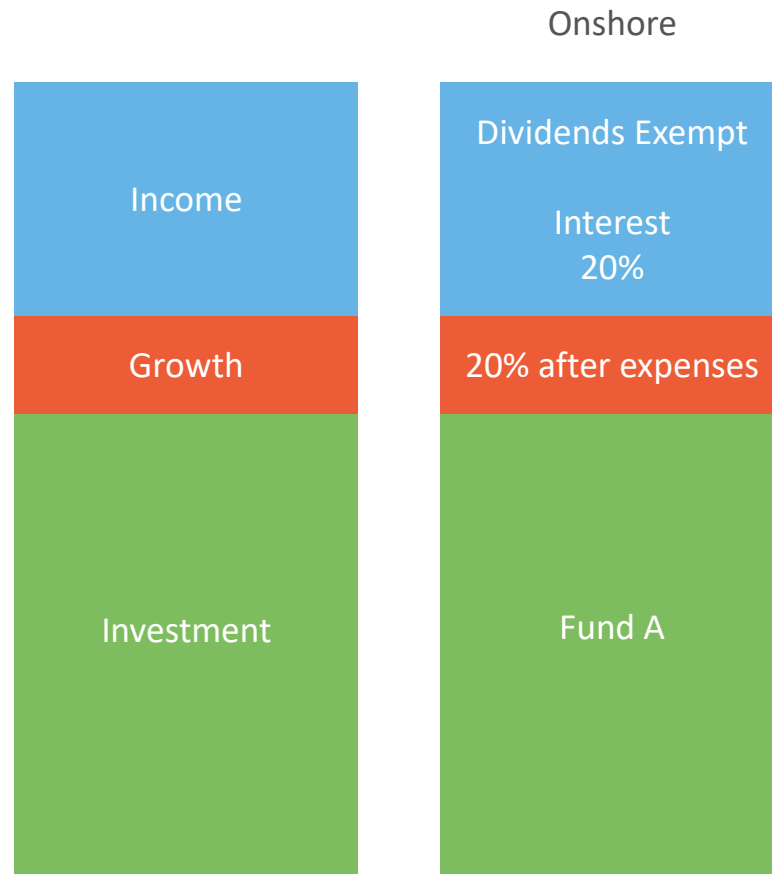


The net return at the point you need/want it.

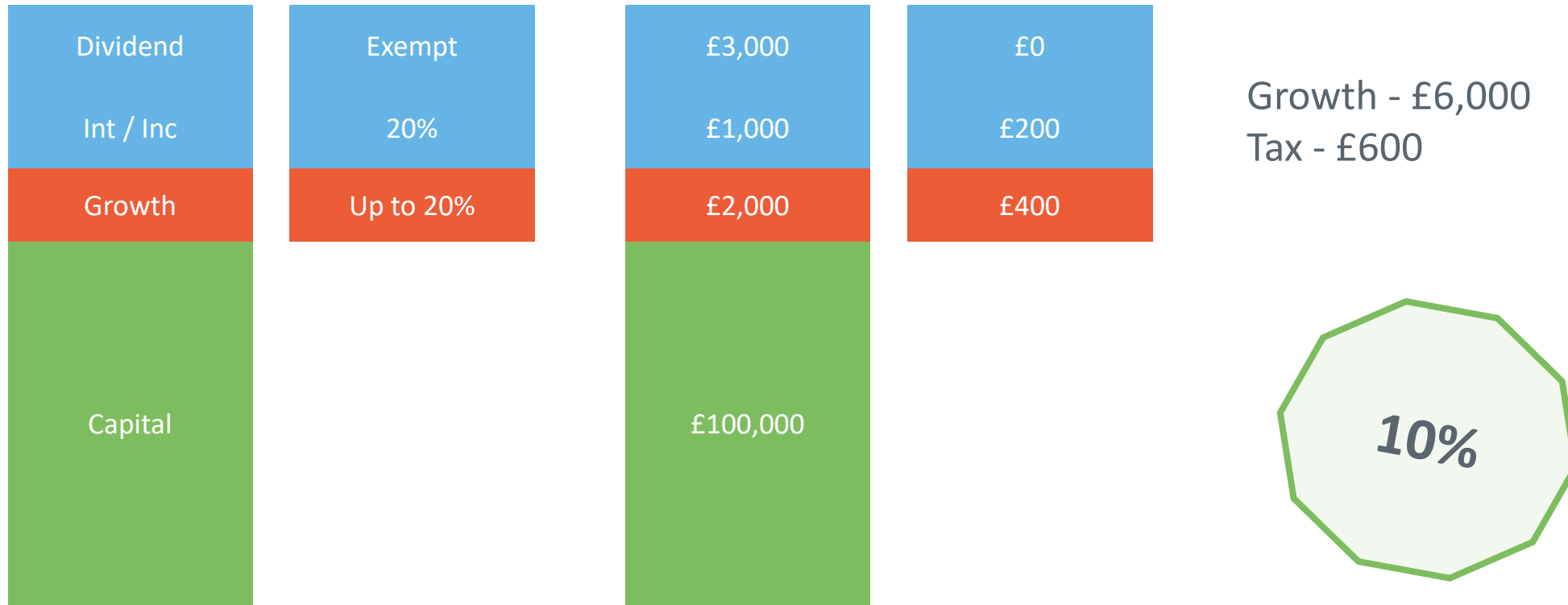


Wrapped or not?

