

Are bonds the answer...

...in the current tax landscape?

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK financial advice professionals.

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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.

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 current tax landscape and its impact on individuals

Explain the taxation treatment of insurance bonds

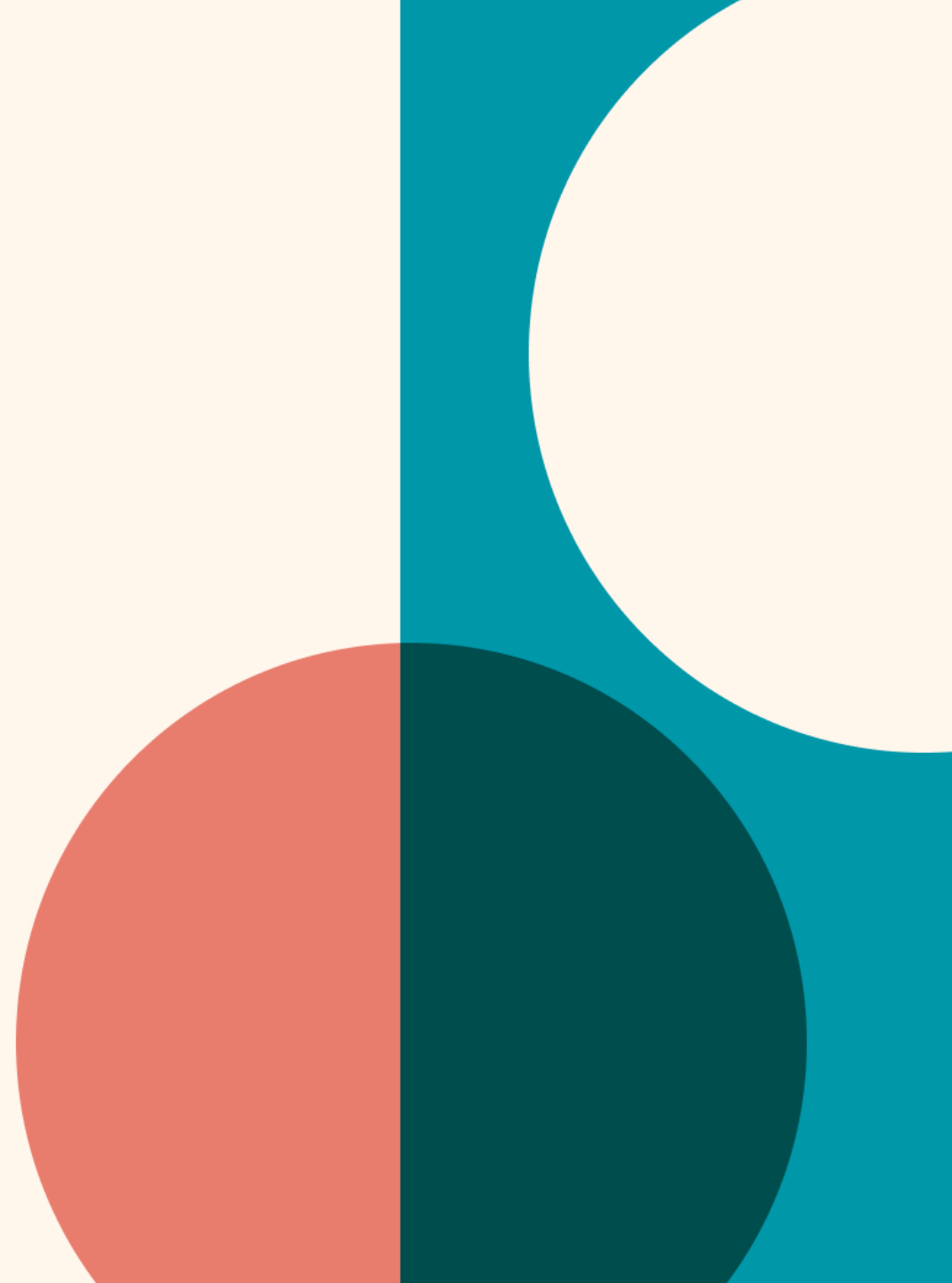
Identify individuals who may benefit by using an insurance bond wrapper

BACKDROP

Tax Landscape

Allowances

Internal Taxation of Bonds



FISCAL
DRAG



INCREASED
TAX RATES



REDUCED
ALLOWANCES



4 million new taxpayers

3 million new higher rate taxpayers

400,000 new additional rate taxpayers

c 4.5 million new dividend taxpayers

500,000 new Capital Gains Taxpayers

30% of companies will pay increased corporation tax

Inheritance Tax will exceed £7bn a year



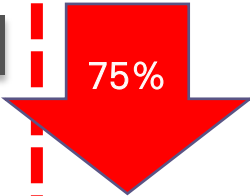
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2022/23

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



75%

Exhausting Allowances

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

Wrappers

OEIC

BONDS:

ONSHORE

OFFSHORE

Journey

Exit

E
T

E
T

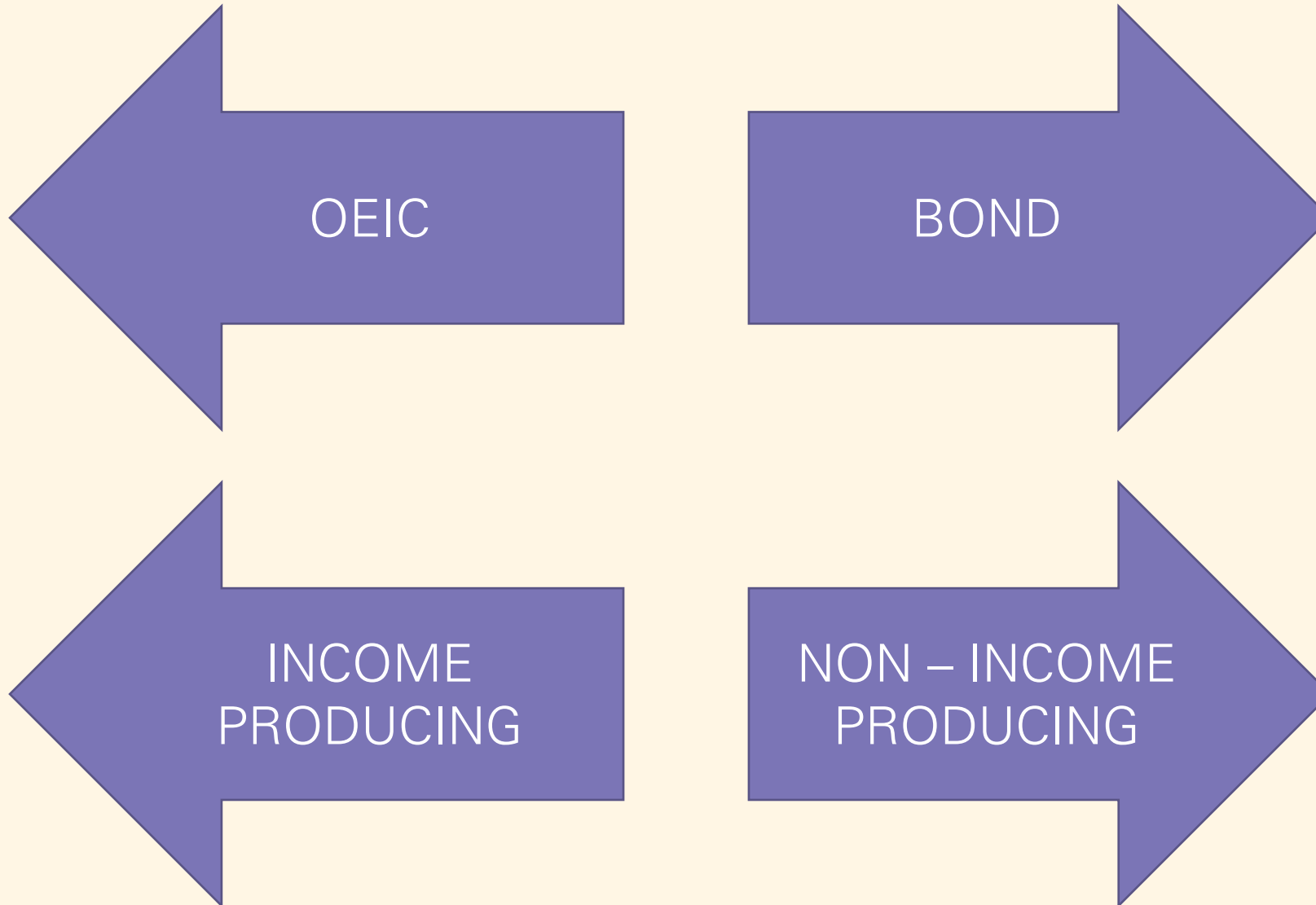
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The tax spectrum



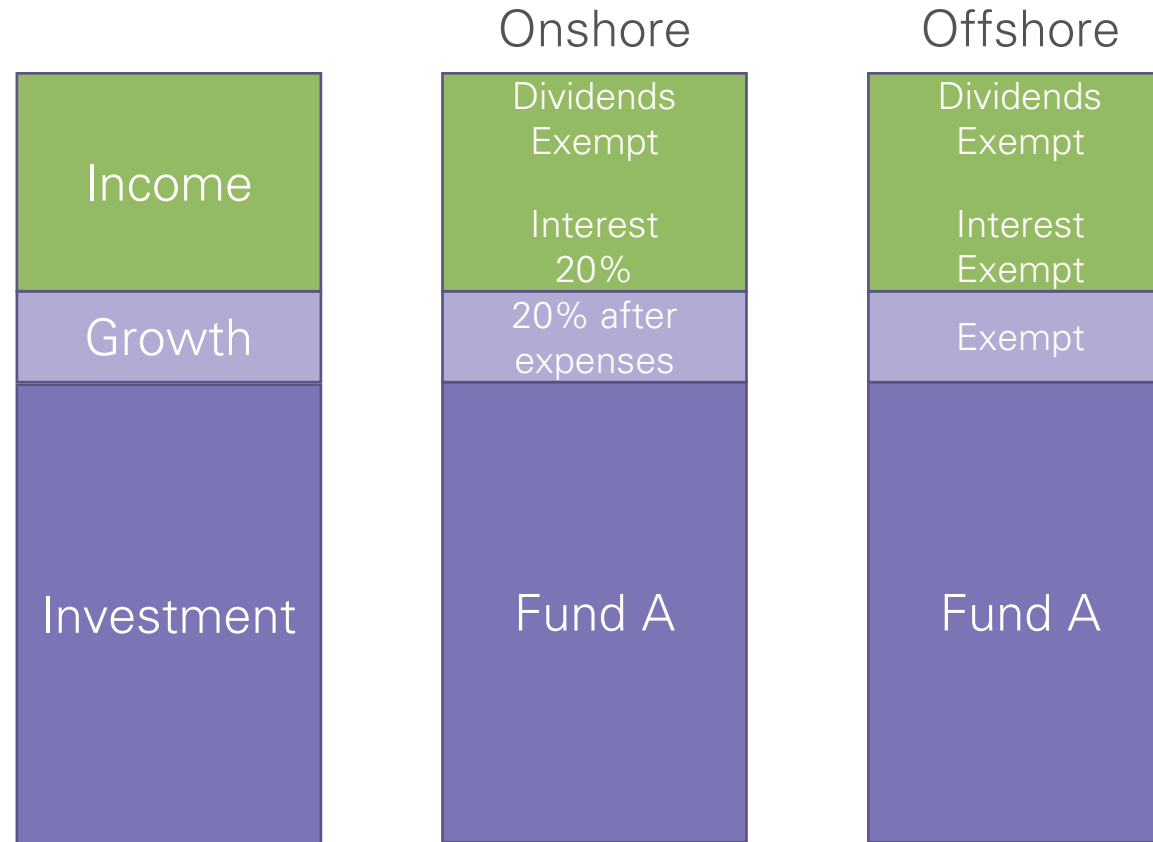
What's this?

Period	UK Equity	Global Equity	Equity (50/50)	UK Fixed Interest	Global Fixed Interest	Fixed Interest (50/50)	Mixed (30/30/20/20)
2000 - 2022	45%	21%	69%	49%	30%	57%	40%
2000 – 2009	150%	804%	93%	64%	220%	76%	100%
2007 – 2016	50%	23%	65%	42%	32%	51%	39%
2013 - 2022	51%	19%	172%	81%	28%	110%	40%

It's income received as a % total profit.

