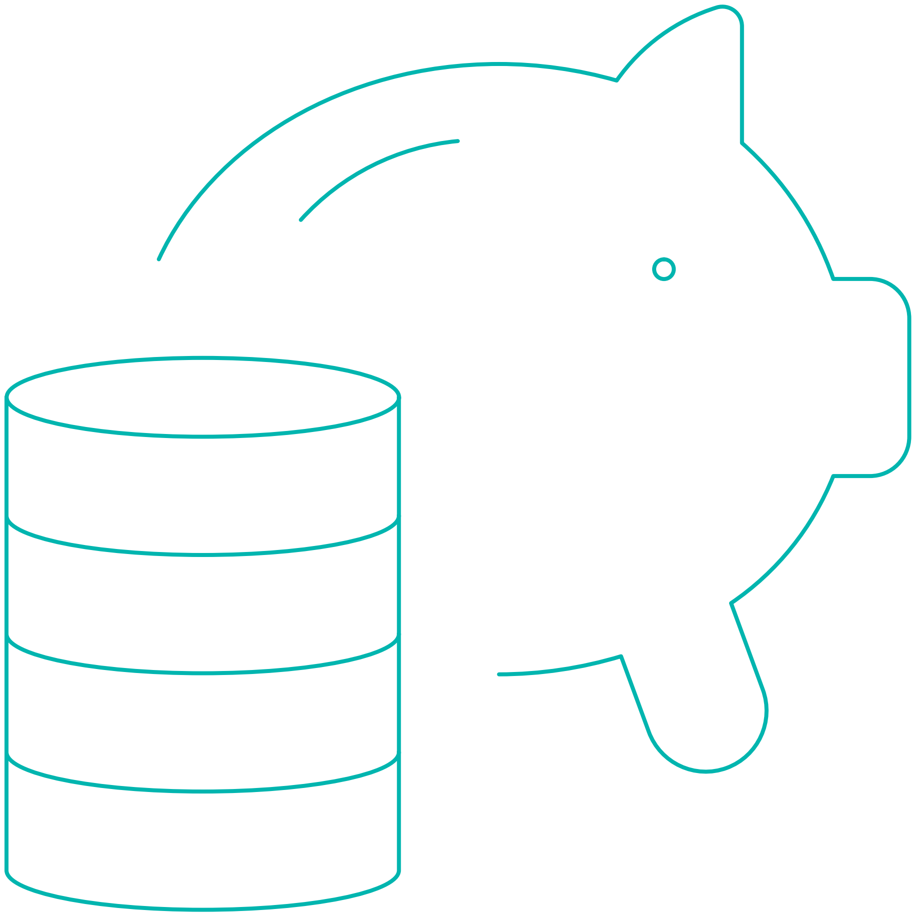
Pru
part of M&G plc

Why Bonds and Open-Ended Investment Companies (OEICs) – Financial Planning Opportunities



Introduction

Why Bonds and Open-Ended Investment Companies (OEICs)

From a tax perspective, investment bonds and Open-Ended Investment Companies (OEICs) are at opposite ends of the investment spectrum. An OEIC generates income for the investor, albeit that with accumulation shares, income is not distributed but instead reinvested and added to capital. Even so, the distribution remains income for tax purposes.

In contrast bonds are non-income producing investments.

These contrasting features create many investment and planning opportunities and indeed it may be appropriate to blend both in a client's investment portfolio.

While an OEIC fits naturally into the rhythm of the UK tax system, which taxes income and gains, as they arise, that is not the case with non-income producing investment bonds which have their own special tax regime.

In this guide, our focus will be on investment bonds, both UK and international and OEICs. Three client types are examined.

- Individuals
- Corporates
- Trustees

This guide contains an overview of the Bond and OEIC tax regimes as they provide the backdrop, against which, potential investment opportunities arise. Tax planning matters should guide but not dictate wrapper choice. For example, if the applicant is looking for an investment not allowable under the OEIC rules e.g. one where returns are 'smoothed', then a bond rather than an OEIC investment would be necessary.

Please note that the figures used in this guide are for illustrative purposes only and should not be taken as an indication of past or future performance.

Your client's investment could go down as well as up, they may not get back what they paid in.

The 2022 Autumn Statement changes are not explored in this guide. For clarity the dividend 'allowance' was cut from £2,000 to £1,000 in 2023/24 and then to £500 from April 2024. In addition, the Annual Exempt Amount for capital gains tax was cut from £12,300 to £6,000 in 2023/24 and then to £3,000 from April 2024. The guide does not go into that granular detail. Likewise the corporaton tax changes effective from 1 April 2023 are not explored.

Expand the headings below to see a range of client profiles in each category. The links from these will take you to some practical examples.

Individuals

Corporates

Trustees

Why Prudential for bonds and OEICs?

Further support

Bonds – Individuals and Trustees

With respect to the taxation of individuals and trustees, the 'chargeable event' legislation applies. In the case of corporates, the 'loan relationship' rules apply.

The chargeable event rules

UK and international investment bonds are taxed under the same chargeable event rules. Both are non-qualifying policies for UK tax purposes. This means that chargeable event gains can arise at any time which contrasts with the position for qualifying policies where broadly, only gains in the first ten years are taxable. Gains are subject to income tax.

HMRC succinctly state that the chargeable event regime proceeds by:

- Identifying a 'chargeable event'
- Calculating the gain arising
- Attributing the gain to a chargeable person

There are five main 'triggers' which give rise to a chargeable event:

1) Excess surrenders and part assignments for money or money's worth
2) Death giving rise to benefits
3) Assignment for money or money's worth
4) Maturity (for example an international capital redemption bond)
5) Surrender of all the rights

Part and full assignment for money or money's worth are relatively obscure, but the other chargeable event triggers are referred to in the guide.

Just to be clear, with an 'excess surrender', the client continues to have an interest in the bond given there has only been a part surrender, but contrastingly the other four events trigger a finality, where for different reasons the client's interest in the bond ceases. Part surrenders are very popular with individuals and trustees and are therefore very common. If a part surrender occurs, then a calculation needs done at the end of the policy year to see whether total part surrender proceeds exceed the 5% withdrawal allowance. If so, that excess will constitute a gain.

UK bonds

Regarding taxation, chargeable event gains on UK bonds are not liable to basic rate tax. The individual or trustee who is liable for tax under the chargeable event regime is treated as having paid tax at the basic rate on the amount of the gain. This reflects the fact that the funds underlying a UK bond are subject to UK life fund taxation. Any gain is exempt from capital gains tax gains unless, and unusually, the bond was acquired for actual consideration.

International bonds

In contrast, international bonds are issued by life companies based in jurisdictions such as Ireland which impose no tax on the income and gains of the underlying funds – this is known as 'gross roll-up'. Growth may not be entirely tax-free however, due to the impact of irrecoverable withholding tax which may be deducted from interest and dividends received by the fund (this also applies to UK Life funds). Clearly the individual or trustee is not treated as having paid tax at basic rate.

