



Bond School

Session 002 – Bond taxation while invested



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.

No reproduction, copy, transmission or amendment of this presentation may be made without our written permission.

Learning Objectives

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

Describe the taxation of onshore and offshore bonds during the investment journey

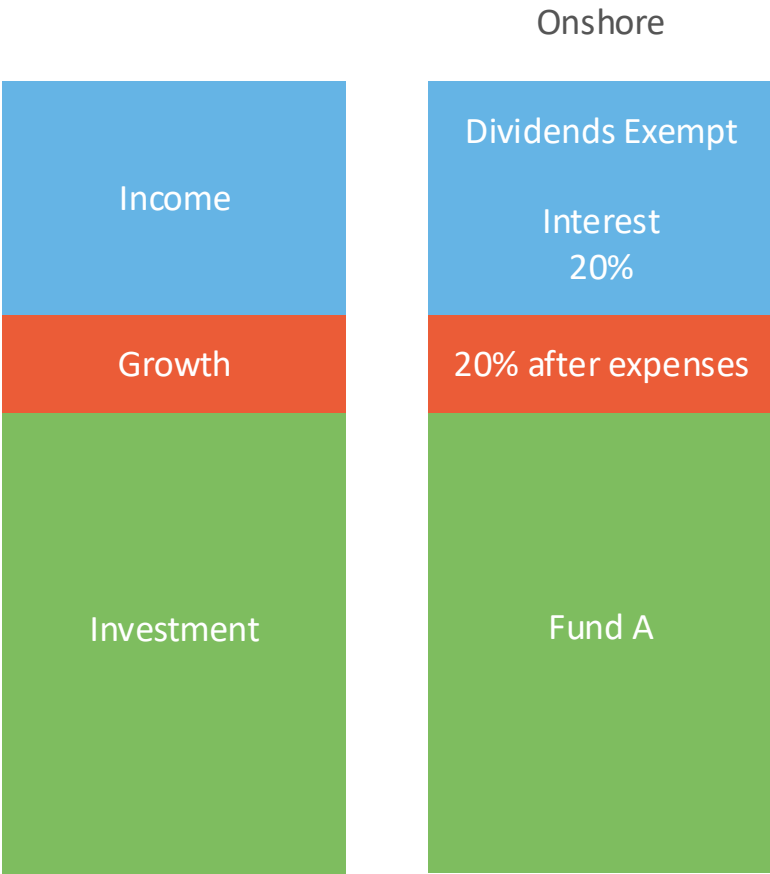
Understand the mechanics of the 5% tax deferred allowance and the 20-year rule

Identify when to use the 5% tax deferred allowance to improve tax efficiency for individuals and trustees

