



Bond School

Session 004 – Who's liable – Individuals, Estates & Trusts



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

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Learning objectives

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

Evaluate who's liable for
bond gains

Identify when to use
assignments to transfer
the liability and increase
tax efficiency

The most common types of chargeable event and gain calculations

Death of a
life assured
giving rise to
benefits

Part
surrenders
in excess of
5% limit

Full
Surrender

Final
Chargeable
Event

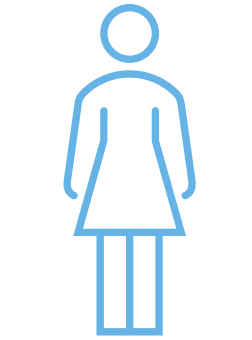
Excess
Chargeable
Event

Final
Chargeable
Event



Personally owned bond – who's liable?

Who's liable – Single legal and beneficial owner (death event)?



Sue
Life Assured



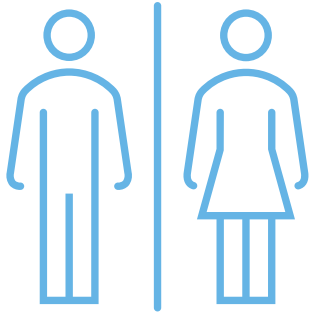
Sue
Policyholder



Key points

- Gain assessed as part of Sue's taxable income for the year of death – reported by PRs
- PRs will claim death proceeds
- PRs likely to require probate

Who's liable – Single legal and beneficial owner (death event)?



Sue & Sam
Lives Assured



Sue
Policyholder

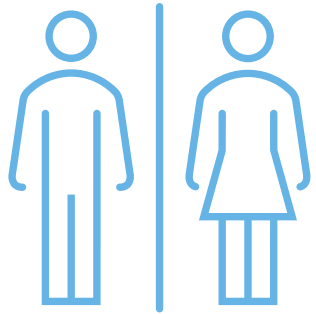
Sue dies first

No
Chargeable
Event

Key points

- Bond continues due to surviving life assured
- Personal Reps (PRs) become legal owner(s)
- If PRs surrender gain assessed at PR rate (20%)
- Beneficiary assessed as receiving estate income
- Top-slicing not available for beneficiary
- Consider assignment to beneficiary?

Who's liable – Joint legal and beneficial owners (death event)?

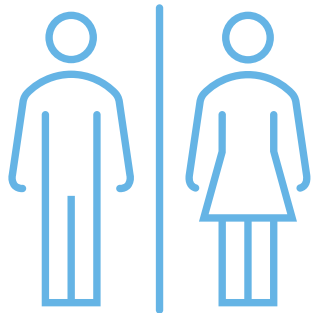


Sue & Sam
Lives Assured



Key points

- Gain assessed as part of Sue's taxable income for the year of death – reported by PRs
- PRs will claim death proceeds
- PRs likely to require probate



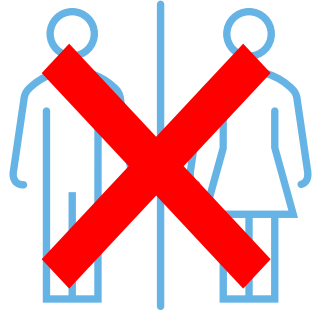
Sue & Sam
Policyholders



Key points

- Bond continues due to surviving life assured
- 50% of the value included in Sam's estate
- Sue become sole owner (joint tenancy rules)

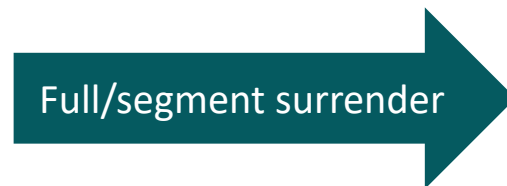
Who's liable – Single legal and beneficial owner (full surrender event)?



Two children
Lives Assured



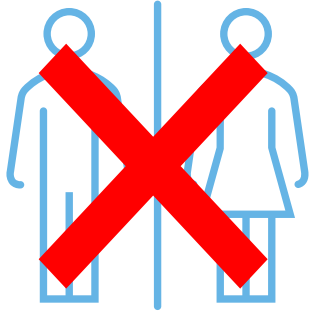
Sue
Policyholder



Key point

- Gain assessed against Sue as beneficial owner

Who's liable – Single legal and beneficial owner (excess event)?