Top Slicing Relief

The fact that there is no tax due until a chargeable event gain arises can be appealing to many clients, but investors could be disadvantaged by being taxed in a single year on gains that have accrued over a period of time. Top Slicing relief delivers a spreading mechanism to reduce the effective rate of tax charged on the gain.

Detailed analysis

UK bond facts
International bond facts
Top Slicing Relief facts

Bonds – The loan relationship rules for corporates

Companies investing in bonds are taxed under the 'loan relationship' rules, the remit of which extends well beyond investment bonds.

In broad terms, these rules require the taxation treatment of the item in question (in this case an investment bond) to follow the accounting treatment. To understand the tax treatment of a company owned bond, it is therefore necessary to consider the accounting treatment. There are different accounting standards that a company might use – principally Historic Cost and Fair Value.

Historic Cost

The bond is simply shown in the Balance Sheet (statement of financial position) at the end of the company's accounting period at the original premium amount, regardless of the actual surrender value. No annual gain (or loss) is recognised in the company accounts, meaning no corporation tax consequences arise until the company realises a profit made on a disposal event such as full surrender, part surrender, assignment for value or death of last life assured.

Fair Value

In this case, the Balance Sheet at the end of the accounting period will include the bond at its surrender value at that date. The movement in value (either a gain or loss) is therefore processed through the Profit and Loss account (income statement). That movement has corporation tax consequences since an annual increase in value will be subject to corporation tax (any decrease is potentially relievable). The company will therefore be subject to tax on the profit made on part surrender, full surrender, assignment for value, death of the last life assured, and/or the increase in value each year.

Over the life of the bond, the company will be subject to tax on the actual profit made regardless of the accounting basis used.

Historic cost or fair value?

The majority of large and medium-sized UK entities apply Financial Reporting Standard (FRS) 102 when preparing their annual financial statements. Under FRS102, an investment bond is accounted for under fair value rules. 'Micro-entities' which are small in size, can apply FRS105 which allows historic cost accounting for investment bonds. A company qualifies as a micro entity if it doesn't exceed two or more of these criteria

- Turnover £632,000
- Balance Sheet total £316,000
- Number of employees 10

Accounting standards are complex and the recognition of the bond in the accounts is, in every case, a matter for the accountant to determine.

UK bond ‘tax credit’

The funds underlying a UK bond are subject to UK life fund taxation and as a result 20% tax is deemed paid within the fund. The company can obtain relief for this 20% tax where there is a profit on a disposal i.e. part surrender, full surrender, assignment for value or death of the last life assured. Note however that no relief arises on annual increases in value under the fair value rules and so these increases are subject to corporation tax with the ‘tax credit’ only applying on a subsequent disposal.

Other matters

Accountants and advisers dealing with trading companies carrying excess cash should be mindful of the potential impact on Inheritance Tax relief for business purposes and Capital Gains Tax Business Asset Disposal Relief where appropriate.

Detailed Analysis

Corporate investing guide

Corporate owned bonds – the facts

Inheritance Tax relief for business property

OEICs – Individuals and Trustees

The term Authorised Investment Fund (AIF) encompasses Authorised Unit Trusts and OEICs. With regard to OEICs, for tax purposes, the umbrella company is not treated as a company but instead each separate sub-fund is regarded as an OEIC in its own right. Sub-funds are therefore treated separately for Capital Gains Tax (CGT) purposes and therefore an exchange of shares in one sub-fund for those of another typically constitutes a disposal and acquisition.

An OEIC is an investment company subject to corporation tax on its taxable income at the funds rate of tax which is equal to the basic rate of income tax (currently 20%). Capital gains are exempt from tax at fund level and instead CGT is levied at client level on disposals. In each distribution period an OEIC must distribute the total amount available for distribution shown in the accounts, to investors in proportion with their rights. As outlined above, a distribution may be an income distribution, or for those with accumulation shares the distribution may be reinvested and added to capital.

An OEIC fund will distribute income in one of two ways

1) A dividend distribution

2) An interest distribution

Interest may be paid only if the fund satisfies the ‘qualifying investments’ test throughout the distribution period otherwise the whole amount available for distribution will be a paid as dividend. Clearly this is important from a tax perspective for individual and trustee investors who will either be taxed as receiving dividends or interest which attract differing tax consequences. For the avoidance of doubt, interest from an OEIC will be received gross and dividends will be treated in the same manner as any other UK company dividend. The position for corporate investors is detailed below.

Regarding the qualifying investments test, it is satisfied if at all times throughout the distribution period the market value of the OEICs 'qualifying investments' exceeds 60% of all its investments. Qualifying investments either yield interest or, whilst not being interest, give returns whose economic substance is of a similar nature.

If an OEIC pays interest that is an allowable expense in its corporation tax computation. In other words taxable interest received by the OEIC fund will be offset by tax allowable interest paid out (distributed). If the OEIC fund pays out dividends then those dividend payments are not an allowable expense but that is to be expected since dividends received are not taxable. Accordingly, in a dividend paying fund, any non-dividend income will be taxable with no interest expense being offset against it – because the fund is paying dividends, not paying interest. With these rules in mind, and given that the fund is not taxable on chargeable gains, then clearly a 'light touch' tax regime applies. That reflects the fact that the intention of the tax rules for OEIC funds is that investors should broadly be in the same tax position as if they had invested directly in the underlying investment assets of the fund.

OEICs – corporates

We need to consider separately how the investing company is taxed on both OEIC income and gains.

Regarding income, dividends or interest will be received from the OEIC. A treatment known as "corporate streaming" applies to corporates investing in OEICs and receiving dividend distributions. These rules ensure corporate investors pay the right amount of tax and accordingly the dividend will be split by the OEIC provider so that part is treated as receipt of tax free dividend and part as receipt of taxable interest. The calculation ensures that the company's share of taxable income is not treated as tax free dividend.

What about capital growth?

For a micro entity using historic cost accounting, regardless of the fund type the gain will simply be subject to corporation tax on disposal. Remember that includes fund switching.

Where it's a larger company using fair value accounting, then a fund passing the 60% test' falls under those same loan relationship rules as Bonds so will be revalued and taxed annually. Equity funds don't so although the accounts might reflect the growth, the tax wouldn't follow suit but would only arise on disposal.

Detailed Analysis

AIF facts

AIF planning

Please note that the figures used in this guide are for illustrative purposes only and should not be taken as an indication of past or future performance.
Your client's investment could go down as well as up, they may not get back what they paid in.

