



Tax Wrappers: Which, why and when?



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:

Explain the tax treatment of investment bonds and OEICs and the impact this has on overall investment returns





Evaluate the impact of non-tax considerations when it comes to establishing the suitability of different investment approaches

Identify individuals who may benefit by using a wrapped or unwrapped investment approach

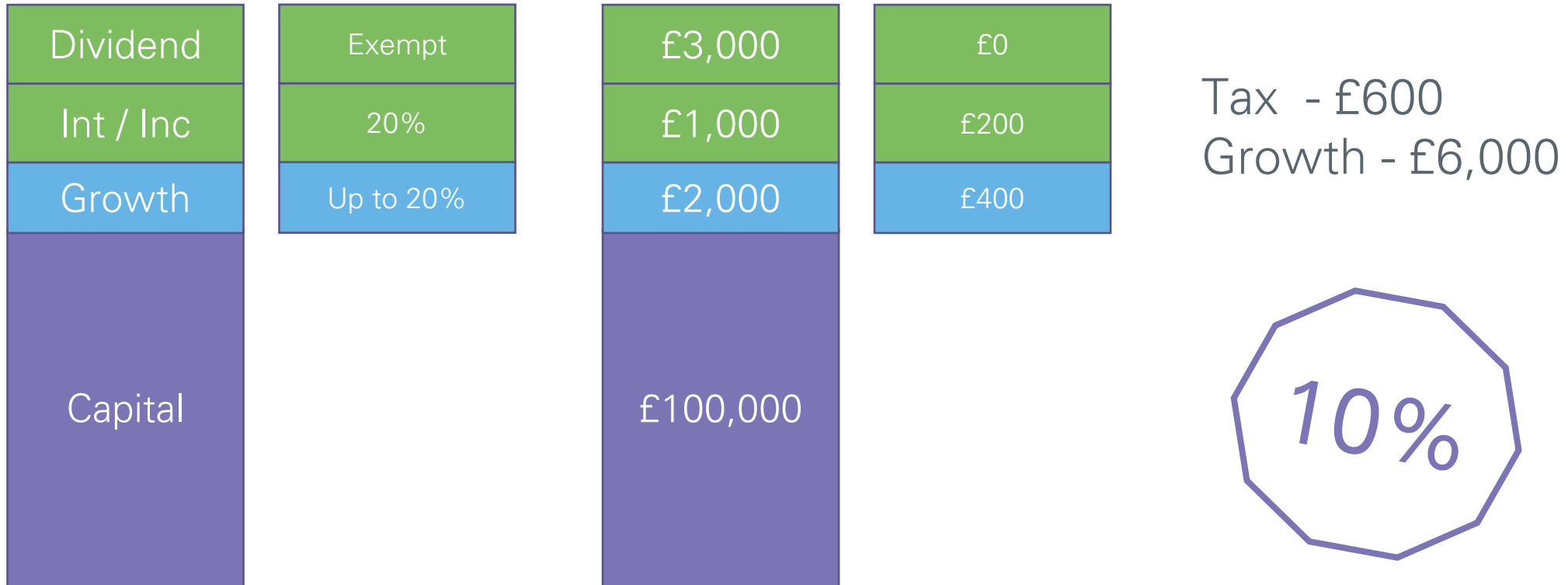


Internal Taxation - Bonds and OEICs

Internal Taxation

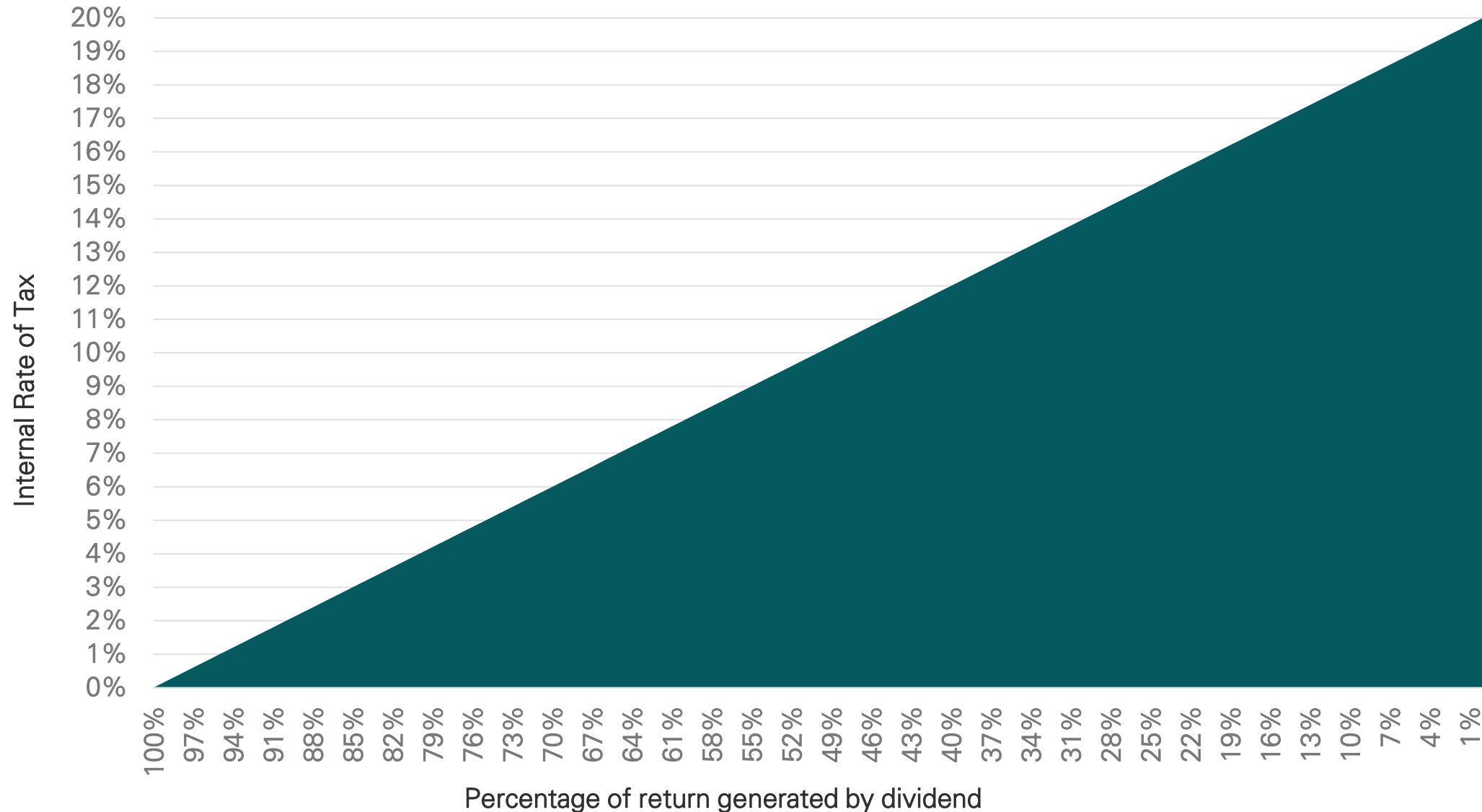