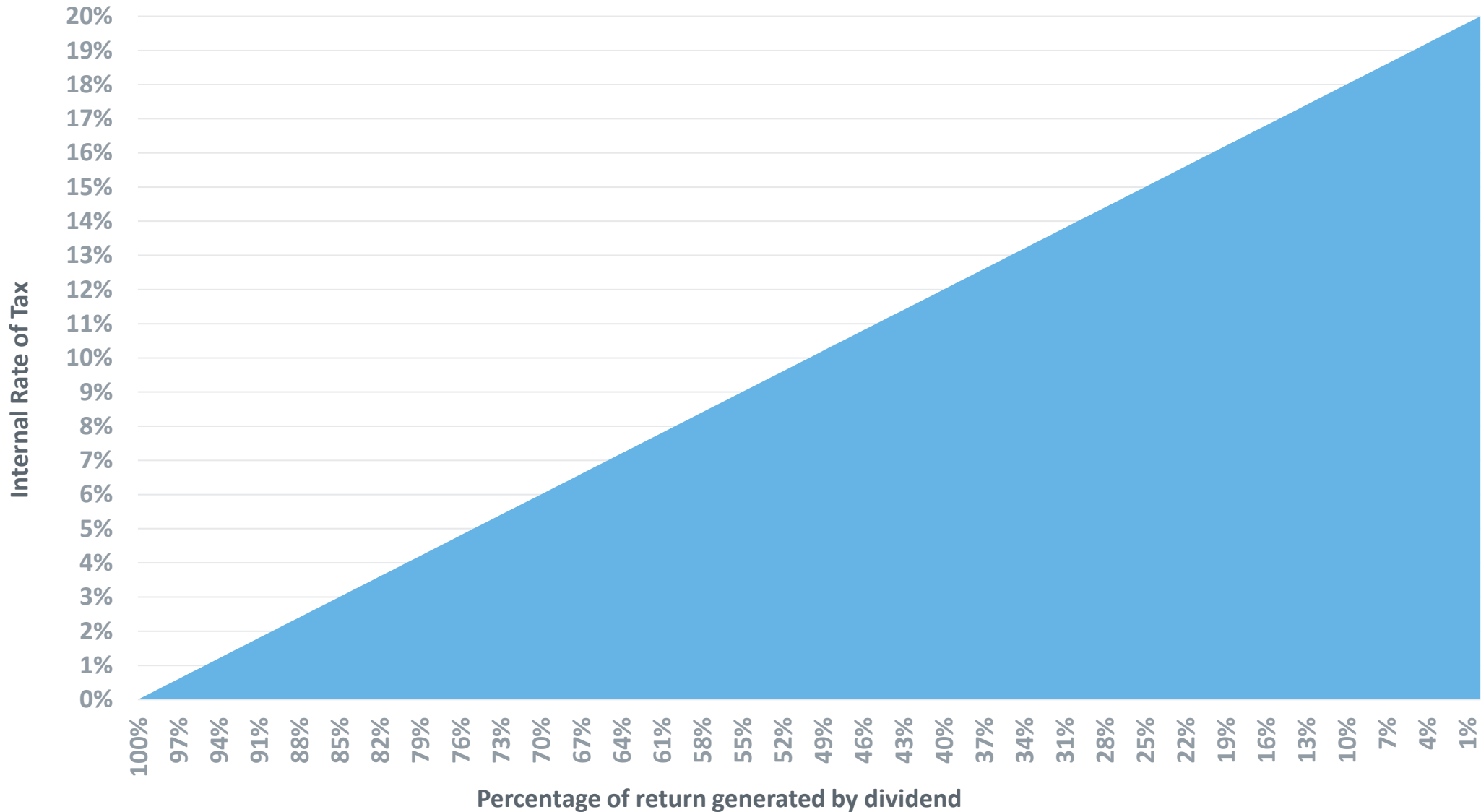
Internal Bond Taxation



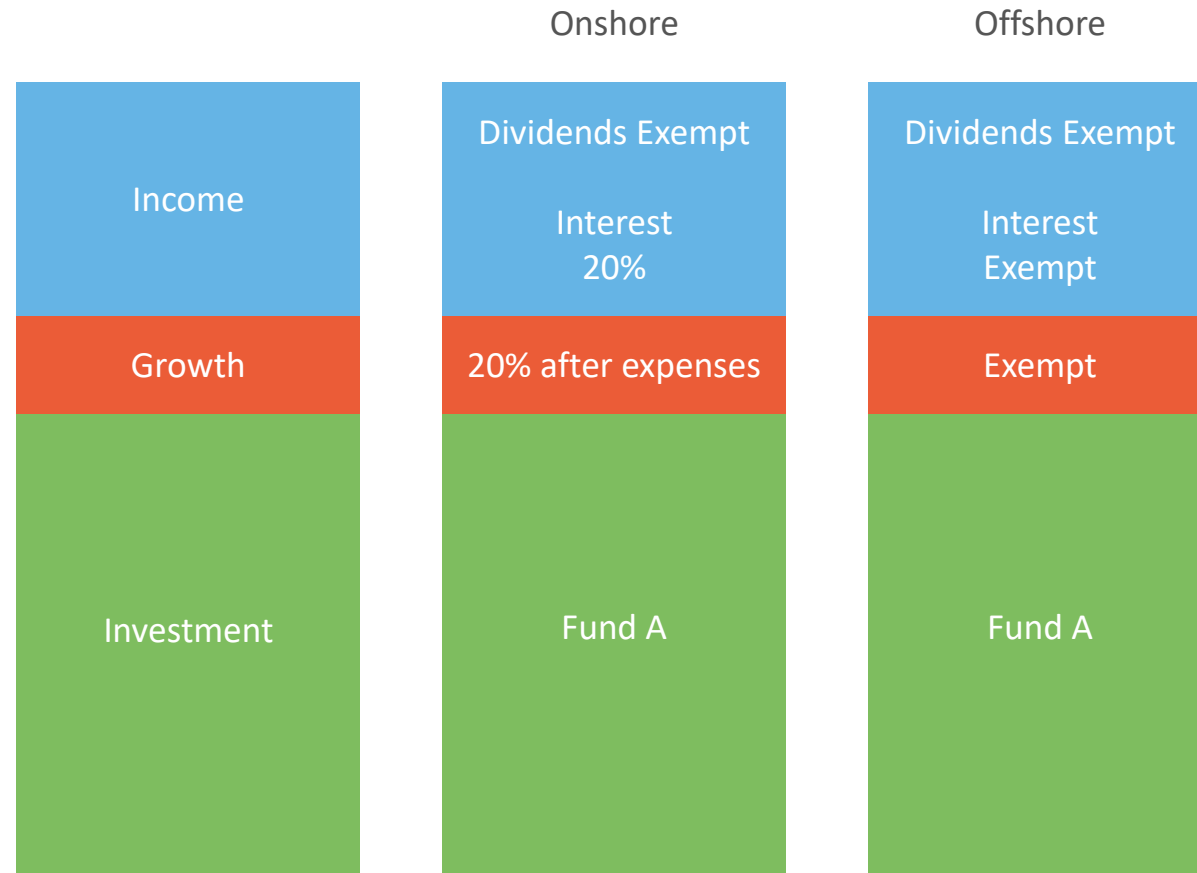