Individuals

Bond – Basic rate taxpayer	Go to the briefcase
Bond – Individual with Income Drawdown retirement plan	Go to the briefcase
Bond – Non-taxpayer	Go to the briefcase
Bond – Higher earners and £100k personal allowance trap	Go to the briefcase
Bond – Potential future trust planning	Go to the briefcase
Bond – Temporary Non-UK resident	Go to the briefcase
OEIC – Higher Rate taxpayer	Go to the briefcase
OEIC – planning for the future	Go to the briefcase

Corporates

Investment company – international capital redemption bond	Go to the briefcase
Micro Entity – international bond	Go to the briefcase
Micro Entity – UK bond	Go to the briefcase
Non-Micro Entity – international bond	Go to the briefcase
Non-Micro Entity – UK bond	Go to the briefcase
Non-Micro Entity – OEICs	Go to the briefcase

Trustees

Intestacy – England and Wales	Go to the briefcase
Bond – Will Trust – Interest in possession (IIP)	Go to the briefcase
OEIC – Will Trust – Interest in possession (IIP	Go to the briefcase
Will trust – Discretionary	Go to the briefcase
Gift Trust – Absolute	Go to the briefcase
Personal Injury Trust – Absolute	Go to the briefcase
University fees planning – Discretionary Gift Trust	Go to the briefcase

Bond – Basic rate taxpayer

Scenario

Mary is looking to invest £60,000 for the medium to long-term, five to 10 years or more. She doesn't need an income from the investment but may take withdrawals to fund future pension and/or ISA contributions.

She expects to be a basic rate taxpayer when any withdrawals are taken and would like to minimise tax reporting requirements.

Investing in a bond

- Mary invests in an UK bond.
- She will be owner of the bond.
- She can be life assured but it's possible to have additional lives assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- Mary can pay for the initial and ongoing advice from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Switches between funds will not trigger any tax consequences.
- Mary can take withdrawals within the tax deferred allowance without triggering a chargeable event for income tax purposes.
- Top slicing relief may be available if a significant gain arises and takes Mary into higher or additional rate tax.
- Realised gains come with a 20% 'tax credit' which satisfies a basic rate taxpayer's basic rate tax liability. The effective rate of tax within the fund will however be less than the 20% tax deemed suffered.
- Having the maximum amount of segments can help with tax planning as it provides more flexibility when it comes to crystallising smaller gains.

Bond – Individual with Income Drawdown retirement plan

Scenario

Jim is looking to make a single premium investment of £80,000. He would like the investment to grow in a tax efficient environment and minimise tax on an ongoing basis.

He retired five years ago at age 55 and draws his pension income from his Flex-Access Drawdown plan. He has no immediate need for access to these funds but would be prepared to use them to fund his normal expenditure if it helped improve overall tax efficiency.

Investing in a bond

- Jim invests in an international bond.
- He'll be owner of the bond.
- He can also be life assured but it's possible to have additional lives assured. Alternatively an international bond can be set up on a capital redemption basis with no lives assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- Jim can pay for the initial and ongoing advice from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term, five to 10 years or more.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Switches between funds will not trigger any tax consequences.
- Jim can take withdrawals within the tax deferred allowance without triggering a chargeable event for income tax purposes.
- Top slicing relief may be available if a significant gain arises and takes him into higher or additional rate tax.
- There is no tax suffered within the bond except any irrecoverable withholding tax, so returns benefit from gross roll up over the longer term.
- Jim can control the level of income he takes from his Income Drawdown plan to free up nil rate tax allowances to help crystallise gains on the bond tax efficiently.
- If the chargeable gain falls within Jim's available starting rate for savings, personal savings allowance or personal allowance the gain will suffer no tax.
- Having the maximum amount of segments can help with tax planning as it provides more flexibility when it comes to crystallising smaller gains.

Individuals
Corporates
Trustees
Why Prudential for bonds and OEICs?
Further support

Bond – Non-taxpayer

Scenario

Ellie is looking to invest £100,000 for the medium to long-term, so five to 10 years or more. She doesn't need to generate an income at present but expects to take withdrawals in the future when she expects to be a non-taxpayer. She's keen to invest in a tax efficient manner and minimise tax payable.

Investing in a bond

- Ellie invests in an international bond.
- She will be owner of the bond.
- She can be life assured but it's possible to have additional lives assured. Alternatively an international bond can be set up on a capital redemption basis with no lives assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- The initial and ongoing advice to the client can be paid for from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Switches between funds will not trigger any tax consequences.
- Ellie can take withdrawals within the tax deferred allowance without triggering a chargeable event for income tax purposes.
- Top slicing relief may be available if a significant gain arises and takes Ellie into higher or additional rate tax.
- There is no tax within the bond except any irrecoverable withholding tax, so returns benefit from gross roll up over the longer term.
- If the chargeable gain falls within Ellie's available starting rate for savings, personal savings allowance and personal allowance the gain will suffer no tax.
- Having the maximum amount of segments can help with tax planning as it provides more flexibility when it comes to crystallising smaller gains.

Bond – Higher earners and £100k personal allowance trap

Scenario

Helen recently cashed in a share portfolio and wants to reinvest the £150,000 proceeds for the medium to long-term, so five to 10 years or more. One of the reasons for cashing in the share portfolio is because she currently earns £98,000 a year and the income generated by the shares was resulting in her losing personal allowance.

Having already maximised her pension and ISA contributions she wants to invest for capital growth and doesn't want to generate income in order to protect her personal allowance.

Investing in a bond

- Helen sets up a UK or international bond.
- She'll be owner.
- She can be life assured but it's possible to have additional lives assured. Alternatively an international bond can be set up on a capital redemption basis with no lives assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- Helen can pay for the initial and ongoing advice from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Switches between funds will not trigger any tax consequences.
- Helen can take withdrawals within the tax deferred allowance without triggering a chargeable event for income tax purposes.
- Having the maximum amount of segments can help with tax planning as it provides more flexibility when it comes to crystallising smaller gains.
- Depending on Helen's tax circumstances when a gain is realised, top slicing relief may be available if any gain takes Helen into higher or additional rate tax.

continued over >>

- If Helen is likely to be a taxpayer when gains are realised a UK bond could be suitable. Gains realised from a UK bond come with a 20% 'tax credit' which satisfies the taxpayers's basic rate tax liability. The effective rate of tax within the fund will however be less than the 20% tax deemed suffered.
- With an international bond there is no tax within the bond except any irrecoverable withholding tax, so returns benefit from gross roll up over the longer term.
- An international bond could be appropriate if Helen expects to have little or no income when gains are realised as the gains will suffer no tax if the gain falls within her available starting rate for savings, personal savings allowance or personal allowance.

Bond – Potential future trust planning

Scenario

Andrew is looking to invest £300,000 to achieve capital growth for the medium to long-term, so five to 10 years or more. He doesn't need to generate an income from the investment and wants the ability to gift some or all of the investment into a discretionary gift trust for the benefit of his children and grandchildren in the future with no immediate tax consequences when making the gift.