Two children
Lives Assured



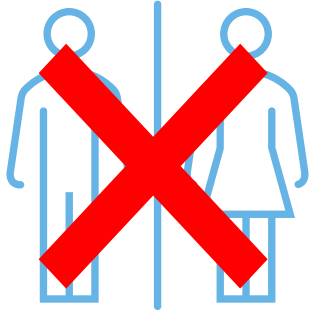
Sue
Policyholder



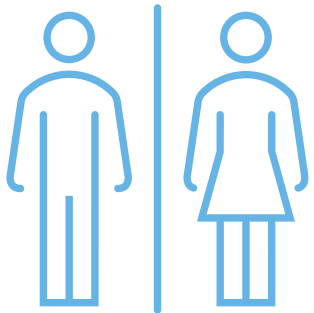
Key point

- Gain assessed against Sue as beneficial owner

Who's liable – Joint legal and beneficial owners (full surrender event)?



Two children
Lives Assured



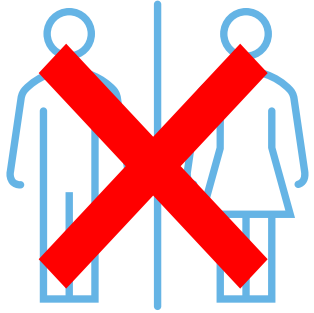
Sue & Sam
Policyholders



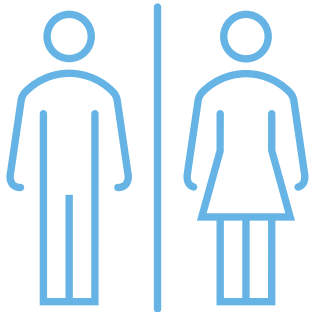
Key point

- Gain assessed against Sue & Sam (50/50)

Who's liable – Joint legal and beneficial owners (excess event)?



Two children
Lives Assured



Sue & Sam
Policyholders



Key point

- Gain assessed against Sue & Sam (50/50)



Trustee owned bonds – who's liable?

Who's liable – Bonds held by trustees?



A diagram consisting of two rectangular boxes side-by-side. The left box is light blue and contains the word 'Bare'. The right box is a darker teal color and contains the word 'Other'. Both boxes have a thin white border and a slight drop shadow.

Bare

Other

Who's liable – Bond held in a Bare (Absolute) trust?

Chargeable event gains will be taxed on the beneficiary of a bare trust subject to two exceptions.

1. Parental settlements
2. Discounted Gift Trusts



Who's liable – Bare (Absolute) Discounted Gift Trust?

Settlor alive & 5% TDA
breached due to Settlor's rights

Key Point

Gain assessed on Settlor on just and reasonable basis

Settlor alive, 5% not breached,
distribution to beneficiary
triggers a chargeable event

Key Point

Gain assessed on beneficiary on just and reasonable basis

Settlor dies and is the sole/last
remaining life assured

Key Point

Gain assessed on the beneficiary on just and reasonable basis

Who's liable – Bonds held in a Discretionary/IIP trust?



How to determine if a trust is UK resident for tax purposes

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.

