This is just for UK advisers – it's not for use with clients.

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Summary Tax Liabilities for Bonds and Collectives

Income Tax, Capital Gains and Corporation Tax
Tax Year 2023/24 and financial year starting 1 April 2023

The value of an investment can go down as well as up, so your client might get back less than they put in. For details on Inheritance Tax, please refer to the Adviser Guide to Estate Planning, reference IHTB10026.

	UK Investment Bond	Offshore Investment Bond	Unit Trust & OEIC funds
Individuals			
When can a personal tax liability arise?	When there's a chargeable event and a gain arises on it.	When there's a chargeable event and a gain arises on it.	Will distribute income, so income tax liabilities could arise during the life of the investment. On disposal, capital gains tax (CGT) liabilities can potentially arise.
What type of personal tax may be due?	Income tax is payable on chargeable event gains (typically not CGT).	Income tax is payable on chargeable event gains (typically not CGT).	Potentially liable to both income tax (yearly) and CGT (disposal).
'Starting rate' taxpayer	No income tax payable on chargeable event gains. Top slicing relief available depending on circumstances.	Gains within the available personal allowance will not be taxable. Where the gain exceeds this limit, then an example best illustrates the situation. Example: In 2023/24, Helen who is a 20 year old student with zero income realises a bond gain of £18,570 on the full surrender of an offshore bond. Tax payable would be as follows: £12,570 @Nil = £0 £5,000 @0% = £0 £1,000 @0% = £0 £18,570 £0 A 0% starting rate only applies to savings income up to £5,000 and doesn't apply if an individual's taxable non-savings income exceeds their personal allowance plus the £5,000 starting rate limit.	In 2023/24 the first £1,000 of dividends will be taxed at 0%. In 2024/25 the dividend 'allowance' will drop to £500. This is only available to individuals, not trustees. Interest from an Open Ended Investment Company (OEIC) "debt" fund is "savings income". "The zero rate Personal Savings 'Allowance'" is £1,000 (reduced to £500 if any of the individual's income is taxed at higher rate). Bank, building society interest and interest from OEICs are all paid gross. The starting rate applies to savings income only. If an individual's taxable non savings income exceeds the starting rate limit then the 0% starting rate for savings will not be available.

	UK Investment Bond	Offshore Investment Bond	Unit Trust & OEIC funds
Individuals continued			
Basic rate taxpayer	No income tax payable on chargeable event gains. Top slicing relief available depending on circumstances.	Gain taxable at 20%. Top slicing relief available depending on circumstances. A basic rate taxpayer will have a "Personal Savings 'Allowance'" of £1,000 which can be applied against offshore bond gains.	The rate of tax for dividends above the £1,000 dividend nil rate, is 8.75%. This applies to dividend income within the basic rate band. Regarding interest, the 0% starting rate isn't available where non savings income exceeds the personal allowance plus £5,000. The Personal Savings 'Allowance' is £1,000 for basic rate taxpayers.
Higher rate taxpayer	Gain taxable at 20% (40% – 20%). Top slicing relief is available depending on circumstances. The "Personal Savings 'Allowance'" is £500 where any of the individual's income is higher rate income and may reduce the tax payable on the bond gain.	Gain taxable at 40%. Top slicing relief available depending on circumstances. "Personal Savings 'Allowance'" is £500 where any of the individual's income is higher rate income and may reduce the tax payable on the bond gain.	The rate of tax for dividend income above the £1,000 dividend nil rate is 33.75% for dividends in the higher rate band. Regarding interest, the 0% starting rate isn't available where non savings income exceeds the personal allowance plus £5,000. The "Personal Savings 'Allowance'" is £500 where any of the individual's income is higher rate income.
Additional rate taxpayer	Gain taxable at 25% (45% – 20%). The "Personal Savings 'Allowance'" is nil for additional rate taxpayers.	Gain taxable at 45%. The "Personal Savings 'Allowance'" is nil for additional rate taxpayers.	The rate of tax for dividend income above the £1,000 dividend nil rate is 39.35% for dividends within the additional rate band. The "Personal Savings 'Allowance'" is nil for additional rate taxpayers.
Capital Gains Tax	N/A	N/A	Disposal of shares may give rise to CGT. Capital gains are taxed after income. The rates are as follows: 10% for that part of any taxable gain that falls within the basic rate band and the remainder at 20%. The Annual Exempt Amount is £6,000 in 2023/24 and £3,000 in 2024/25.