Investing in a bond

- Andrew sets up a UK or international bond.
- He'll be owner.
- He can be life assured but it's possible to have additional lives assured. Alternatively an international bond can be set up on a capital redemption basis with no lives assured.
- The bond or individual segments of the bond can be assigned into trust at a later date at which point the trustees will become owners of the bond. This will be a transfer of value for IHT purposes.
- The bond is set up with the maximum number of segments for maximum flexibility.
- Andrew can pay for the initial and ongoing advice from the investment. If the bond is placed into trust ongoing advice to trustees can be paid for from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Switches between funds will not trigger any tax consequences.
- Andrew (or the trustees if later assigned to trust) can take withdrawals within the tax deferred allowance without triggering a chargeable event for income tax purposes.
- Having the maximum amount of segments available can help with tax planning as it allows Andrew (or trustees if later assigned to trust) to trigger smaller gains than they could with less segments.

continued over >>

- Andrew can assign the bond or segments of the bond into a Gift Trust with no income tax or capital gains tax consequences.
- The trustees can assign individual segments of the bond to any of the potential beneficiaries without immediately triggering a chargeable event.
- While Andrew is the sole owner top slicing relief may be available if any gains realised take Andrew into higher or additional rate tax.
- If later assigned to trust, gains assessable against the trustees in tax years after his death can't benefit from top slicing but trustees can assign the bond or individual segments to trust beneficiaries first in order for gain to be assessed against the beneficiary. Top slicing relief may be available if any gains take the beneficiary into higher or additional rate tax.
- If Andrew or future beneficiaries are likely to be taxpayers when gains are assessed against them a UK bond could be suitable. Gains realised from a UK bond come with a 20% 'tax credit' which satisfies a basic rate taxpayers basic rate tax liability. The effective rate of tax within the fund will however be less than the 20% tax deemed suffered.
- With an international bond there is no tax within the bond except any irrecoverable withholding tax, so returns benefit from gross roll up over the longer term.
- An international bond could be appropriate if Andrew or future beneficiaries have little or no income as gains assessed against them will suffer no tax if the gain falls within their available starting rate for savings, personal savings allowance or personal allowance.

Bond – Temporary Non-UK resident

Scenario

Bill has secured a contract to work abroad on a project expected to last six years. His wife is going with him and as the kids have left home they have sold their house as this was something they had been considering anyway. Bill wants to invest the £500,000 proceeds from the sale of his house in a tax efficient environment. He doesn't expect to require access while he's abroad but will want to cash in the investment on his return to the UK after the project is complete to buy a new home.

Investing in a bond

- Bill sets up an international bond.
- He can be life assured but it's possible to have additional lives assured. Alternatively an international bond can be set up on a capital redemption basis with no lives assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- Bill can pay for the initial and ongoing advice from the investment.
- This solution covers UK tax implications. As the client will be temporary non-UK resident the advice should be complimented with international tax advice to understand how the investment would be treated for tax purposes in the country Bill is moving to on a temporary basis. This advice should be sought before the recommendation is put in place.

Summary

- The investment offers the prospect of capital growth over the medium to long-term.
- A bond is a non-income producing investment so there will be no UK tax implications until a chargeable event occurs and Bill is UK tax resident again.
- Switches between funds will not trigger any UK tax consequences.
- Bill can take withdrawals within the tax deferred allowance without triggering a chargeable event for UK income tax purposes.
- There is no tax within the bond except any irrecoverable withholding tax, so returns benefit from gross roll up over the longer term.

continued over >>

- Time apportionment relief is available for the period Bill was a non-UK resident which reduces the chargeable event gain. If Bill was a non-UK resident for the whole period then the gain will be nil.
- If the investment is not immediately surrendered as expected on returning to the UK, top slicing relief may be available if a gain arises and takes Bill into higher or additional rate tax. The number of complete policy years will be reduced by the number of complete years Bill was non-UK resident.
- Having the maximum amount of segments can help with tax planning as it provides more flexibility when it comes to crystallising smaller gains.

OEIC – Higher Rate taxpayer

Scenario

Edward who is an employee is a Higher Rate taxpayer with simple financial affairs. He has just been promoted and has decided to save some of his extra income into his pension plus a modest sum every month into a regular savings vehicle and is keen to reinvest any income generated. His Capital Gains Tax (CGT) Annual Exemption is fully unused. He utilises his ISA allowance every year.

Investing in OEICs

- Edward invests £50 per month into an OEIC.
- He selects accumulation shares.
- He chooses an 'equity' fund where money market type investments fall below 60% of the total investments.

Summary

- Edward's regular savings investment generates income since the chosen fund must distribute the total amount available for distribution as per the accounts, to investors in proportion with their rights.
- Edward's chosen fund will distribute dividends and not interest.
- Investing in accumulation shares means that the dividend income doesn't 'hit' his bank account but is instead reinvested and added to capital. Even so, the distribution remains income for tax purposes.
- Edward's Dividend 'Allowance' is available to shelter any income tax liability on his OEIC dividends.
- If, in future years his dividends exceed the dividend 'allowance', then the rate of tax payable from April 2023 is 33.75% for dividends in the higher rate band.
- In Edward's income tax computation his employment income is taxed first and then his dividend income second. He has no savings income.
- If Edward subsequently chooses to exchange his shares in the original fund for those of another, then that will constitute a disposal and acquisition. His CGT Annual Exemption is however currently unused.
- Internally, the OEIC fund is not subject to tax on Capital Gains. Instead, as highlighted above, Capital Gains are chargeable on Edward.
- Dividends received by the OEIC fund are not taxable for the fund and consequently dividends distributed by the fund are not allowable expenses for the fund.
- In future years, Edward will have the option of selling shares to crystallise a gain within his Annual CGT Exemption and perhaps repurchase those same shares within his ISA or pension.

OEIC – planning for the future

Scenario

Edith and Felix are a married couple. They have no children but would like to invest a modest sum, monthly, for their only niece Gemma who is just 12 years old. They are keen to ensure that this is "Gemma's investment" so that once she turns 18 she can use the funds as she sees fit for university, travelling etc. Edith and Felix do not require access to these funds.

Investing in OEICs

- Edith and Felix decide upon a regular premium OEIC investment which they irrevocably designate in favour of Gemma to create a bare trust.
- Note that with Gemma being under 16, only a person with parental responsibility could have opened a JISA.
- They choose two funds. An 'interest' fund where money market type investments exceed 60% of the total investments and an 'equity' fund where money market type investments fall below 60% of the total investments.
- Accumulation shares are selected to roll-up the income.
- Gemma has an immediate and absolute entitlement to both capital and income.