| | | OEIC | UK Bond | Non UK Bond |
|--------------------|--|--------------|----------------------------------|-------------|
| Income |  | 20% / Exempt | 20% | Exempt |
| UK dividends |  | Exempt | Exempt | Exempt |
| Overseas dividends |  | Exempt | Exempt | Exempt |
| Capital gains |  | Exempt |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

Onshore – why 20% isn't 20%



Tax rules can change and the impact of taxation (and any tax relief) depends on your clients circumstances.

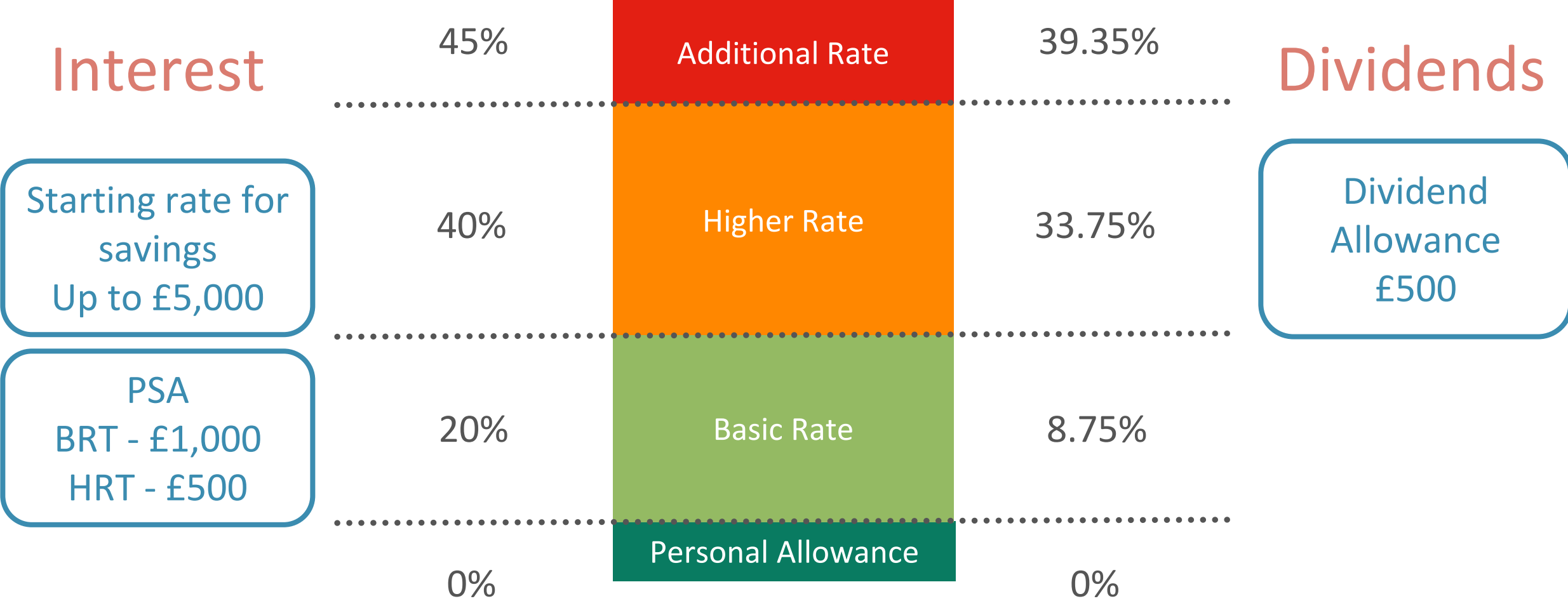
Onshore Internal Tax Rate (by dividend component)