Internal Bond Taxation – Onshore Bond



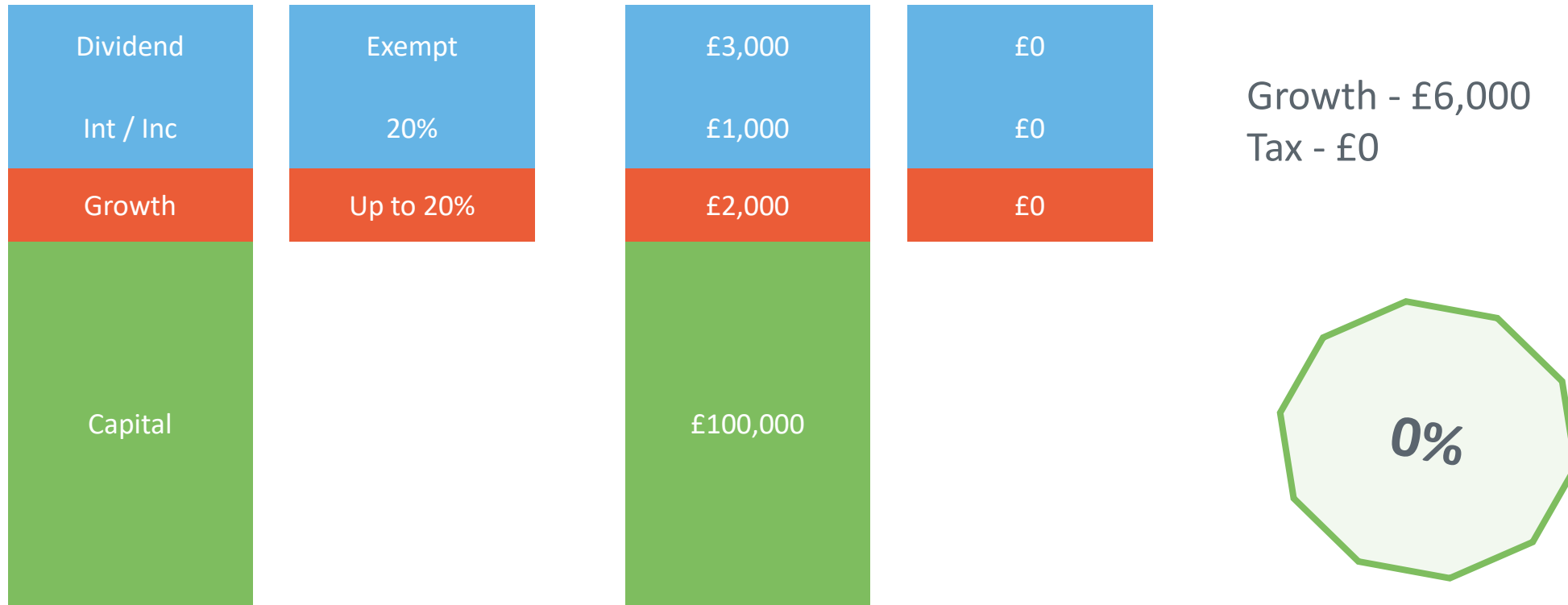
Onshore Internal Tax Rate (by dividend component)



