



Offshore bonds: a versatile tax wrapper for financial planning

5 September 2024

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

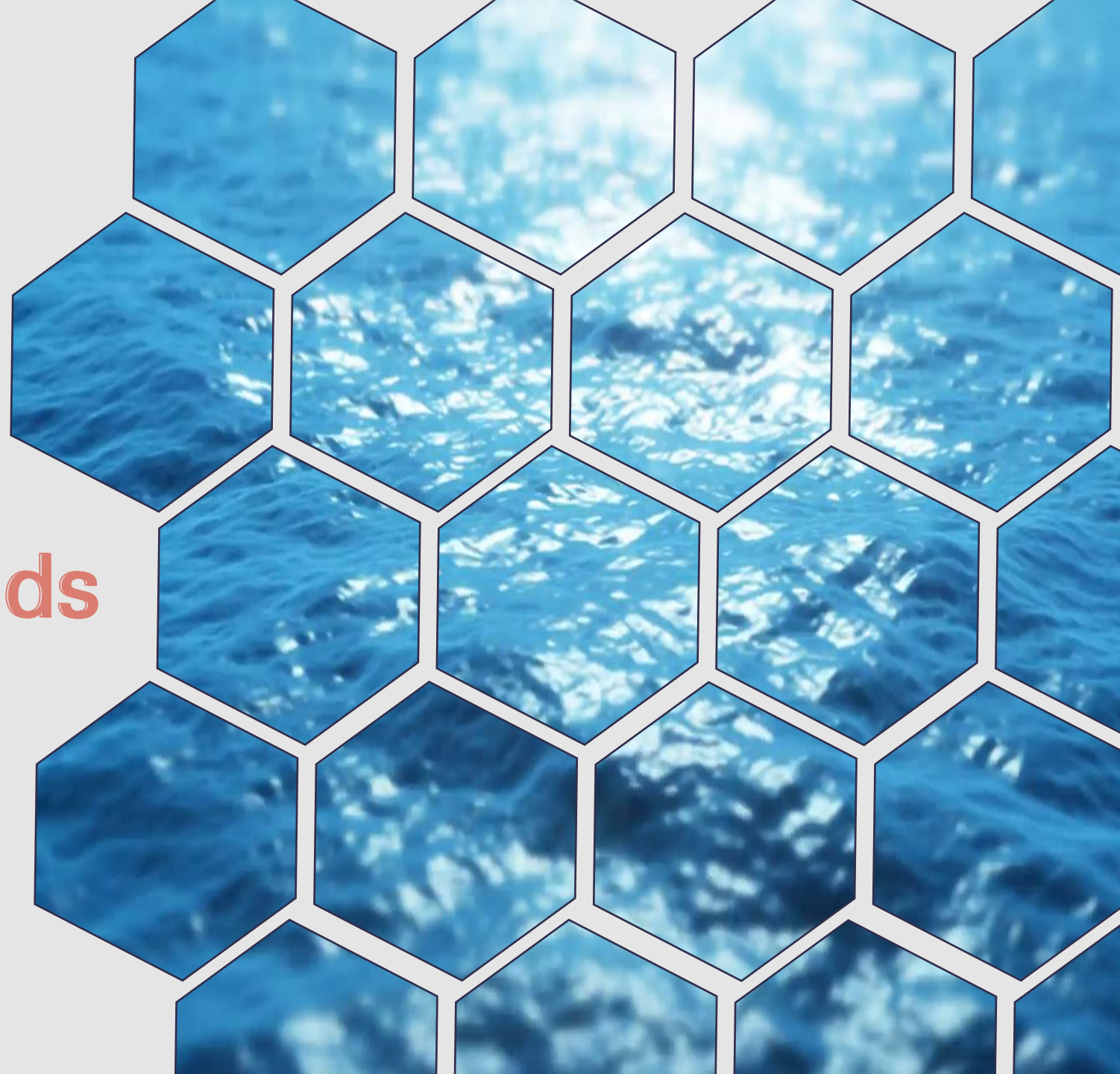
By the end of this session, you will be able to:

Describe the tax advantages of offshore bonds, including gross roll up, tax deferred growth, and the 5% annual allowance.

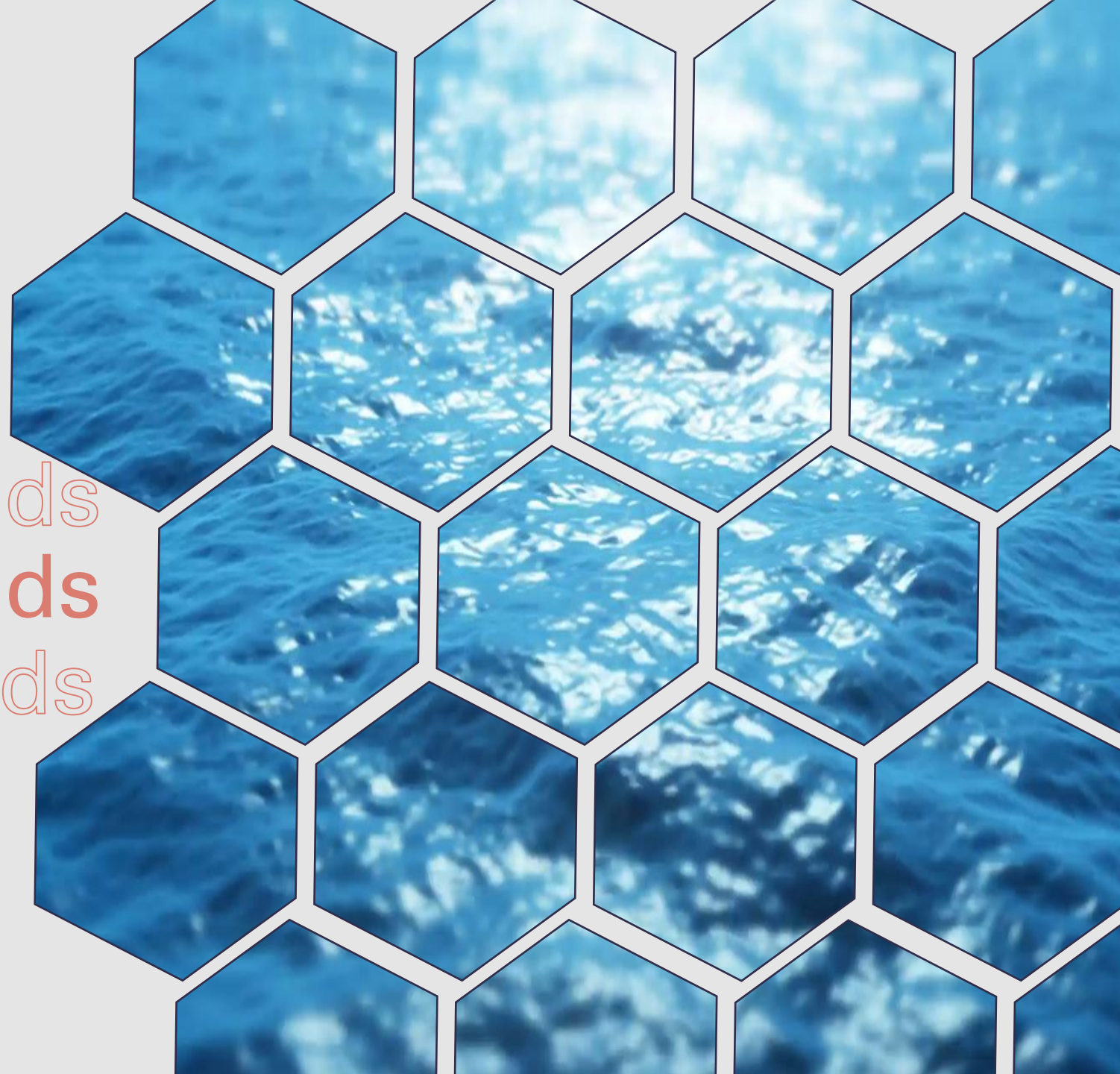
Explain how offshore bonds can be utilized for effective income planning, especially high earners looking to optimize tax efficiency.

Implement estate planning and IHT mitigation strategies using offshore bonds, including gifting and trust arrangements.


Why Offshore Bonds







Why Offshore Bonds
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Offshore bonds in financial planning



Internal tax

		OEIC	UK Bond	Non UK Bond
Income		20% / Exempt	20%	Exempt
UK dividends		Exempt	Exempt	Exempt
Overseas dividends		Exempt	Exempt	Exempt
Capital gains		Exempt	20% after Indexation to Dec 2017	Exempt

Savings Allowances

Personal Allowance £12,570

Savings Starting Rate £5,000

Personal Savings Allowance £1,000/£500

Bond
Gains

£18,570

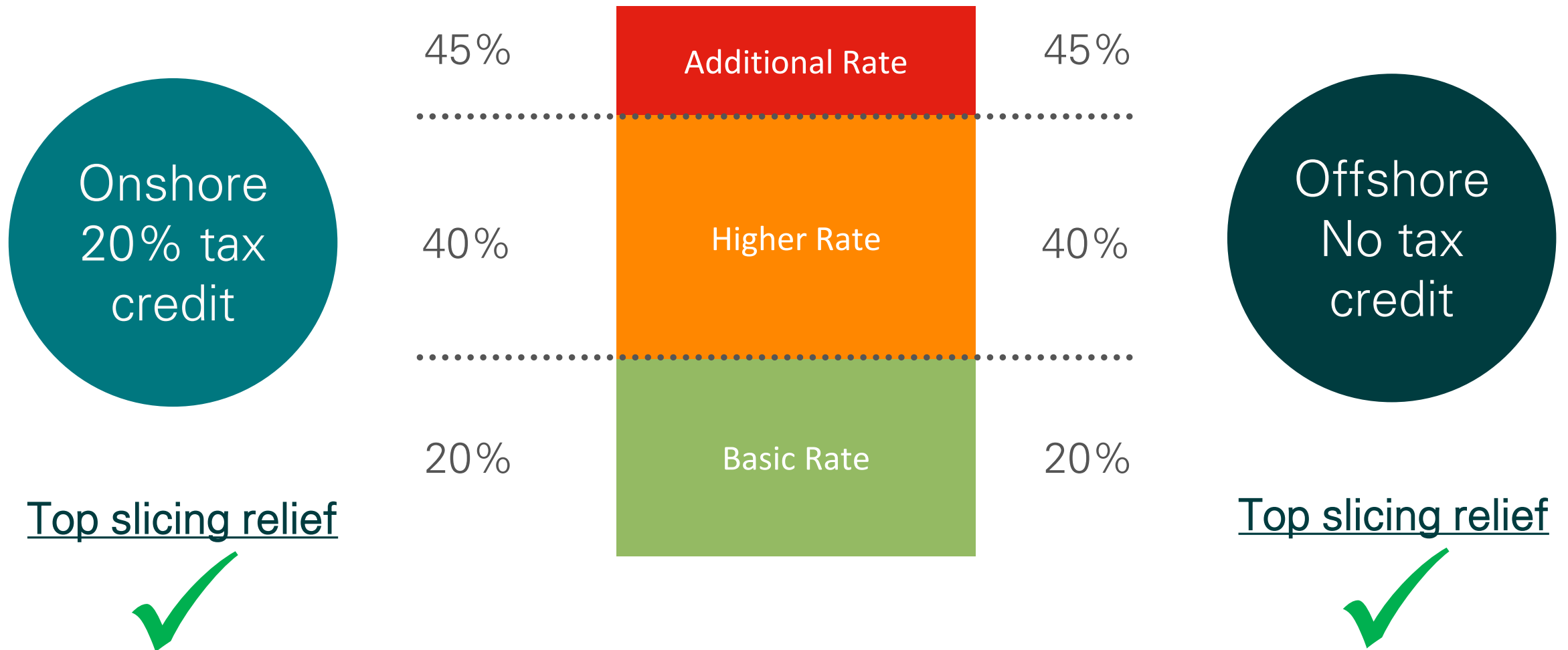


Offshore bonds

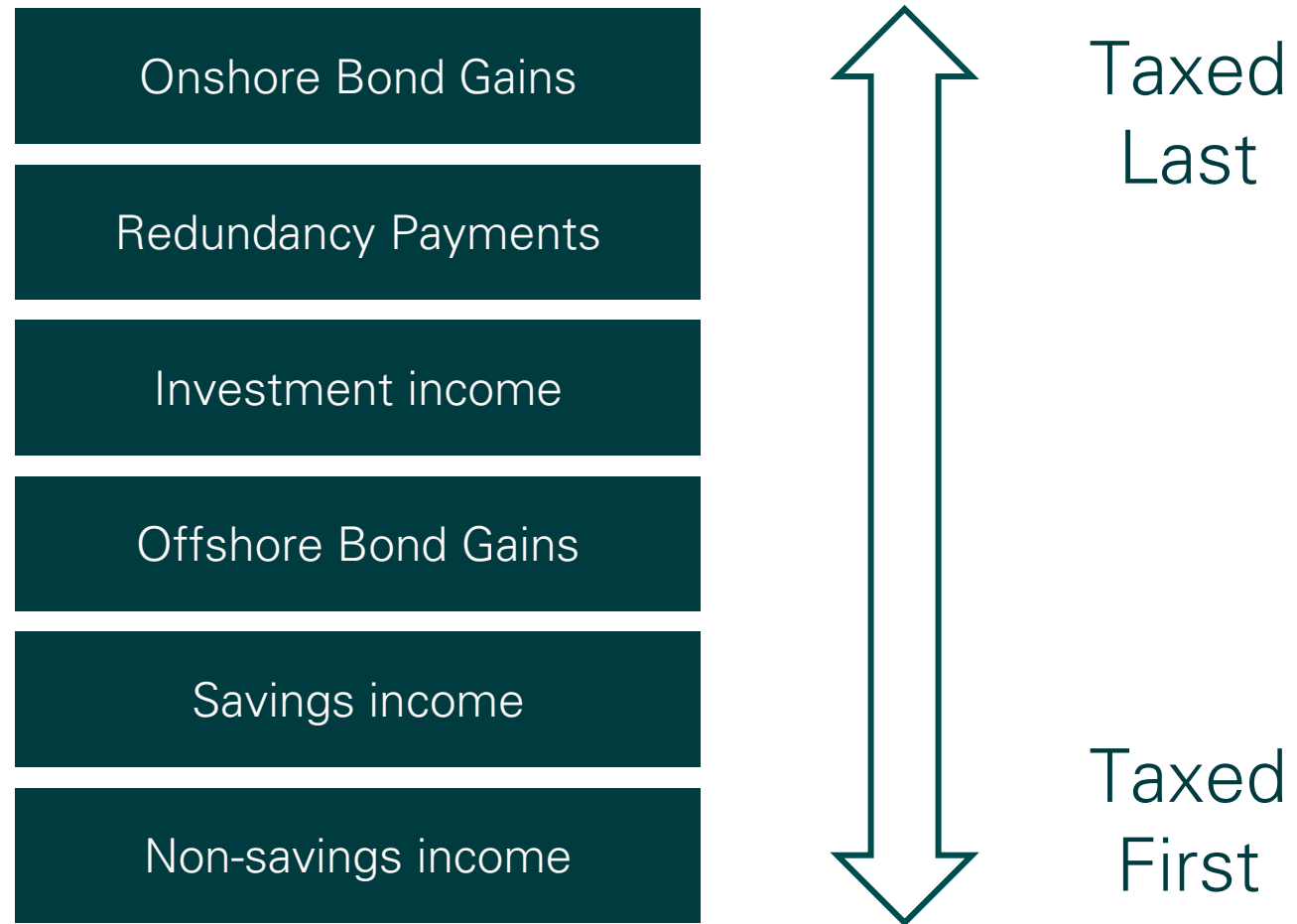
Those liable for gains:

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

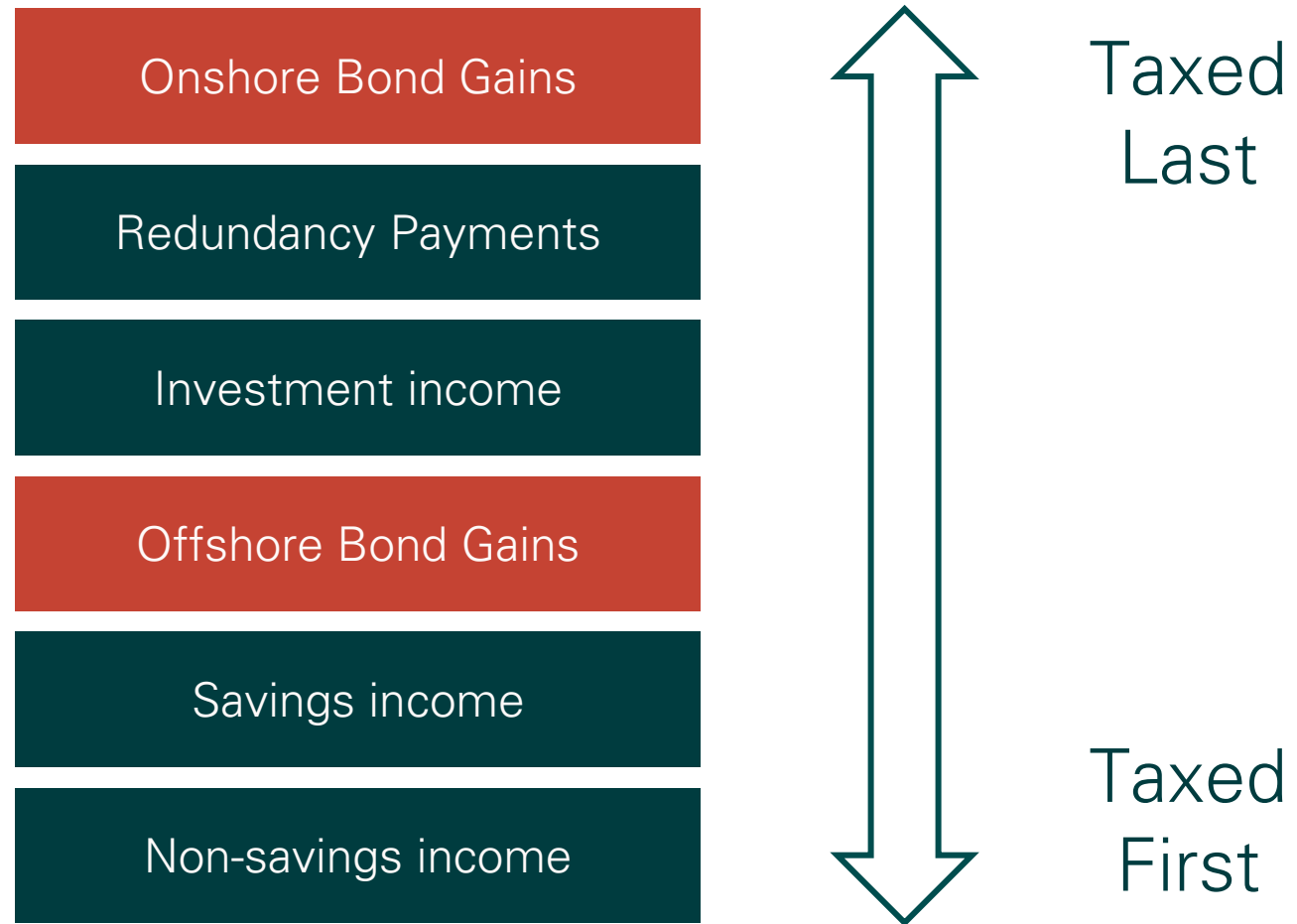
Over the allowances



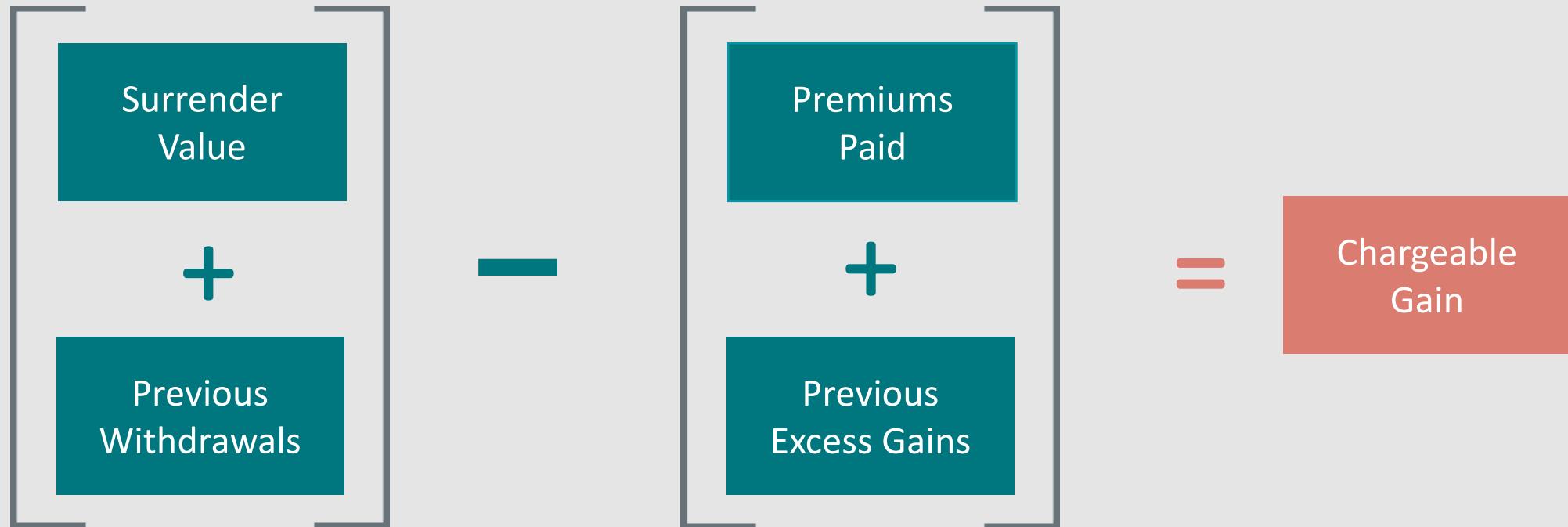
Order of Tax



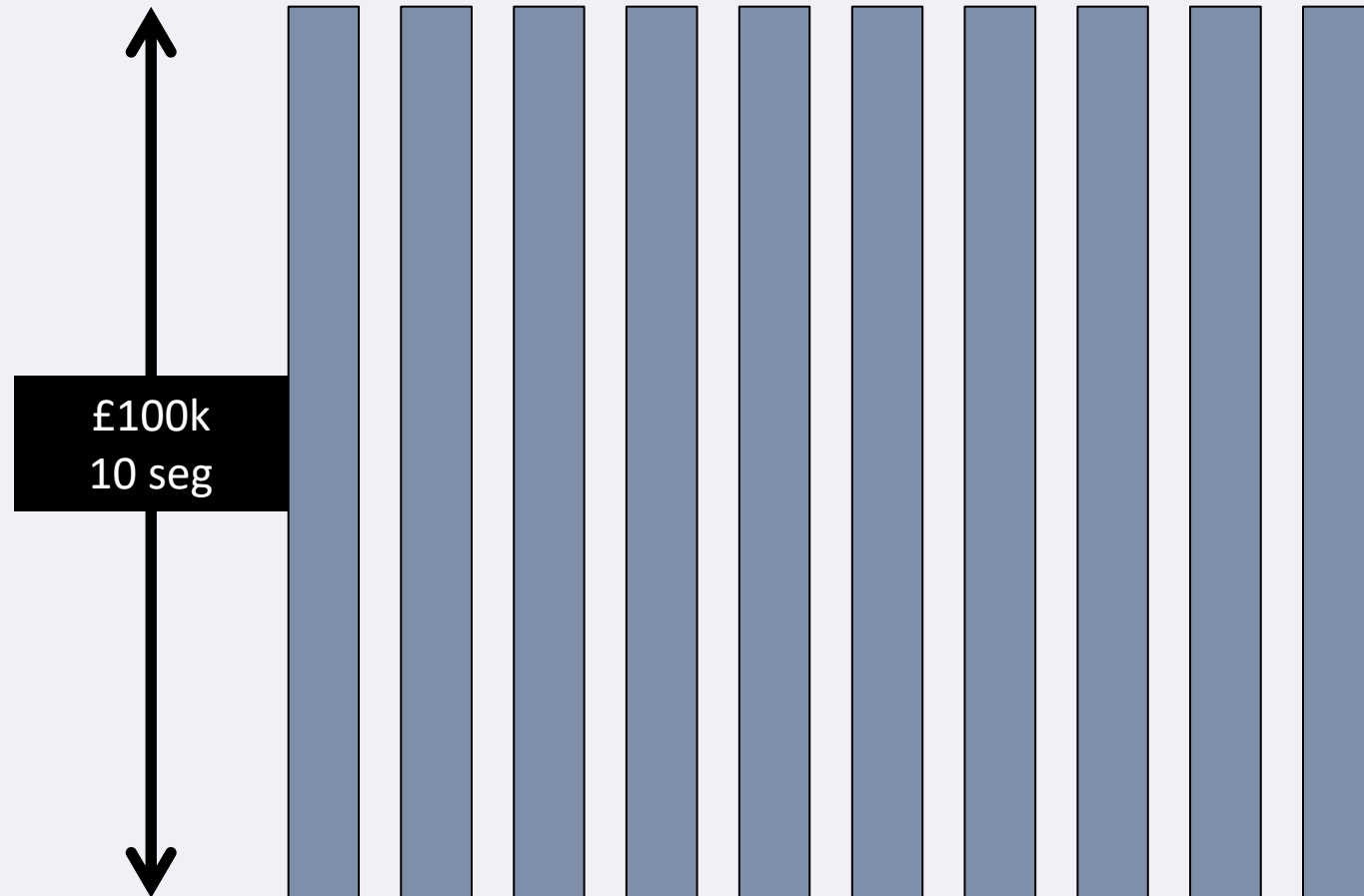
Order of Tax



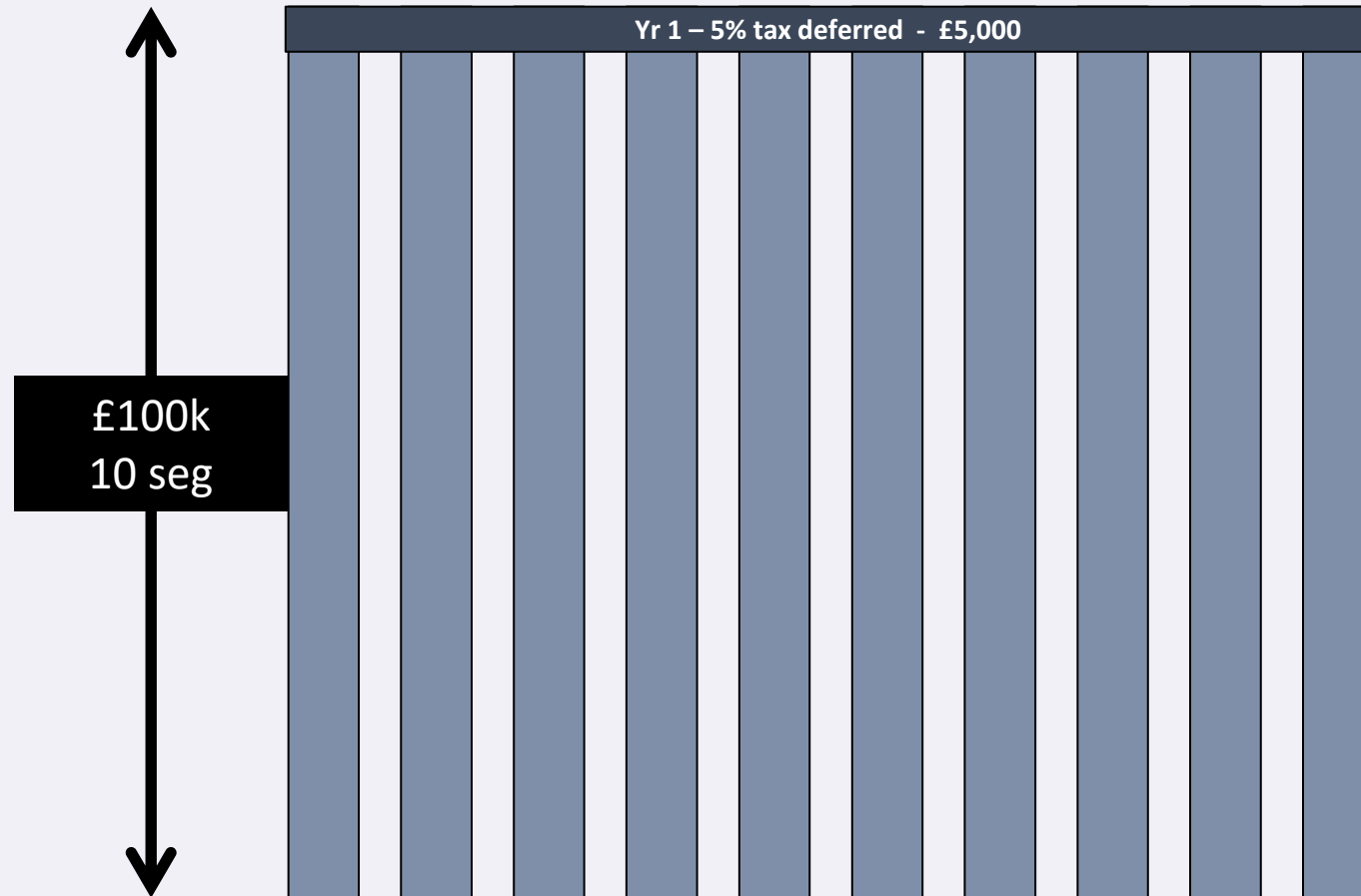
Gain calculation on Segment Surrender



Full surrender v Partial surrender



Full surrender v Partial surrender



Full surrender v Partial surrender



Full surrender v Partial surrender



Full surrender v Partial surrender



Year 3
Value £110,000.
Withdrawal required £33,000

Full surrender v Partial surrender



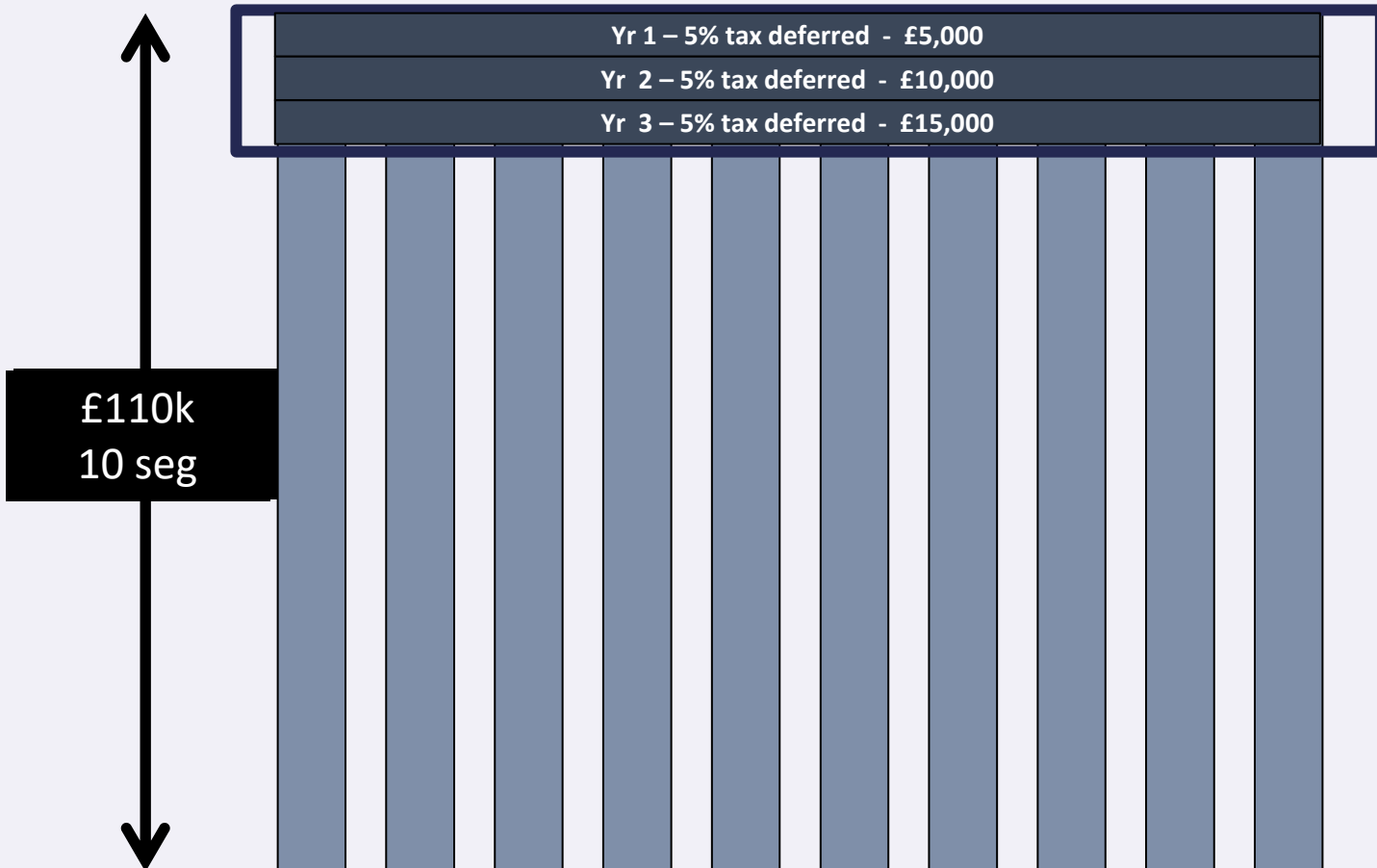
Year 3
Value £110,000.
Withdrawal required £33,000