Summary

- The OEIC investments generate income for Gemma since the chosen funds must distribute the total amount available for distribution as per the accounts, to investors in proportion with their rights.
- The fund where money market type investments exceed £60% of total investments will distribute interest.
- The fund where money market type investments fall below 60% will distribute dividends.
- Investing in accumulation shares means that the income is reinvested and added to capital. Even so, the distribution remains Gemma's income for tax purposes.
- Income and Gains will be taxed on Gemma but in practice no tax will be payable for the foreseeable future given the numbers involved.
- The anti-avoidance 'parental settlement' rules (i.e. the £100 rule) do not apply as Edith & Felix are not Gemma's parents.
- Remember that prior to the investment, Gemma was not utilising her personal allowance of £12,570; her 0% Starting Rate Band for savings of £5,000, her Personal Savings 'Allowance' of £1,000, and her Dividend 'Allowance'.

continued over >>

- If subsequently there is an exchange of shares in the original funds for other funds, then that will constitute a disposal and acquisition. Gemma's CGT Annual Exemption is however otherwise unused.
- Internally, OEIC funds are not subject to tax on Capital Gains. Instead, any Capital Gains are chargeable on Gemma the investor.
- Dividends received by OEIC funds are not taxable for the fund and consequently dividends distributed by the fund are not allowable expenses for the fund. Where an OEIC fund pays interest that is an allowable expense in its corporation tax computation meaning that taxable interest received by the fund will be offset by tax allowable interest paid out (distributed).
- As a general rule, the inflexibility of Bare Trusts means that caution should be exercised where large sums are involved.

Investment Company – International Capital Redemption Bond

Scenario

Lochern Ltd is an investment company. Following a recent disposal, it has cash to invest for the medium to long-term, so five to 10 years or more. A suitable fund has been identified offering the prospect of a smoothed return. This is available in an investment bond wrapper. There is a concern however that a life assurance bond may not be appropriate because the company needs to demonstrate insurable interest in the selected lives assured. Typically, lives assured would be directors whose death would cause financial detriment to the company. This might not be the case with a non-trading company.

The company prepares accounts under FRS102.

Investing in a bond

- The company invests in an international capital redemption bond offering the prospect of smoothed returns.
- The capital redemption bond is set up with Lochern Ltd as the owner with no lives assured required.
- The bond will mature after 99 years but will probably be surrendered prior to that.
- The bond will be accounted for under fair value rules.
- Annual increases in value are taxable.
- The adviser and accountant liaise as this impacts investment, accounting and tax matters.
- The advice fee is paid from the company bank account.

Summary

- If cash is required, the bond can be partially or fully surrendered without penalty.
- The investment offers the prospect of better returns in a smoothed environment.
- The Balance Sheet at the end of each accounting period will accurately reflect the bond's surrender value.
- Growth on the bond is recognised annually and taxed.
- No corporation tax liability arises on fund switches.
- Paying the advice fee from the company bank account is the simpler approach. If instead it is paid from the bond, that triggers a part disposal, and the profit (or loss) needs to be calculated.

Micro-Entity international bond

Scenario

Ken More is an IT contractor. With his services in demand, he has accumulated a surplus cash balance of £50,000 in his company, Ken More Ltd. He is unlikely to use this for business purposes, but has decided to delay extracting these funds until he winds up his company in just over ten years. Disappointed at the interest being earned, he is looking to achieve a better return without introducing undue volatility concerns. He wants his investment to grow in a tax-free environment (accepting that irrecoverable withholding tax may arise).

The company is a micro-entity and prepares accounts under FRS105.

Investing in a bond

- Ken More Ltd invests in an international capital redemption bond offering the prospect of smoothed returns.
- The capital redemption bond is set up with Ken More Ltd as the owner with no need for Ken to be the life assured. Therefore, it'll not end if Ken was to die.
- The bond will be accounted for under historic cost rules.
- The adviser and accountant liaise as this impacts investment, accounting and tax matters.
- The advice fee is paid from the company bank account.

Summary

- If cash is required, the bond can be partially or fully surrendered without penalty.
- The investment offers the prospect of achieving a better return in a smoothed environment.
- Simple accounting – no annual gain (or loss) needs to be recognised in the company accounts.
- Growth is not recognised in the accounts (the tax treatment follows the accounting treatment).
- Regarding a gain on 'disposal', the company will be subject to corporation tax at the prevailing rate. There will be no 'basic rate credit' as it is not a UK bond. Ken's accountant explains the corporation tax changes from 1 April 2023 – main rate increased to 25% for profits over £250,000 and small profits rate of 19% for companies with profits of £50,000 or less. For profits between £50,000 and £250,000 tax due at main rate reduced by marginal relief.
- No corporation tax liability arises on fund switches.
- Paying the advice fee from the company bank account is the simpler approach. If instead it is paid from the bond, that triggers a part disposal, and the profit (or loss) needs to be calculated.

Micro-Entity UK bond

Scenario

Ailsa Craig is a 50 year old medical consultant providing private healthcare to patients via her company, Ailsa Craig Ltd. Fee income has been good, and she has steadily built up a surplus cash balance in her company of £100,000. Her plan is to keep those 'nest egg' funds inside her company and ultimately access them for personal use when she retires and winds up her company. Noting the poor return being earned on these funds under deposit, she is looking to achieve a better return without introducing undue volatility concerns.

The company is a Micro-entity preparing accounts under FRS105.

Investing in a bond

- Ailsa Craig Ltd invests in a UK investment bond offering the prospect of smoothed returns.
- The company is the owner and Ailsa is the sole life assured.
- The bond will be accounted for under historic cost rules.
- The adviser and accountant liaise as this impacts investment, accounting and tax matters.
- The advice fee is paid from the company bank account.

Summary

- If cash is required, the bond can be partially or fully surrendered without penalty.
- The investment offers the prospect of better returns in a smoothed environment.
- Simple accounting – no annual gain (or loss) needs to be recognised in the company accounts.
- There will be no annual corporation tax liability on growth since growth is not recognised in the accounts (the tax treatment follows the accounting treatment).
- Regarding a gain on 'disposal', the company will be entitled to a 'basic rate credit' given that it is a UK bond.
- Ailsa's accountant explains the corporation tax changes from 1 April 2023 – main rate increased to 25% for profits over £250,000 and small profits rate of 19% for companies with profits of £50,000 or less. For profits between £50,000 and £250,000 tax due at main rate reduced by marginal relief.
- No corporation tax liability arises on fund switches.
- Paying the advice fee from the company bank account is the simpler approach. If instead it is paid from the bond, that triggers a part disposal, and the profit (or loss) needs to be calculated.

Non-Micro Entity international bond

Scenario

Dawson MacLeod Ltd is a medium sized company providing landscaping services to the domestic market. Business has been good in recent years and with the directors being prudent regarding profit extraction, the company now has a surplus cash balance of £1m. In the medium to long-term, so five to 10 years or more, they intend using these funds to expand into the corporate market as they are concerned that profitability in the future will fluctuate as the domestic market becomes more competitive.

The accounts are prepared under FRS102.

Investing in a bond

- The directors choose an international capital redemption bond offering the prospect of smoothed returns. Smoothing is important as the funds are earmarked for a specific purpose.
- The capital redemption bond is set up with Dawson MacLeod Ltd as the owner. None of the directors need to be lives assured (therefore it will not end on death of the last life assured).
- The bond will be accounted for under fair value rules.
- Annual increases in the value of the bond are subject to corporation tax.
- This international solution avoids concerns that could arise with a UK bond where the tax credit on disposal can't be fully utilised because the tax credit can only be offset against the overall corporation tax liability for the accounting period in question. If the credit exceeds the company's corporation tax liability then the excess is not repayable and neither can it be set off against any prior or future accounting periods. This would have been a concern for the directors given the anticipated fluctuating profitability of the company.
- The adviser and accountant liaise as this impacts investment, accounting and tax matters.
- The advice fee is paid from the company bank account.