	UK Investment Bond	Offshore Investment Bond	Unit Trust & OEIC funds
Trustees			
Absolute Trust (also known as Bare Trust)	Chargeable event gains assessed on the beneficiary (if non parental settlement). More complex rules can apply for absolute discounted gifts trusts.	Chargeable event gains assessed on the beneficiary (if non parental settlement). More complex rules can apply for absolute discounted gifts trusts.	Income assessed on the beneficiary (if non parental settlement). Capital gains assessed on the beneficiary.
Discretionary Trust	Was the settlor/creator alive and UK resident immediately before the chargeable event occurred? If so, the gain is assessed on the settlor's individual tax position. If not, did the settlor die in the current or previous tax year. If current, the gain is assessed on the settlor's individual tax position. If previous, the gain is assessed on the trustees. In 2023/24 where trustees are taxable, the first £1,000 of trust income within the standard rate band is taxed at 20% (8.75% for dividends). No tax due therefore for a UK bond gain up to £1,000. If the UK bond gain exceeds this band then 25% tax is due on the excess (45% – 20%). The £1,000 band is being removed for 2024/25 onwards. Where the settlor is taxable, then he or she may recover the tax from the trustees.	Was the settlor /creator alive and UK resident immediately before the chargeable event occurred? If so, the gain is assessed on the settlor's individual tax position. If not, did the settlor die in the current or previous tax year. If current, the gain is assessed on the settlor's individual tax position. If previous, the gain is assessed on the trustees. In 2023/24 where trustees are taxable, the first £1,000 of trust income within the standard rate band is taxed at 20% (8.75% for dividends). Offshore bond gains up to £1,000 therefore taxed at 20%. Where bond gains exceed this band, 45% tax is due on the excess for an offshore bond gain. The £1,000 band is being removed for 2024/25 onwards. Where the settlor is taxable, then he or she may recover the tax from the trustees.	In 2023/24 a standard rate band of £1,000 applies with dividends taxed at 8.75% and interest at 20%. The band is being removed for 2024/25 and onwards. In 2023/24, for trust income over £1,000 then dividends are taxed at 39.35% and interest taxed at 45%. Where trust income is paid to a beneficiary at the trustees' discretion, it's treated as having already been taxed at the trust rate of 45%. Income received by a beneficiary is treated as trust income and so the Personal Savings 'Allowance', starting rate for savings or dividend nil rate can't be offset against that income. If the beneficiary is a non-taxpayer, or pays tax at 20% or 40%, he/she can claim some or all of the tax back. Trustees aren't entitled to the Personal Savings 'Allowance' or the £1,000 dividend nil rate (2023/24). Trustees are subject to CGT at 20% for gains above the trustees' annual exempt amount. In Spring Budget 2023 the government announced that from 2024/25 trusts and estates with income up to £500 will not pay tax on that income as it arises. Where a settlor has made other trusts, the amount is the higher of £100 or £500 divided by the total number of existing trusts.

	UK Investment Bond	Offshore Investment Bond	Unit Trust & OEIC funds
Interest in possession Trust	Was the settlor/creator alive and UK resident immediately before the chargeable event occurred? If so, the gain is assessed on the settlor's individual tax position. If not did the settlor die in the current or previous tax year. If current, the gain is assessed on the settlor's individual tax tax position. If previous, the gain is assessed on UK trustees. In 2023/24 where trustees are taxable there is no standard rate band. UK trustees are taxable at 25% (45% – 20%). Where the settlor is taxable, then he or she may recover the tax from the trustees.	Was the settlor/creator alive and UK resident immediately before the chargeable event occurred? If so, the gain is assessed on the settlor's individual tax position. If not did the settlor die in the current or previous tax year. If current, the gain is assessed on the settlor's individual tax position. If previous, the gain is assessed on UK trustees. In 2023/24 where UK trustees are taxable there is no standard rate band. UK trustees are taxable at 45%. Where the settlor is taxable, then he or she may recover the tax from the trustees.	Trustees are taxed at 20% basic rate on interest and 8.75% on dividends. The trustees must pass all of the income received, less any trustees' expenses, to the beneficiary who is then taxable accordingly. The beneficiary has a right to the income, so it retains its character such that the beneficiary can utilise the Personal Savings 'Allowance', starting rate for savings or £1,000 (£500 from 2024/25) dividend nil rate as appropriate. To simplify administration, the trustees can mandate trust income to the beneficiary (see HMRC website for details). Trustees are subject to CGT at 20% for gains above the trustees' annual exempt amount. The £500 limit mentioned above also applies to interest in possession trusts.
Trustees continued			
Settlor interested trusts where the settlor's spouse/civil partner or the settlor's unmarried minor children can benefit **Applies to Discretionary and Interest in possession Trusts**	For Discretionary Trust details, refer to the Discretionary Trust section above. For Interest in possession Trust details, refer to the Interest in possession Trust section above.	For Discretionary Trust details, refer to the Discretionary Trust section above. For Interest in possession Trust details, refer to the Interest in possession Trust section above.	Income arising is treated as that of the settlor and the settlor alone. The trustees are liable to tax on income as recipients. Tax paid by the trustees in these circumstances is treated as paid on behalf of the settlor and is available to be used against the settlor's own tax liability. Trustees are subject to CGT at 20% for gains above the trustees' annual exempt amount.