"Full" – segment surrender

Segment value £11,000
Original Value £10,000
Gain per segment £1,000

3 segments = £3,000 gain

Full surrender v Partial surrender



Year 3
Value £110,000.
Withdrawal required £33,000

“Full” – segment surrender

Segment value £11,000
Original Value £10,000
Gain per segment £1,000

3 segments = £3,000 gain

“Partial” – across segments

Withdrawal value £33,000
Tax deferred available £15,000

£18,000 gain

Offshore bonds in
financial planning



Retirement planning

Offshore bonds in
financial planning



University fee planning

Offshore bonds in
financial planning



High earner

Offshore bonds in
financial planning



Future trust planning

Offshore bonds in
financial planning



Tax efficiency

Offshore bonds and retirement planning



Clive, age 50 currently higher rate taxpayer.

Looking to retire at 55 and needs to fund his own retirement until age 60.

He currently has some cash, ISA and GIA savings

Clive

Clive	
ISA	£150,000
Cash at Bank (3% interest)	£50,000
GIA (3% dividend)	£150,000
Salary	£60,000

Salary				
Personal allowance	12,570	@	0%	£0
Basic rate	37,700	@	20%	£7,540
Higher rate	9,730	@	40%	£3,892
Additional rate	0	@	45%	£0
Total				£11,432

Savings income				
Starting rate	0	@	0%	0
Personal savings allowance	500	@	0%	0
Basic rate	0	@	20%	0
Higher rate	1000	@	40%	£400
Additional rate	0	@	45%	0
Total				£400

Dividend income				
Dividend allowance	500	@	0%	0
Basic rate	0	@	8.75%	0
Higher rate	4000	@	33.75%	£1,350
Additional rate	0	@	39.35%	0
Total				£1,350

Savings Allowances

Personal Allowance £12,570

Savings Starting Rate £5,000

Personal Savings Allowance £1,000/£500

Bond
Gains

£18,570

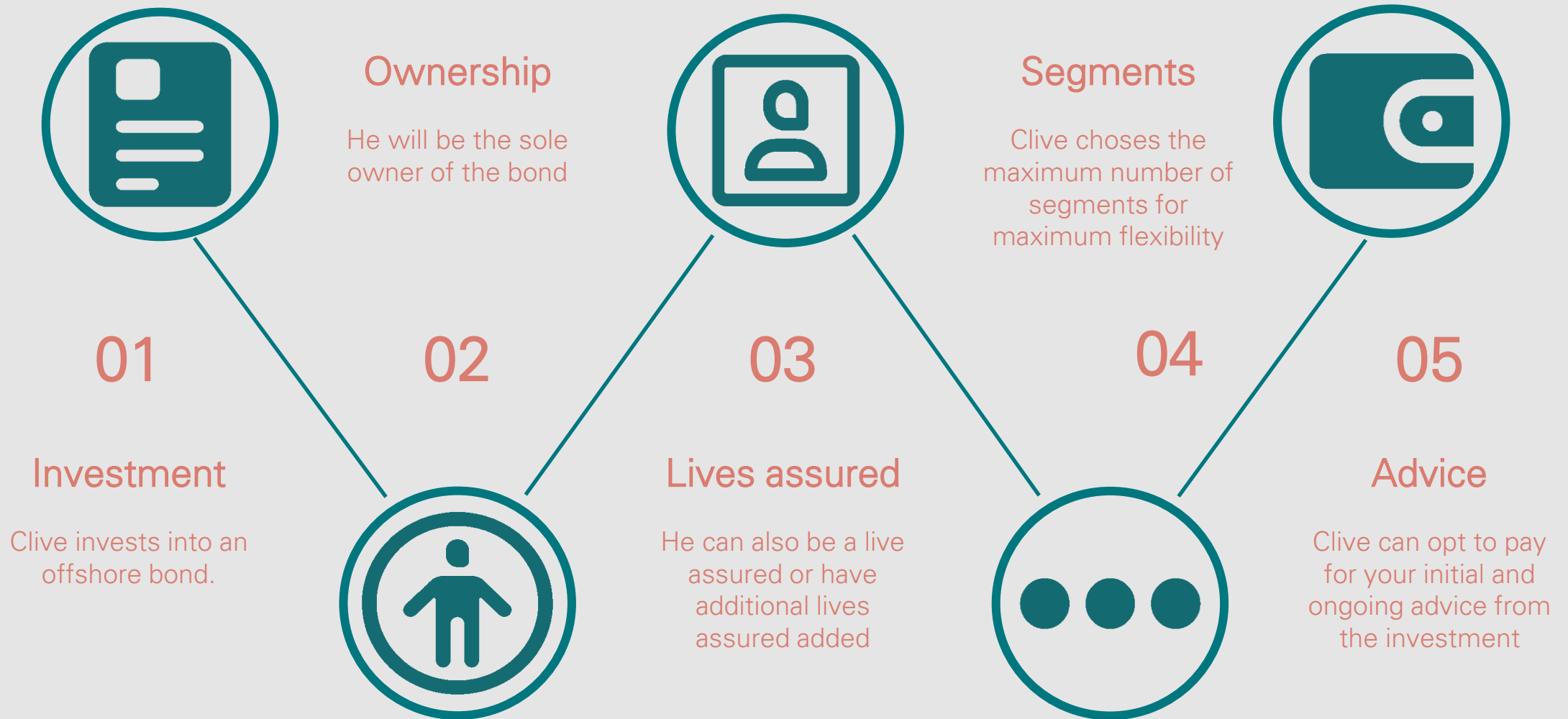


Offshore bonds

Those liable for gains:

- are likely to have little or no income on encashment, or
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Offshore bonds and retirement planning



University fee planning

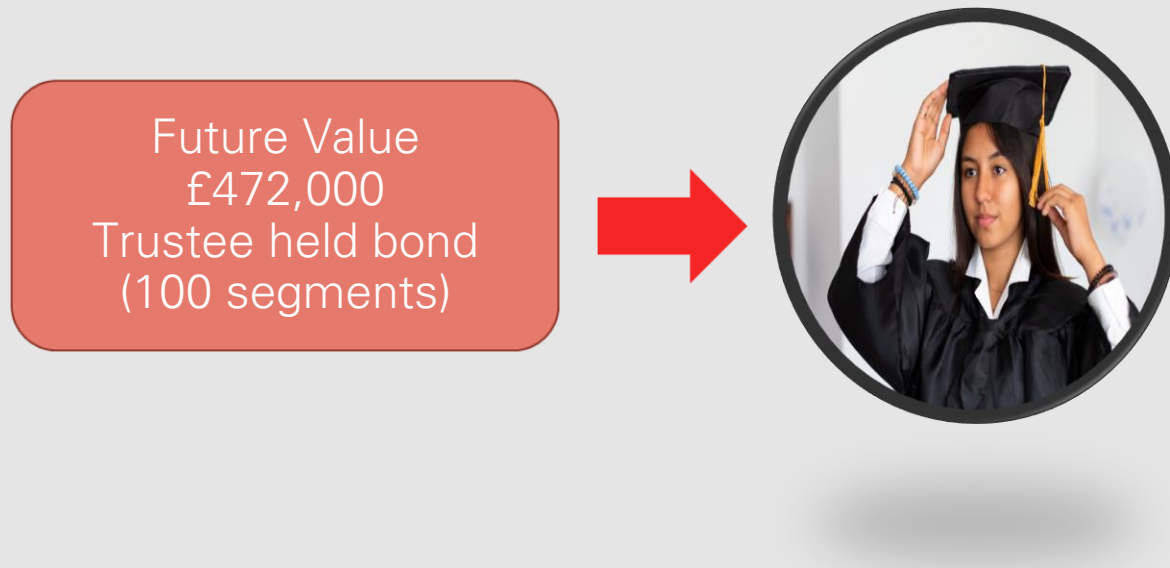


Trustees of the Stevenson Family Discretionary Trust are looking to invest £400,000.

The intention of the trust is to pay for their grandchildren's university education

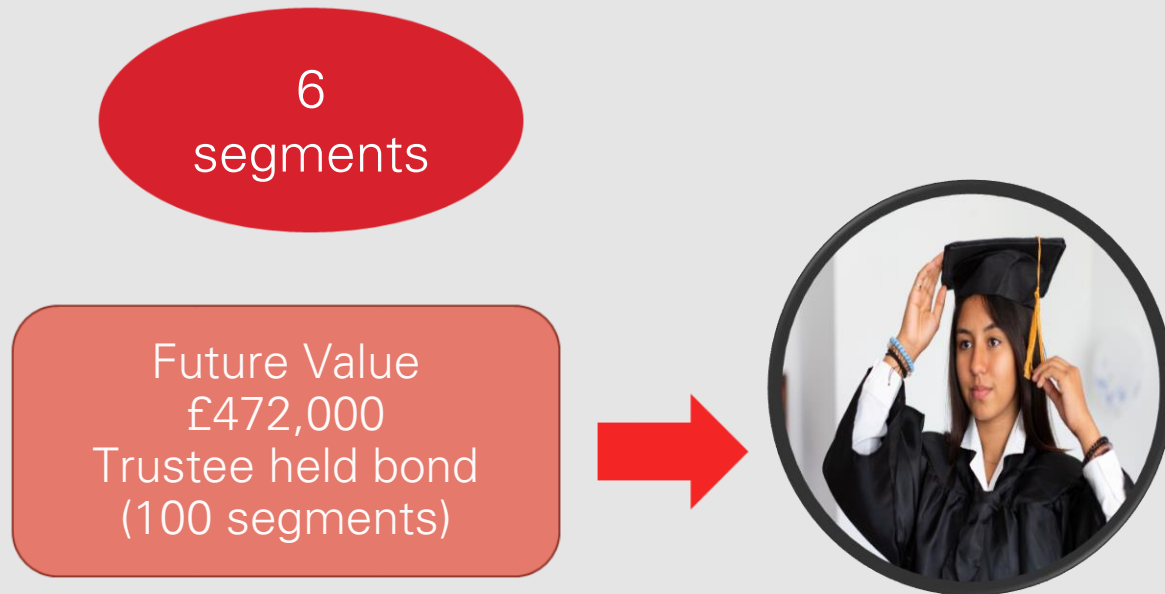
There are currently 4 grandchildren aged between 6 and 12 with potential for more

Offshore bond investment for £400,000



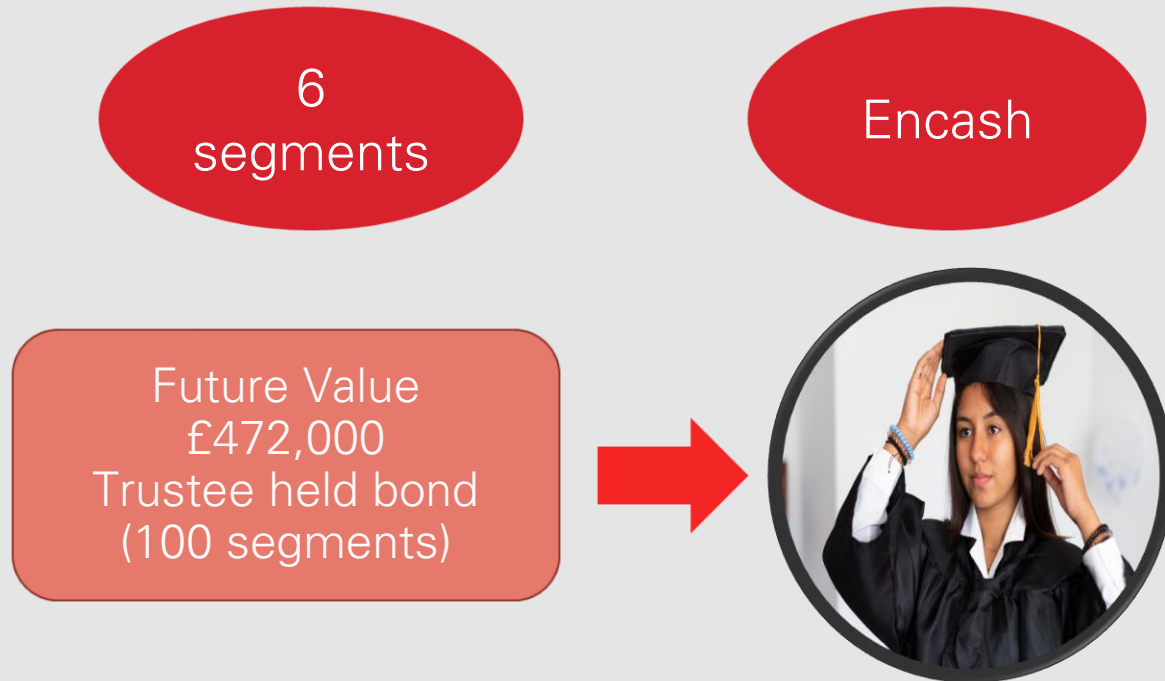
This example represents a typical situation, it is not related to any individual and doesn't recommend that course of action.