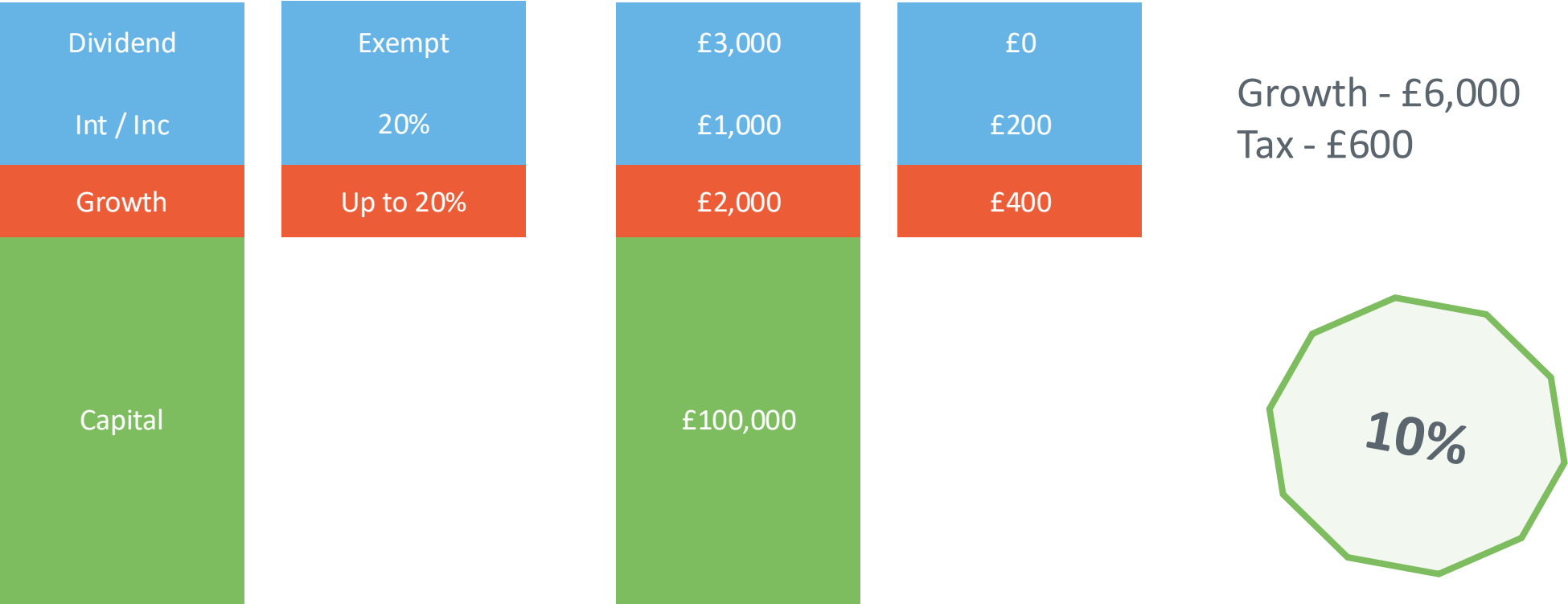


Bond taxation while invested

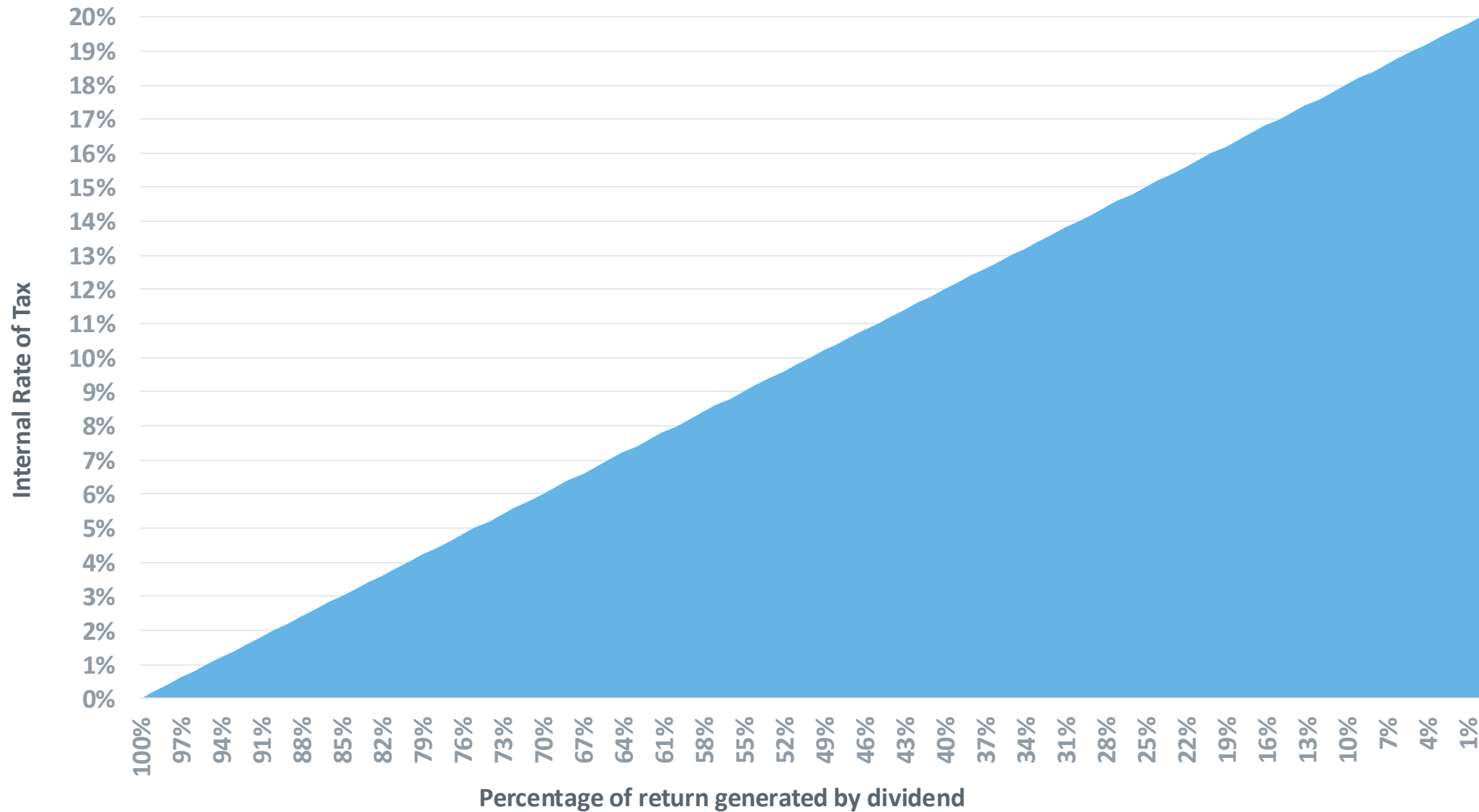
Internal Bond Taxation



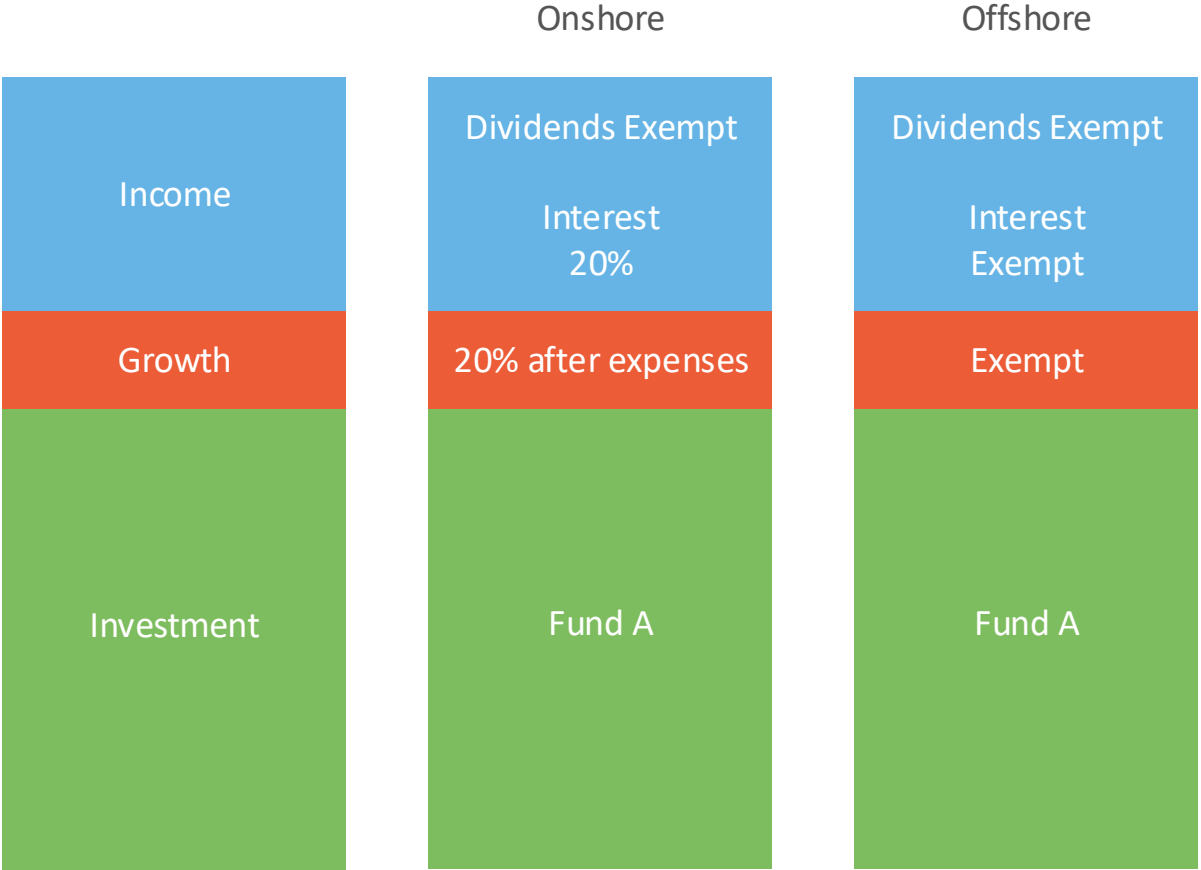
Internal Bond Taxation – Onshore Bond



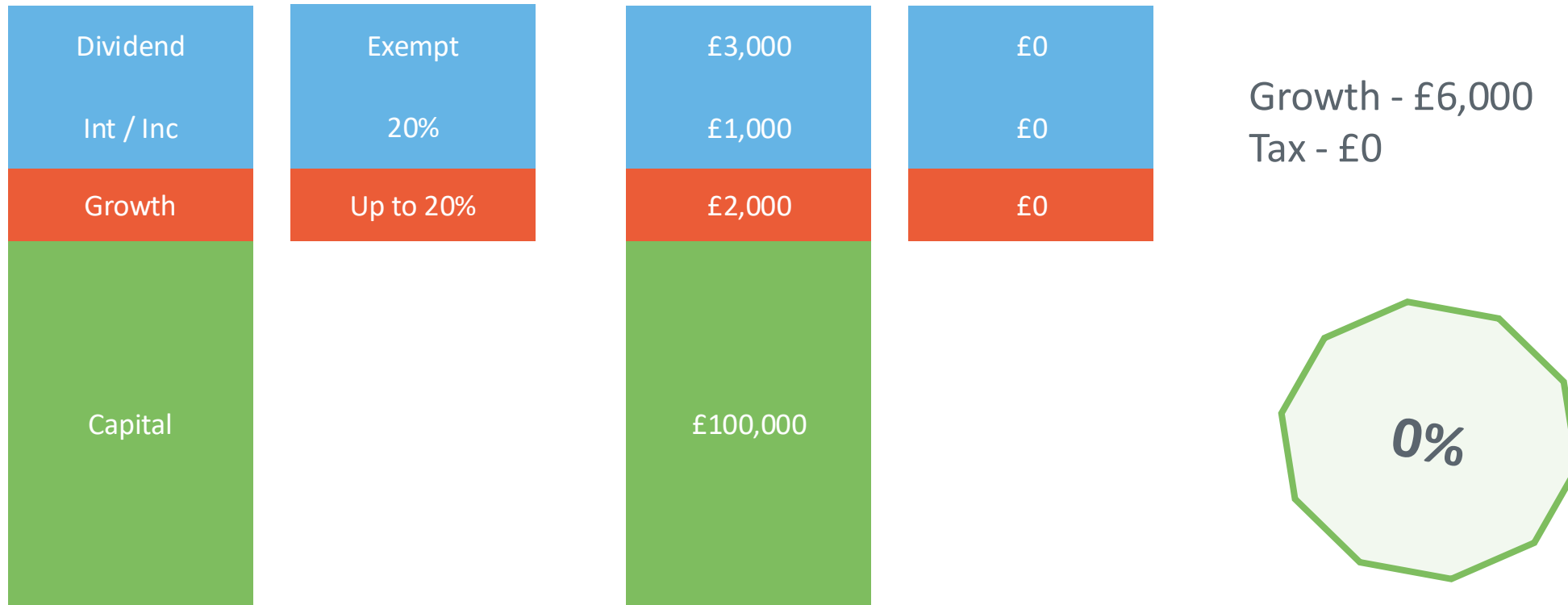
Onshore Internal Tax Rate (by dividend component)



Internal Bond Taxation



Internal Bond Taxation – Offshore Bond



Tax Wrapper Comparison Tool

Invested Amount

£100,000.00

Year of encashment (5 to 10 only)

5

Use annual exempt amount?

Yes

Reset

Investment Yields

Savings income

1.00%

Dividend Return

3.00%

Capital Gain

2.00%

Additional Cost for Bond Wrapper

0.00%

Onshore Bond Internal Tax Rate

10.00%

Existing income

Non Savings Non Dividend

£0

Increase assumption per annum

0.00%

Savings

£0

Dividend

£0

Expected Income year of encashment

Non Savings Non Dividend

£0

Savings

£0

Dividend

£0

Taxation over Term

	Collectives	Onshore	Offshore
Savings Income			
Amount	£5,637	£5,570	£5,637
Tax	£0	£1,114	£0
Dividend Income			
Amount	£16,911	£16,710	£16,911
Tax	£0	£0	£0
Capital Gain			
Amount	£11,274	£11,140	£11,274
Tax	N/A	£2,228	£0

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.

The rates bands and allowances remain at the same level throughout the term.