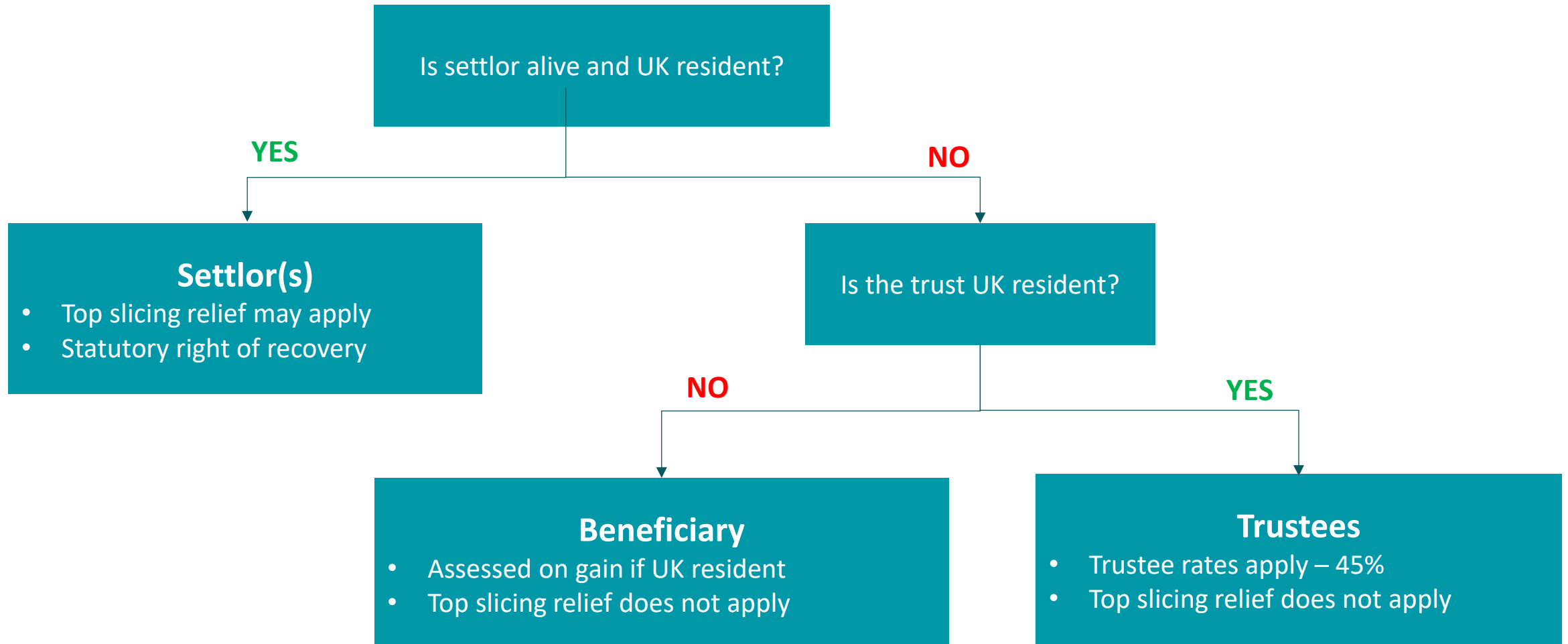
There is a mixture of resident and non-resident trustees acting at the same time

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.

Who's liable – Bonds held in a Discretionary/IIP trust?



Who's liable – Bonds held in a Discretionary/IIP trust?

Key Point

Trustees receiving CE certificate doesn't necessarily mean trustees are liable

Key Point

Settlor assessed on gains while alive and UK resident

Key Point

Trust rate (45%) applies to gains if Settlor died in a previous tax year or is not UK resident

Key Point

Joint Settlor trusts - the gain is assessed based on position of each Settlor i.e. alive and UK resident when gain occurs?

Key Point

Joint Settlor trusts - may not be appropriate for both Settlers to be the only lives assured!

Who's liable – Bonds held in a Discretionary/IIP trust?



- John gifted a bond into discretionary trust
- Some years later the trustees surrender the bond
- John is alive and UK resident
- Who is liable for the gain?

Settlor



Trustees

Beneficiaries

Who's liable – Bonds held in a Discretionary/IIP trust?



- Sue gifted a bond into discretionary trust
- She is the sole life assured on the bond
- Her later death triggers a chargeable event
- Who is liable for the gain?

Settlor



Trustees

Beneficiaries

Who's liable – Bonds held in a Discretionary/IIP trust?



- Jack gifted a bond into discretionary trust
- He died 3 months ago but his son was life assured
- The trustees want to distribute the trust fund
- If they surrender the bond who's liable for the gain?

Settlor ✓
(tax year of death?)

Trustees ✓
(tax year after Settlor's death?)

Beneficiaries ✓
(assigned?)

Who's liable – Bonds held in a Discretionary/IIP trust?



- In 2015, Ben & Hilary gift a bond into a discretionary trust
- Ben dies in 2020
- Bond continues with Hilary as the sole life assured
- In 2024/25 tax year the trustees surrender the bond
- Who's liable for the gain?

Settlor
50% of the gain ✓

Trustees
50% of the gain ✓

Beneficiaries



Assigning bond for tax efficiency purposes

Types of Assignments

Gift to trust or individual

Key Point

No chargeable event if gift is “outright” (no strings attached)

Trustee/PRs to beneficiary

Key Point

No chargeable event if gift is “outright” (no strings attached)

Divorce

Key Point

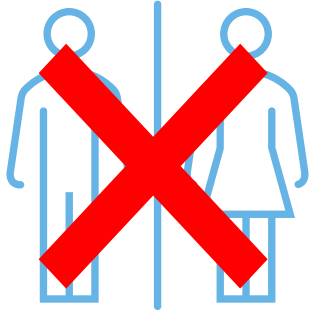
No chargeable event

Consideration
(monies worth)

Key Point

Triggers a chargeable event (rare)

Individually owned bonds – Gift assignment to other individuals



Sue & Sam
Lives Assured



Sue
Policyholder



Gift
Assignment



Sue's son Ben
(assignee)

Objectives

- Sue is a higher rate taxpayer
- Sue doesn't need the money
- Wants to gift money to son Ben
- Ben is basic rate taxpayer

Key points

- Gift is "outright"
- Future gains assessed against Ben

Individually owned bonds – Gift assignment to spouse?