Offshore bond investment for £400,000



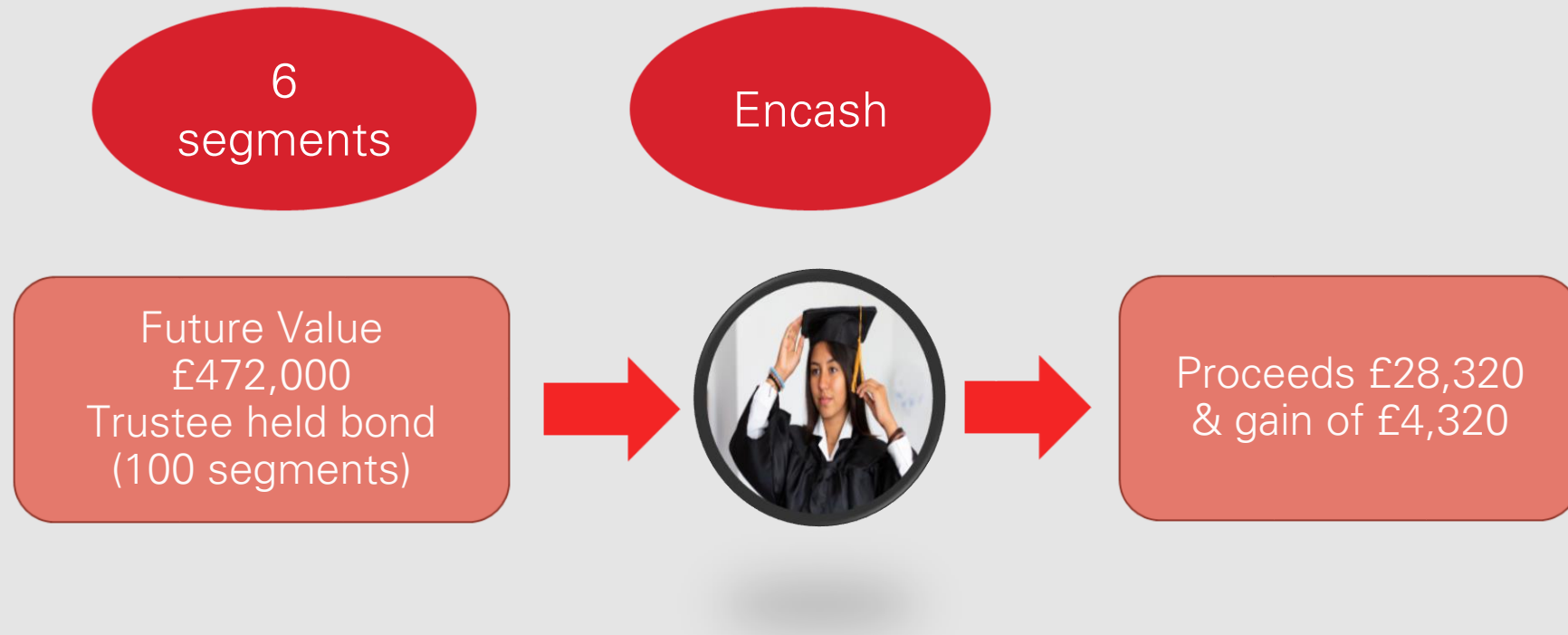
This example represents a typical situation, it is not related to any individual and doesn't recommend that course of action.

Offshore bond investment for £400,000



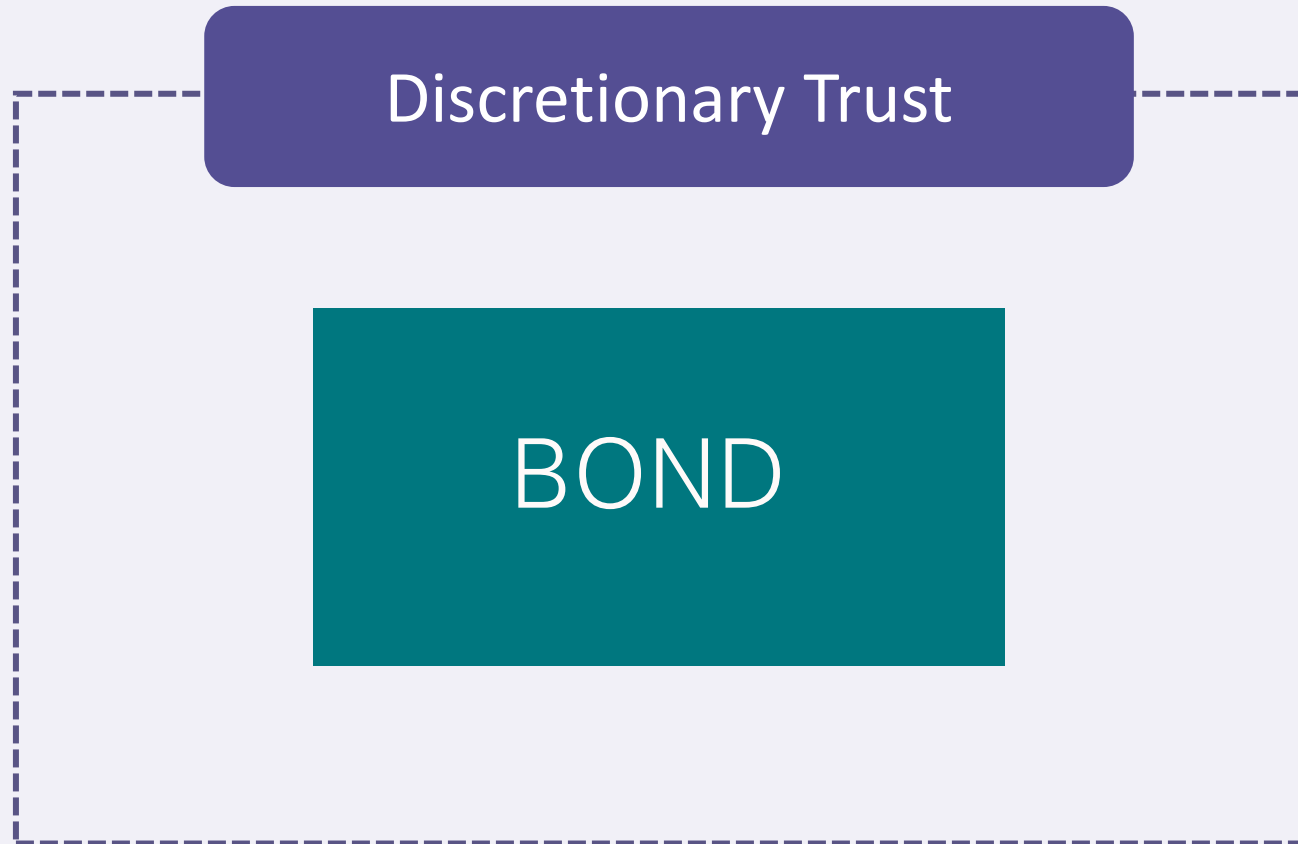
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Offshore bond investment for £400,000



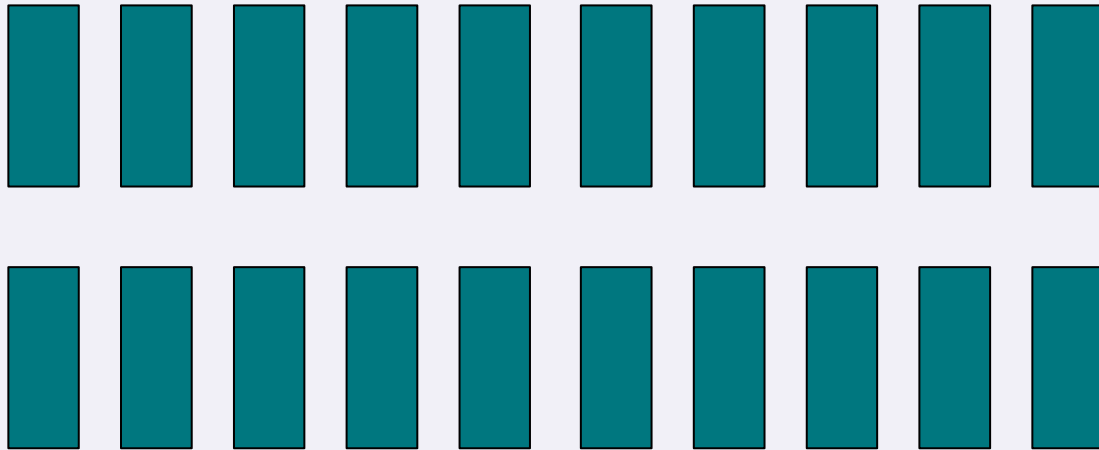
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Assignment v appointment