Encashment Values

	Collectives	Onshore	Offshore
Surrender Value	£133,823	£130,078	£133,823
Gain (Cumulative)	£2,525	£30,078	£33,823
Slice	N/A	£6,016	£6,765
Tax payable	£0	£0	£3,051
Net return	£133,823	£130,078	£130,772

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

	Collectives	Onshore	Offshore
Personal Allowance	N/A	£12,570	£12,570
Starter Rate for Savings	N/A	£5,000	£5,000
Personal Savings Allowanc	N/A	£1,000	£1,000
Basic Rate	£35,938	£37,700	£37,700
Higher Rate	N/A	£87,440	£87,440
CGT Allowance	£3,000	N/A	N/A

<

>

Homepage

Inputs

Summary

Inputs - Printer Friendly

Summary - Printer Friendly

+

Tax Wrapper Comparison Tool

		Year									
Client Income	Non Savings, Non Dividend	1	2	3	4	5	6	7	8	9	10
	Existing Savings	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
	Existing Dividend	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
	New Savings	£1,000.00	£1,060.00	£1,123.60	£1,191.02	£1,262.48	£0.00	£0.00	£0.00	£0.00	£0.00
	New Dividend	£3,000.00	£3,180.00	£3,370.80	£3,573.05	£3,787.43	£0.00	£0.00	£0.00	£0.00	£0.00
	Total	£4,000.00	£4,240.00	£4,494.40	£4,764.06	£5,049.91	£0.00	£0.00	£0.00	£0.00	£0.00

Collectives	Starting Value	£100,000.00	£106,000.00	£112,360.00	£119,101.60	£126,247.70	£0.00	£0.00	£0.00	£0.00	£0.00
	Fund plus growth (no income reinvested)	£102,000.00	£108,120.00	£114,607.20	£121,483.63	£128,772.65	£0.00	£0.00	£0.00	£0.00	£0.00
	Gain	£2,000.00	£2,120.00	£2,247.20	£2,382.03	£2,524.95	£0.00	£0.00	£0.00	£0.00	£0.00
	AEA for year	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000
	Surrender to realise gains up to the AEA	£102,000.00	£108,120.00	£114,607.20	£121,483.63	£128,772.65	£0.00	£0.00	£0.00	£0.00	£0.00
	AEA used	£2,000.00	£2,120.00	£2,247.20	£2,382.03	£2,524.95	£0.00	£0.00	£0.00	£0.00	£0.00
	Carried Gain	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
	Net income to be reinvested	£4,000.00	£4,240.00	£4,494.40	£4,764.06	£5,049.91	£0.00	£0.00	£0.00	£0.00	£0.00
Closing Value		£106,000.00	£112,360.00	£119,101.60	£126,247.70	£133,822.56	£0.00	£0.00	£0.00	£0.00	£0.00

Onshore bond	Starting Value	£100,000.00	£105,400.00	£111,091.60	£117,090.55	£123,413.44	£0.00	£0.00	£0.00	£0.00	£0.00
	Internal Taxation	£600.00	£632.40	£666.55	£702.54	£740.48	£0.00	£0.00	£0.00	£0.00	£0.00
	Closing Value	£105,400.00	£111,091.60	£117,090.55	£123,413.44	£130,077.76	£0.00	£0.00	£0.00	£0.00	£0.00
Internal Tax Rate	Gain	£5,400.00	£11,091.60	£17,090.55	£23,413.44	£30,077.76	£0.00	£0.00	£0.00	£0.00	£0.00
	10.00% Slice	£5,400.00	£5,545.80	£5,696.85	£5,853.36	£6,015.55	£0.00	£0.00	£0.00	£0.00	£0.00