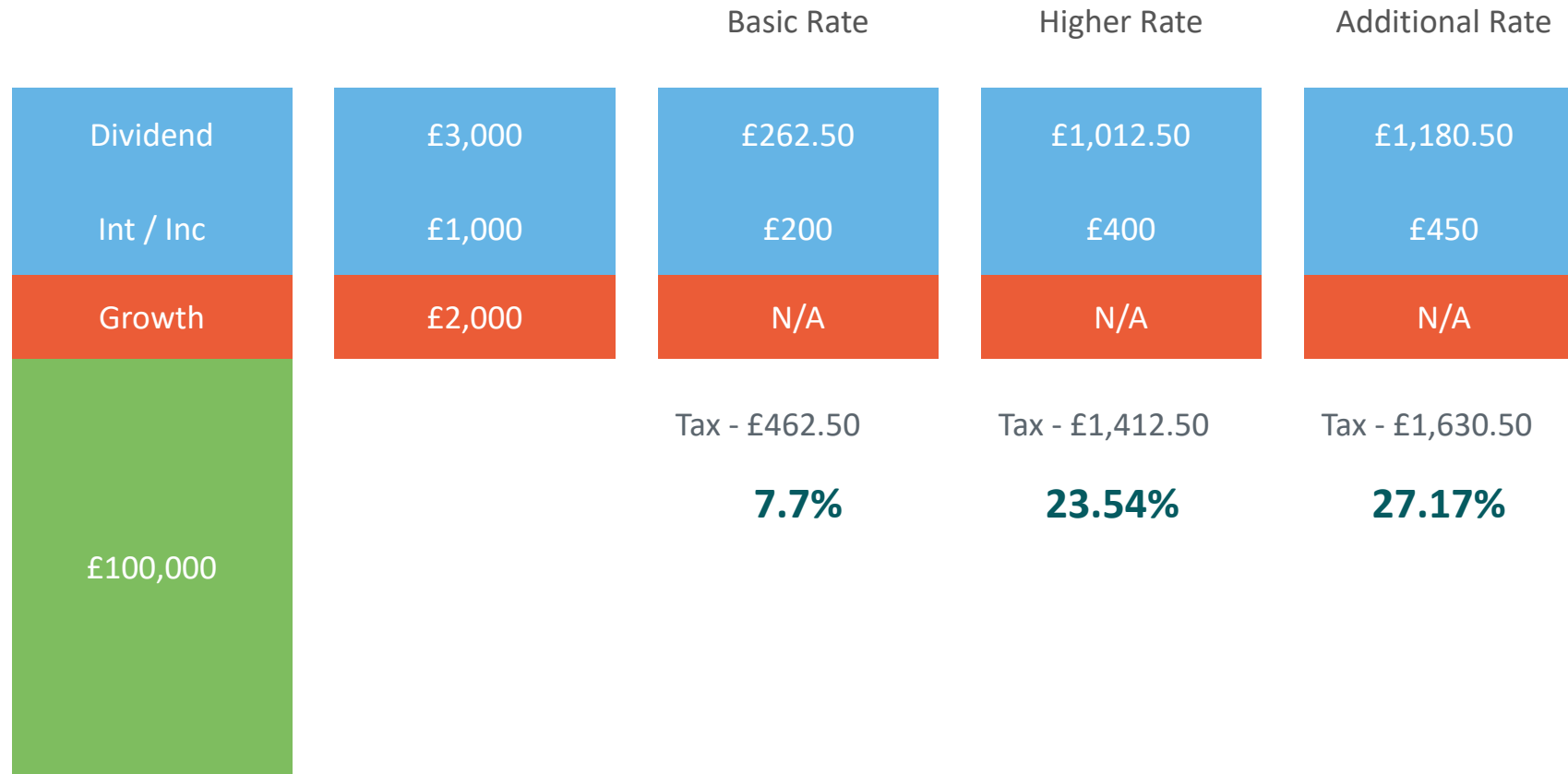
Internal Bond Taxation



Internal Bond Taxation – Offshore Bond



Unwrapped personal tax while invested



No starting rate for savings, PSA or Dividend Nil Rate available & capital gain not crystallised

Basic Rate/Basic Rate: £250,000 (4% div, 4% gain)

	OEIC directly held				OEIC in Onshore Bond
	2022/23	2023/24	6/4/24 – 29/10/24	30/10/24 – 5/4/25	2022/25
£10,000 (Dividends)	£875	£875	£875	£875	£0
£10,000 (Gain)	£0 (£12,300 AEA)	£400 (£6,000 AEA)	£700 (£3,000 AEA)	£1,260 (£3,000 AEA)	£2,000
Overall Tax Rate	4.3%	6.3%	7.8%	10.6%	10%

Higher Rate/Higher Rate: £250,000 (4% div, 4% gain)

	OEIC directly held				OEIC in Onshore Bond
	2022/23	2023/24	6/4/24 – 29/10/24	30/10/24 onwards	2022/25
£10,000 (Dividends)	£3,375	£3,375	£3,375	£3,375	£0
£10,000 (Gain)	£0 (£12,300 AEA)	£800 (£6,000 AEA)	£1,400 (£3,000 AEA)	£1,680 (£3,000 AEA)	£2,000
Overall Tax Rate	16.9%	20.9%	23.9%	25.2%	?

Overall tax on higher rate taxpayer

OEIC in Onshore Bond

2022/25

Journey	£2,000
Exit	£3,600
Overall Tax Rate	28%

- Gain £20,000
- Tax @ 20% within fund = £2,000
- Net gain £18,000
- Tax @ 20% for HRT policyholder = £3,600
- Overall net gain = £14,400

Higher Rate/Higher Rate: £250,000 (4% div, 4% gain)

	OEIC directly held				OEIC in Onshore Bond
	2022/23	2023/24	6/4/24 – 29/10/24	30/10/24 onwards	2022/25
£10,000 (Dividends)	£3,375	£3,375	£3,375	£3,375	£0
£10,000 (Gain)	£0 (£12,300 AEA)	£800 (£6,000 AEA)	£1,400 (£3,000 AEA)	£1,680 (£3,000 AEA)	£2,000
Overall Tax Rate	16.9%	20.9%	23.9%	25.2%	28%

Journey Tax v Exit Tax

Higher Rate Exit

OEIC directly held

30/10/24 onwards

OEIC in Onshore Bond

2022/25

Journey

£3,375

£2,000

Exit

£1,680
(£3,000 AEA)

£3,600

Overall Tax
Rate

25.2%

28%

Basic Rate Exit

OEIC directly held

30/10/24 onwards

OEIC in Onshore Bond

2022/25

£3,375

£2,000

£1,260
(£3,000 AEA)

£0

23.2%

10%

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2024/25

Invested Amount

Year of encashment (5 to 10 only)

Use annual exempt amount?