£100,000 invested, Year ending 31/12, Gross income reinvested

Internal Bond Taxation

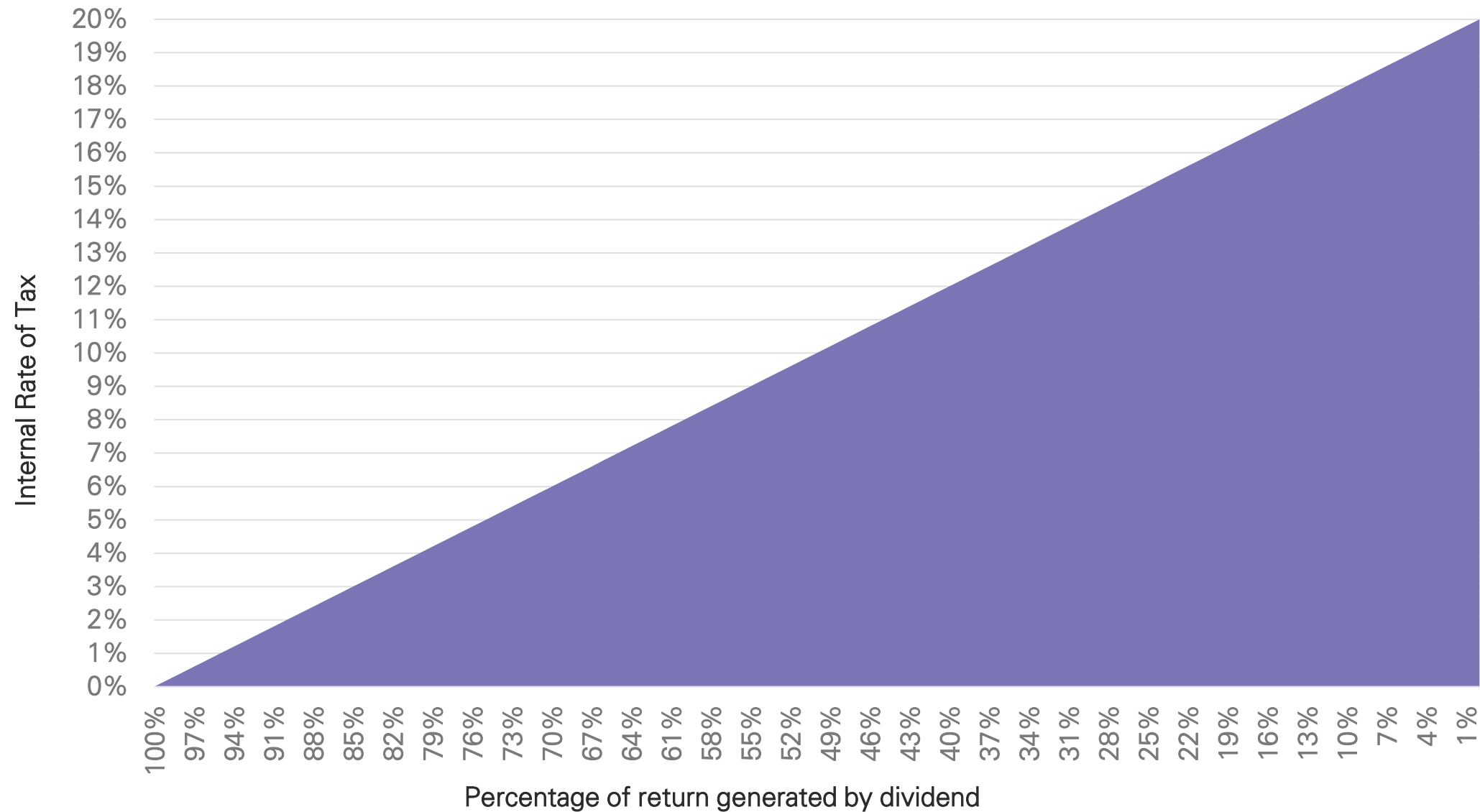


Outside or In?

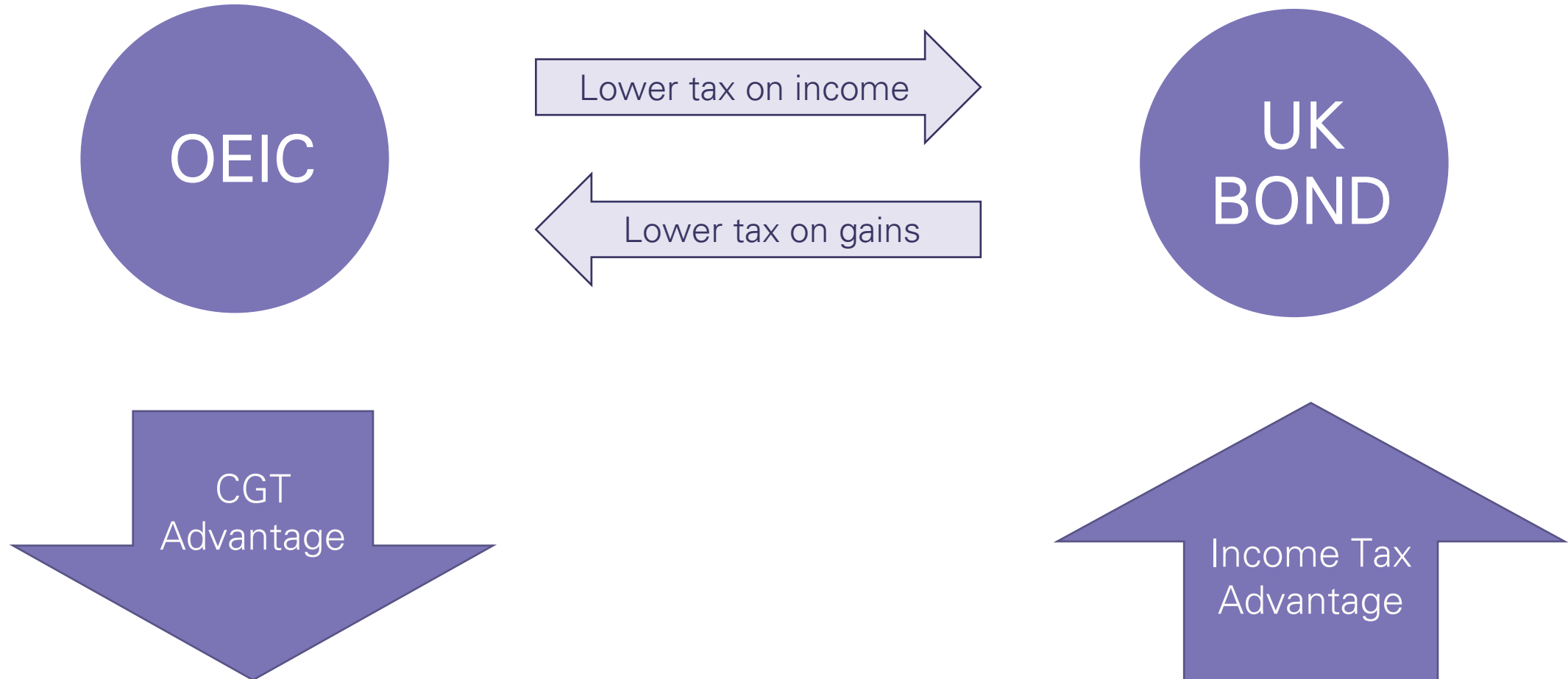
			Unwrapped	UK Bond Wrapped
	Yield	Amount	Tax	
Dividend	3%	£3,000	£1,012	£0
Income	1%	£1,000	£400	£200
Gain	3%	£3,000	£0	£600
Total	7%	£7,000	£1,412	£800
		Effective rate	20.1 %	11.4%

£100,000 invested, higher rate taxpayer, AEA £3,000, no savings or dividend allowance

Onshore Internal Tax Rate (by dividend component)