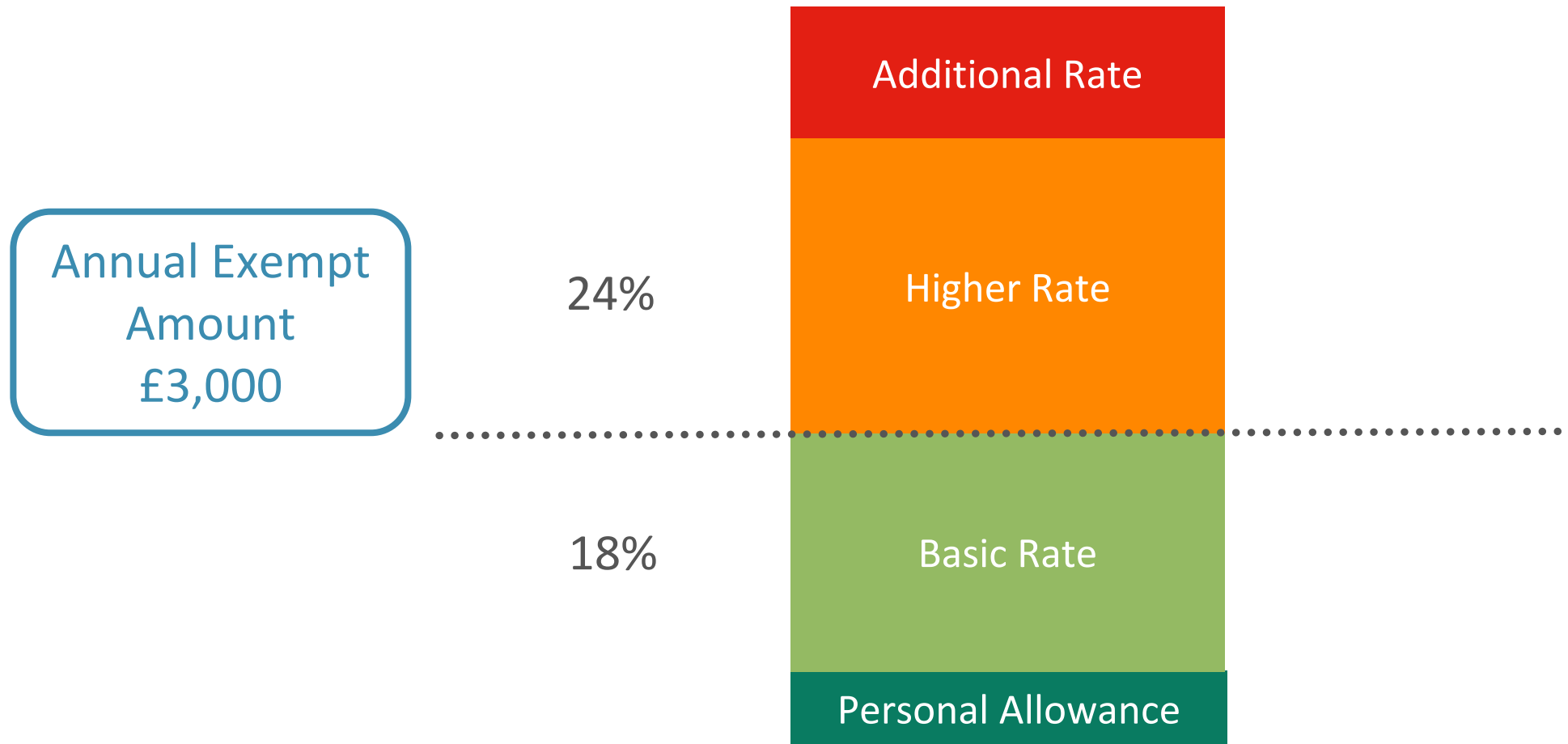


Taxation of the investor OEICs

Tax rates on OEIC income



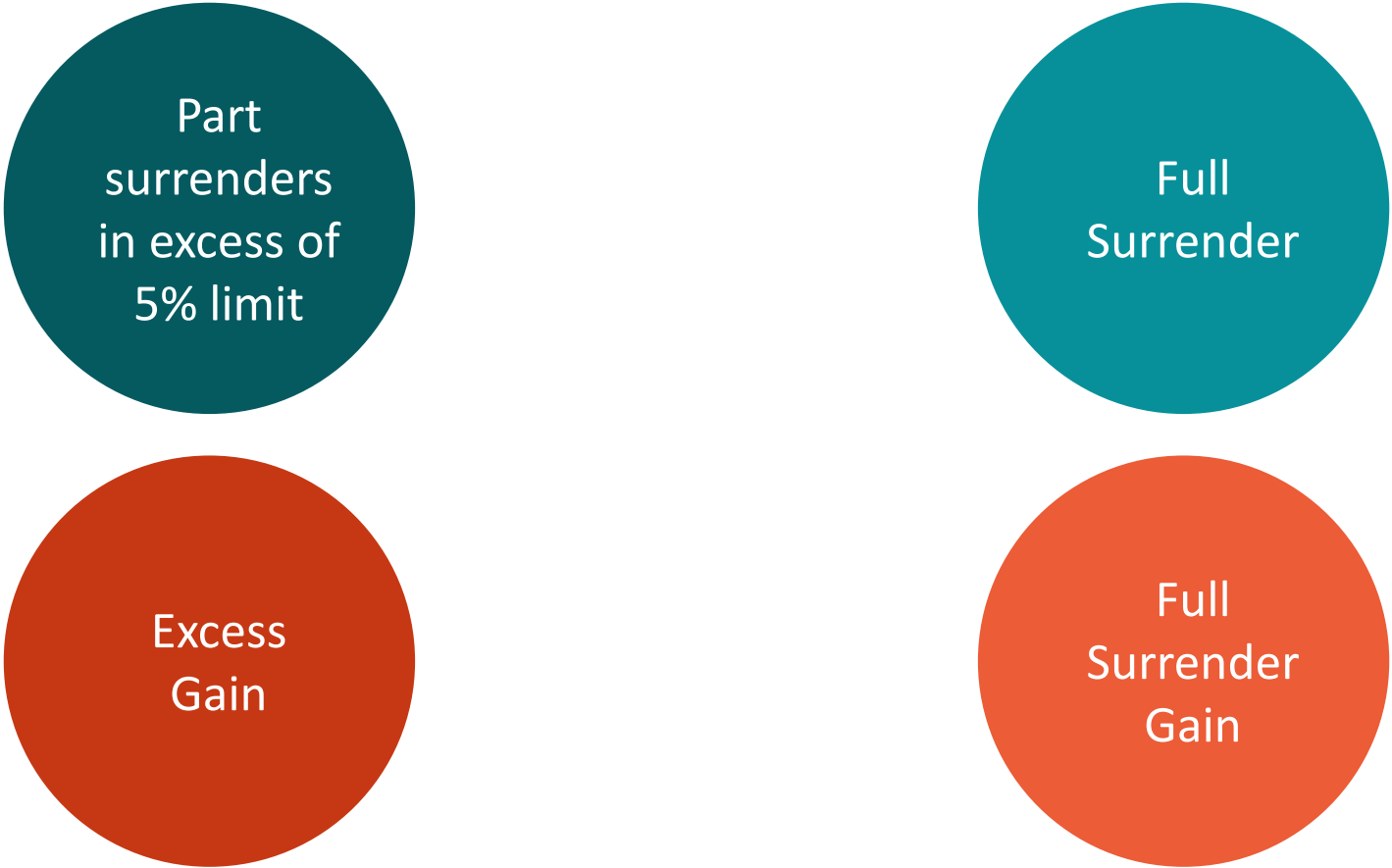
Tax rates on OEIC capital gains





Investment Bonds Chargeable Gains

The most common types of chargeable event and gain calculations



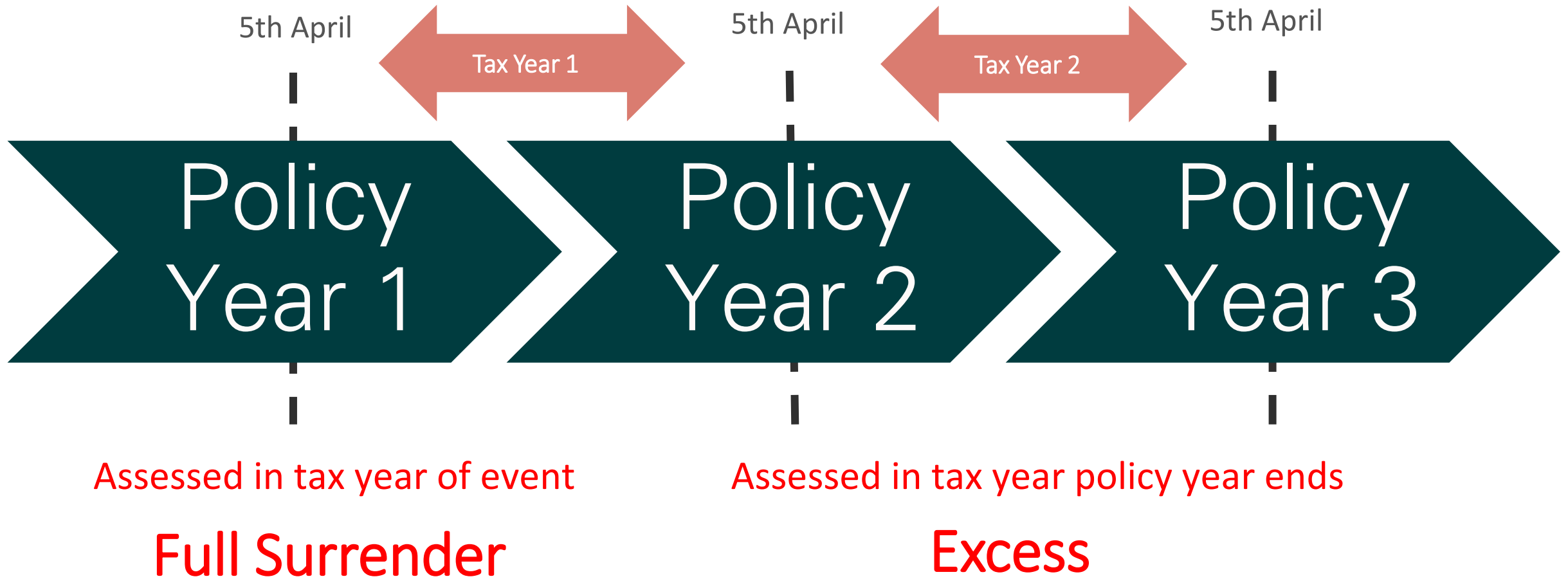
Part
surrenders
in excess of
5% limit

Full
Surrender

Excess
Gain

Full
Surrender
Gain

Policy year v tax year



The tax deferred allowance

Available to
individuals and
trustees

Top-ups
increase TDA