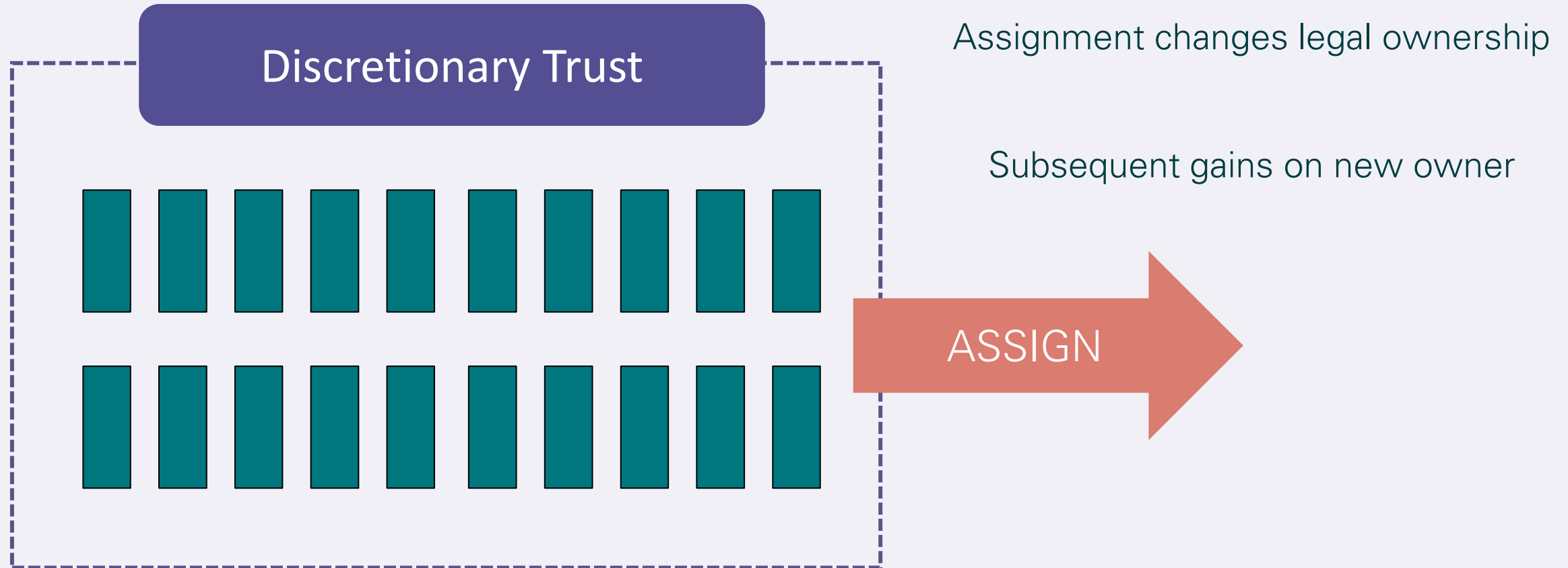


Assignment v appointment

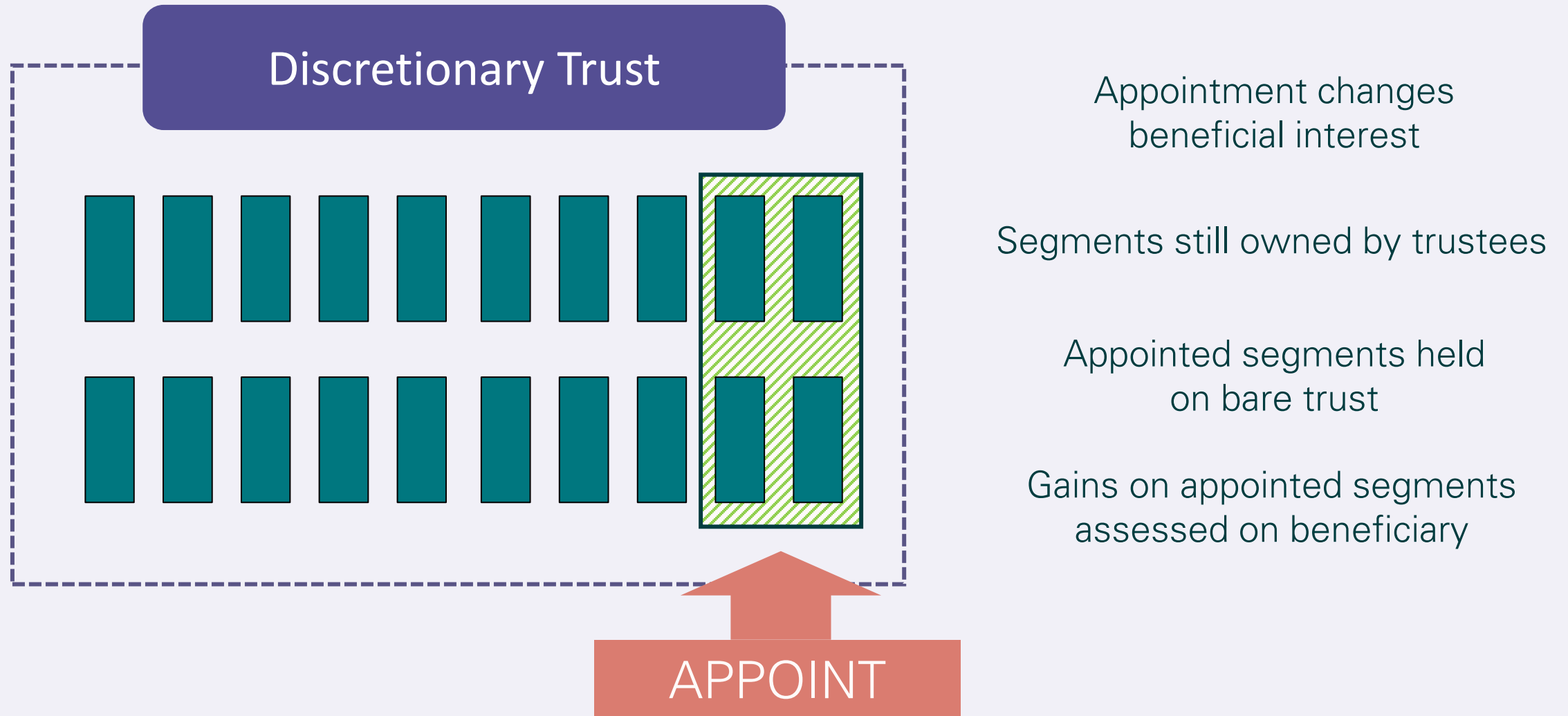
Discretionary Trust



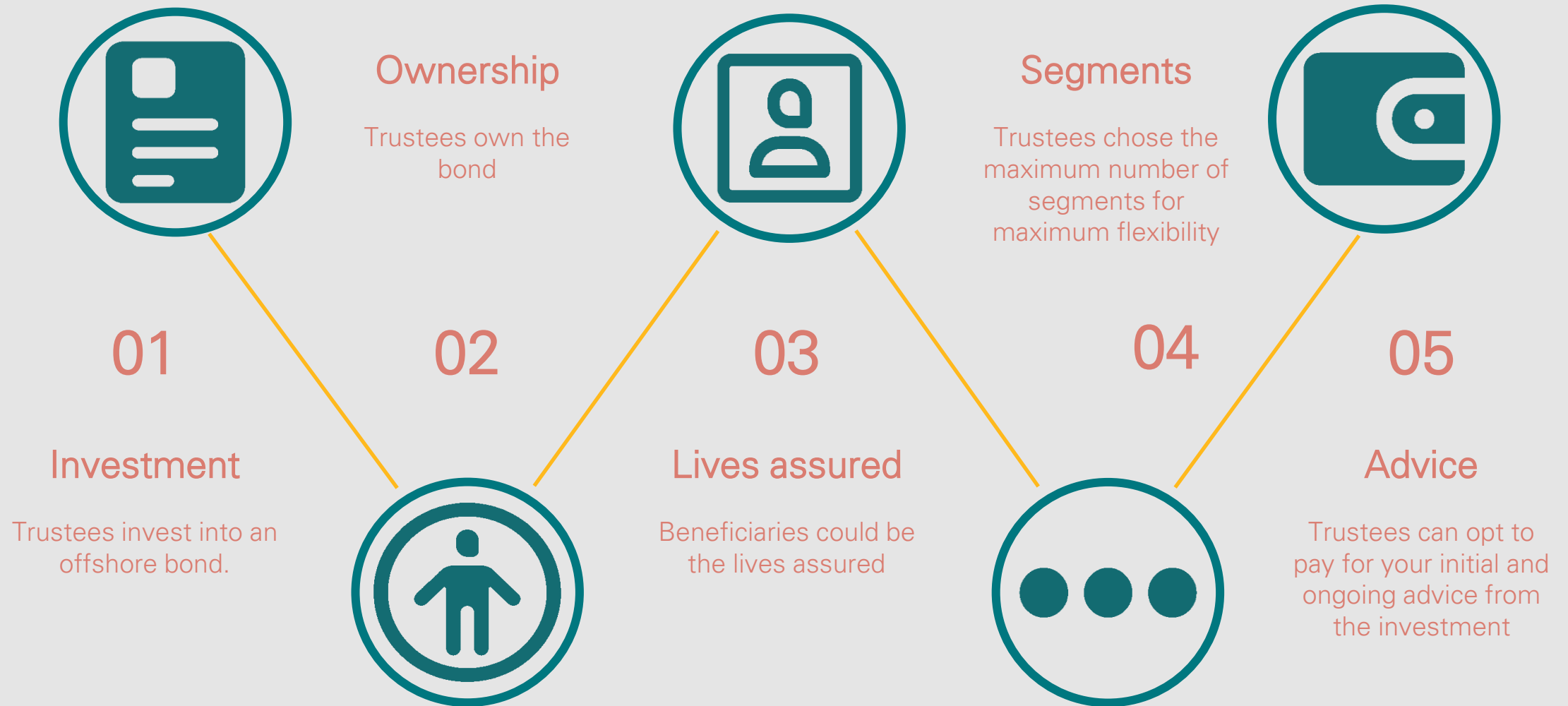
Over 18 – deed of assignment



Under 18 – deed of appointment



Offshore bonds and university fee planning



Offshore bonds and high earners

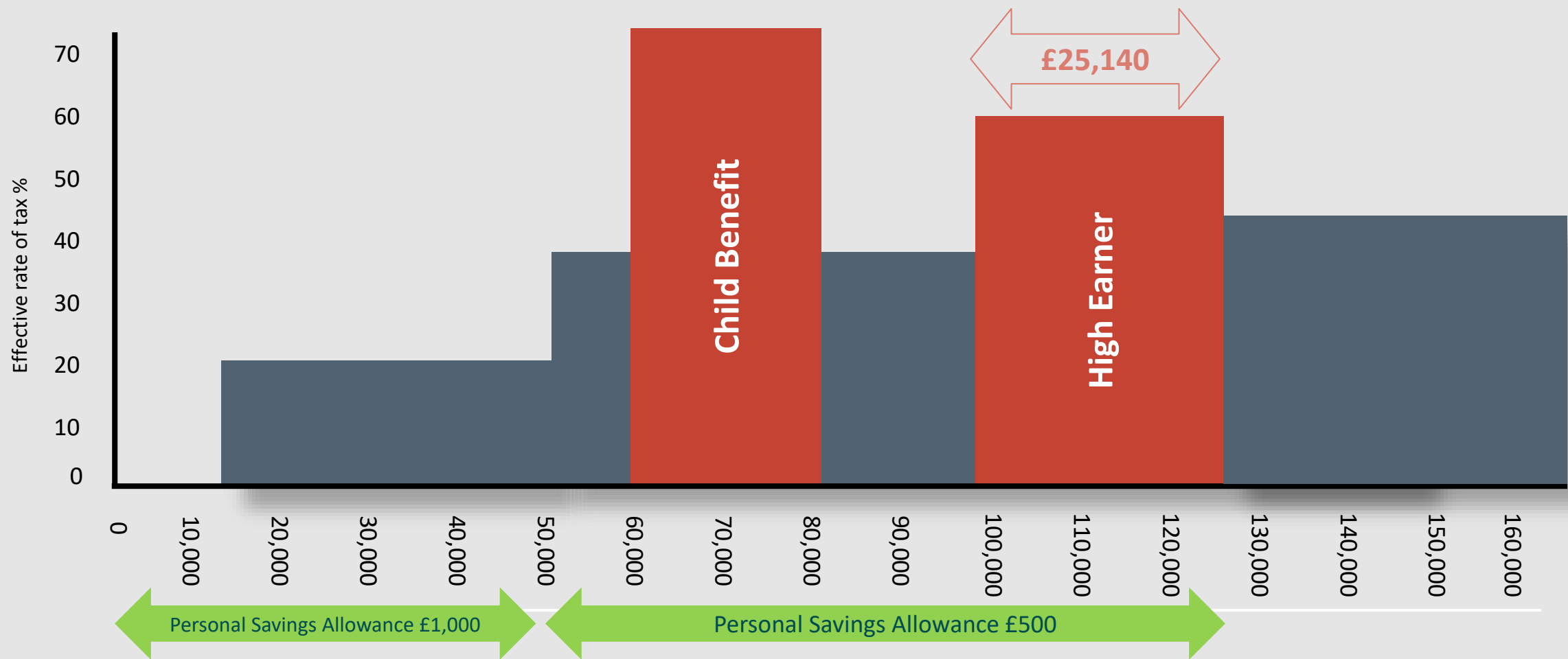


Sheena age 45 has recently received a settlement payout from her divorce for £150,000

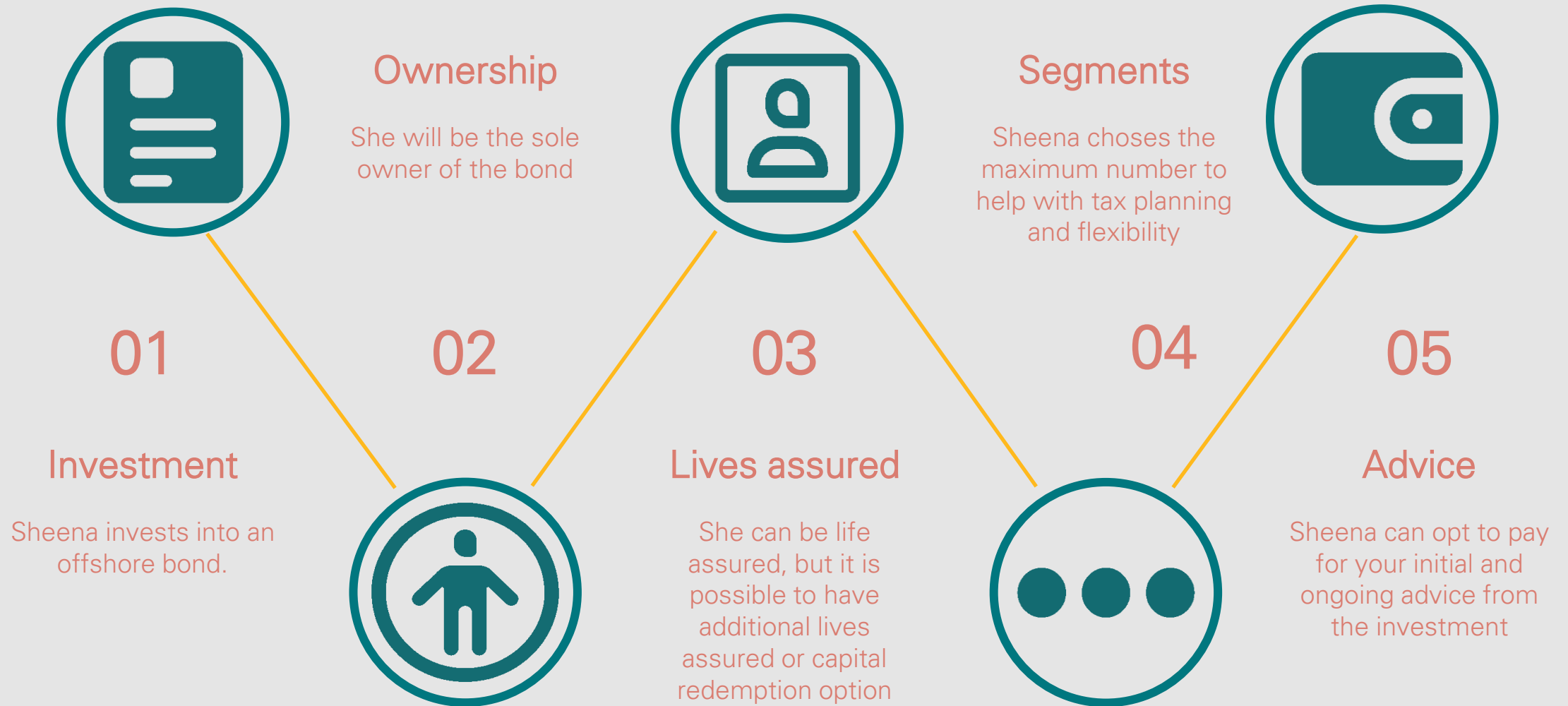
The settlement was invested in a range of shares, but she cashed this in as she earns £98,000 and the dividends and interest resulted in her losing personal allowance

Sheena has already maximized pension and ISA contributions

Tax Traps



Offshore bonds and high earners



Future trust planning



Andrew is looking to invest £300,000 that he has received from a windfall. He doesn't need additional income and would like to gift some or all of it to his children and grandchildren. Setting up a discretionary trust has been discussed but he is unsure of this option at this current point in time

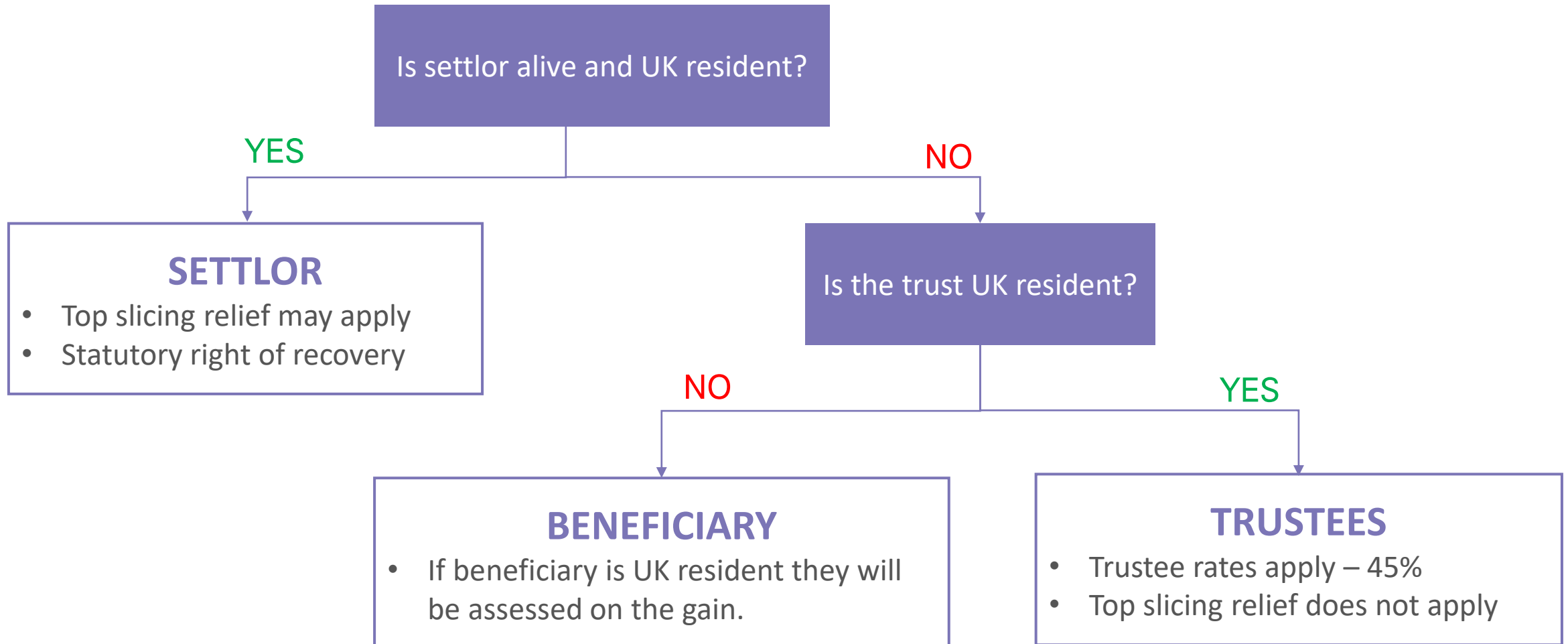
Passing on ...

Gifted to	GIA	BOND
Spouse / Civil Partner	No Gain No loss	No Chargeable Event
Children	Disposal	No Chargeable Event
Trust	Disposal	No Chargeable Event
On death	Gain dies with you	Potential chargeable event



Is the investment likely to be gifted on or prior to death?

Not bare - Who is liable?



Is the trust UK resident?

All trustees are resident in the UK

The trust is resident in the UK for Income Tax and Capital Gains Tax purposes.

All trustees are resident outside the UK

The trust is not resident in the UK for Income Tax and Capital Gains Tax purposes.

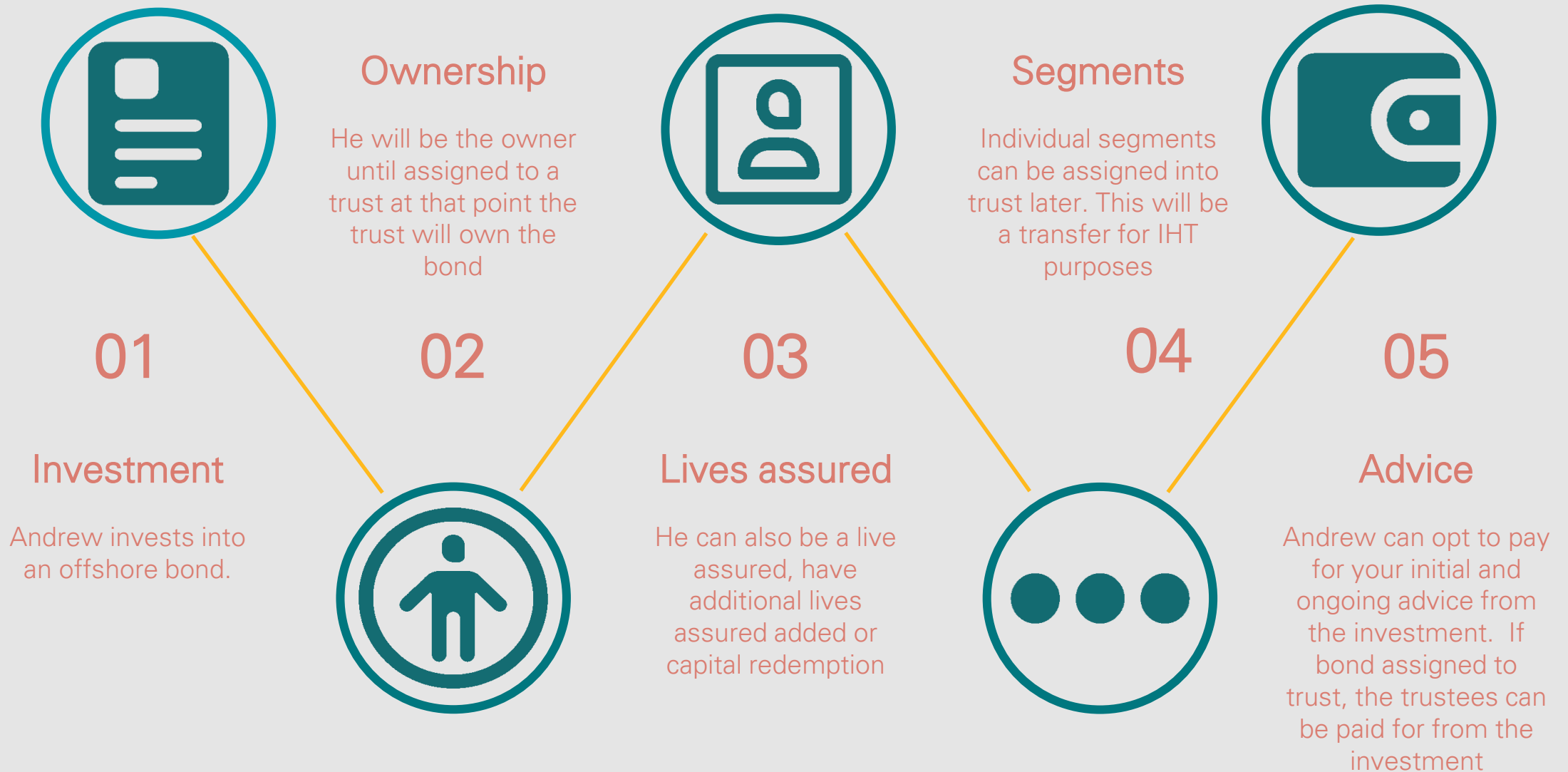
There is a mixture of resident and non-resident trustees acting at the same time

The trust is resident in the UK unless the settlor was:

- not resident in the UK and
- not domiciled in the UK

at the time the settlor made, or is treated as making, the settlement and any time when the settlor adds property to the settlement.