The trade off

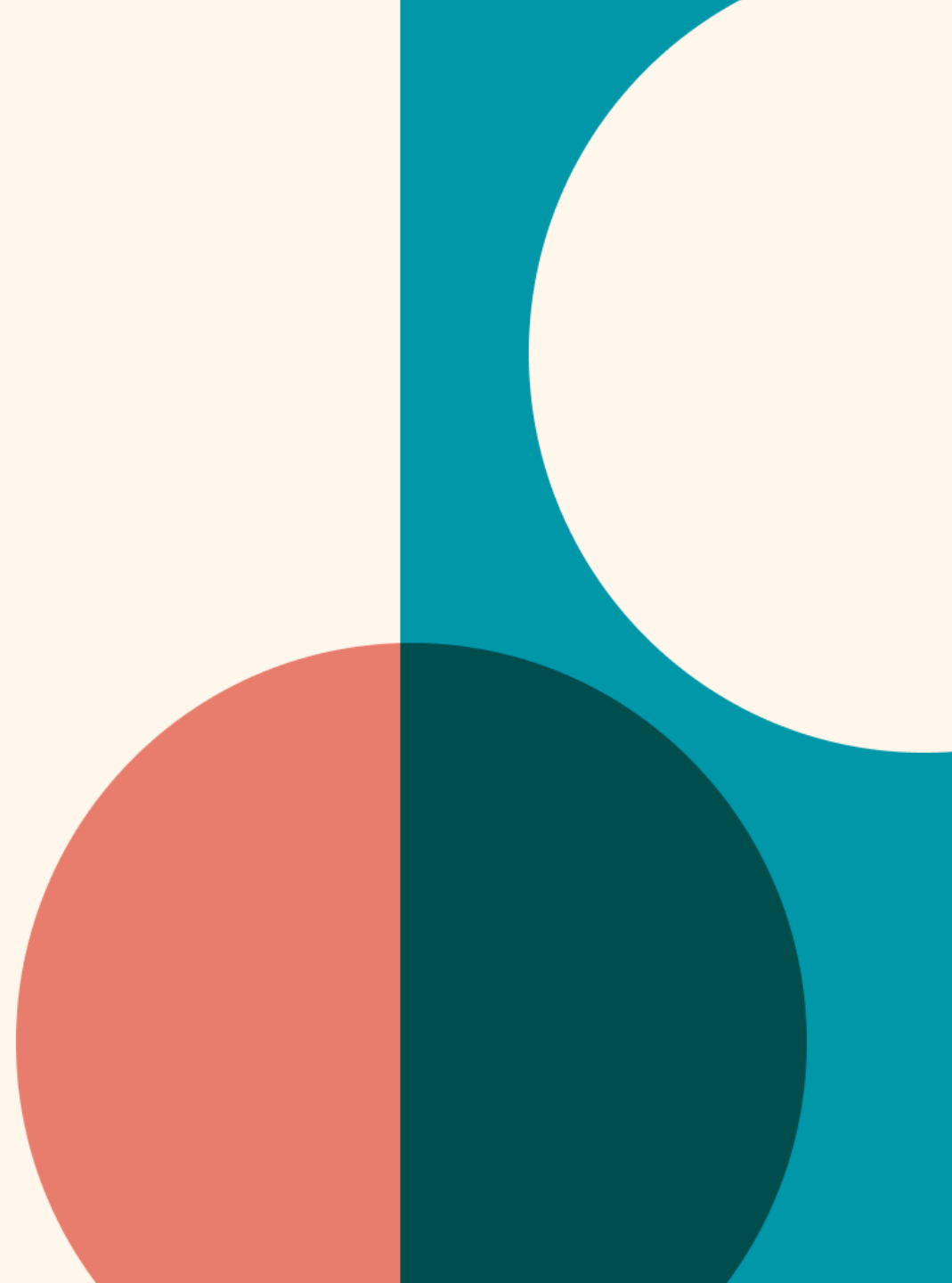


BONDS

The concept

Chargeable event regime

Bondholders and liability





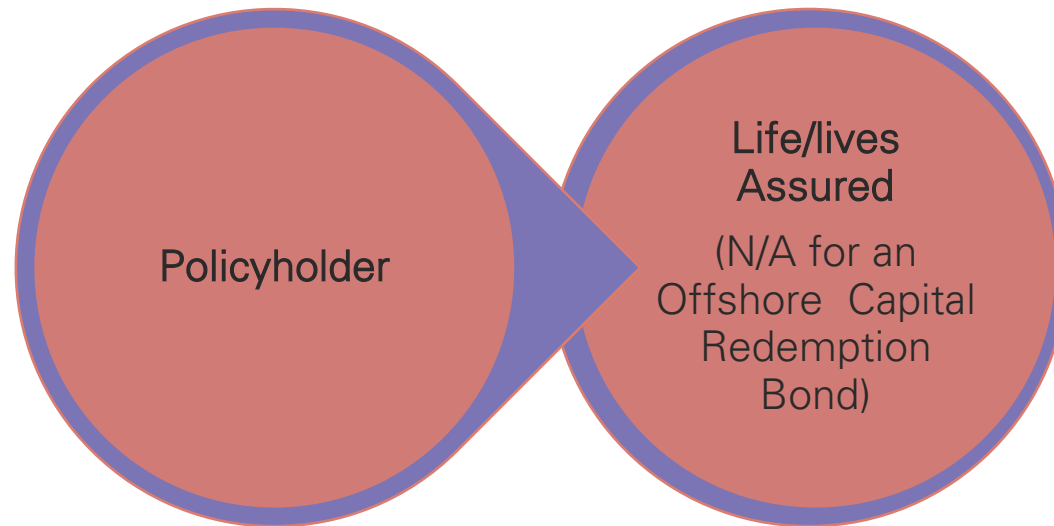
Explaining Insurance Bonds to clients

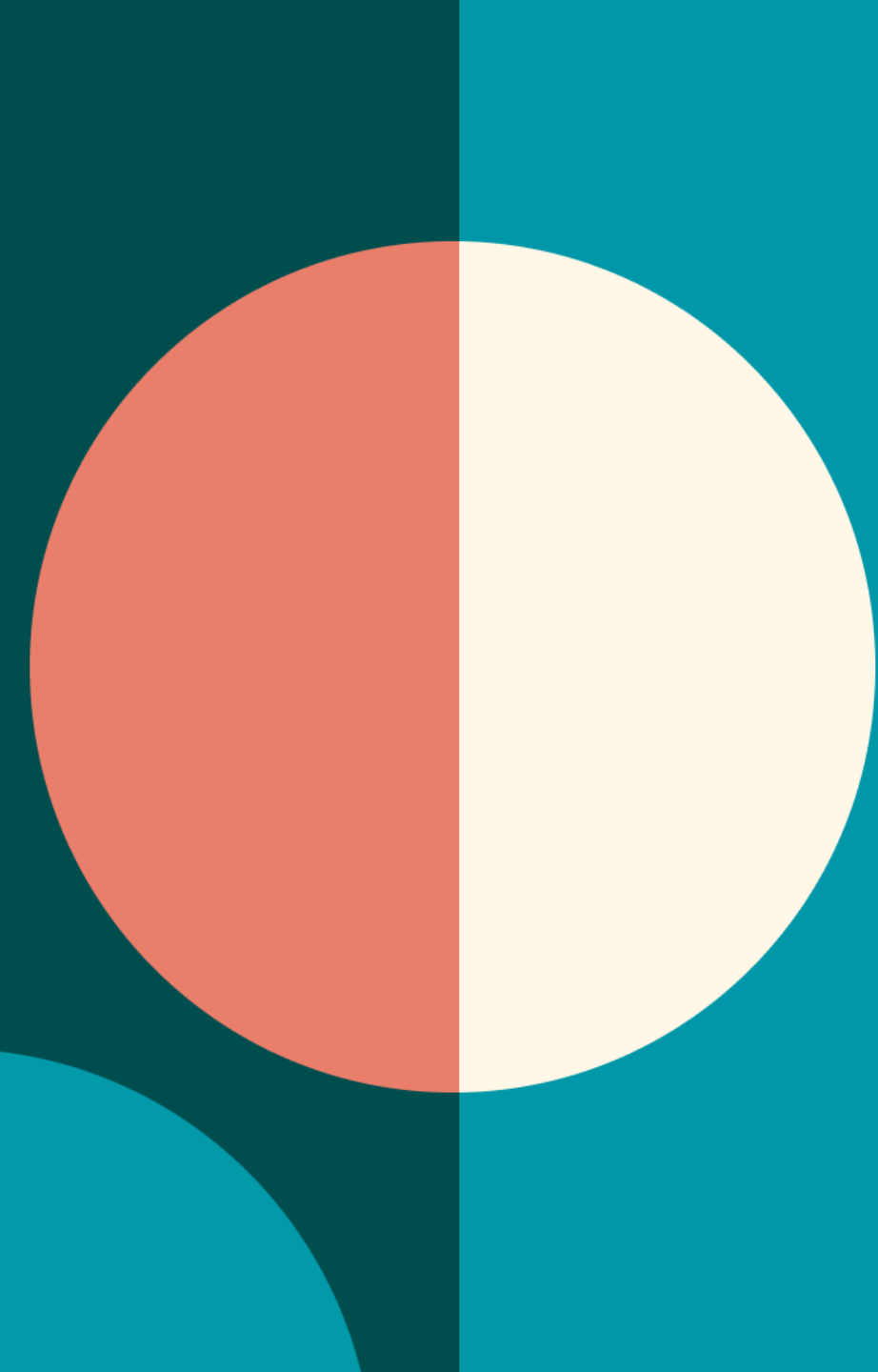
Insurance Bonds

- Non qualifying
- Single premium
- Whole of life assurance or capital redemption policy



Setting up a Bond since 1774 (can be confusing for clients)





Insurance Bonds - the chargeable event regime

Bond Tax in three steps

- 1) Identifying a chargeable event
- 2) Calculate the gain arising
- 3) Attribute to a chargeable person



Bond chargeable events



D

Death of a life
assured giving
rise to benefits



A

Assignment for
money or money's
worth



M

Maturity
(e.g. a Capital
Redemption Bond)



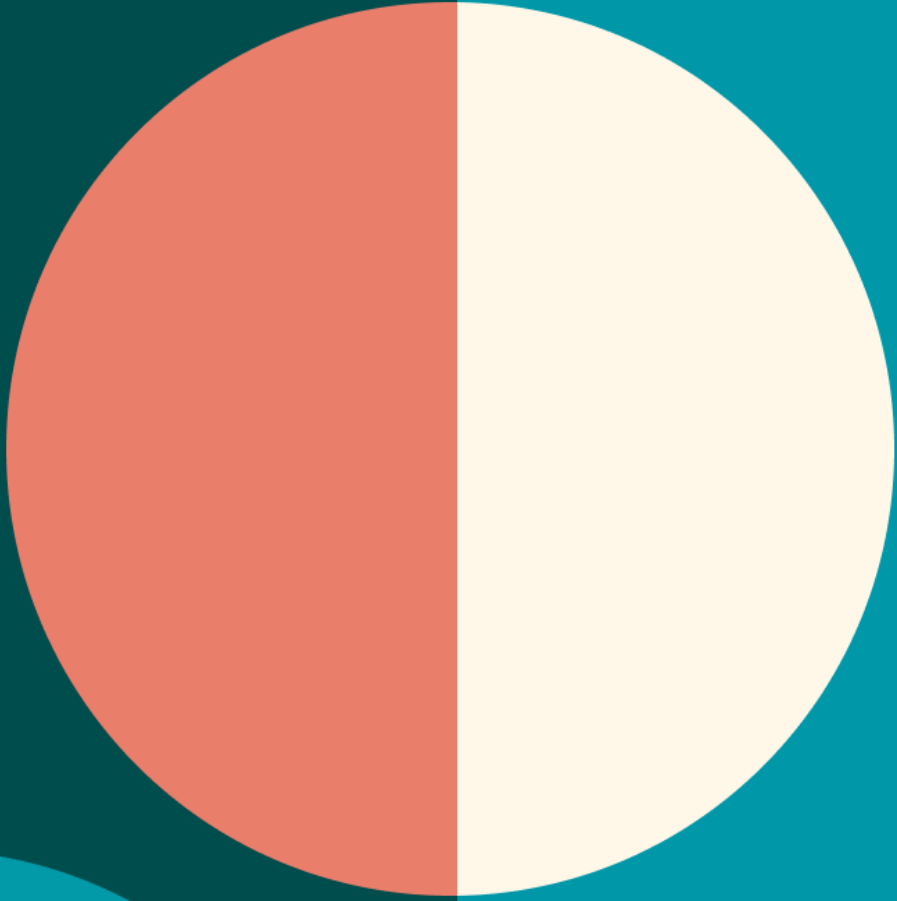
E

Excess part
surrenders
above 5%
limits



S

Surrender
in full



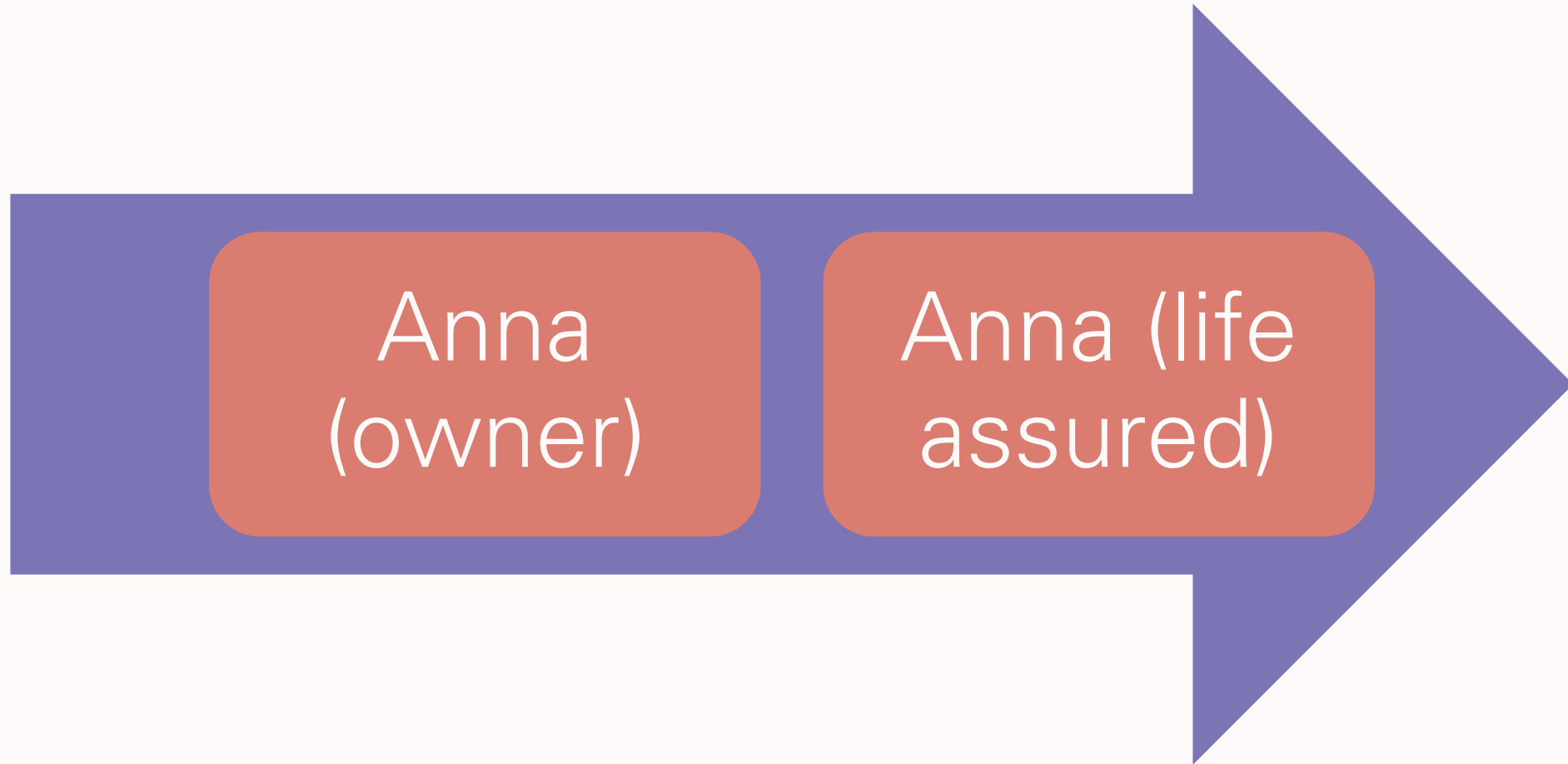
Chargeable event
triggers are largely
controllable

Controlling Bond chargeable events



No C.E. if
surviving life
assured

Insurable Interest – Own life policy



Additional life assured



Anna (owner)

The diagram consists of a large blue arrow pointing to the right. Inside the arrow are two red rounded rectangular boxes. The left box contains the text 'Anna (owner)' and the right box contains the text 'Lives assured are Anna & Bert (Anna's husband)'.