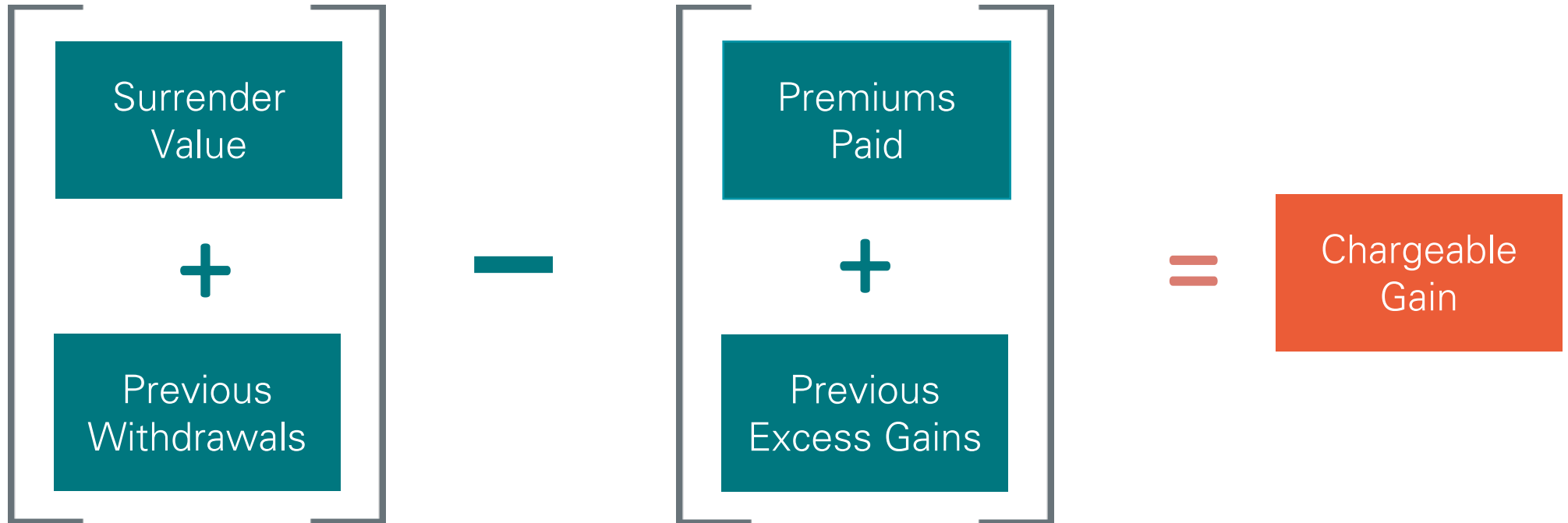
Tax-deferred
NOT tax free

5% of premium
p.a. x 20 years

Excess gains
occur at end of
the policy year

Excess gain is
the excess over
the TDA

Full surrender of segments



Full v Partial



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 start

08/07/2016

Policy Type (Onshore/Offshore)

Offshore Bond

Initial Segments

100

Calculation Date

11/08/2025

Current Surrender Value

£510,990.99

Segments at calculation date

100

| Policy year | | Premiums | Partial Withdrawals (include applicable adviser charges) |
|-------------|----------------------|-------------|--|
| 1 | 08/07/201607/07/2017 | £352,610.00 | £2,945.02 |
| 2 | 08/07/201707/07/2018 | | £3,900.96 |
| 3 | 08/07/201807/07/2019 | | £4,062.66 |
| 4 | 08/07/201907/07/2020 | | £4,105.19 |
| 5 | 08/07/202007/07/2021 | | £4,029.85 |
| 6 | 08/07/202107/07/2022 | | £4,614.68 |
| 7 | 08/07/202207/07/2023 | | £4,786.90 |
| 8 | 08/07/202307/07/2024 | | £4,713.33 |
| 9 | 08/07/202407/07/2025 | | £4,949.33 |
| 10 | 08/07/202507/07/2026 | | £5,000.00 |