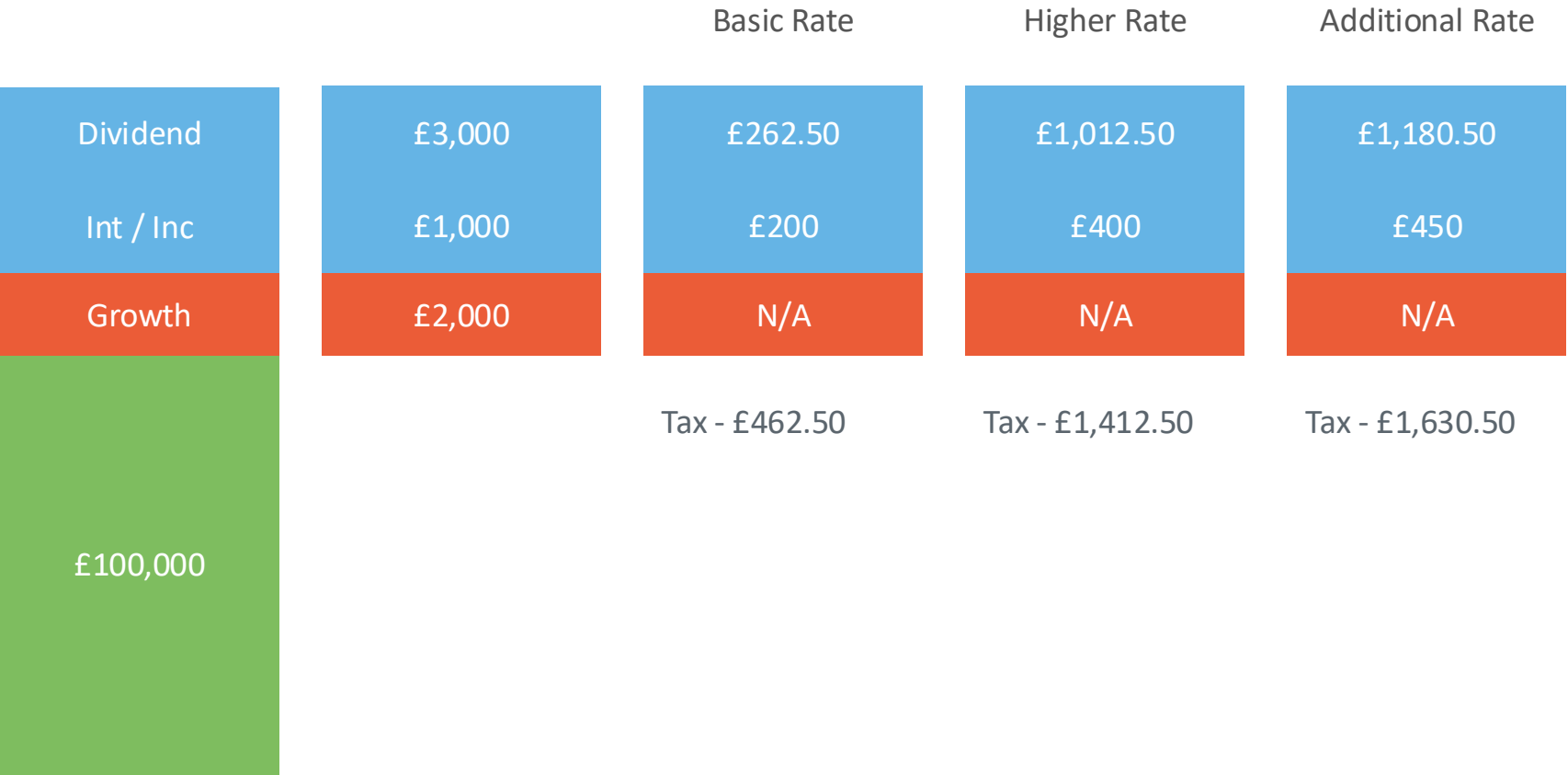
Offshore Bond	Starting Value	£100,000.00	£106,000.00	£112,360.00	£119,101.60	£126,247.70	£0.00	£0.00	£0.00	£0.00	£0.00
	Closing Value	£106,000.00	£112,360.00	£119,101.60	£126,247.70	£133,822.56	£0.00	£0.00	£0.00	£0.00	£0.00
	Gain	£6,000.00	£12,360.00	£19,101.60	£26,247.70	£33,822.56	£0.00	£0.00	£0.00	£0.00	£0.00
	Slice	£6,000.00	£6,180.00	£6,367.20	£6,561.92	£6,764.51	£0.00	£0.00	£0.00	£0.00	£0.00

Description of a bond



- A tax wrapper to hold investment funds
- Non-income producing investment
- Time to switch off the income tap?