Summary

- If cash is required, the bond can be partially or fully surrendered without penalty.
- The investment offers the prospect of better returns in a smoothed environment.

continued over >>

- The Balance Sheet at the end of each accounting period will accurately reflect the bond's surrender value.
- Growth on the bond is recognised annually and taxed.
- There is no 'basic rate credit' on disposal with an international bond as the fund enjoys gross roll-up (subject to any irrecoverable withholding tax). This avoids concerns which can arise with a UK bond that the tax credit might not be fully utilised.
- No corporation tax liability arises on fund switches.
- Paying the advice fee from the company bank account is the simpler approach. If instead it is paid from the bond, that triggers a part disposal, and the profit (or loss) needs to be calculated.

Non-Micro Entity UK bond

Scenario

Clyde and Spey Ltd is a medium sized, long established engineering company with stable profits which are expected to continue in the future. On the advice of their accountant, the directors adopt a prudent approach to extracting profits and accordingly a surplus cash balance of £750,000 has arisen. Conscious that these funds might be required in several years time to move premises, the directors are looking to achieve a better return without introducing undue volatility concerns. The directors are very traditional and wish to invest in the UK.

The company prepares accounts under FRS102.

Investing in a bond

- Clyde and Spey Ltd purchases a UK investment bond offering the prospect of smoothed returns.
- Clyde and Spey Ltd is the owner and two of the directors are lives assured.
- If either or both of the lives assured leave the company, the company owned investment bond will continue. It will however payout if both lives assured die.
- The bond will be accounted for under fair value rules.
- Annual increases in value are taxable despite the underlying life fund being subject to tax (i.e. net growth is taxed). The benefit of the 'tax credit' on the UK bond is only realised on a subsequent disposal.
- The tax credit on disposal can only be offset against the overall corporation tax liability for the accounting period in question. If the credit exceeds the company's corporation tax liability then the excess is not repayable and neither can it be set off against any prior or future accounting periods.
- The adviser and accountant liaise as this impacts investment, accounting and tax matters.
- The advice fee is paid from the company bank account.

Summary

- A UK bond satisfies the directors desire to invest in the UK.
- If cash is required, the bond can be partially or fully surrendered without penalty.
- The investment offers the prospect of better returns in a smoothed environment.

continued over >>

- The Balance Sheet at the end of each accounting period will accurately reflect the bond's surrender value.
- Growth on the bond is recognised annually and tax is subject to corporation tax.
- Regarding a gain on 'disposal', the company will be entitled to a 'basic rate credit' given that it is a UK bond.
- The long-standing stability of trading profits means the directors are confident that the overall corporation tax liability will be sufficient to fully absorb the UK bond tax credit so that none of it is wasted when a disposal occurs in a later accounting period.
- No corporation tax liability arises on fund switches.
- Paying the advice fee from the company bank account is the simpler approach. If instead it is paid from the bond, that triggers a part disposal, and the profit (or loss) needs to be calculated.

Non-Micro Entity OEICs

Scenario

FV Ltd is a medium sized construction company which has been particularly successful in recent years. The directors have been prudent regarding profit extraction and the company now has a surplus cash balance of £150,000. The three directors are confident this sum will not be needed for business purposes but rather than extracting the funds just now, they have decided to invest within the company and are willing to take a high level of risk. They duly select a fund with a high volatility limit which is more than 60% invested in shares. This is a medium to long-term investment.

The accounts are prepared under FRS102.

Investing in OEICs

- The accounts are prepared under FRS102 meaning that fair value rules apply.
- If the company had invested in a bond then the loan relationship rules would have applied and annual increases in the value of a bond would therefore have been subject to corporation tax.
- Investing in an OEIC fund which is less than 60% invested in money market type funds means that the loan relationship rules will not apply.
- The growth on the chosen OEIC fund investment will not be taxed annually but instead taxed on disposal. A fund switch will give rise to a disposal.
- The OEIC fund will generate income. Dividends received by FV Ltd will be split by the provider into one part which relates to dividend income and another part relating to other income. This is known as 'streaming'.
- The advice fee is paid from the company bank account.

Summary

- In contrast to a non-income producing bond, the OEC investment generates income but the directors can choose accumulation shares where income is reinvested and added to capital. Regardless of that, the amounts reinvested are taxed as income.
- The streaming treatment that applies to dividends paid by the OEIC fund applies to corporates but not individuals and trustees.

continued over >>

Individuals

Corporates

Trustees

Why Prudential for bonds and OEICs?

Further support

- The part relating to dividend income is tax exempt for FV Ltd.
- The part relating to other income is taxable for FV Ltd.
- Although the accounts may reflect the growth on the OEIC investment, the tax wouldn't follow suit because the loan relationship rules do not apply to the fund in question. Instead capital growth would only be taxed on disposal and the prevailing corporation tax rate would apply.
- Growth on a bond would however have been recognised annually and taxed under the loan relationship rules.
- Gains on OEIC fund switches will be subject to corporation tax.
- Paying the advice fee from the company bank account is simple and accords with normal expectations of the directors and the accountant.
- The adviser and accountant liaise as this impacts investment, accounting and tax matters.

Intestacy – England and Wales

Scenario

Jill recently passed away unexpectedly without leaving a Will. Under the laws of intestacy in England and Wales her estate passed to her 10 year old son Ian, however, as he is a minor (under 18), a statutory "bereaved minor's trust" is automatically created.

Jill's sister Anthea and her husband are acting as administrators of Jill's estate and will act as trustees of the trust until Ian reaches age 18. Jill's estate includes various assets including cash of £250,000 which the trustees want to invest for growth for the next 8 years. The trustees are concerned about the trustee rate of tax which could apply to income and gains until Ian has a vested interest at 18 and consider that a Vulnerable Person's Election might be unduly complex.

Investing in a bond

- The trustees invest in an international investment bond.
- The trustees are the owners with the bond being set up with the Ian as the life assured.
- The bond is set up with the maximum number of segments to for maximum flexibility.

Summary

- The investment offers the prospect of capital growth over the medium to long-term, so five to 10 years or more.
- There is no tax within the bond except withholding tax so returns benefit from gross roll up.
- A bond is a non income producing investment so there will be no tax implications until a chargeable event occurs.
- Trustees can make withdrawals within the tax deferred allowance if they wish to advance capital for Ian's benefit while he is a minor without triggering a chargeable event.
- The trustees can make an appointment of segments in favour of Ian so that when those segments are encashed any gain will be taxed on Ian at his personal tax rate rather than the trustee rate that would apply until he attains age 18.
- If an appointment is made, gains within Ian's Personal Allowance, Starting rate for Savings, or Personal Savings Allowance will suffer no tax. This is advantageous for those with little or no income.
- When Ian attains age 18 and becomes absolutely entitled, the trustees will assign the segments to Ian.
- Switches between funds will not trigger any tax consequences.