Sue
Policyholder



Gift
Assignment



Sue's husband
(assignee)

Objectives

- Sue needs money out of the bond
- She's higher rate but Sam is basic rate
- Sole purpose is to have gain assessed on Sam
- Sue will benefit from withdrawal proceeds

Key points

- Gift is not "outright"
- Planning fails due to settlements legislation
- Sue would be assessed on future gains

Individually owned bonds – Gift assignment to spouse?



Sue
Policyholder



Gift
Assignment



Sue's husband
(assignee)

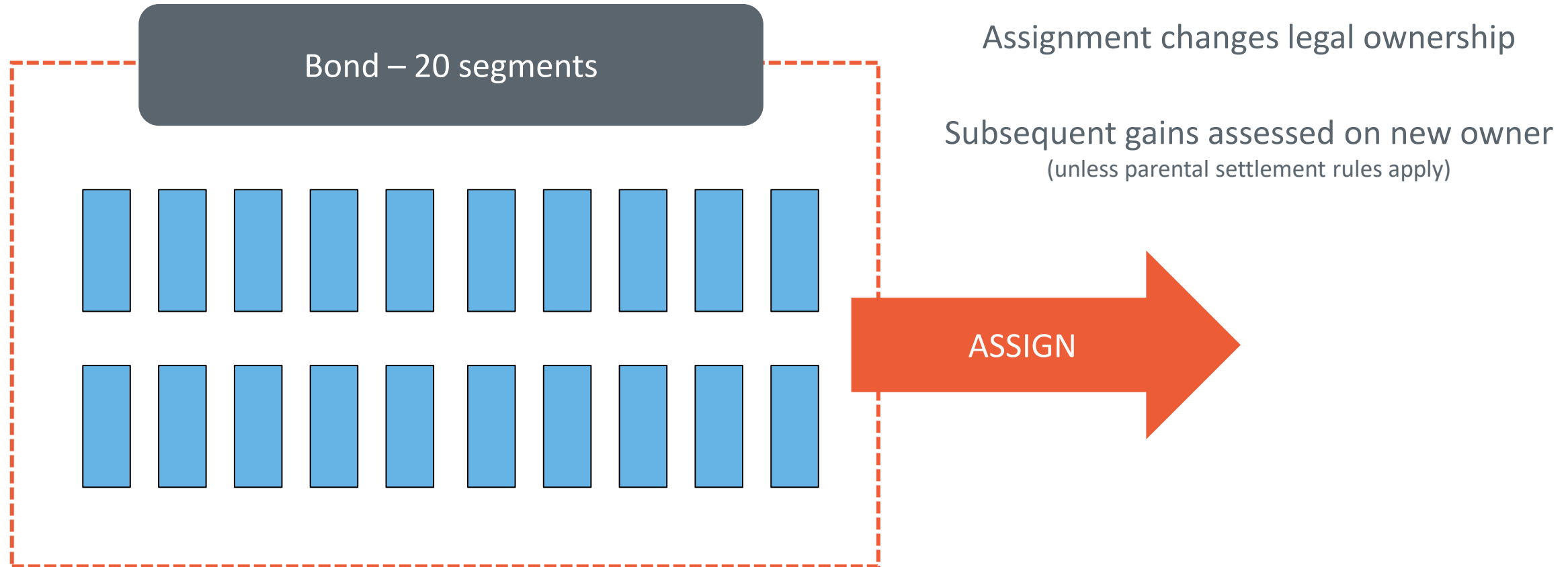
Objectives

- Sue's considers the money as joint money
- Sue wants to transfer half the segments to Sam