Lives assured are Anna
& Bert (Anna's husband)

Controlling Bond chargeable events



D

No C.E. if
surviving life
assured



A

No C.E. if gifted
assignment



M

Life bonds don't
typically mature



E

No C.E if stick
to 5% limits



S

Choose tax
year
carefully

Controlling Bond chargeable events



E

No C.E. if stick to
5% limits



D

No C.E. if gifted
assignment



A

No C.E. if gifted
assignment
Life bonds don't
typically mature



M

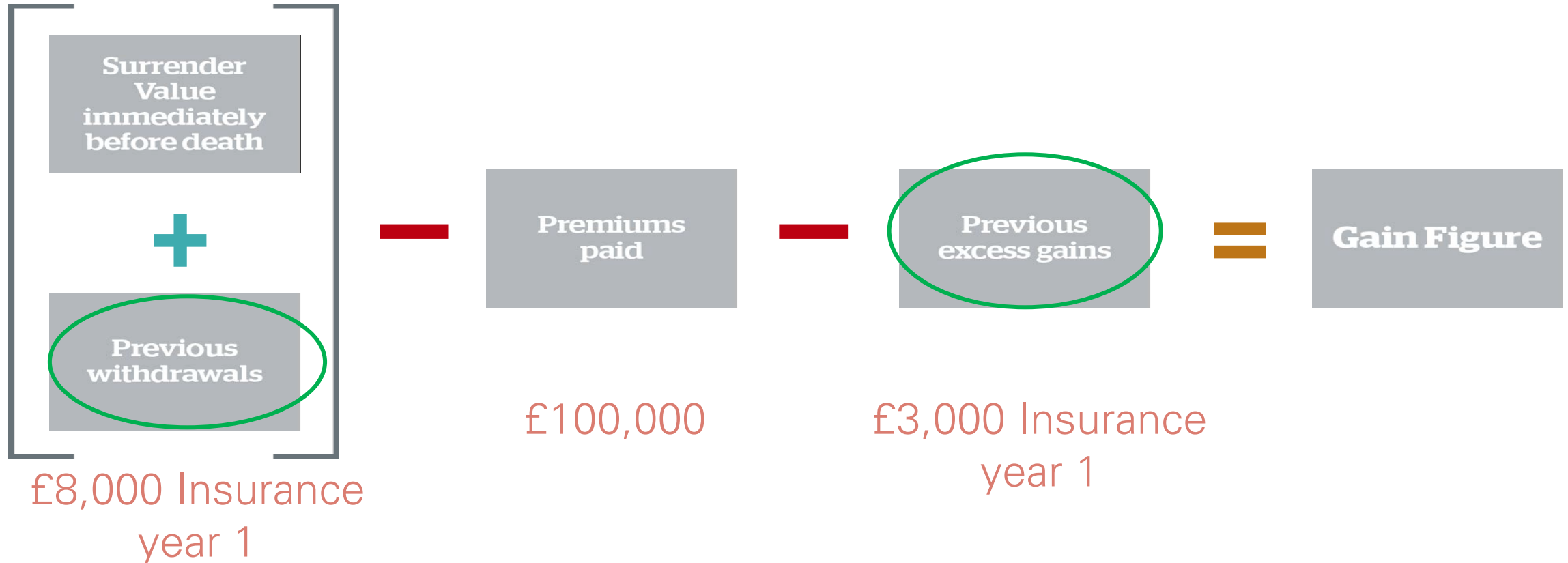
Life bonds
don't typically
mature



S

Choose tax
year
carefully

Final Gain calculation – part surrenders are tax deferred & not tax free



Part surrenders – the 5% rule

Invest £ 01 Jan 2022	Insurance year	Unused 5% allowance B/F £	5% allowance current year £	Part surrender in current year £	Gain £	Unused 5% allowance C/F £
100,000	01/01/22 to 31/12/22	N/A	5,000	Nil	Nil	5,000
	01/01/23 to 31/12/23	5,000	5,000	(9,000)	Nil	1,000
	01/01/24 to 31/12/24	1,000	5,000	(8,000)	2,000	Nil

Gain of £2,000 arises at 31/12/24 and falls in tax year 2024/25

Full surrender of individual segments v withdrawal across all segments



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

Bond Gain Tool

built by M&G

Inputs

Please navigate between inputs and outputs using Tabs below

Hover over the red tags beside fields for further information.

If you need to account for segment surrenders from outset click EXPAND. Click RESET to start over

EXPAND (to include previous segment surrenders)

RESET

Policy start24/01/2015

Policy Type (Onshore/Offshore)Onshore Bond

Initial Segments20

Calculation Date16/04/2024

Current Surrender Value£184,000.00

Segments at calculation date20

Full Surrender Values			
Segments	20	1	
Surrender Value	£184,000.00	£9,200.00	
Gain	£88,625.00	£4,431.25	
"N"	9	9	
Slice	£9,847.22	£492.36	

Proposed Withdrawal

(NOT required for full surrender of all segments)

Amount required£30,000.00

Full segment surrender3£27,600.00

Partial surrender£2,400.00

Segments to get close3

Gains after proposed withdrawal			
Gain	Full Segments	Partial	
"N"	£13,293.75	£0.00	
Slice	9	10	
Tax year assessed	£1,477.08	24-25	24-25

Policy year		
1	24/01/2015	23/01/2016
2	24/01/2016	23/01/2017
3	24/01/2017	23/01/2018
4	24/01/2018	23/01/2019
5	24/01/2019	23/01/2020
6	24/01/2020	23/01/2021
7	24/01/2021	23/01/2022
8	24/01/2022	23/01/2023
9	24/01/2023	23/01/2024
10	24/01/2024	23/01/2025

Premiums	Partial Withdrawals (include applicable adviser charges)
£100,000.00	£500.00
	£500.00
	£500.00
	£500.00
	£500.00
	£500.00
	£500.00
	£500.00
	£500.00
	£125.00

Beware large part surrender gains

Invest £	Insurance year	Unused 5% allowance B/F £	5% allowance current year £	Part surrender in current year £	Gain £	Unused 5% allowance C/F £
200,000	01/02/24 to 31/01/25	N/A	10,000	(150,000)	140,000	Nil

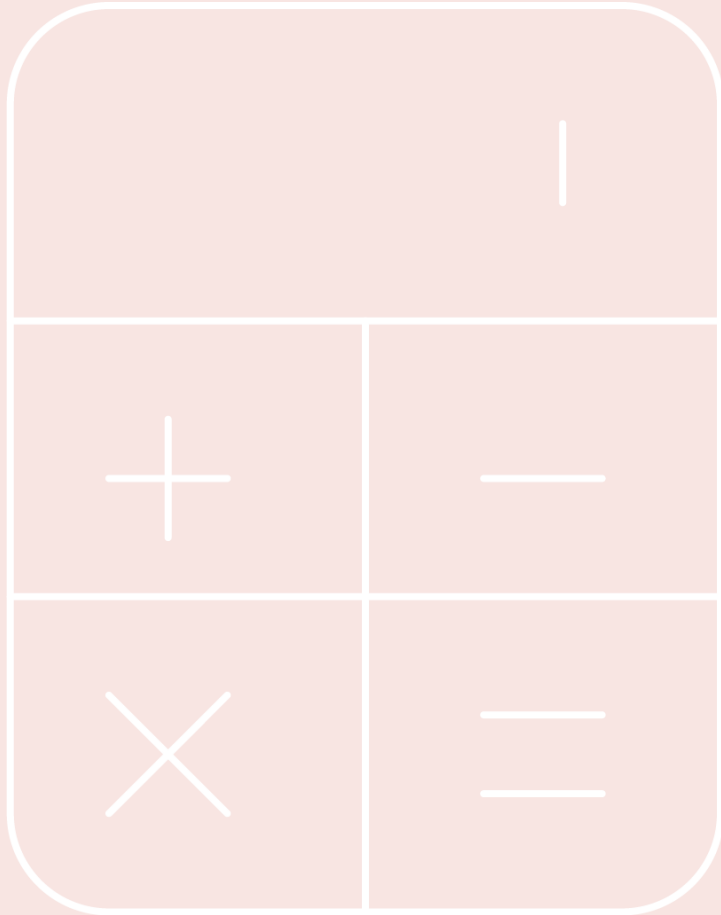
Chargeable event gain of £140,000 arises at 31/01/25 (2024/25)

There are two potential ways of retrospectively 'correcting' this.

Joost Lobler – investment of \$1,406,000

	5% allowance \$	Part Surrenders \$	Gain at end of insurance year \$
Insurance year 1	70,300	746,485	676,185
Insurance year 2	70,300	690,171	<u>619,871</u>
			<u>1,296,056</u>
Approximate tax liability			<u>560,000</u>

Joost Lobler – the fallout



- Economic gain?
- Premiums(s) paid?
- Tax due if not recalculated?
- Those liable need to apply & explain!
- 4 years from end of tax year
- Insurance company not involved

Bond Tax in 3 Steps

- 1) Identifying a chargeable event
- 2) Calculate the gain arising
- 3) Attribute to a chargeable person

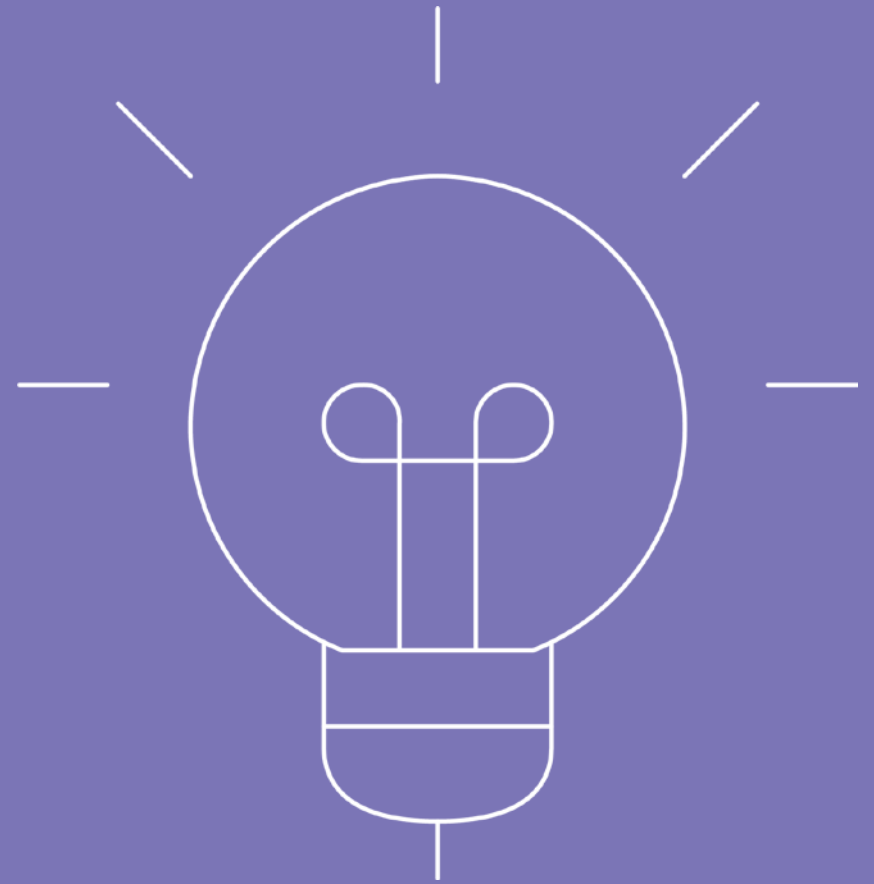




Individuals

When individuals are taxable & no trusts are involved

- Beneficial owner
- Death – policy ends?