Savings Allowances

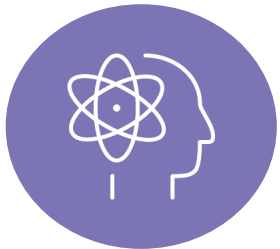
Personal Allowance £12,570

Savings Starting Rate £5,000

Personal Savings Allowance £1,000/£500

Bond
Gains

£18,570

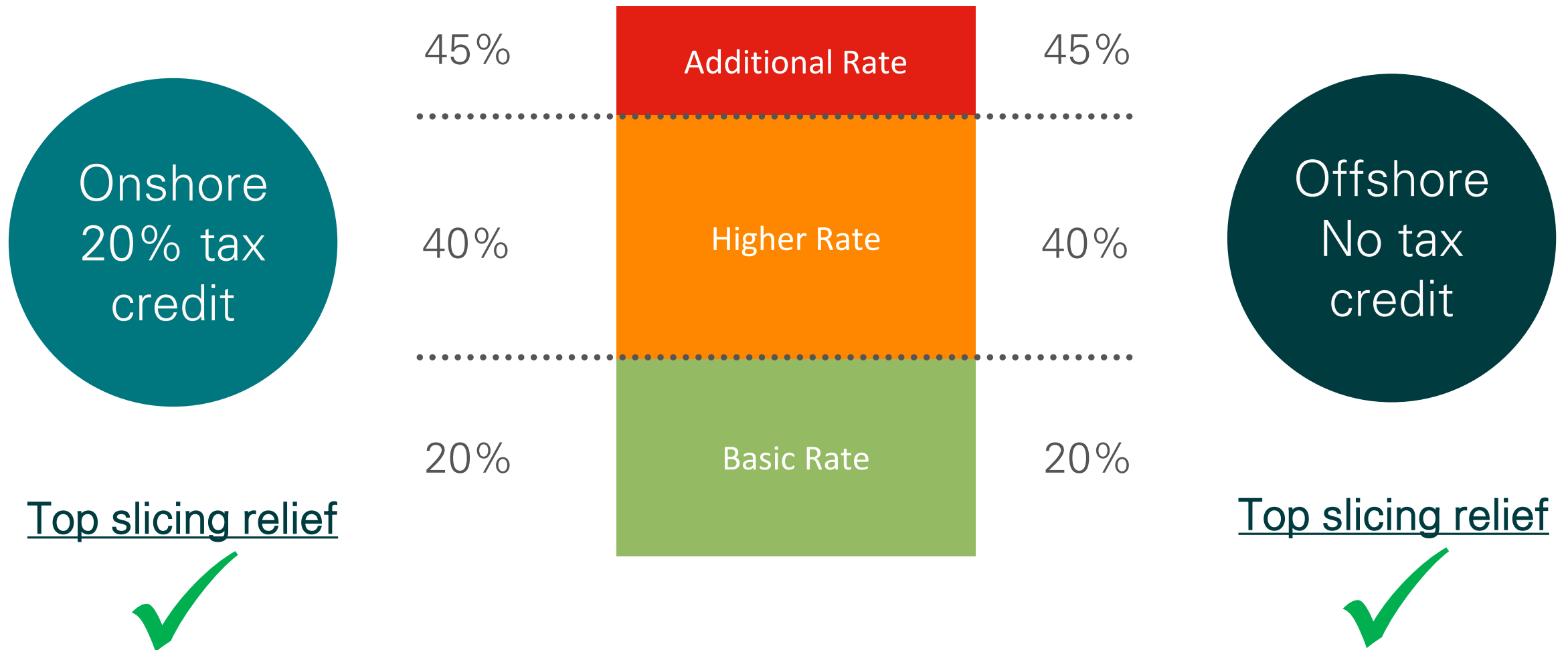


Offshore bonds

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



ABOUT YOUR CLIENT

What is the client's age?

Under 75

Scottish Tax Payer?

No

Number of Children - Only fill if Child Benefit is claimed

Gift Aid (Gross amt)

CHARGEABLE EVENTS - BOND GAINS

| | | | | | |
|-----------------|--|------------------|--|---------|--|
| Onshore Gain 1 | | Years Gain 1 (N) | | Slice 1 | |
| 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 | | Purchased Life Annuity Income | |
| Benefits in Kind | | Gross Savings Interest | |
| Taxable Self Employed Profits | | Dividends | |
| UFPLS (taxable element) | | Capital Gains above the annual exempt amount | |
| Drawdown / Annuity Income / Scheme Pension Income | | Taxable Redundancy Payment | |
| State Pension Income | | Rental Income | |

EXISTING PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

Contributions paid gross

NEW PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

Contributions paid gross

R
E
S
E
T

| BEFORE NEW CONTRIBUTIONS | | AFTER NEW CONTRIBUTIONS | | DIFFERENCE | PENSION SUMMARY | |
|----------------------------|---------|----------------------------|---------|------------|--|-------|
| "Total Income" | £0 | "Total Income" | £0 | £0 | Relevant Earnings | £0 |
| Adjusted Net Income | £0 | Adjusted Net Income | £0 | £0 | Contributions: Existing | £0 |
| Personal Allowance | £12,570 | Personal Allowance | £12,570 | £0 | New | £0 |
| Personal Savings Allowance | £0 | Personal Savings Allowance | £0 | £0 | Total | £0 |
| Child Benefit Charge | £0 | Child Benefit Charge | £0 | £0 | | |
| Capital Gains Tax | £0 | Capital Gains Tax | £0 | £0 | | |
| Tax Liability | £0 | Tax Liability | £0 | £0 | Effective Rate of Tax Relief (on new contributions) | 0.00% |