Unwrapped personal tax while invested

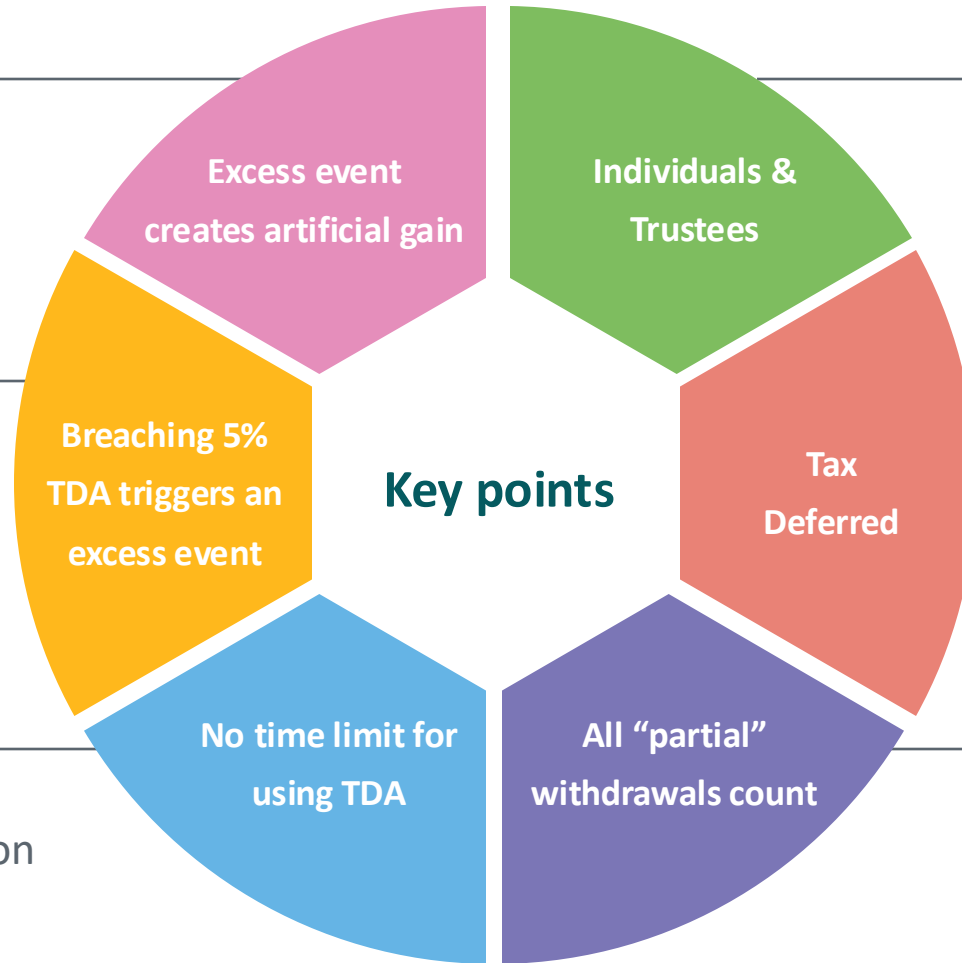


No starting rate for savings, PSA or Dividend Nil Rate available & capital gain not crystallised



5% Tax Deferred Allowance (TDA)

The 5% Tax Deferred Allowance (TDA)



Key Point

Be careful of large one-off partial withdrawals

Key Point

N/A for company owned bonds

Key Point

Excess events occur at end of policy year – same tax year?

Key Point

It's not tax free!

Key Point

“20-year” rule applies to accumulation of unused TDA only

Key Point

Includes ongoing adviser charges

5% TDA worksheet

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess

5% TDA worksheet: Single premium

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0

5% TDA worksheet: Single premium

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0

5% TDA worksheet: Single premium

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000	£0	£15,000	£0
11/5/2013 -10/5/2014		£5,000	£0	£20,000	£0
11/5/2014 -10/5/2015		£5,000	£0	£25,000	£0

5% TDA worksheet: Top-ups

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000	£0	£15,000	£0
11/5/2013 -10/5/2014		£5,000	£0	£20,000	£0
11/5/2014 -10/5/2015		£5,000	£0	£25,000	£0
11/5/2015 -10/5/2016	£50,000	£7,500	£0	£32,500	£0

5% TDA worksheet: Top-ups

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000	£0	£15,000	£0
11/5/2013 -10/5/2014		£5,000	£0	£20,000	£0
11/5/2014 -10/5/2015		£5,000	£0	£25,000	£0
11/5/2015 -10/5/2016	£50,000	£7,500	£0	£32,500	£0
11/5/2016 -10/5/2017		£7,500	£0	£40,000	£0

5% TDA worksheet: 20-year rule

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0

5% TDA worksheet: 20-year rule

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
↓		↓		↓	
11/5/2029 -10/5/2030		£5,000	£0	£100,000	£0
11/5/2030 -10/5/2031		£0	£0	£100,000	£0

Key Point

No one size fits all

Example

5% from outset for 20 years, 2.5% for 40 years etc

Beware of large part surrender gains

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000			

Beware of large part surrender gains

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000	£80,000		

Beware of large part surrender gains

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000	£80,000	£0	

Beware of large part surrender gains

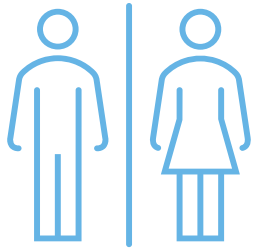
Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2010 -10/5/2011	£100,000	£5,000	£0	£5,000	£0
11/5/2011 -10/5/2012		£5,000	£0	£10,000	£0
11/5/2012 -10/5/2013		£5,000	£80,000	£0	£65,000

Escape route? Excess event gain ignored if bond fully surrendered in same tax year as excess event



When to (or not to) utilise the 5% TDA?