Reset

Investment Yields

Savings income

Dividend Return

Capital Gain

Additional Cost for Bond Wrapper

Onshore Bond
Internal Tax Rate
15.00%

	Existing income	Increase assumption per annum
Non Savings Non Dividend	£60,000	0.00%
Savings	£0	0.00%
Dividend	£0	0.00%

Expected Income year of encashment	
Non Savings Non Dividend	£30,000
Savings	£0
Dividend	£0

Taxation over Term			
	Collectives	Onshore	Offshore
Savings Income			
Amount	£199,462	£202,731	£214,532
Tax	£73,831	£40,546	£0
Dividend Income			
Amount	£132,975	£135,154	£143,021
Tax	£43,192	£0	£0
Capital Gain			
Amount	£30,000	£202,731	£214,532
Tax	N/A	£40,546	£0

Encashment Values			
	Collectives	Onshore	Offshore
Surrender Value	£914,796	£941,481	£1,052,778
Gain (Cumulative)	£172,462	£441,481	£552,778
Slice	N/A	£44,148	£55,278
Tax payable	£40,671	£49,270	£182,085
Net return	£874,125	£892,211	£870,693

Key Assumptions

Cells with red tags contain further information

The tool runs in tax years from 6 April to 5 April inclusive.

The CGT annual exempt amount is used each year (bed and breakfast rules avoided).

Net investment income is reinvested.

UK rates of income tax apply.

The rates bands and allowances remain at the same level throughout the term.

Available Bands and Allowances in year of encashment (prior to investments being surrendered)			
	Collectives	Onshore	Offshore
Personal Allowance	N/A	£0	£0
Starter Rate for Savings	N/A	£0	£0
Personal Savings Allowance	N/A	£1,000	£1,000
Basic Rate	£0	£20,270	£20,270
Higher Rate	N/A	£87,440	£87,440
CGT Allowance	£3,000	N/A	N/A

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2024/25

Planning Assumptions

Invested Amount	£500,000.00
Proposed Term (5 to 10 only)	10
Use annual exempt amount?	Yes
ISA Wrap each year?	Yes
Regular withdrawal amount?	£10,000.00
Bond encashment method	Full segments and partials
Year 1 ISA Allowance from Investment?	No

Income Assumptions

Existing income		Increase assumption	
Non Savings Non Dividend	£60,000		0.00%
Savings	£0		0.00%
Dividend	£0		0.00%
CPI Increase for Tax Bands from 2028			2.00%
Income in year of encashment			
Non Savings Non Dividend	£30,000		
Savings	£0		
Dividend	£0		

Investment Assumptions

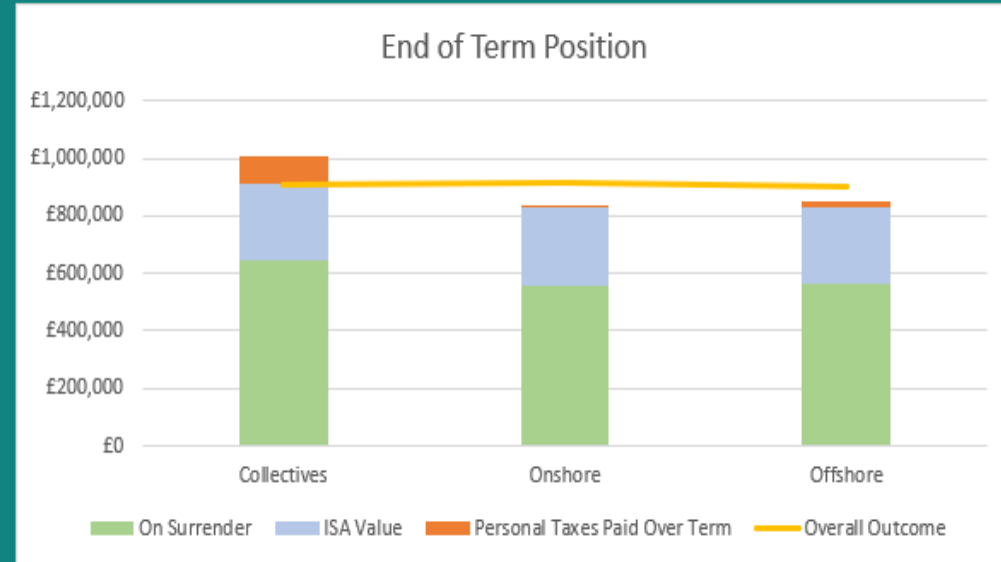
Savings Income	3.00%	Onshore
Dividend Return	2.00%	Bond
Capital Gain	3.00%	15.00%
Extra Wrapper Cost	0.25%	

RESET

Projected Values

	Collectives	Onshore	Offshore
End of term values			
Surrender	£674,866	£566,019	£653,713
Gain	£139,825	£291,019	£378,713
Taxation			
Internal Taxation	£0	£61,721	£0
Income Tax over term	£95,087	£3,314	£19,364
CGT Over Term	£0	£0	£0
Tax on Surrender	£32,838	£6,401	£92,900
Net Proceeds			
On Surrender	£642,028	£559,617	£560,813
ISA Value	£269,731	£269,731	£269,731
Gross Withdrawals	£90,000	£90,000	£90,000
Personal Taxes Paid Over Term	£95,087	£3,314	£19,364
Overall Outcome	£906,672	£916,034	£901,181

End of Term Position



The “exit”

Employment income

Gain Disposal Zone

Fixed pension income

Who will be liable?

What will their income
position be?