Offshore bonds and future trust planning



Offshore bonds and tax efficiency



Ken and Anne recently sold their family business for £800,000

Now retired and want to enjoy life

Money currently sitting in cash – would like to continue to fully fund their ISAs each year

What's happening?

2022/23

2023/24

2024/25

	2022/23	2023/24	2024/25
ANNUAL EXEMPT AMOUNT Capital gains only	£12,300	£6,000	£3,000
DIVIDEND NIL RATE Dividends only	£2,000	£1,000	£500
SAVINGS STARTING RATE / PERSONAL SAVINGS ALLOWANCE Interest and Bond Gains	£5,000 £1,000 / £500	£5,000 £1,000 / £500	£5,000 £1,000 / £500
PERSONAL ALLOWANCE Interest, Dividends and Bond Gains	£12,570	£12,570	£12,570
	£32,870 + Original Capital	£25,570 + Original Capital	£22,070 + Original Capital

Portfolio Assessment

Dividend Allowance

Dividend yield	Portfolio to exhaust		
	2022/23	2023/24	2024/25
1%	£200,000	£100,000	£50,000
2%	£100,000	£50,000	£25,000
3%	£66,667	£33,333	£16,667
4%	£50,000	£25,000	£12,500
5%	£40,000	£20,000	£10,000

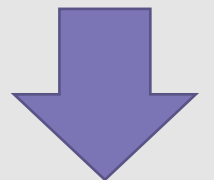
Annual Exempt Amount

Capital growth	Portfolio to exhaust		
	2022/23	2023/24	2024/25
2%	£615,000	£300,000	£150,000
4%	£307,500	£150,000	£75,000
6%	£205,000	£100,000	£50,000
8%	£153,750	£75,000	£37,500
10%	£123,000	£60,000	£30,000

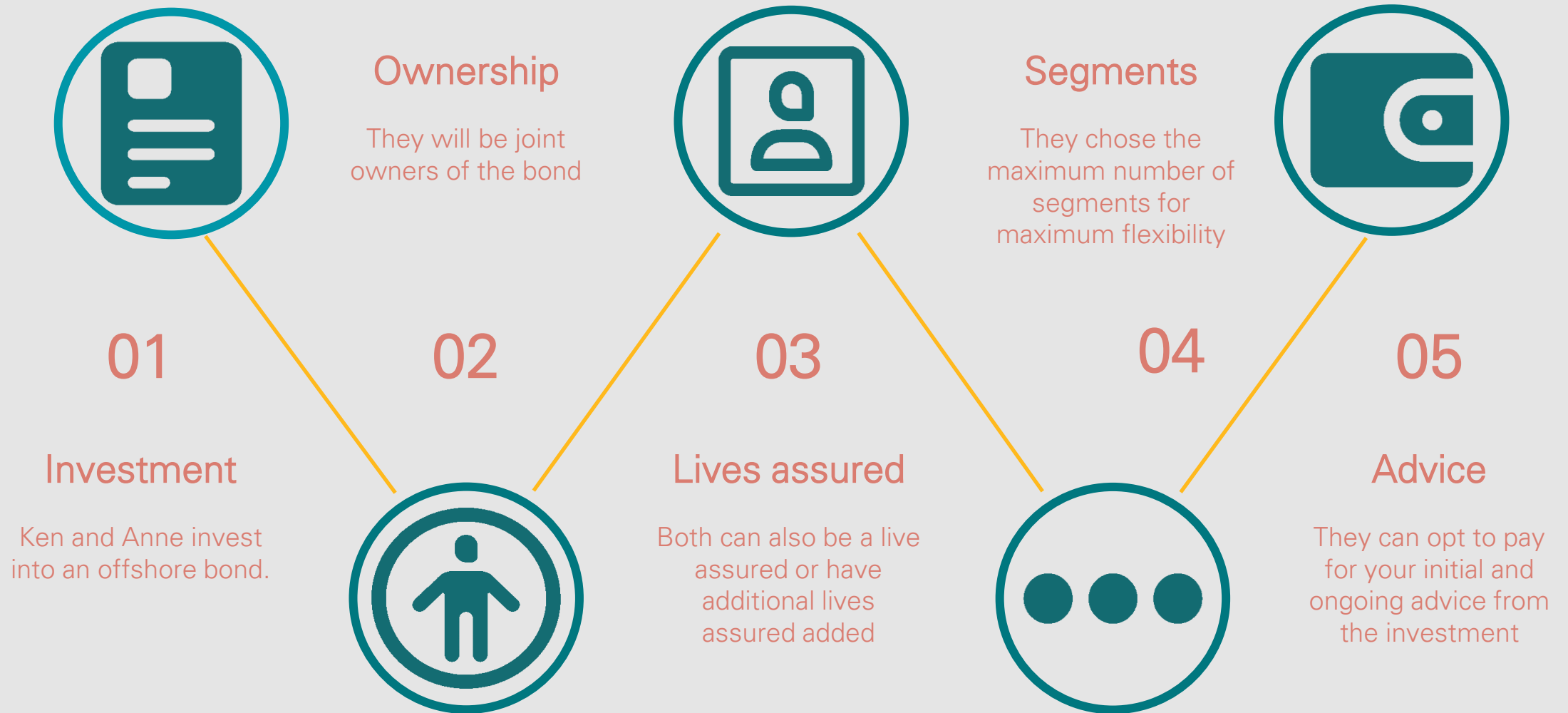


Amount of gains being accumulated

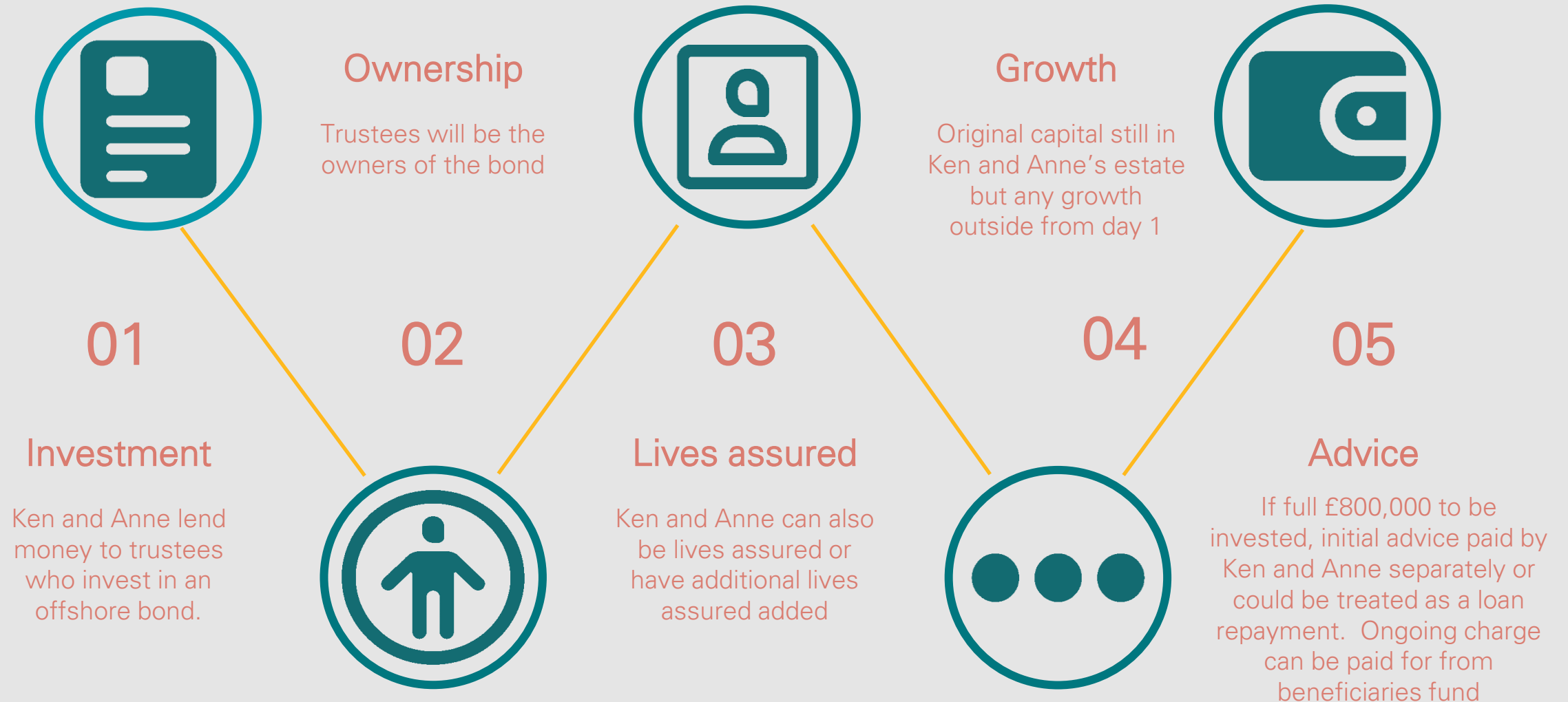
Surrender amount to realise AEA



Offshore bonds and tax efficiency



Offshore bonds – loan trust edition



5 key points – offshore bonds

Growth

**Non-
Income
Producing**

Withdrawals

Assign

Control

5 key points – offshore bonds



Growth

No tax within the bond so benefits from gross roll up which can be beneficial over a longer timeframe – 5 to 10 years

Non-
Income
Producing

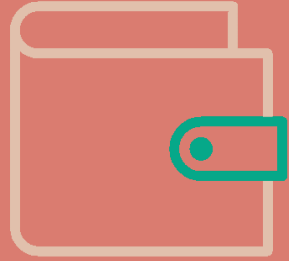
Withdrawals

Assign

Control

5 key points – offshore bonds

Growth



**Non-
Income
Producing**

Offshore bond in
non-income
producing so there
will be no tax
implications until a
chargeable event
occurs

Withdrawals

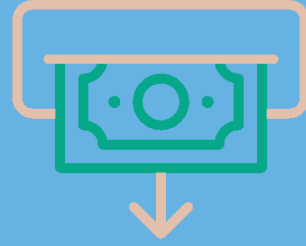
Assign

Control

5 key points – offshore bonds

Growth

**Non-
Income
Producing**



Withdrawals

Client can take withdrawals within the tax deferred allowance without triggering a chargeable event for income tax purposes

Assign

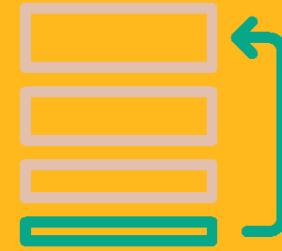
Control

5 key points – offshore bonds

Growth

**Non-
Income
Producing**

Withdrawals



Assign

Bond or individual
segments can be
assigned without
triggering a
chargeable event

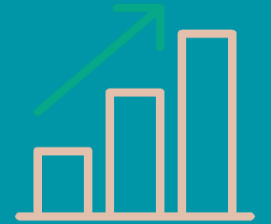
Control

5 key points – offshore bonds

Non-
Income
Producing

Withdrawals

Assign



Control

Use personal allowance, starting rate for savings and personal savings allowance against gains if available. Top slicing relief also available

Why M&G for offshore bonds

Bond charges

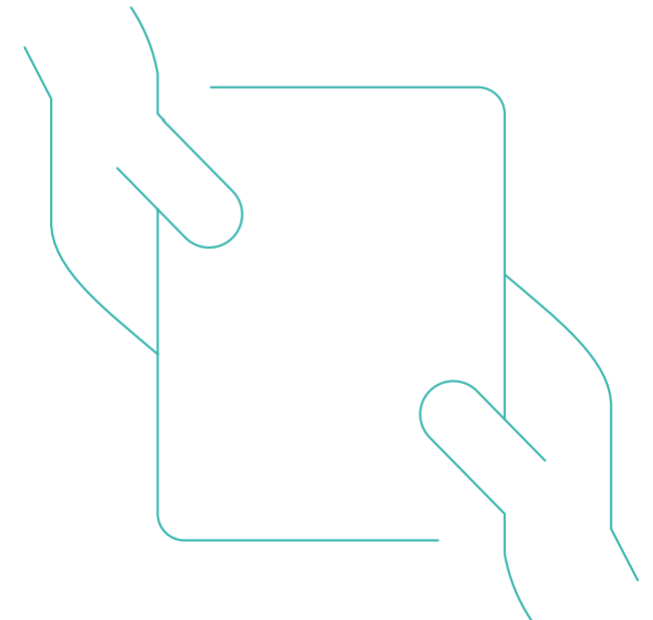
Product Charge

This is a monthly charge and is dependent on the total value of the bond, as shown in the table below.

Total value of the bond (£)	Product Charge (% per annum)
0.00 – 49,999.99	0.45%
50,000.00 – 149,999.99	0.40%
150,000.00 – 749,999.99	0.30%
750,000.00 – 999,999.99	0.275%
1,000,000.00 +	0.25%



Key Features of the International Portfolio Bond – Lives Assured



Before you invest in this product you should read our Key Information Document, relevant Investment Option Document(s) or the Fund Managers own Key Investor Information Document(s) as appropriate.

Why M&G for offshore bonds

Annual Investment Reward

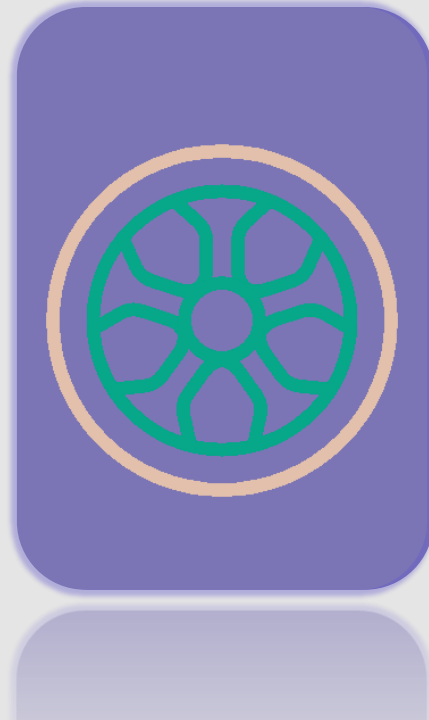
Credited each year on the anniversary date where a client has invested at least £50,000. The rate at which this is credited is based on the amount invested and it is applied to the amount of that investment remaining in the bond. It is payable for full years only. There is no credit if the bond ends between anniversaries. The Reward is as follows:

Total GBP Premium	Total USD Premium	Total EUR Premium	Annual Rate of Reward expressed as a percentage of the bond value
£20,000 – £49,999	\$35,000 – \$74,999	€25,000 – €62,499	0.00%
£50,000 – £149,999	\$75,000 – \$224,999	€62,500 – €187,499	0.15%
£150,000	>\$225,000	€187,500	0.25%