The 5% TDA – 3 scenarios when the 5% TDA should be used



Individuals

Scenario 1

Individual is higher or additional rate taxpayers requiring withdrawals to supplement income

Scenario 2

Trustees require withdrawals but want to avoid tax event and tax reporting

Scenario 3

Individuals or Trustees want a simple method of delivering fixed payment amount



Non-bare Trustees

Case study: When using the 5% TDA might not be the best option



- John invested £100k into an onshore bond 9.5 years ago
- It has 100 segments and now worth £160,000
- No withdrawals (including adviser charges)
- He needs £24,000 for home improvements
- His gross income is £40,000 (all pension income)

Case study: When using the 5% TDA might not be the best option

Surrender across segments (partial withdrawal)			
Segments remaining after full segment surrender			100
Final Year withdrawals proportioned over remaining segments	£		-
Further Withdrawal amount		£24,000.00	
Total over remaining segments		£24,000.00	
less			
Available allowance		£50,000.00	
Allowance remaining		£26,000.00	
Gain		£0.00	
	"N"	10	
	Slice	£0.00	
	Policy Anniversary	12/08/2025	
	Tax Year excess gain is assessed	25-26	

Full segment surrender			
Number of segments			15
Surrender Value		£24,000.00	
plus			
Total partial withdrawals		£0.00	
less			
Premium (s)		£15,000.00	
less			
Previous Excess Events		£0.00	
Gain		£9,000	
	"N"	9	
	Slice	£1,000	
	Tax Year Gain is assessed	24-25	

John does a "Partial" across segments

No gain so no tax payable on withdrawal

John surrenders 15 segments

£9,000 gain but no tax payable

Better tax management

Learning Objectives recap

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

Describe the taxation of onshore and offshore bonds during the investment journey

Understand the mechanics of the 5% tax deferred allowance and the 20-year rule

Identify when to use the 5% tax deferred allowance to improve tax efficiency for individuals and trustees



Tech Matters

Award winning technical support for Financial Professionals



Search



Pensions



Investment & Taxation



IHT & Estate Planning



Tools and Calculators



Events & CPD

News & Views

Last Updated: 30 Oct 24 | 20 min read

[Autumn Budget 2024 →](#)

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

Last Updated: 6 Apr 24 | 2 min read

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

[See all →](#)

Les recommends

Last Updated: 6 Apr 24 | 20 min read

[Interaction of tax relief and annual allowance →](#)

Last Updated: 6 Apr 24 | 9 min read

[Normal Expenditure out of Income →](#)

[Pensions & IHT →](#)

Next event

20 Feb 25 | 1 min read

[Pension Planning at Tax Year End →](#)

On-demand events

23 Jan 25 | 1 min read

[Pensions, death and tax →](#)



Search for posts in this group

Home

My Network

Jobs

Messaging

Notifications



Les Cameron Manager

Joined group: Feb 2023

Pending posts 0

Requests to join 3

Manage group

Recent

M&G

Tech Matters



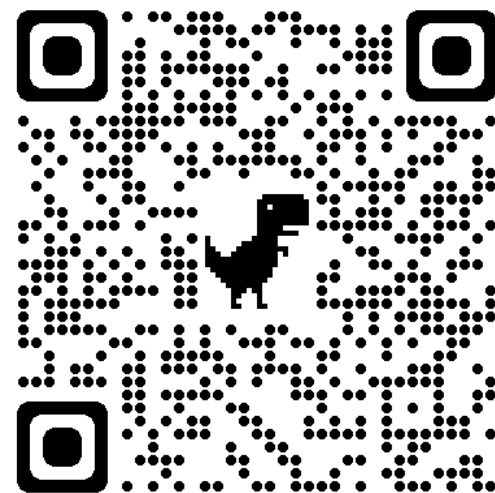
M&G

Tech Matters

Private Listed

Active Group

[View activity](#)





Thank you for your time

Get in touch with your usual M&G contact if you need further help



M&G plc, incorporated and registered in England and Wales. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Registered number: 11444019. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.