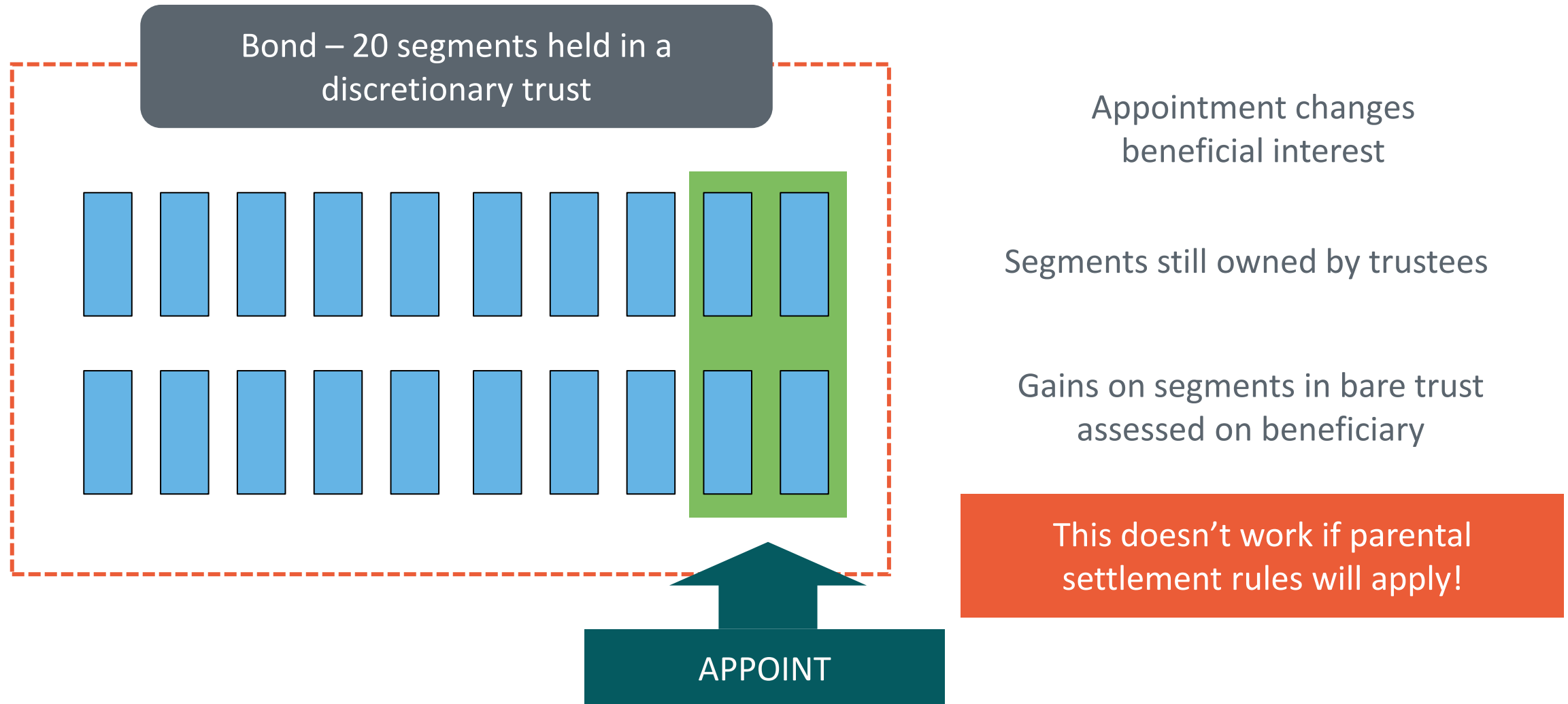
Key points

- Gift is "outright"
- Sue will be assessed for gains on her segments
- Sam will be assessed for gains on his segments

Bonds held in trust – Assignment to trust beneficiary (must be 18 years old)



Bonds held in trust – Appointment onto bare trust (beneficiary under 18)



Learning objectives recap

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Evaluate who's liable for
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assignments to transfer
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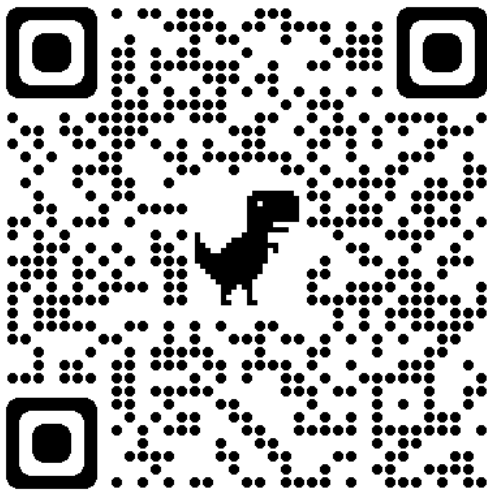


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