Key Features of the Prudential International Investment Bond

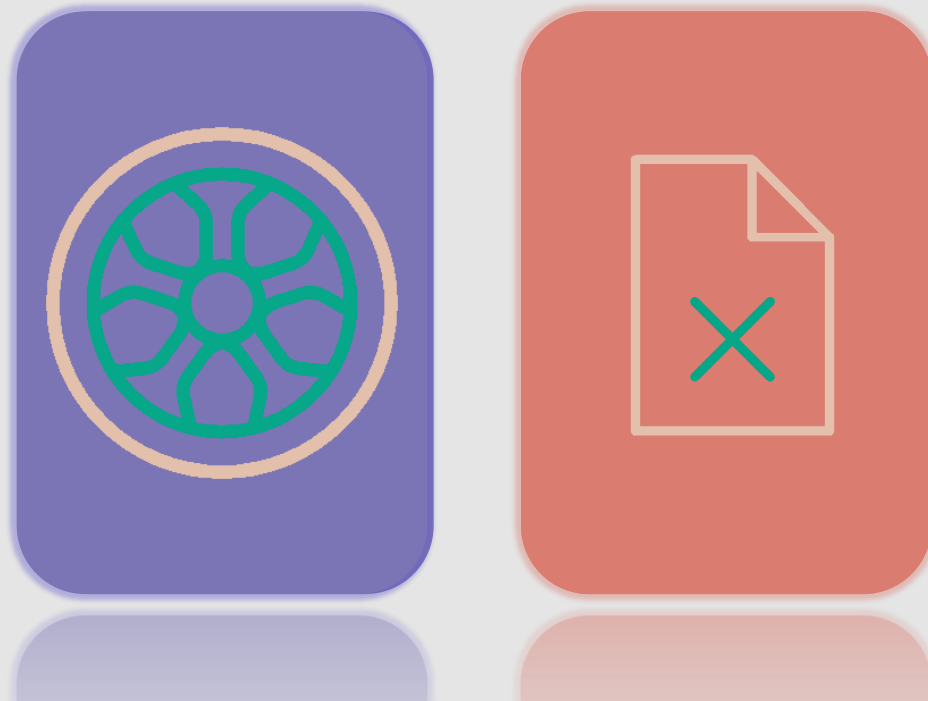
Segmentation automation

You've spoken, we've listened, and we've taken action. We've automated the segmentation of offshore bonds, **reducing the timescales from months, to days.**



Removal of documents to be certified as standard

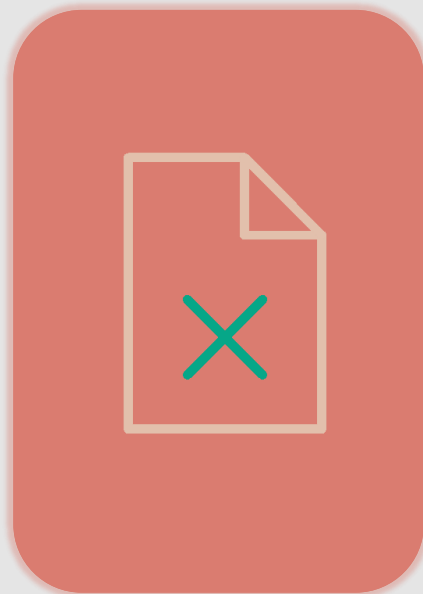
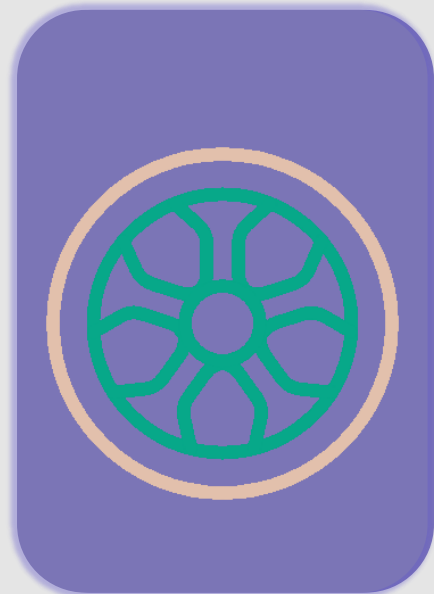
PIA does not require documents to be certified as standard practice, however, it reserves the right to request certified copies of documentation at any point during the Customer Due Diligence process.



Source of wealth evidence for gift/loan/inheritance/gambling win over £100k

Previously, documents evidencing the source of wealth were required when the investment was £100k or more. This rule has changed so that no Source of Wealth evidence is required unless:

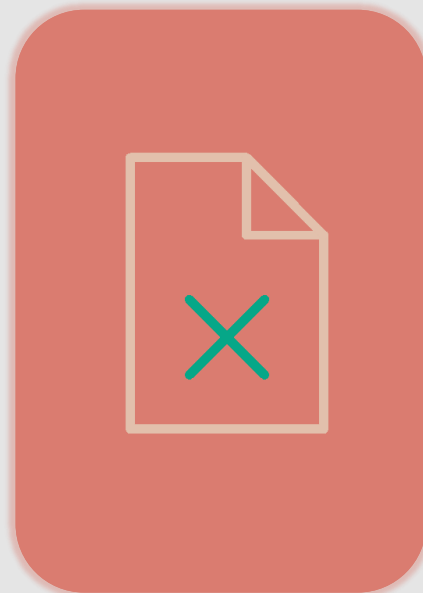
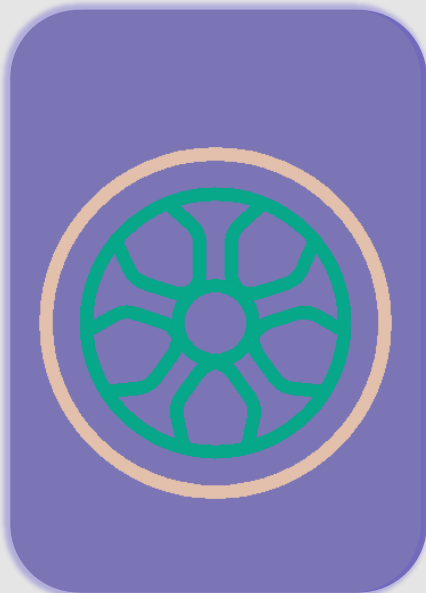
- 1) the investment is 5 million or above (regardless of currency), and/or
- 2) the customers are classed as High Risk – e.g. Politically Exposed Persons (PEPs)/Related Close Associate, or where there is a customer, Trustee or Beneficial Owner who is resident in a High-Risk Country.



Source of funds – third party

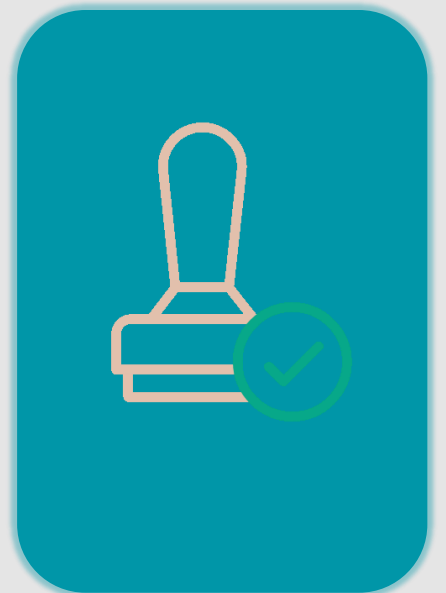
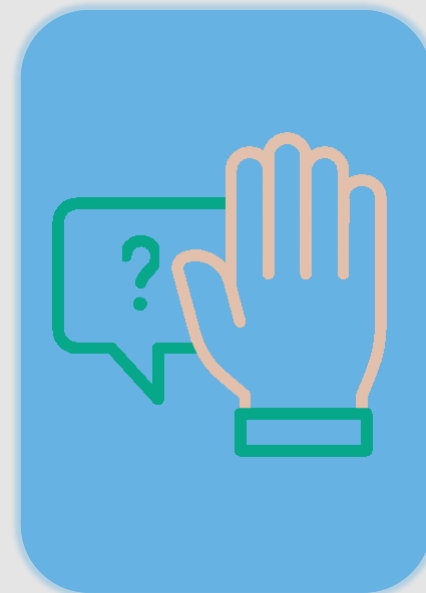
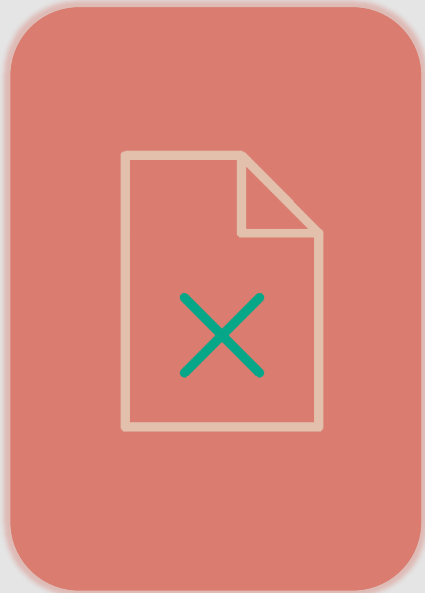
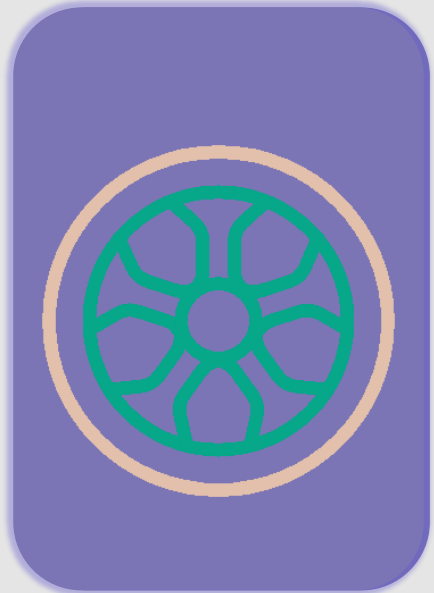
PIA does not accept money coming from a third party in respect of a customer's application. However, the following **do not represent** a third-party payment:

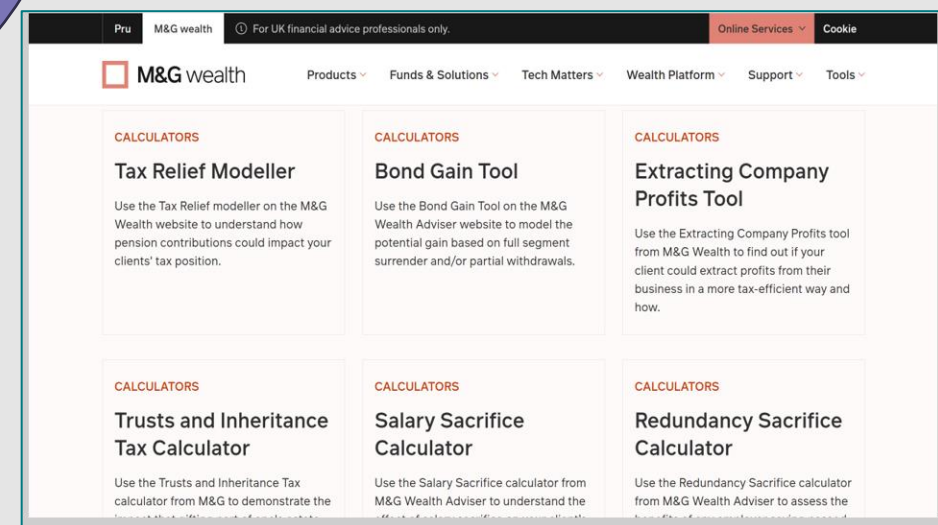
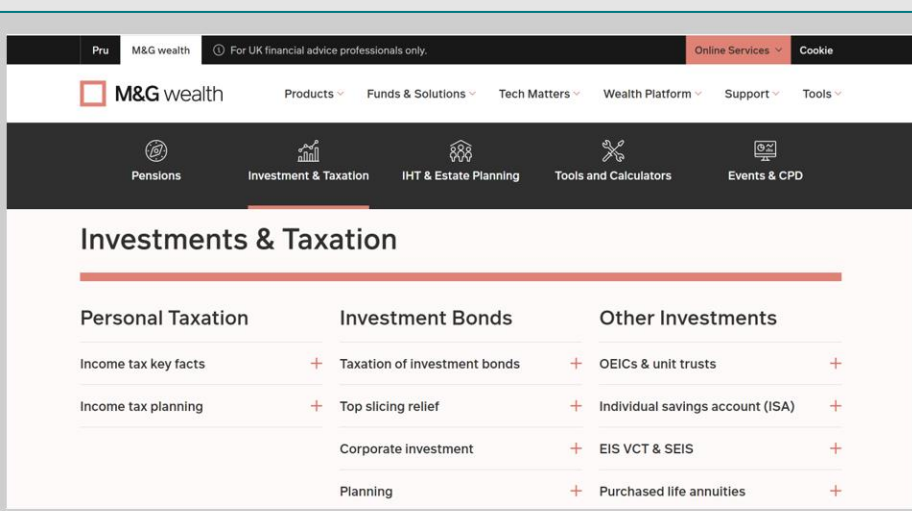
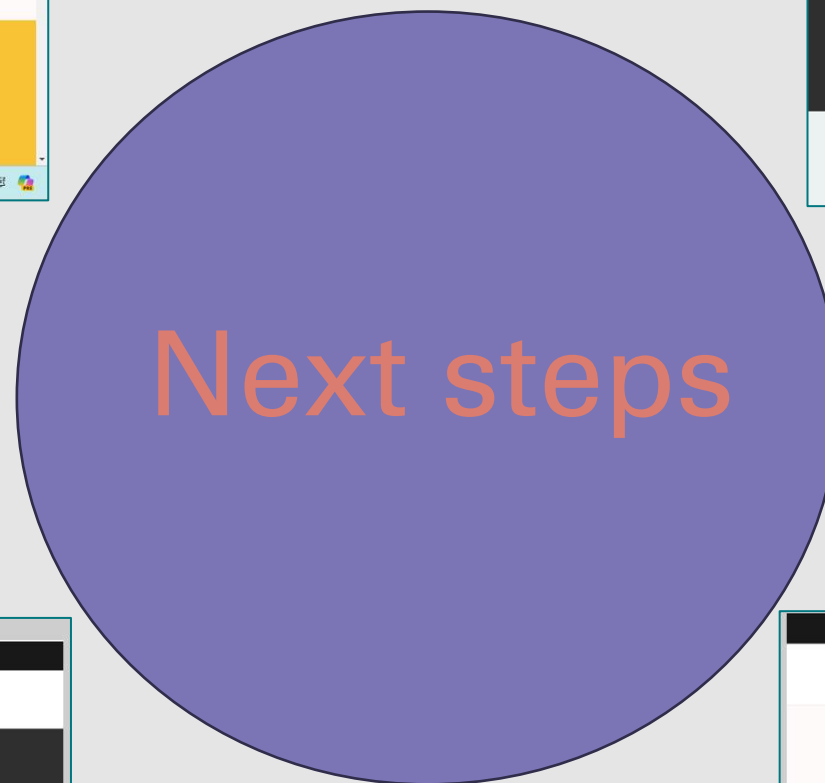
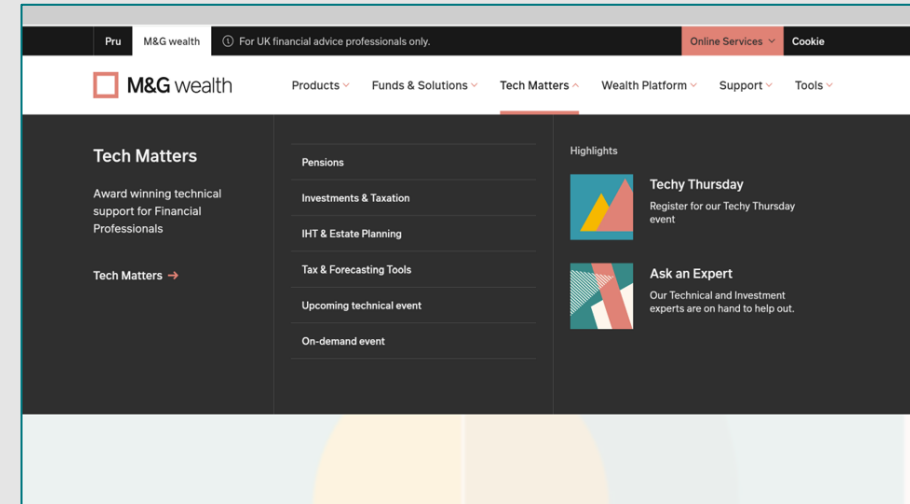
- Joint payee
- Spouse
- Life Assurance Provider
- Customer's platform account
- Solicitor firm acting on behalf of a customer.**



Experian checks

It is now permissible for a servicing financial adviser to confirm via their work email, the address and date of birth of additional customer associated roles (i.e. directors, shareholders, beneficial owners, joint payer/payers, and beneficiaries).