| Bond Gains Summary | | Bond Gains Summary | | | | |
| Tax on gains | £0 | Tax on gains | £0 | £0 | | |
| Onshore Tax Credit | £0 | Onshore Tax Credit | £0 | £0 | | |

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



Tax Wrapper Comparison Tool

Case studies

Ben and Holly have each been left an inheritance of £250,000 they are now looking to invest.

Their financial advisers are considering whether to invest in an OEIC or via an investment bond wrapper.



Basic Rate Ben



- Married, aged 45, with 2 children
- Ben works and earns £25,000 p.a.
- Ben's wife is a higher rate taxpayer
- Investing for growth and looking to fund his ISA
- No change to his income in medium to longer term

Cash
£25,000

S&S ISA
£40,000

Home Joint
owned
£350,000

Interest
£1,000

Why does an OEIC work out best for Ben?



1 Dividend allowance available for OEIC income

2 Only basic rate tax on income exceeding allowances

3 CGT AEA available for disposals each year

4 Ben pays no CGT over the term

Other factors – tax v non tax trade off



What's important to the client?

- You will have to do a tax return and pay tax every year, but your net return might be higher
- Your net return may be might be lower than it could be, but you won't need to pay tax or do a tax return every year

Higher Rate Holly



- Single, aged 52, with 2 children and 4 grandchildren
- Earns £60,000 p.a.
- Her DB pension is payable from age 60 (£18,000 p.a.)
- State pension is payable from age 67 (£12,000 p.a.)
- Holly plans to retire in 10 years at age 62

Cash
£50,000

S&S ISA
£100,000

GIA
£200,000

Home
£350,000

Interest
£2,000

Dividends
£6,000

Why does an onshore bond work out best for Holly?



1 Tax deferral within the bond until BRT

2 Top slicing relief spreads the gain

3 Basic rate tax credit mitigates BRT

4 No AEA available for capital gains

5 Income allowances used - HRT on OEIC income

Other factors – future gifting?