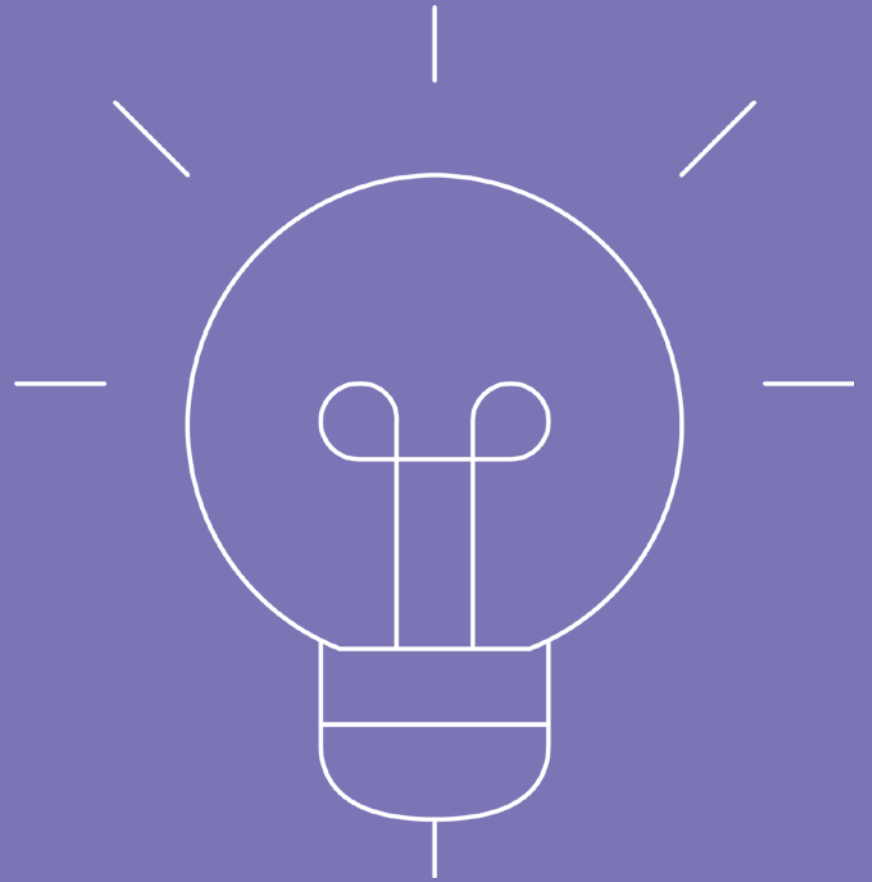




Personal Representatives

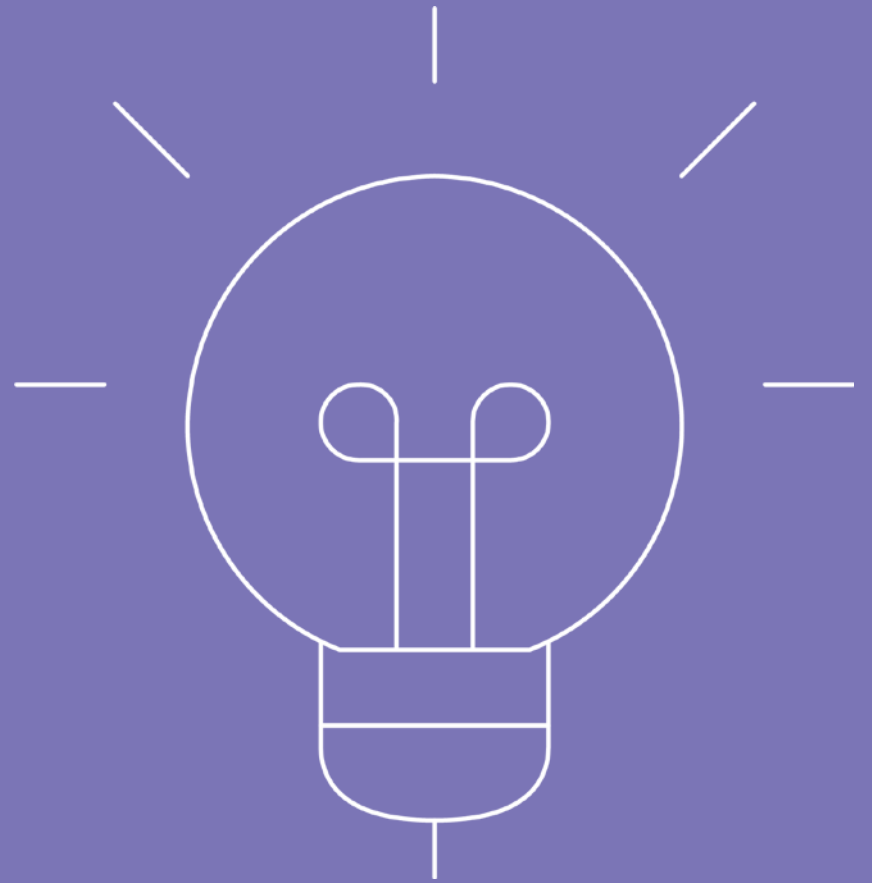
Personal representatives

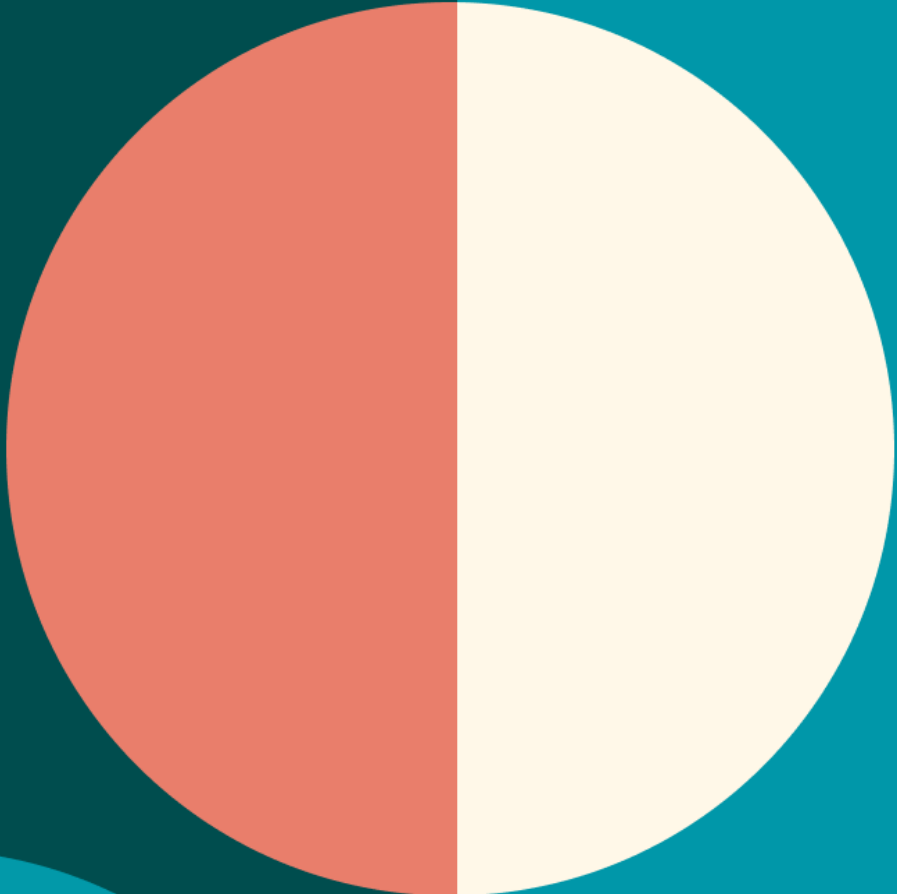
- UK Bond gain
 - No further tax to pay
 - Grossed up for tax credit
 - Estate income
 - No TSR
 - Tax credit not repayable



Personal representatives

- Offshore Bond gain
 - 20% BRT on the gain
 - Net proceeds distributed
 - Gross savings income
 - 20% tax credit
 - Repayment possible
 - No TSR





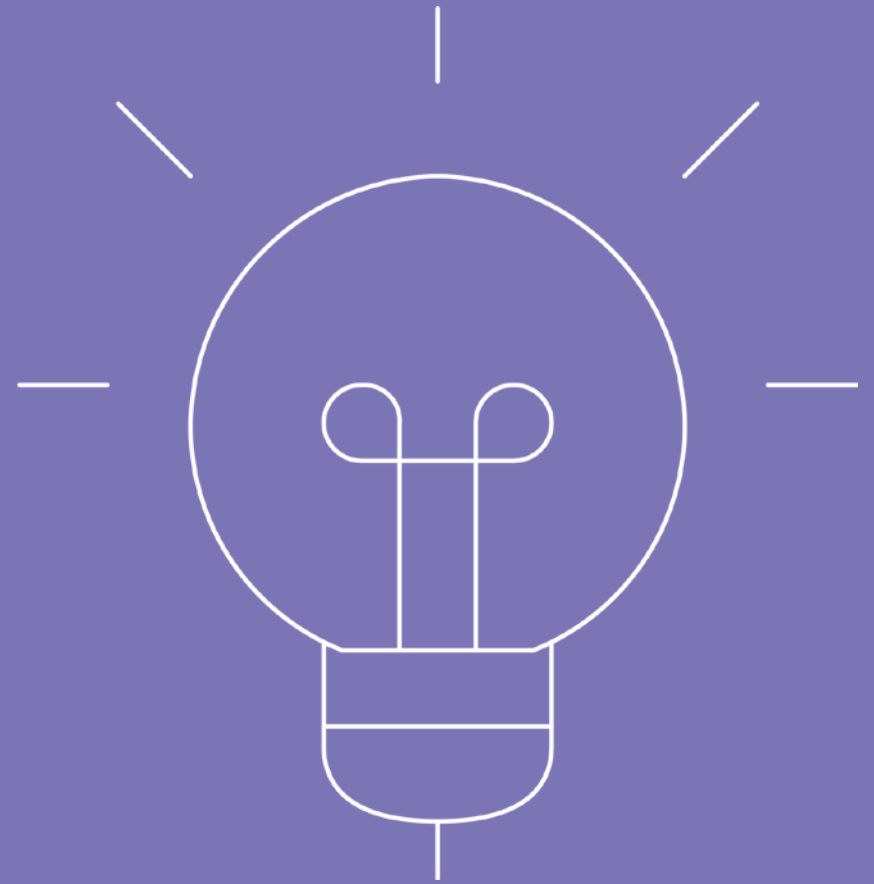
Personal
Representatives –
surrender isn't the
only option



Creators/settlors of Non Bare Trusts

When an individual creates a non bare trust

- Individual not absent?
 - Alan taxable
 - Beth taxable
- When are trustees taxable?