Bond – Will Trust – Interest in Possession (IIP)

Scenario

Elizabeth Connelly died and in her Will created a trust which gave her spouse Andrew, a right to live in the main residence which was owned solely in her name. Elizabeth also had various investments and cash deposits which were left to the trust. Andrew is entitled to any income generated from these assets and the trust states that the trustees can advance capital to him at their discretion.

The trustees have retained Elizabeth's significant OEIC portfolio and expect this will generate sufficient income for Andrew, however, there is still £400,000 in cash which they want to invest.

Upon Andrew's death the trust property passes to her two sons who are acting as trustees along with Andrew. Both Andrew and the two sons are basic rate taxpayers.

Investing in a bond

- The trustees invest in a UK investment bond.
- The trustees are the owners, with the bond being set up with Elizabeth's children as the lives assured.
- The bond is set up with the maximum number of segments to for maximum flexibility.
- The initial and ongoing advice being provided to the trustees can be paid for from the investment.

Summary

- The investment offers the prospect of real returns to help the capital keep pace with inflation.
- The bond can be held for the ultimate benefit of the children or used to supplement Andrew's if required. This will be achieved by advancing capital.
- The trustees can make withdrawals within the tax deferred allowance without triggering a chargeable event.
- Alternatively, the trustees may assign bond segments to Andrew and when he subsequently encashes, any gain will be taxable on him. Top slicing relief may then be available.
- Gains from UK life funds come with a 20% 'tax credit' which satisfies the basic rate tax liability but the effective rate of tax within the fund will be less than this.
- Switches between funds will not trigger any tax consequences.

OEIC – Will Trust – Interest in Possession (IIP)

Scenario

Kirsteen who recently died was married to Lionel. She had three children from a previous relationship. In her will she included a provision stating that the residue of her estate passes to trustees where Lionel will have a life interest (entitled to income) and on his death the capital will pass absolutely to her three children.

This creates an Immediate Post Death Interest (IPDI) for Lionel because he has become entitled to an IIP after 21 March 2006 under Kirsteen's will. This means that Lionel, the income beneficiary, has the trust fund inside his estate. The spousal exemption applies to the funds passing on Kirsteen's death.

Although Lionel is entitled to the income generated, the trustees have no powers to advance capital to him as Kirsteen wanted to preserve the capital for her three children.

The trustees who have wide investment powers decide to invest the trust fund in OEICs.

Lionel is a basic rate taxpayer.

Investing in OEICs

- The trustees invest in two OEIC funds.
- One OEIC fund pays interest as money market type investments exceed 60% of all its investments.
- The other OEIC fund pays dividends as the money market type investments falls short of the 60% test.
- Given that Lionel is entitled to the income, then income shares rather than accumulation share are purchased.

Summary

- Trustees have a duty to ensure fairness between beneficiaries. It would therefore have been unfair for the trustees to wholly invest in a non-income producing bond given that Lionel is only entitled to income and the trustees have no powers to advance capital to him.
- An OEIC investment which generates income with the prospect of capital growth allows the trustees to act fairly between Lionel, the income beneficiary and the children entitled to capital upon Lionel's death.
- Capital gains on disposals/fund switches are taxed on the trustees at 20%. The annual exempt amount is typically half the exemption available to individuals.

continued over >>

- The trustees are liable to 20% tax on interest and 8.75% tax on dividends.
- Personal allowances are available to individuals only and not to trustees. Also, the above rates will apply to the trustees regardless of the level of income since 'tax bands' do not apply.
- Lionel is entitled to the income and therefore is liable to tax on it but will receive a tax credit for the tax paid (or effectively paid) by the trustees.
- The income 'retains its character' which means that the tax due by income beneficiaries reflects the Dividend 'Allowance', the £5,000 Starting Rate for savings income and the £1,000 Personal Savings 'Allowance' as appropriate.
- It is possible for the trustees to 'mandate' trust income to Lionel meaning that he receives it instead of the trustees. There is then no need to tax the trustees on the income with Lionel both receiving the income and being entitled to it. This mandating procedure does not impact on the overall tax burden but instead is an administrative short cut.

Will trust – Discretionary

Scenario

When William Aitchison passed away his Will created a nil rate band discretionary trust. The potential beneficiaries include William's wife Nina, and his two adult children Peter and Paul. Nina and a local solicitor firm have been appointed as trustees.

Nina has sufficient income and assets for her own needs and the intention is that Peter and Paul will ultimately benefit from the trust fund. The trustees want to invest the £325,000 cash held in the trust and expect that distributions will be made on an ad hoc basis over the next 20 years or so. The trustees are concerned about the trustee rate of tax that could apply to income and gains. Peter is a basic rate taxpayer while Paul is a non-taxpayer.

Investing in a bond

- The trustees have the option to invest in one investment bond.
- Alternatively, they could invest in two bonds with an international bond 'earmarked' for the non-taxpayer and a UK bond for the basic rate taxpayer.
- The trustees are the owners of both bonds.
- The international bond can be set-up on a capital redemption basis with no life assured.
- The bonds are set-up with the maximum number of segments for maximum flexibility.
- The initial and ongoing advice being provided to the trustees can be paid from the bonds.

Summary

- The investment offers the prospect of capital growth over the medium to long-term, so five to 10 years or more.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- The trustees can make withdrawals within the tax deferred allowance without triggering a chargeable event.
- Alternatively, the trustees may assign bond segments to the beneficiaries. When each beneficiary subsequently encashes, any gain will be taxed on the beneficiary at their personal tax rate rather than the trustee rate.

continued over >>

Individuals

Corporates

Trustees

Why Prudential for bonds and OEICs?

Further support

- Regarding segments assigned from a UK bond, realised gains come with a 20% 'tax credit' which satisfies the basic rate taxpayers's basic rate tax liability. The effective rate of tax within the fund will however be less than the 20% tax deemed suffered.
- Regarding segments assigned from the international bond, realised gains can be mopped up by any unused Personal Allowance, Starting Rate for savings, and Personal Savings Allowance.
- Top slicing relief may be available to the Basic Rate individual if the gain takes them into higher or additional rate tax.
- Switches between funds will not trigger any tax consequences.

Individuals

Corporates

Trustees

Why Prudential for bonds and OEICs?

Further support

Gift Trust – Absolute

Scenario

The trustees of an absolute gift trust have received further cash of £100k from the settlor which they are looking to invest. The aim of the trust fund is to pay for the beneficiaries' school fees over the next 10 to 15 years. The trust beneficiaries are the settlor's 2 grandchildren, Rosie (aged 2) and Tom (aged 3).