The “gain disposal zone” (no taxable income)

Collectives

BEFORE NEW CONTRIBUTIONS

"Total Income"	£500,000	▼
Adjusted Net Income	£0	▼
Personal Allowance	£12,570	
Personal Savings Allowance	£0	
Child Benefit Charge	£0	
Capital Gains Tax	£117,738	
Tax Liability	£117,738	
Bond Gains Summary		
Tax on gains	£0	
Onshore Tax Credit	£0	
Top slicing relief	£0	
Liability	£0	
"Bank Balance"	£382,262	▼

Onshore

BEFORE NEW CONTRIBUTIONS

"Total Income"	£500,000	▼
Adjusted Net Income	£500,000	▼
Personal Allowance	£0	
Personal Savings Allowance	£0	
Child Benefit Charge	£0	
Capital Gains Tax	£0	
Tax Liability	£0	
Bond Gains Summary		
Tax on gains	£210,203	
Onshore Tax Credit	£100,000	
Top slicing relief	£110,203	
Liability	£0	
"Bank Balance"	£500,000	▼

Offshore

BEFORE NEW CONTRIBUTIONS

"Total Income"	£500,000	▼
Adjusted Net Income	£500,000	▼
Personal Allowance	£0	
Personal Savings Allowance	£0	
Child Benefit Charge	£0	
Capital Gains Tax	£0	
Tax Liability	£100,000	
Bond Gains Summary		
Tax on gains	£210,203	
Onshore Tax Credit	£0	
Top slicing relief	£110,203	
Liability	£100,000	
"Bank Balance"	£400,000	▼

£500,000 gain, no taxable income, accrued over 10 yrs

Non tax benefits of bonds?



Simplicity
Tax Admin



Simplicity
Gifting



“Unique”
Funds

Tax v Non-Tax trade off



What's important to the client?

- You will have to do a tax return and pay tax every year, but your net return might be higher
- Your net return may be lower than it could be, but you won't need to pay tax or do a tax return every year

Helping a client achieve their “rich life” is not always based on the highest net return



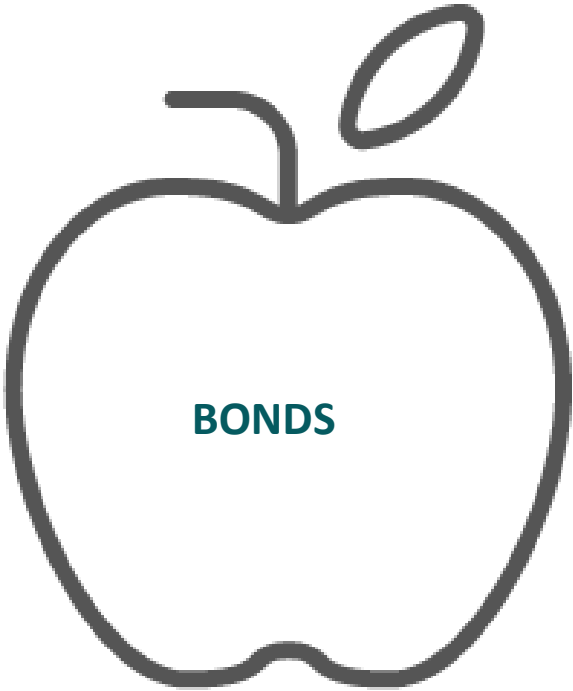
Onshore of Offshore?

Overall tax on return – onshore v offshore

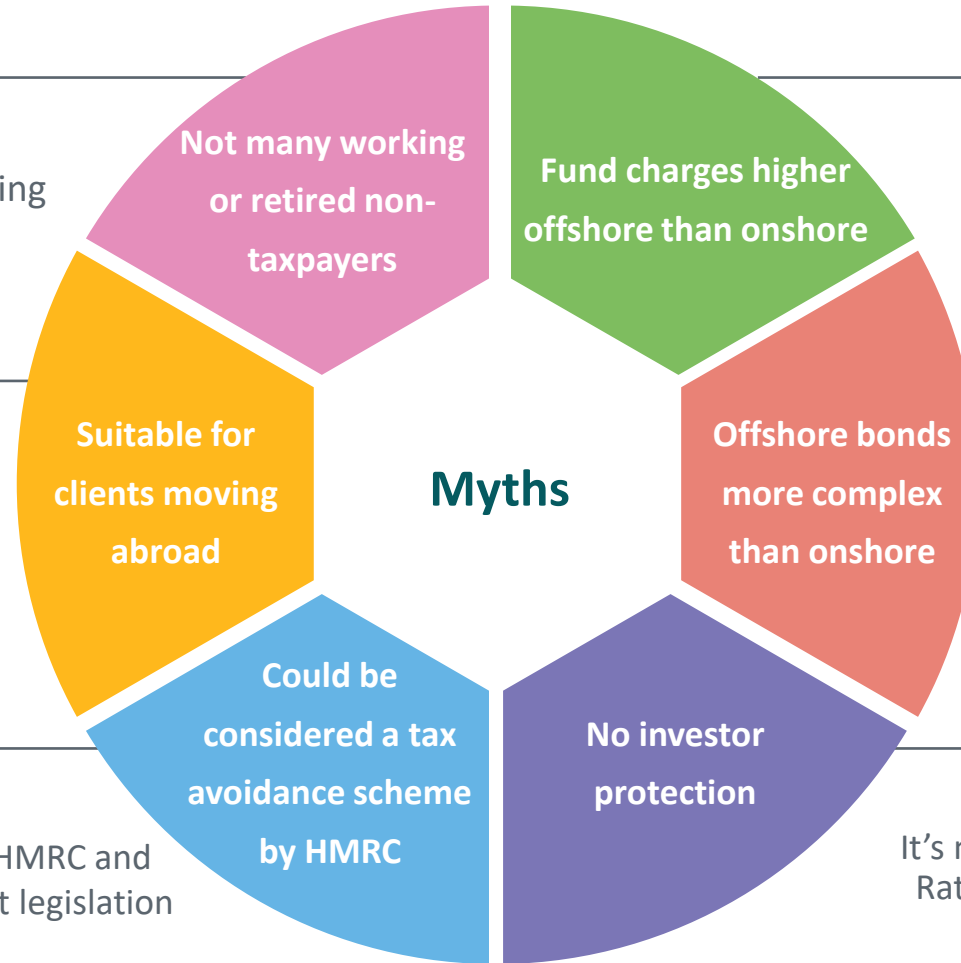
	Onshore	Offshore
Gross Return	£100	£100
Tax within fund	20%	0%
Net Return	£80	£100
Where is slice on exit?		
Basic Rate	No more tax	20% tax
Higher Rate	Further 20% tax	40% tax
Additional Rate	Further 25% tax	45%
Overall tax rate		
Basic Rate	20%	20%
Higher Rate	36%	40%
Additional Rate	40%	45%