~~Basic rate on
encashment~~



No tax on
assignment



Assignee/Beneficiary's
tax position?

Are bonds the answer?

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

Subject to
tax traps

Expectation
of lifetime
gifting

Access
savings
allowances
with equity
funds

Larger /
Active
Portfolios

Those
looking for
simplicity /
low admin

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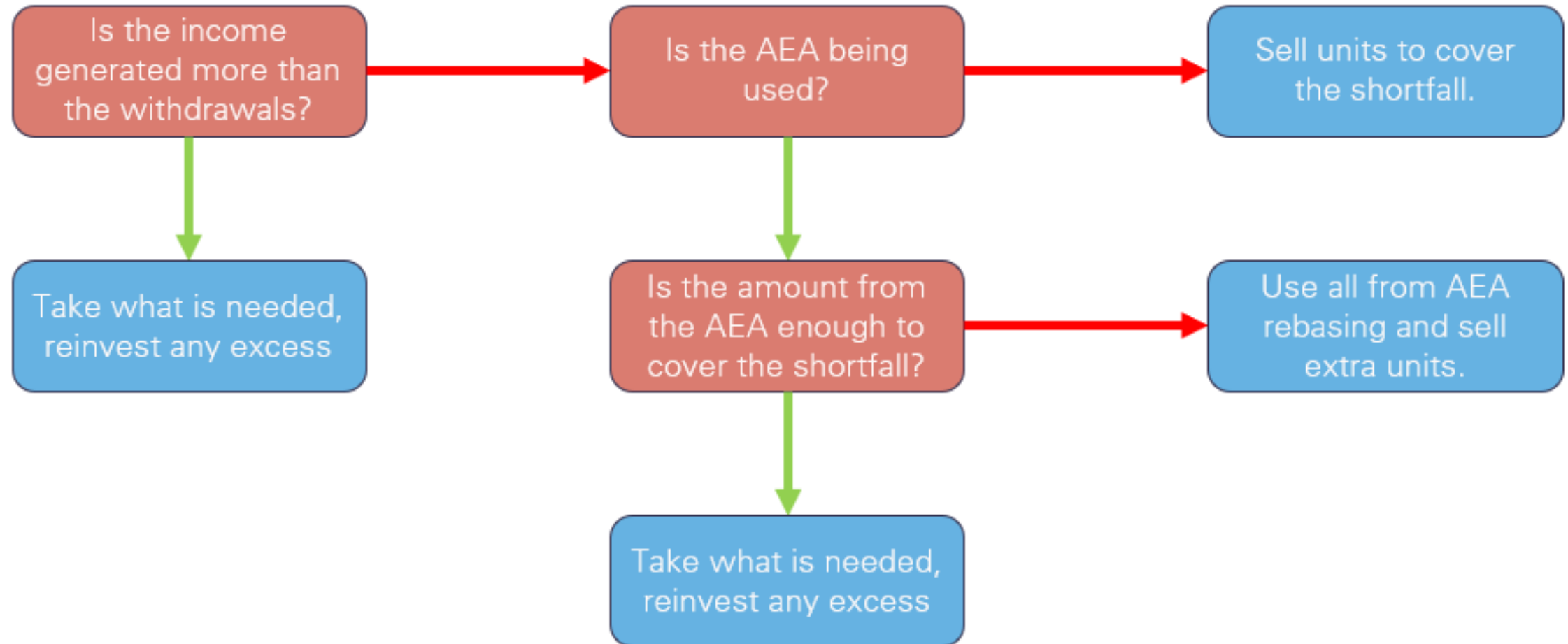
Evaluate the impact of non-tax considerations when it comes to establishing the suitability of different investment approaches

Identify individuals who may benefit by using a wrapped or unwrapped investment approach

QUESTION TIME



How the TWCT gets the wrapping and withdrawals done - OEICS





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 →](#)



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Les Cameron **Manager**

Joined group: Feb 2023

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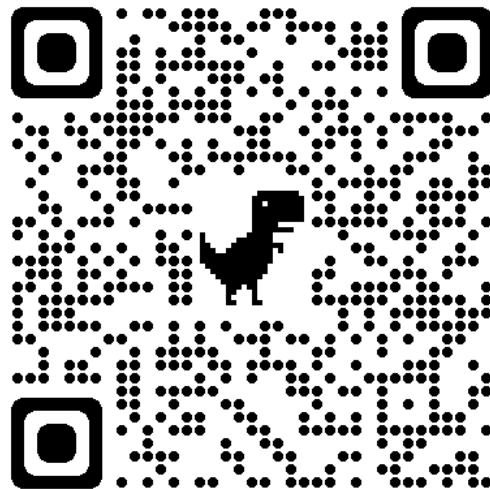
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Tech Matters

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Thank you for your time

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