The trustees want to ensure they meet their duty of maximising returns but are looking for reduced volatility as there will be ad hoc withdrawals required on an ongoing basis. They would also like to take advantage of the beneficiaries' tax position as they do not have any income.

Investing in a bond

- The trustees invest in an international investment bond.
- The trustees are the owners with the bond being set up with Rosie and Tom as the lives assured. Alternatively an international capital redemption bond with no lives assured could be purchased.
- The bond is set up with the maximum number of segments (divisible by two) for maximum flexibility.
- The initial and ongoing advice being provided to the trustees can be paid for from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term, so five to 10 years or more.
- There is no tax within the bond except any irrecoverable withholding tax, so returns benefit from gross roll up over the longer term.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Trustees can make ad hoc withdrawals from the bond to pay the school fees as they arise.
- Trustees can make withdrawals within the tax deferred allowance to pay school fees without triggering a chargeable event but can also encash segments to crystallise gains.
- Any gains are assessed on the grandchildren.
- Gains which fall within the beneficiary's Personal Allowance, Starting rate for Savings, or Personal Savings Allowance will suffer no tax which is advantageous for those with little or no income.
- Switches between funds will not trigger any tax consequences.

Individuals
Corporates
Trustees
Why Prudential for bonds and OEICs?
Further support

Personal Injury Trust – Absolute

Scenario

John suffered an accident at work and was recently awarded a compensation payment which was placed into a Personal Injury Trust. The trustees invested part of the money into an OEIC portfolio but are looking for advice on how to invest the remaining £1m currently sitting in cash.

The trustees are aware of their duty to invest the trust fund but are keen to minimise any tax payable on an ongoing basis. They confirm that John is the sole beneficiary of the trust and his income needs are being met from the existing investments. John is aged 35 so the investment is expected to be in place for the longer term.

Investing in a bond

- The trustees invest in a UK or international investment bond.
- The trustees are the owners with the bond being set up with John as the life assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- The initial and ongoing advice being provided to the trustees can be paid for from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term, so five to 10 years or more.
- A bond is a non income producing investment so there will be no tax implications until a chargeable event occurs.
- Trustees can make withdrawals within the tax deferred allowance if they wish to advance capital for John's benefit.
- Income from the OEICs will already be utilising the Personal Allowance, but bond gains can mop up any unused Starting rate for Savings, or Personal Savings Allowance.
- Top slicing relief may be available to John if the gain takes him into higher or additional rate of tax.
- Switches between funds will not trigger any tax consequences.

University fees planning – Discretionary Gift Trust

Scenario

The trustees of the Stevenson Family Discretionary Trust have £400,000 they are looking to invest. The trust was set up by Andrew Stevenson and while the classes of potential beneficiary include the settlor's children and grandchildren, the intention is to use at least some of the trust fund to pay for the 4 grandchildren's university costs.

The grandchildren are aged between 6 and 12 so the money will be invested for 5 years before withdrawals are required to pay for university. The trustees would like to take advantage of the grandchildrens' tax position where possible.

Investing in a bond

- The trustees invest in an international investment bond.
- The trustees are the owners with the bond being set up with the beneficiaries as the lives assured. Alternatively the trustees have the option of purchasing an international capital redemption bond with no lives assured.
- The bond is set up with the maximum number of segments for maximum flexibility.
- The initial and ongoing advice being provided to the trustees can be paid for from the investment.

Summary

- The investment offers the prospect of capital growth over the medium to long-term, so five to 10 years or more.
- There is no tax within the bond except any irrecoverable withholding tax so returns benefit from gross roll up.
- A bond is a non-income producing investment so there will be no tax implications until a chargeable event occurs.
- Trustees can make withdrawals within the tax deferred allowance to pay university fees without triggering a chargeable event.
- Alternatively, the trustees may assign (to those aged over 18) or irrevocably appoint (to those aged under 18) bond segments to a beneficiary. When the segments are subsequently encashed any gain will be taxed on the beneficiary at their personal tax rate.
- Gains which fall within the Personal Allowance, Starting rate for Savings, or Personal Savings Allowance will suffer no tax. This is advantageous for those such as students with little or no income.
- Switches between funds will not trigger any tax consequences.

Why Prudential for bonds and OEICs

You can access both UK and international bonds through Prudential and Prudential International – part of M&G plc.

Part of M&G plc

M&G plc is a savings and investment company with a long term outlook, bringing the M&G Investments business together under one roof with the UK and European parts of Prudential.

Financial strength

Prudential Assurance Company Limited (PAC) is rated A + (Stable) for financial strength, by Standard & Poors (January 2023). This is one of the highest ratings currently given to any UK life assurance company.

Prudential international benefits from the financial and investment strength provided by the M&G Group and provides financial solutions to customers who want to combine the benefits of investment in an international environment, with the reassurance of a name they can trust.

Smoothing process

Prudential's PruFund range of funds have an established smoothing mechanism which aims to smooth some of the short-term extremes of market volatility.

With-Profits Fund

Prudential's With-Profits Fund in which the PruFund funds invest, is one of the financially strongest with-profits funds in the UK, with assets under managements of £129bn (as at 31 December 2023). The fund size and strength allows Prudential to invest in a very wide range of asset types and individual companies.

Expert fund management

M&Gs Treasury & Investment Office (T&IO) who manage the PruFund range of funds and OEIC funds, has great strength in depth with a team that includes investment professionals with expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management.

Prudential International Assurance – the advantages of our Dublin location

Tax-efficiency

Investments can grow largely tax-free, subject to withholding tax. Please see page 4 for further details.

Strong regulation

Dublin is a location with a strict legal and regulatory environment. The company is subject to European Law, having to comply with all European directives and regulations and to meet European solvency margins.

Specialist infrastructure

With many high-profile international companies located in Dublin, it has a well-developed financial infrastructure and a sophisticated support network.

Further support

Articles

Comparing full segment surrender or part surrender when withdrawing funds from a bond

Offshore bond taxation

Offshore bond taxation: planning ideas

Top slicing relief for bonds taxation: planning ideas

Top slicing relief: the facts

Summary Tax Liabilities for Bonds and Collectives

UK investment bonds: taxation facts

UK investment bonds tax planning ideas

Domicile and its importance for tax purposes

Understanding the 5% Tax Deferred Withdrawal Allowance for bonds: Q&A

Chargeable event gains for bonds and starting rate for saving: Q&A

What duties do trustees have when investing trust funds?

How does a Gift Trust work?

Videos

5% tax deferred allowance

Top Slicing Relief

Company owned bonds

How do personal representatives administer bonds on death

Hubs

Family wealth planning

How we manage money hub

Consumer Duty

Due Diligence and Third Party Reports

Tools and Calculators

Bond Gain Tool

Tax Relief Modeller

Inheritance Tax Calculator

School and University Fees Calculator

Get in touch

Please speak to your Prudential Account Manager if you have any questions about the information in this guide or the bonds we offer.

pruadviser.co.uk

NIPB523016 11/2024_WEB