Rate will be lower if internal tax < 20%

Slight variant of the same thing



Dispelling the myths about offshore bonds



Key Point

That might be the case for those not seeking advice. Financial planners can create tax efficient disposal zone strategies

Key Point

Charges are more closely aligned nowadays

Key Points

It depends on tax rules in overseas jurisdiction

Not uncommon for tax to apply annually

UK Chargeable event rules don't apply out with the UK

Key Points

Chargeable event rules broadly the same

Is it more difficult to explain no tax vs corporation tax and indexation allowance?

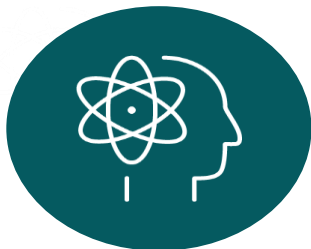
Key Point

Offshore "foreign" bonds are recognised by HMRC and taxed accordingly under UK chargeable event legislation

Key Points

It's not just about FSCS. Consider Financial Strength Ratings, Solvency II regulations, EU & Central Bank regulations and the fact funds are ring-fenced

Savings allowances



Offshore bonds

Those liable for gains:

- are likely to have little or no income on encashment, or
- can flex their income in the year of encashment



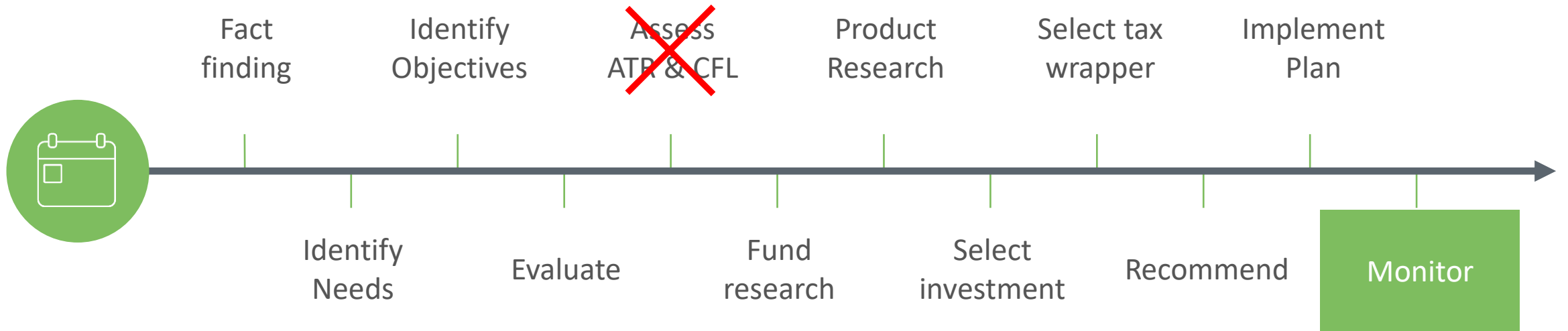
What about trusts?

Read the deed

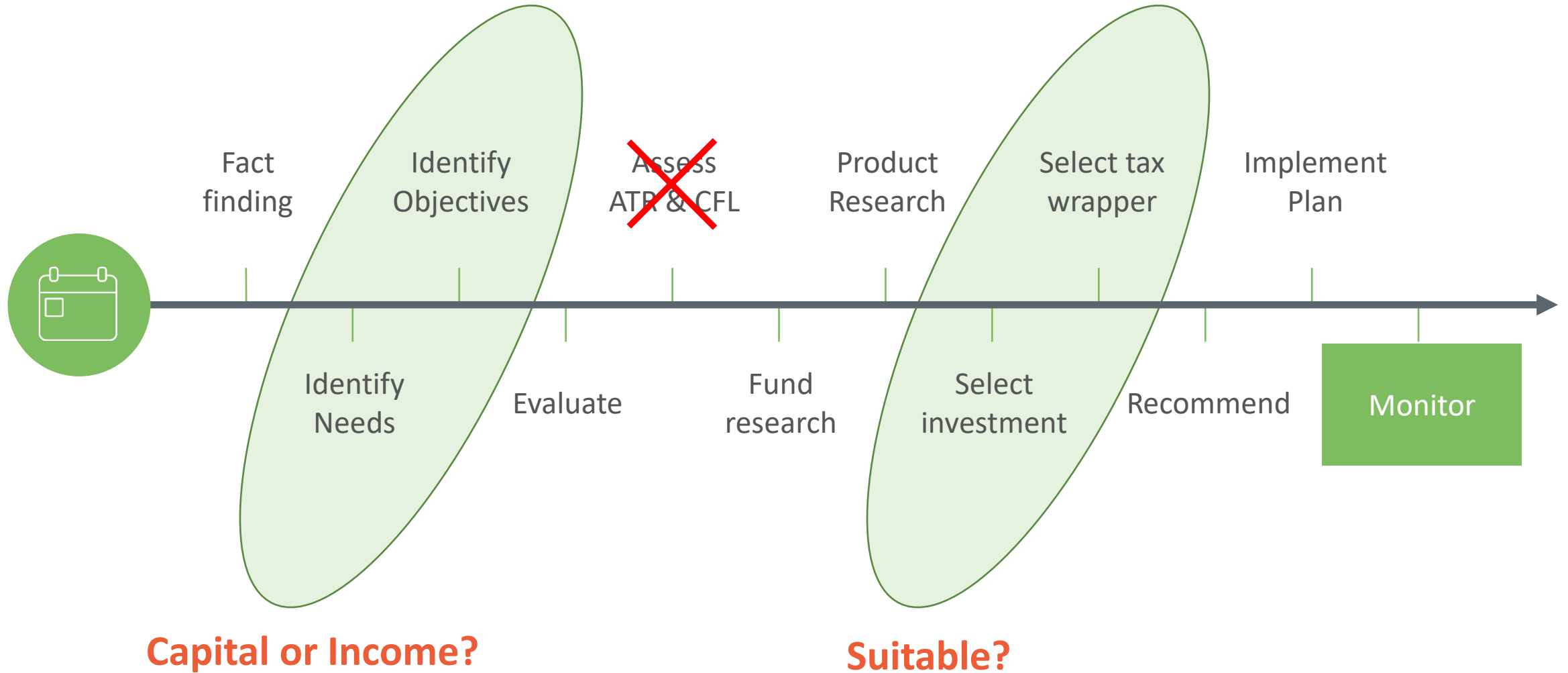
- Identify the trust fund
- Entitlement:
 - Who
 - What
 - When