M&G Wealth for financial professionals

Supporting advisers and financial professionals to deliver good outcomes for clients, with proven long-term savings and investment solutions via a multi-channel offering that's expert led, advice driven and tech enabled



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Tech Matters

Award winning technical support for Financial Professionals

Tech Matters →

Pensions

Investments & Taxation

IHT & Estate Planning

Tax & Forecasting Tools

Upcoming technical event

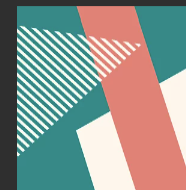
On-demand event

Highlights



Techy Thursday

Register for our Techy Thursday event



Ask an Expert

Our Technical and Investment experts are on hand to help out.



Pensions



Investment & Taxation



IHT & Estate Planning



Tools and Calculators



Events & CPD

Investments & Taxation

Personal Taxation

Income tax key facts



Income tax planning



Investment Bonds

Taxation of investment bonds



Top slicing relief



Corporate investment



Planning



Other Investments

OEICs & unit trusts



Individual savings account (ISA)



EIS VCT & SEIS



Purchased life annuities



CALCULATORS

Tax Relief Modeller

Use the Tax Relief modeller on the M&G Wealth website to understand how pension contributions could impact your clients' tax position.

CALCULATORS

Bond Gain Tool

Use the Bond Gain Tool on the M&G Wealth Adviser website to model the potential gain based on full segment surrender and/or partial withdrawals.

CALCULATORS

Extracting Company Profits Tool

Use the Extracting Company Profits tool from M&G Wealth to find out if your client could extract profits from their business in a more tax-efficient way and how.

CALCULATORS

Trusts and Inheritance Tax Calculator

Use the Trusts and Inheritance Tax calculator from M&G to demonstrate the impact that gifting parts of family assets

CALCULATORS

Salary Sacrifice Calculator

Use the Salary Sacrifice calculator from M&G Wealth Adviser to understand the effect of salary sacrificing on your clients

CALCULATORS

Redundancy Sacrifice Calculator

Use the Redundancy Sacrifice calculator from M&G Wealth Adviser to assess the benefits of salary sacrificing on your clients



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Les Cameron Manager

Joined group: Feb 2023

Pending posts 0

Requests to join 3

Manage group

Recent

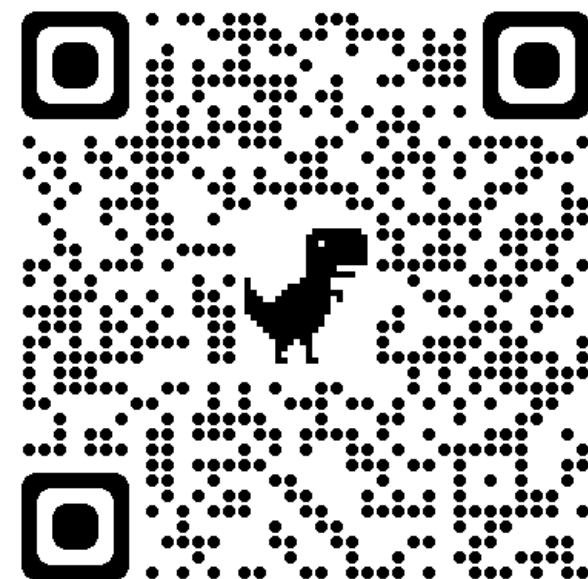
M&G Wealth - Tech Matters



M&G Wealth - Tech Matters

Private Listed

Active Group View activity





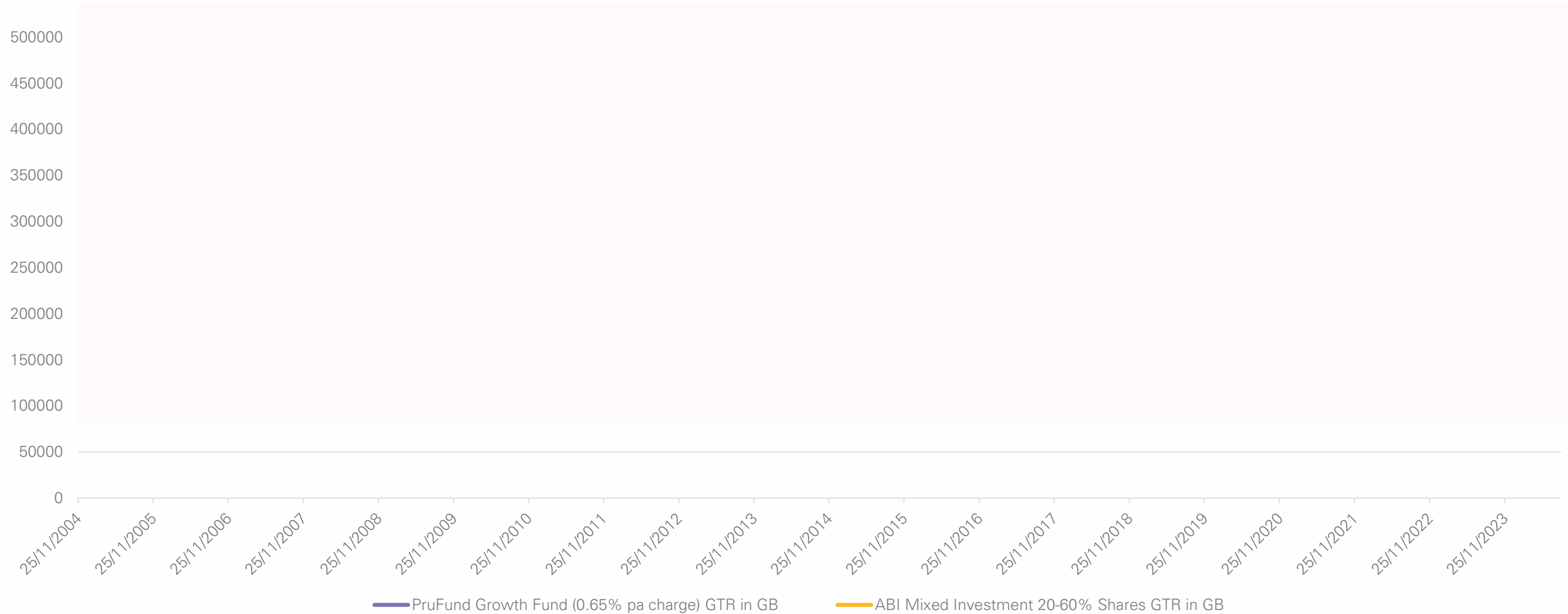
2024 marks 20 years since the first
PruFund fund was launched

2022

2023

2024

Keeping it smooth since 2004



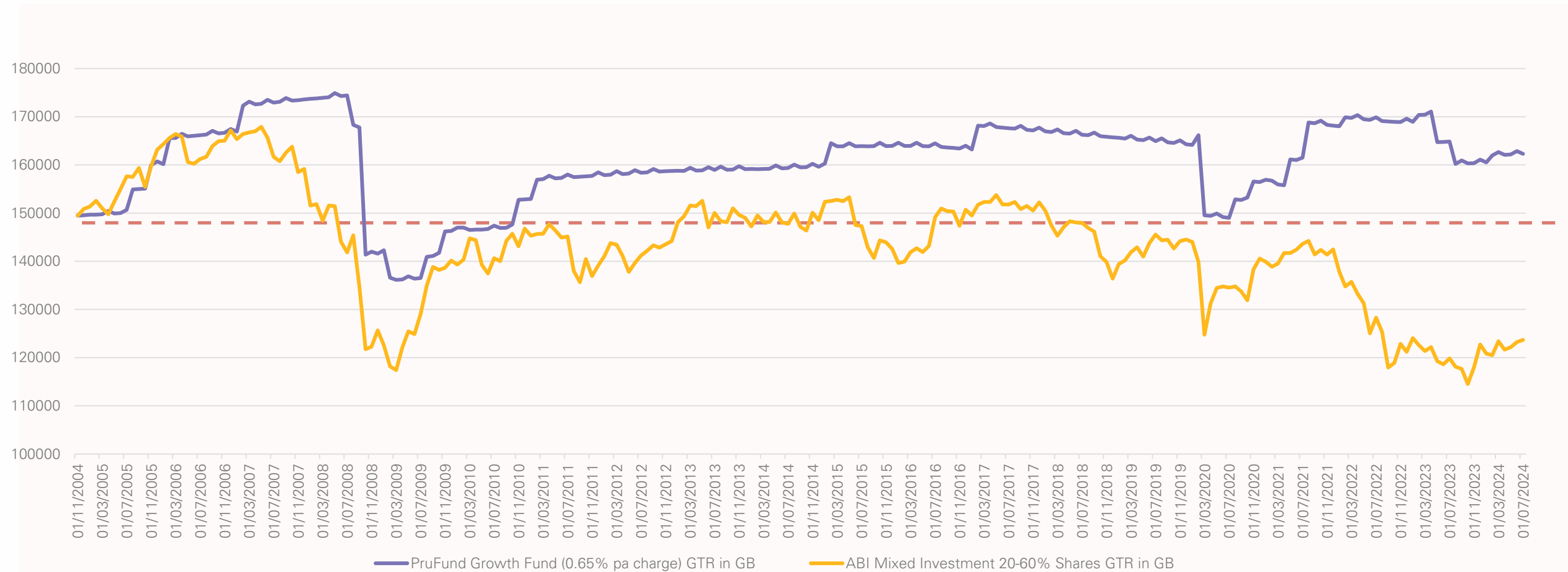
Figures are for PruFund Growth Fund and are for the period from Nov 2004 to 26 Aug 2024. The PruFund figures include a representative annual charge of 0.65% and any additional investment expenses, but not any product or advice charges, so the amount an investor would get back would be less than shown here. Some, if not all, of the funds comprising the IA sector average are net of fund charges. Past performance is not a reliable indicator of future performance. **The value of an investment can go down as well as up. Your clients may get back less than they have paid in.** Source: FE Analytics

Keeping it smooth since 2004



Figures are for PruFund Growth Fund and are from Nov 2004 to 26 Aug 2024. Initial investment of £150,000 and withdrawals of £250 per month taken at the end of the month. The PruFund figures include a representative annual charge of 0.65% and any additional investment expenses, but not any product or advice charges, so the amount an investor would get back would be less than shown here. Some, if not all, of the funds comprising the IA sector averages are net of fund charges. This example represents a typical situation. It is not related to any particular individual and does not recommend that 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. Your clients may get back less than they have paid in.** Source: FE Analytics

Keeping it smooth since 2004



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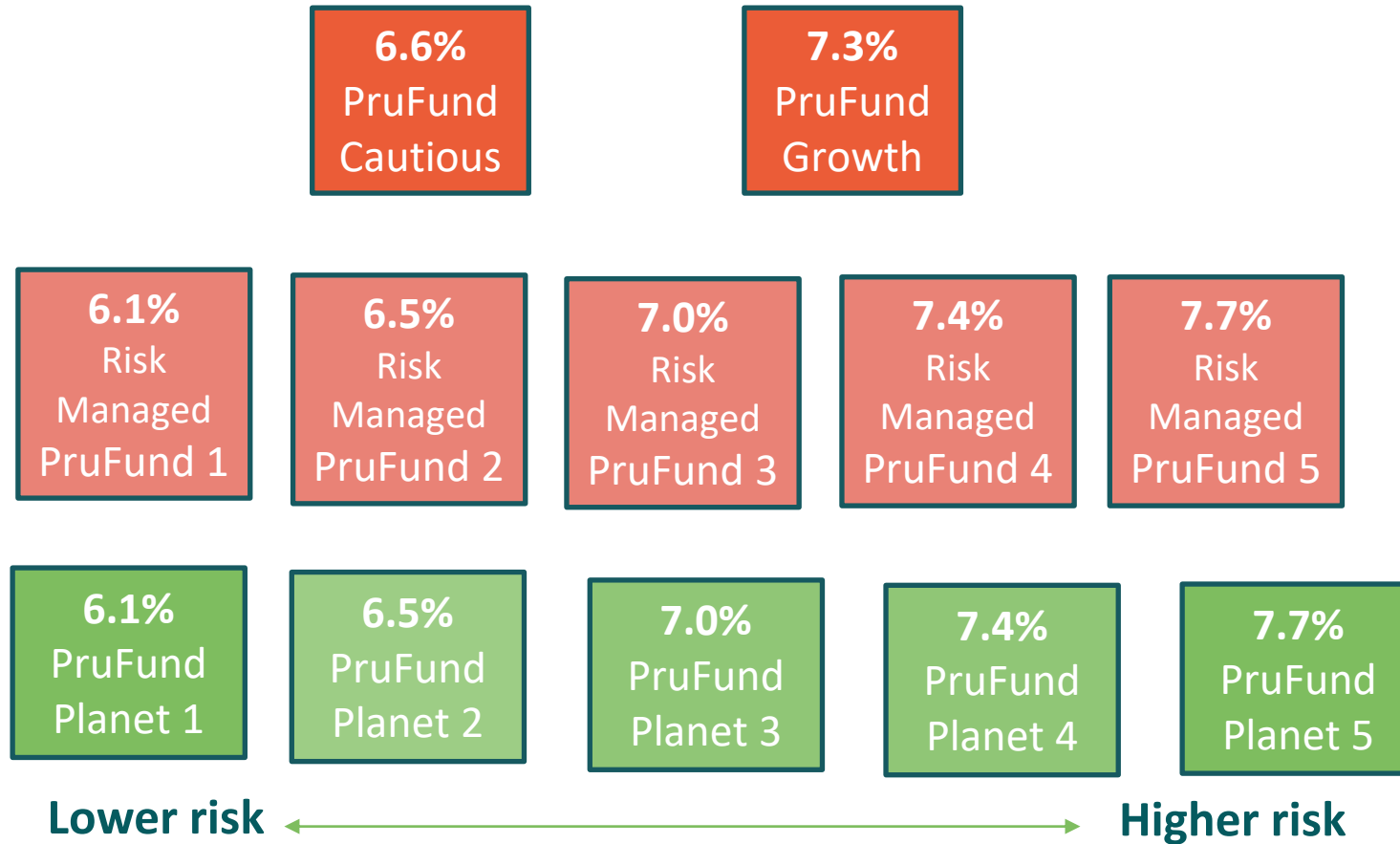
EGRs – expectation and reality

Investment date	PruFund Growth EGR at outset	PruFund Return after 10 years	ABI Mixed 20-60% Shares return after 10 years
25/11/2004	6.60%	6.64%	4.33%
25/11/2005	6.60%	6.21%	3.36%
25/11/2006	6.85%	5.74%	3.26%
25/11/2007	6.85%	5.56%	4.00%
25/11/2008	6.85%	7.64%	5.85%
25/11/2009	6.60%	7.20%	4.58%
25/11/2010	6.60%	6.21%	3.92%
25/11/2011	6.60%	6.64%	4.82%
25/11/2012	6.20%	6.61%	2.96%
25/11/2013	6.20%	6.03%	2.17%
25/11/2014	6.00%	6.13% <small>(as at 23/08/2024)</small>	2.61% <small>(as at 23/08/2024)</small>

Figures are for PruFund Growth Fund held within PruFund Investment Plan. The PruFund figures include any additional investment expenses, but not any fund management, product or advice charges, so the amount an investor would get back would be less than shown here. Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up. Source: Prudential and FE Analytics

Choice of 'smoothed' multi asset funds

Helping investors 'stay the path'



- Realistic return expectations are key to retirement planning
- The Expected Growth Rate (EGR) is an estimate of the expected investment return over the long-term
- Our in-house stochastic asset model is used to generate a distribution of possible future investment returns (having regard to the current asset mix in each fund) over a 15-year period

Source: M&G Treasury & Investment Office as at 27 August 2024,
The table shows the current Expected Growth Rates, gross of all product charges (including Annual Management Charges).

Learning Outcomes

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

Describe the tax advantages of offshore bonds, including gross roll up, tax deferred growth, and the 5% annual allowance.

Explain how offshore bonds can be utilized for effective income planning, especially high earners looking to optimize tax efficiency.

Implement estate planning and IHT mitigation strategies using offshore bonds, including gifting and trust arrangements.



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