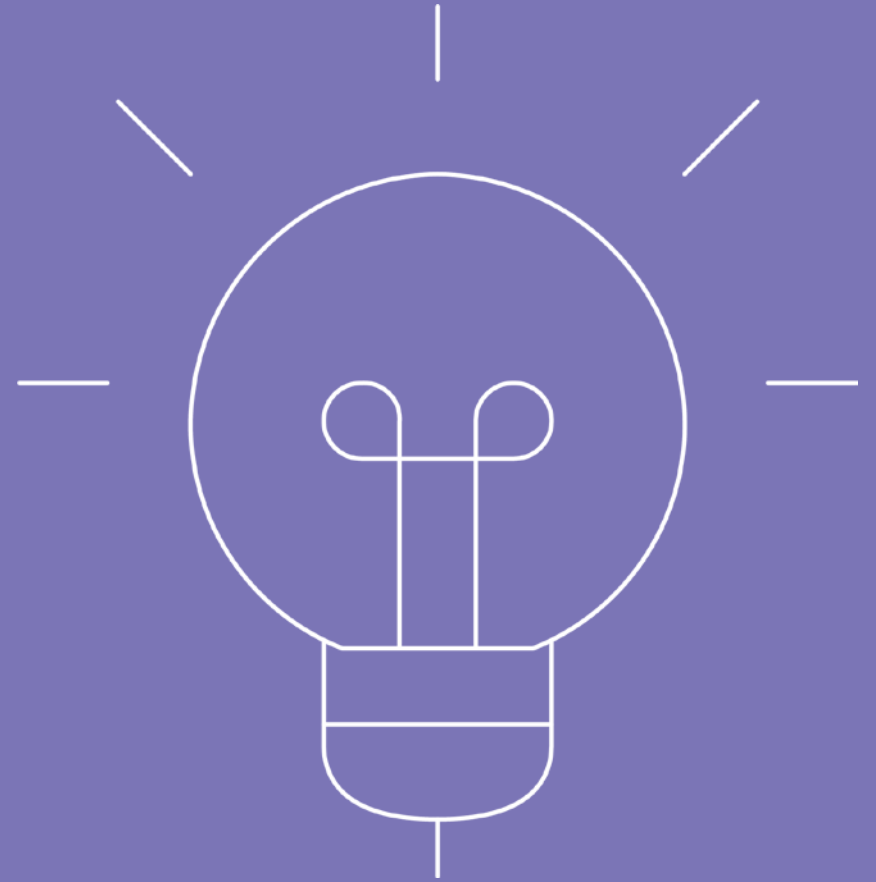




UK Trustees of a Non Bare trust

When UK trustees are taxable

- Tax year after settlor/creator's death
- Offshore bond gain 45%
- Onshore bond gain 25%

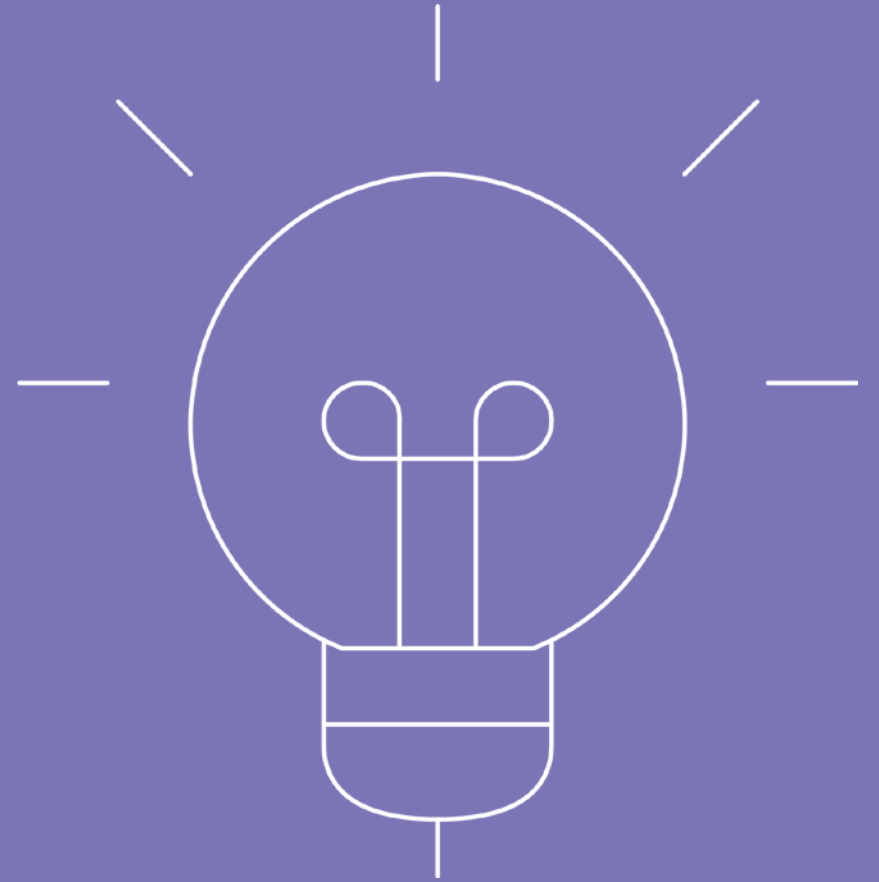




Bare Trusts

Bare Trusts

- Tax year after creator's death
- Bare DGTs



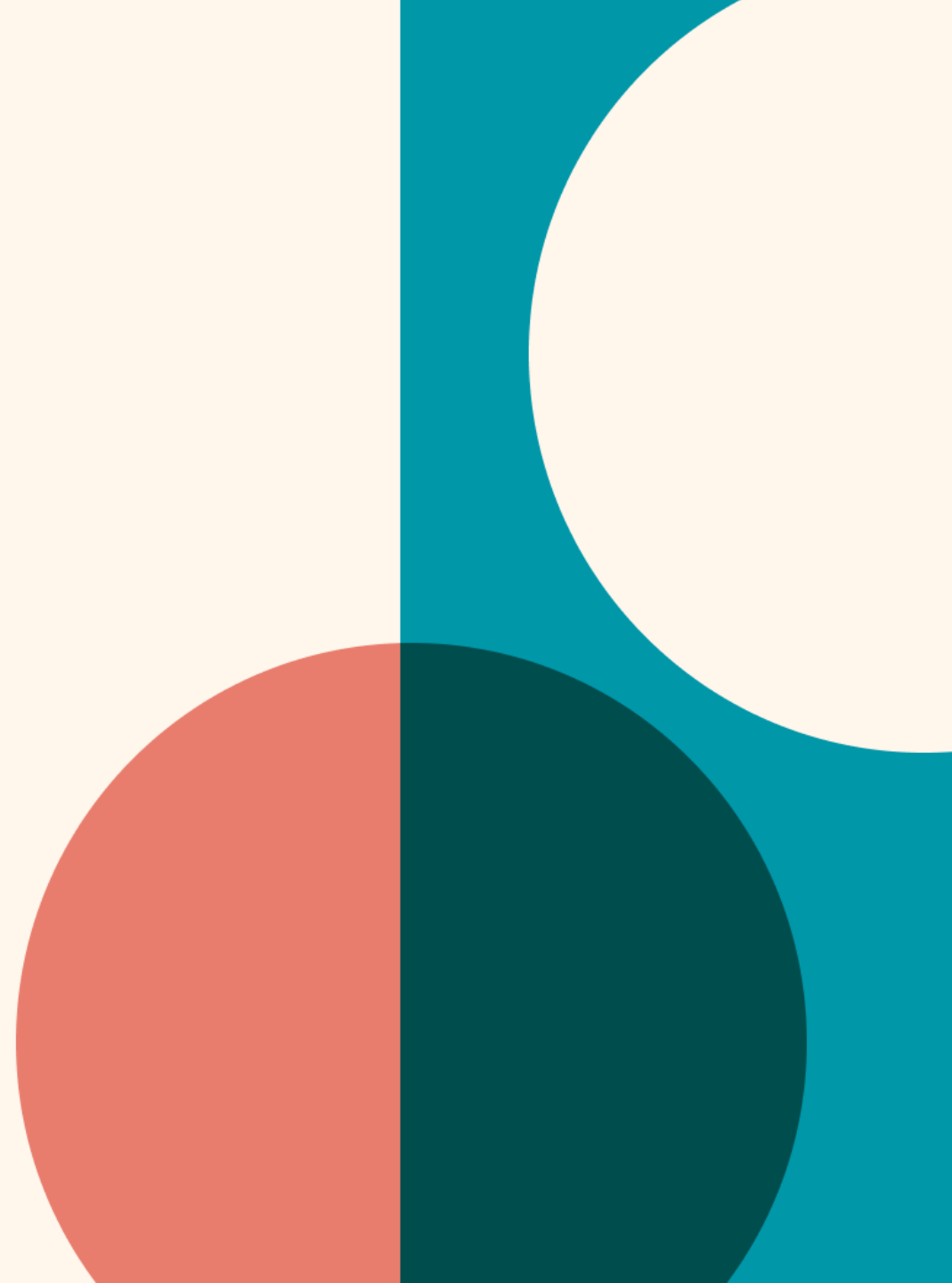
PLANNING

Individuals Tax Liability

Onshore v Offshore

Number crunching

Why Bonds



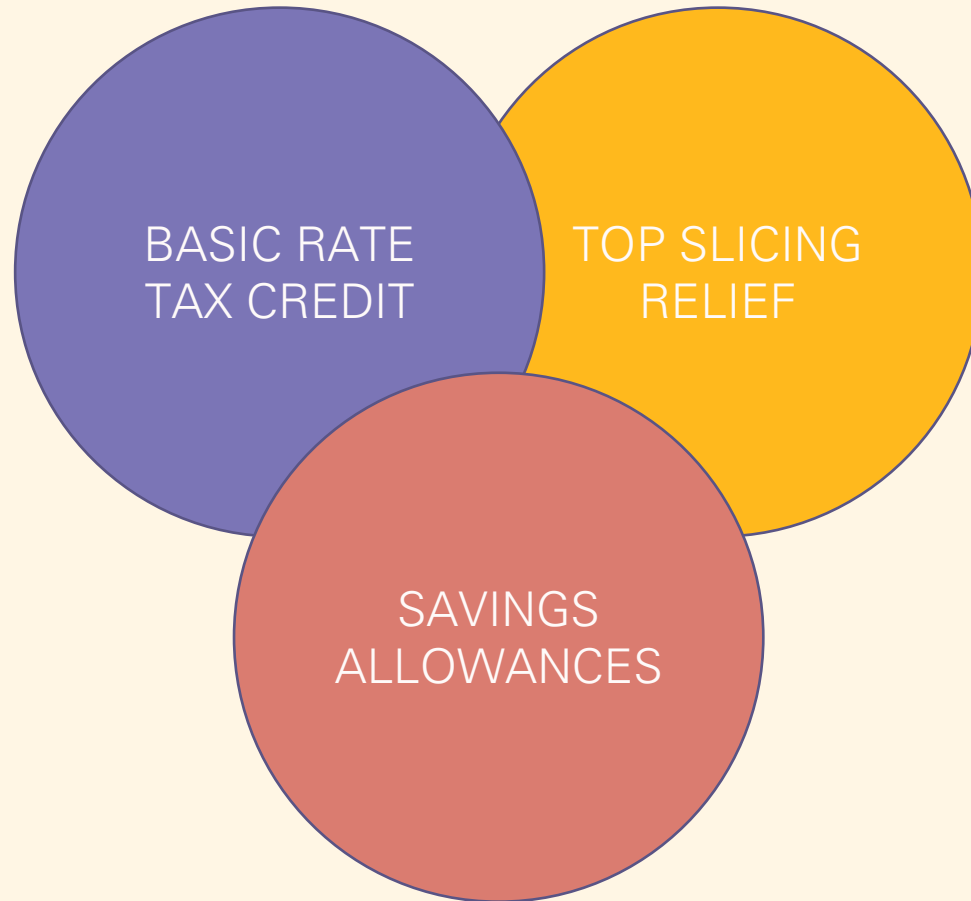
Passing on ...