Planning for ~~clients~~ trustees



Planning for clients trustees



Trusts & Income

Bare
Trust



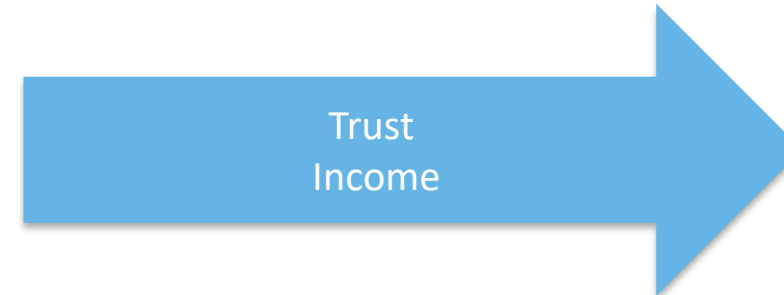
Dividend Nil Rate
Savings Allowances

IIP
Trust



Dividend Nil Rate
Savings Allowances
Basic Rate Tax Credit

Discretionary
Trust



~~Dividend Nil Rate~~
~~Savings Allowances~~
45% tax credit

Gains

Bare

Other

Capital

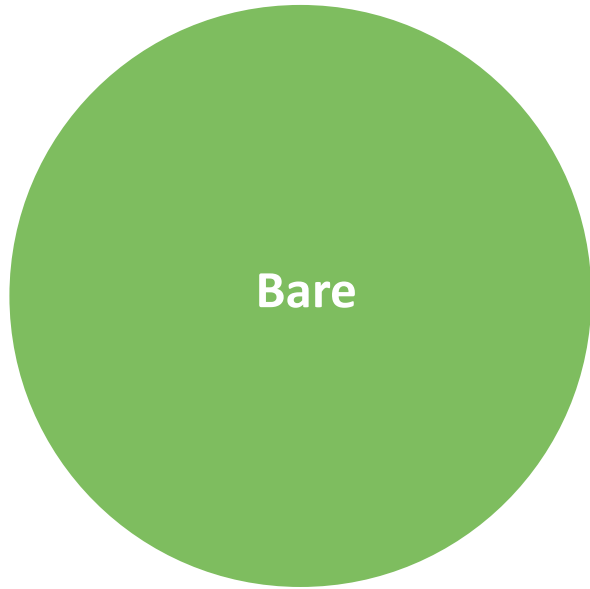
Trustees Liable

Beneficiary Liable

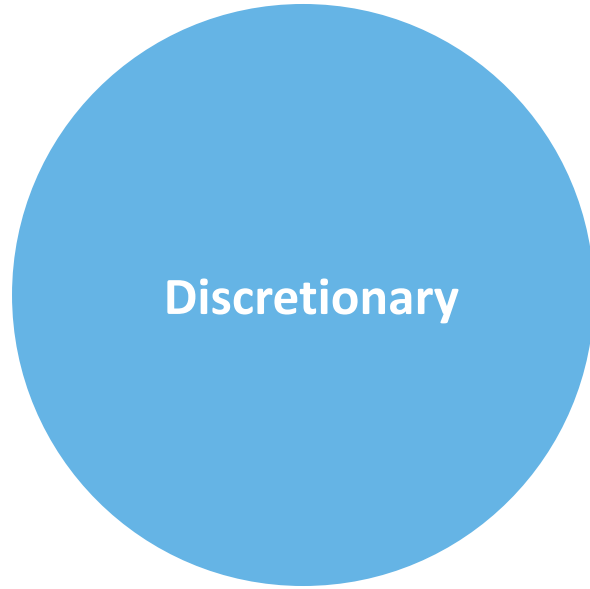
Bond

Settlor, Trustee or Beneficiary

Who what when



Income and Capital



None



Income Beneficiary
Capital Beneficiary

Learning objectives recap

By the end of this session, you will be able to:

Describe when an insurance bond wrapper could improve client outcomes

Evaluate the relative merits of onshore v offshore bonds

Identify when different types of trust may find bonds the best option



Thank you for your time

Get in touch with your usual M&G contact if you need further help