Some of the trusts highlighted above are not available from Prudential.

This information 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 taxation (and any tax reliefs) depends on individual circumstances.

	UK Investment Bond	Offshore Investment Bond	Unit Trust & OEIC funds
Corporates			
Micro entities*	A micro entity can use historic cost accounting for insurance bonds. The company achieves tax deferral until there is a disposal event such as full surrender, partial surrender or death of the last life assured and assuming a gain arises, that profit is taxed at the prevailing corporation tax rates. if its a UK bond then the company enjoys a 20% tax credit.	Micro entities can use historic cost accounting for insurance bonds. So no gain (or loss) is recognised annually in the company accounts. When there's a disposal event such as full surrender, partial surrender or death of last life assured, then corporation tax will be due in respect of a gain on that disposal event, given the company has enjoyed "gross roll up".	Dividends received by UK companies aren't subject to corporation tax. Interest will be received gross and is taxable. Where an "equity" fund pays a dividend to a company, that distribution is divided into that part which relates to UK dividend income of the fund, and that part which relates to other income. The part relating to UK dividend income isn't taxable, while the other part is taxable. The OEIC will issue a tax voucher showing the ratio. If the company uses historic cost accounting, the fund won't be revalued at the end of each accounting period. When the fund is disposed of, the gain on an 'equity' fund will be subject to corporation tax. Indexation allowance will be applied up to December 2017. If there's a loss, indexation will not enhance that loss. If it's a "debt" fund then no indexation is available to reduce the gain.
Larger (non micro) companies	Companies bigger than micro entities will use fair value accounting and therefore tax on growth is paid on an annual basis. These annual increases ('non trading credits') are subject to corporation tax with no relief for tax paid within the fund though relief may be available on a subsequent disposal. There is a quirk therefore with UK bonds. Annual gains are taxed on a net basis but when a disposal event occurs the net gain is grossed up due to the 20% tax credit.	For a non micro company using fair value accounting, it'll be taxable on the increase in value of the bond each year. Annual increases ("non trading credits") are subject to corporation tax. Regarding gains on disposal events, corporation tax will be due, given that the company has enjoyed gross roll-up.	Dividends received by UK companies aren't subject to corporation tax. Interest will be received gross and is taxable. Where an "equity" fund pays a dividend to a company, that distribution is divided into that part which relates to dividend income of the fund, and that part which relates to other income. The part relating to dividend income isn't taxable, while the other part is taxable. The OEIC will issue a tax voucher showing the ratio. If the company uses fair value accounting, the fund will be revalued at the end of each accounting period. There's no tax implications for an "equity" fund but increases in a "debt" fund will give rise to non trading credits. These will be subject to corporation tax. When the fund is disposed of, the gain on an 'equity' fund will be subject to corporation tax. Indexation allowance will be applied up to December 2017. If there's a loss, indexation won't enhance that loss. If it's a "debt" fund, then no indexation is available to reduce the gain.

* A company qualifies as a micro entity if it doesn't exceed two or more of the following criteria:

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

Under this regime, no assets can be measured at fair value or a revalued amount and instead must be held at cost.

Scottish Rate of Income Tax

Note that the Scottish Parliament has the power to set the Scottish rate of income tax (SRIT) which applies to non-savings and non-dividend income. This comprises earnings, pensions, taxable social security payments, trading profits and income from property.

The personal allowance and thresholds on taxes on savings and dividends remain a UK "reserved" matter.

Given that SRIT does not apply to savings and dividend income, then Scottish taxpayers will still need to refer to the UK threshold when taxing such income and capital gains.

Given that Scottish and Welsh income tax applies to non savings, non dividend income, then income payments from discretionary trusts (i.e. trust income) is therefore liable at the Scottish/Welsh rates when paid to Scottish and Welsh beneficiaries. For the avoidance of doubt, the trustees will be subject to tax at UK rates, and provide the Scottish/Welsh beneficiary with a tax credit for the amount of tax paid at the UK rate.

Welsh Rate of Income Tax

With effect from 6 April 2019, if an individual is a Welsh taxpayer, the rate of income tax they'll pay on non-savings and non-dividend income (NSND) will be based on the rates set by the Welsh Government.

NSND income includes employment income, profits from self-employment (including sole traders and partnerships), rental profits, and pension income (including the State pension, income drawdown and annuities).

The Welsh Government has confirmed that the Welsh rates of Income Tax will be the same as those applying to the rest of the UK (except Scotland) for the 2023/24 tax year.

The Welsh Rate of Income Tax applies to individuals who are deemed to be Welsh taxpayers as determined by HMRC. The Welsh Government does not have the power to set its own income tax bands as it is required to use the bands as determined by the UK Government.

Other taxes and deductions, such as Corporation Tax, tax on dividends, tax on savings income and National Insurance Contributions, together with allowances such as the Personal Savings Allowance, will remain based on UK tax rules.

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