Gifted to	OEIC	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



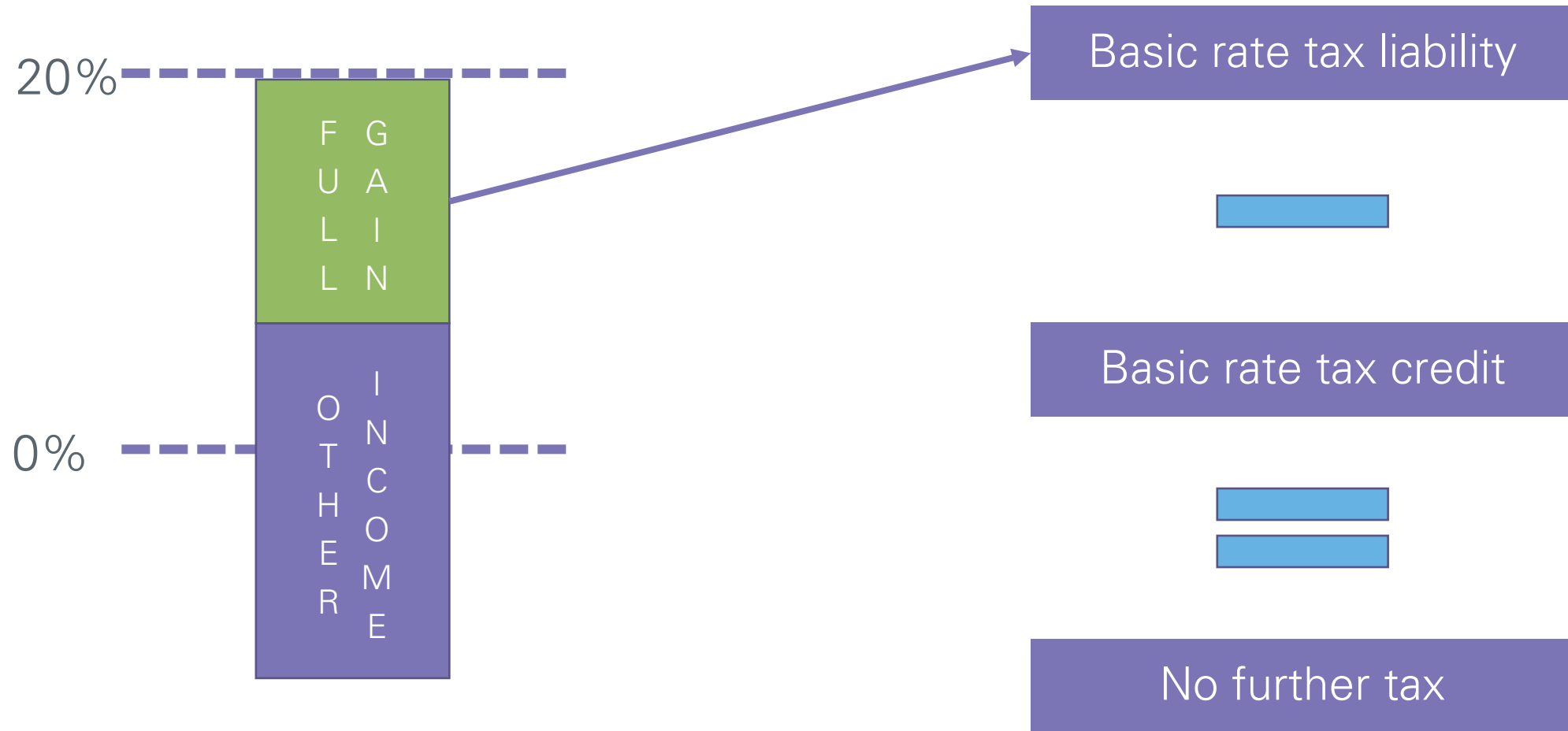
Is the investment likely to be gifted on or prior to death?

The holy trinity

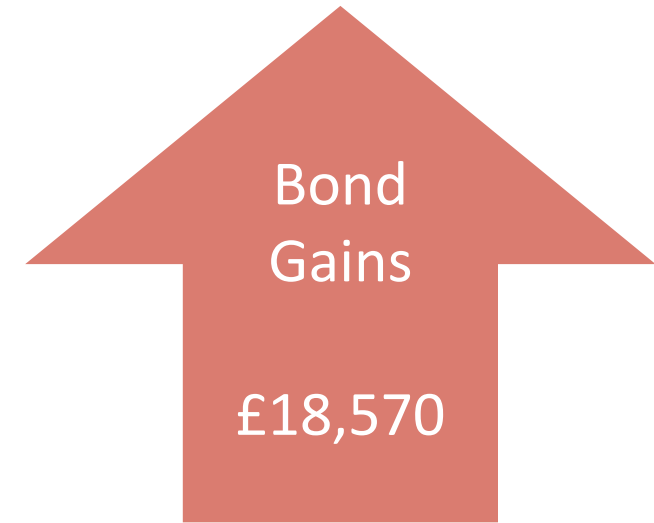


NO
FURTHER
TAX?

Basic Rate Credit



Savings Allowances

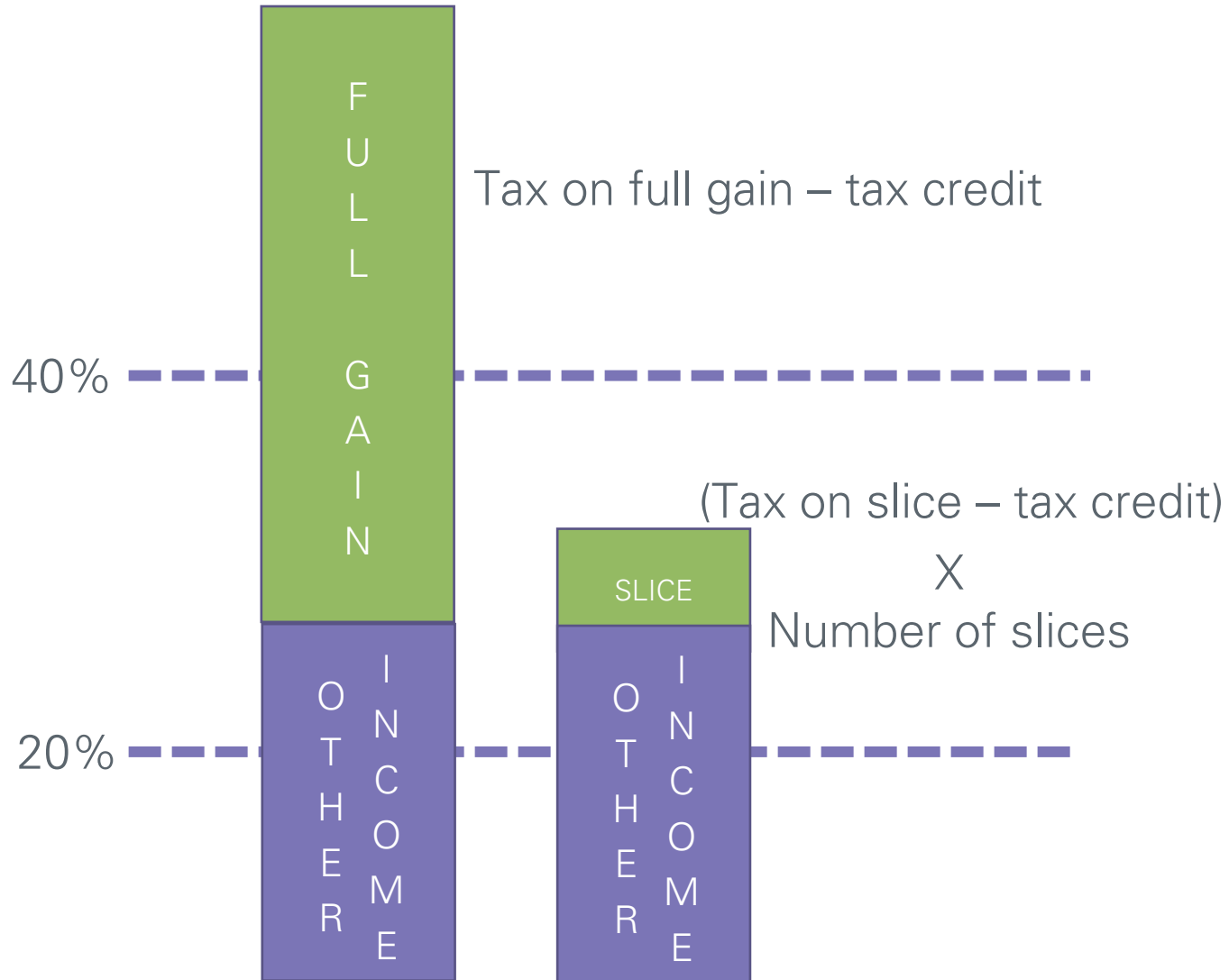


Offshore bonds

Those liable for gains:

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

Top Slicing Relief



Individuals liability

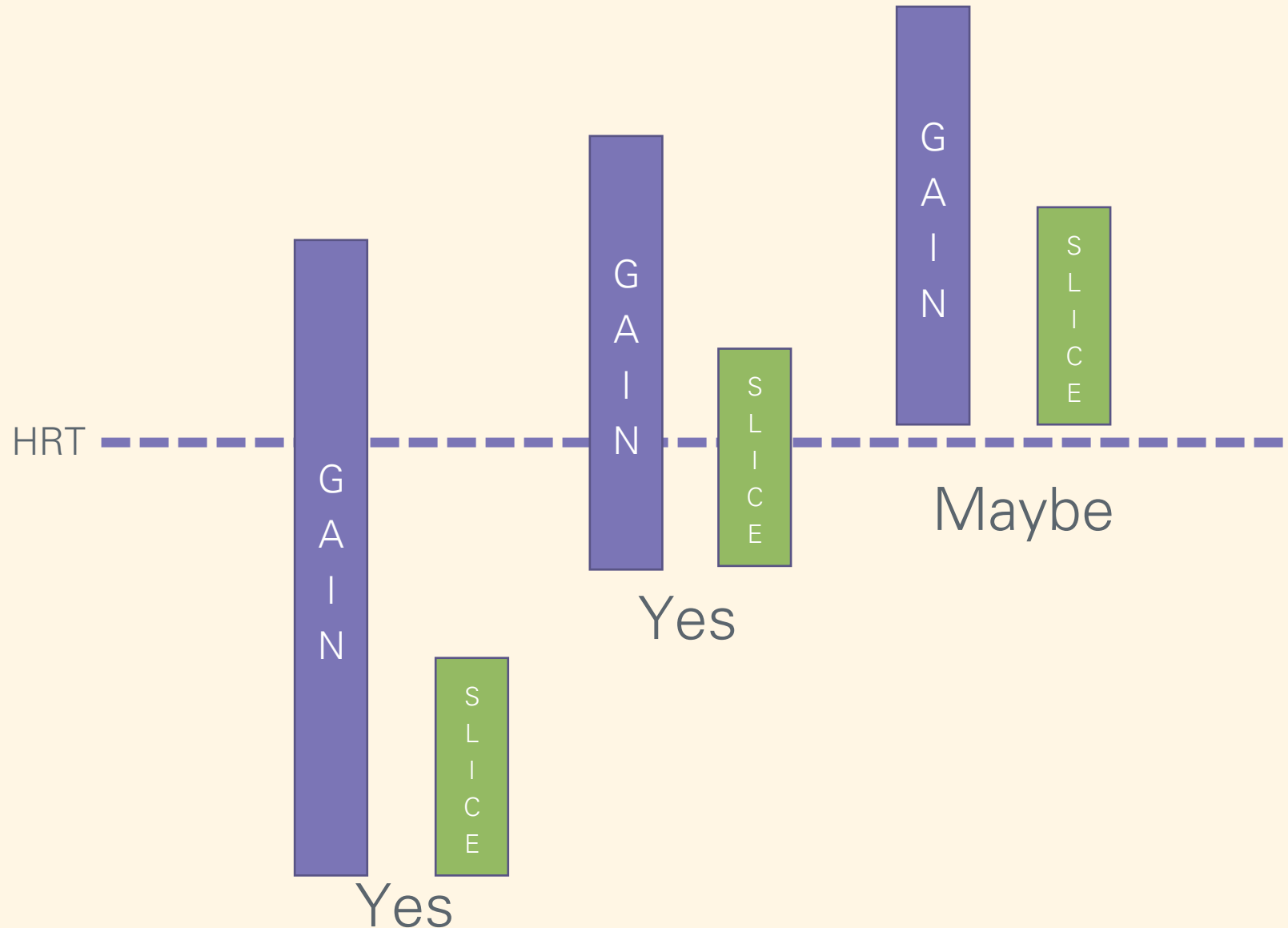


Relieved liability

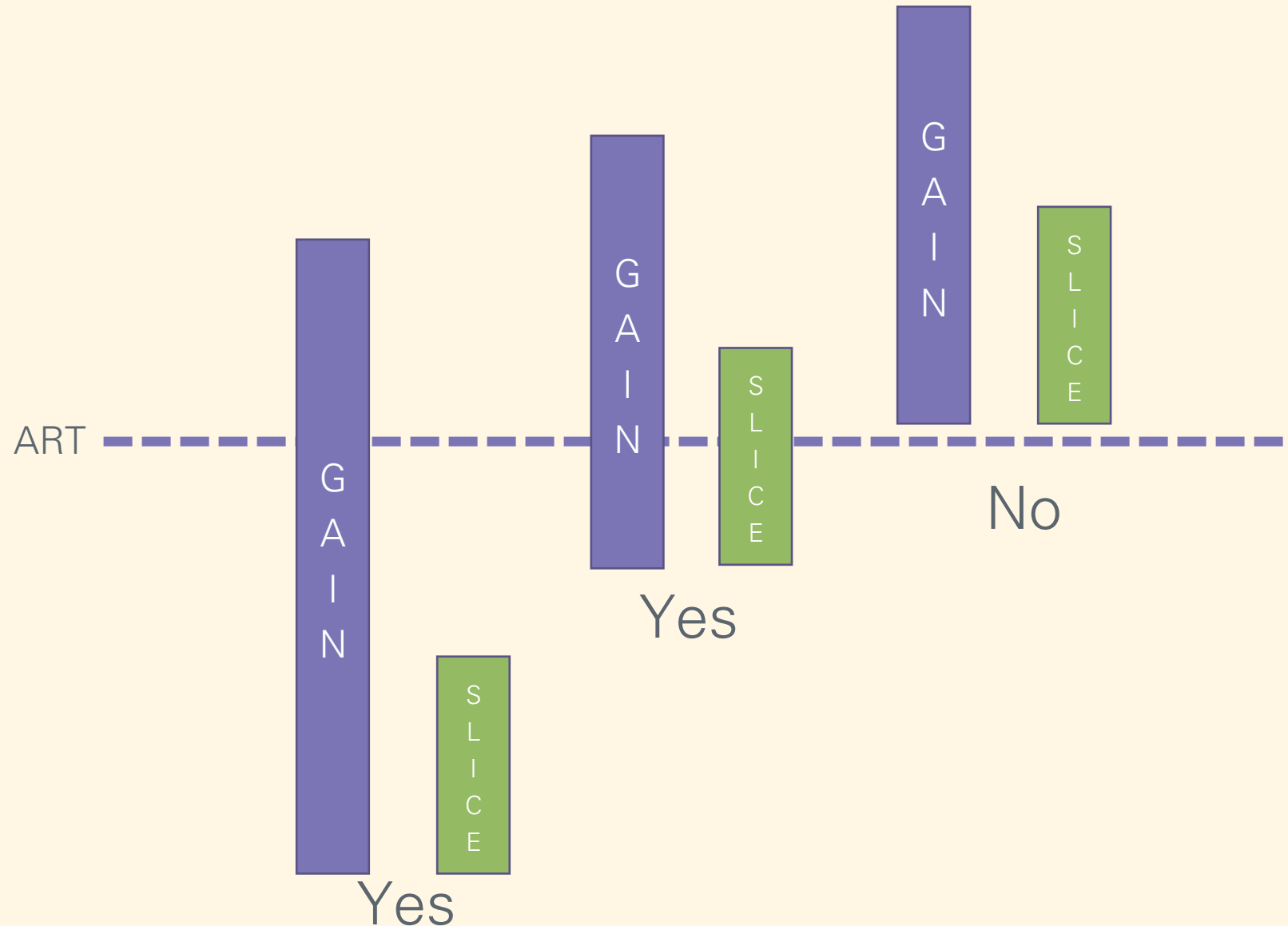


Top Slicing Relief

Tax reduced? – Higher rate threshold



Tax reduced? – Additional rate threshold



Tax Relief Modeller Tool

Tax Year 2024/25

ABOUT YOUR CLIENT

What is the client's age?

Under 75

Scottish Tax Payer?

Yes

Number of Children

Gift Aid (Gross amt)

CHARGEABLE EVENTS - BOND GAINS

Onshore Gain 1	60,000	Years Gain 1 (N)	6	Slice 1	10,000
Onshore Gain 2		Years Gain 2 (N)		Slice 2	
Onshore Gain 3		Years Gain 3 (N)		Slice 3	
Onshore Gain 4		Years Gain 4 (N)		Slice 4	
Offshore Gain 1		Years Gain 1 (N)		Slice 1	
Offshore Gain 2		Years Gain 2 (N)		Slice 2	
Offshore Gain 3		Years Gain 3 (N)		Slice 3	
Offshore Gain 4		Years Gain 4 (N)		Slice 4	

INCOME SOURCES

Employment Income

49,070

Benefits in Kind

Taxable Self Employed Profits

UFPLS (taxable element)

Drawdown / Annuity Income

State Pension Income

Purchased Life Annuity Income

Gross Savings Interest

500

Dividends

Non Residential Capital Gains

Residential Capital Gains

Taxable Redundancy Payment

Rental Income - Relevant

EXISTING PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

Contributions paid gross

NEW PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

7,440

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T

BEFORE NEW CONTRIBUTIONS

"Total Income"

Adjusted Net Income

Personal Allowance

Personal Savings Allowance

Child Benefit Charge

Capital Gains Tax

Tax Liability

Bond Gains Summary

Tax on gains	£24,000
Onshore Tax Credit	£12,000
Top slicing relief	£840
Liability	£11,160

"Bank Balance"

£87,763

Bond Gains Summary

Tax on gains

Onshore Tax Credit

Top slicing relief

Liability

£24,000

£12,000

£840

£11,160

Bond Gains Summary

Tax on gains	£22,027	£1,973
Onshore Tax Credit	£12,000	£0
Top slicing relief	£10,027	£9,187
Liability	£0	-£11,160

"Bank Balance"

£94,693

£6,930

Tax Relief
(on new contributions)

Please navigate between workings and inputs
using the tabs at the bottom of the sheet.

4.52%

Overall tax on return – onshore bond

	Non dividend	Dividend
Gross Return	£100	£100
Tax within fund	20%	0%
Net Return	£80	£100
Additional Tax / Net Gain		
Basic Rate	£0 / £80	£0 / £100
Higher Rate	£16 / £64	£20 / £80
Additional Rate	£20 / £60	£25 / £75
Maximum Tax Rate		
Basic Rate	20%	0%
Higher Rate	36%	20%
Additional Rate	40%	25%

Overall tax – onshore /offshore

	Basic Rate	Higher Rate	Additional Rate
Gross Gain	£100	£100	£100
Tax within fund @ 20%	£20	£20	£20
Net Gain	£80	£80	£80
Additional Tax	£0	£16	£20
Overall Net Gain	£80	£64	£60
Effective Tax Rate	20%	36%	40%
Tax on offshore gain	20%	40%	45%

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2024/25

Invested Amount £200,000.00

Year of encashment (5 to 10 only) 10

Use annual exempt amount? Yes

Reset

Investment Yields

Savings income	2.00%
Dividend Return	2.00%
Capital Gain	2.00%
Additional Cost for Bond Wrapper	0.25%

Onshore Bond
Internal Tax Rate
13.33%

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

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

Taxation over Term

	Collectives	Onshore	Offshore
Savings Income			
Amount	£49,585	£50,164	£52,072
Tax	£16,627	£10,033	£0
Dividend Income			
Amount	£49,585	£50,164	£52,072
Tax	£13,663	£0	£0
Capital Gain			
Amount	£30,000	£50,164	£52,072
Tax	N/A	£10,033	£0

Encashment Values

	Collectives	Onshore	Offshore
Surrender Value	£318,466	£323,830	£349,315
Gain (Cumulative)	£22,585	£123,830	£149,315
Slice	N/A	£12,383	£14,932
Tax payable	£3,097	£2,514	£32,377
Net return	£315,368	£321,316	£316,938

Key Assumptions

Cells with red tags contain further information

The tool runs in tax years from 6 April to 5 April inclusive.
The CGT annual exempt amount is used each year (bed and breakfast rules avoided).
Net investment income is reinvested.
UK rates of income tax apply.

Available Bands and Allowances in year of encashment (prior to investments being surrendered)

	Collectives	Onshore	Offshore
Personal Allowance	N/A	£0	£0
Starter Rate for Savings	N/A	£0	£0
Personal Savings Allowance	N/A	£1,000	£1,000
Basic Rate	£8,196	£20,270	£20,270
Higher Rate	N/A	£87,440	£87,440
CGT Allowance	£3,000	N/A	N/A

Analysis required?

IT'S A BOND!

IT'S A BOND?

OFFSHORE BOND?

Smoothing
/
Guarantees

Lifetime
Gifting

Simplicity

Savings
Allowances
on Exit

Why bonds

Return expected to be income driven (especially dividends)

Those who can manipulate income in year of access

Higher rate tax payers who expect to be basic on access

Receive "income" with no immediate tax impact

Expectation of lifetime gifting

Access savings allowances with equity funds

Larger / Active Portfolios

Those looking for simplicity / low admin

Learning Objectives

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

Describe the current tax landscape and its impact on individuals

Explain the taxation treatment of insurance bonds


Identify individuals who may benefit by using an insurance bond wrapper

QUESTION TIME



Tech Matters

Award winning technical support for Financial Professionals

 What are you looking for today?

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Tools and Calculators



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News & Views

[Our Technical team in the Press →](#)

Last Updated: 6 Apr 24 | 2 min read

[Pension savings statements \(PSS\) →](#)

Last Updated: 6 Mar 24 | 20 min read

[Spring Budget 2024 →](#)

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Les recommends

[LTA Transitional Tax Free Amount Tool →](#)

6 Apr 24 | 10 min read

[Transitional Tax Free Amount Certificates \(TTFAC\) →](#)

6 Apr 24 | 36 min read

[UK investment bonds: taxation facts →](#)

6 Apr 24 | 7 min watch

[ISA allowances →](#)

Next event

18 Apr 24 | 4 min read

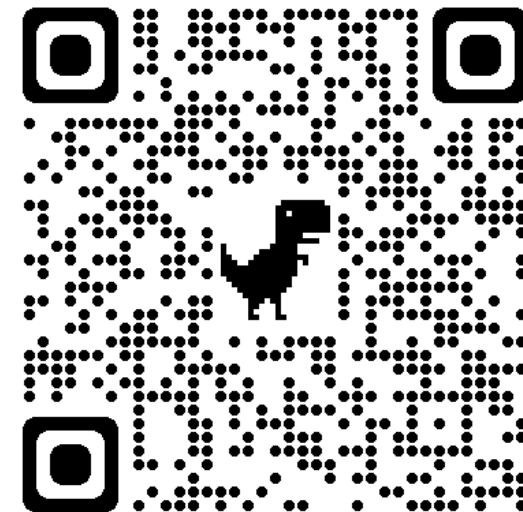
[Quite simply – the new pension allowances →](#)

On-demand events

Last Updated: 27 Mar 24 | 60 min read

[Paraplanners Assembly 2024: What do paraplanners need to know following the Budget? →](#)

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Les Cameron **Manager**

Joined group: Feb 2023

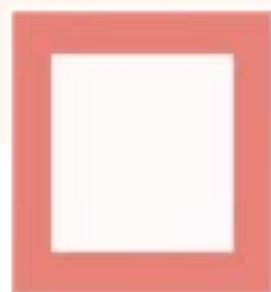
Pending posts 0

Requests to join 3

Manage group

Recent

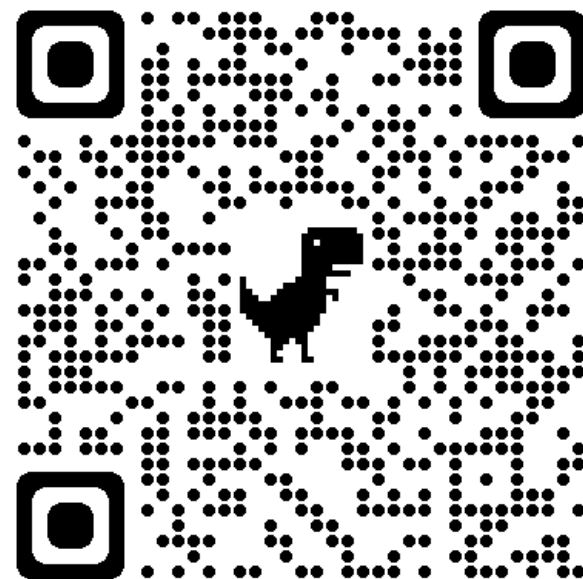
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Thanks for your time

Get in touch with your usual contact if you need further help.





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