



Techy Tuesday Tax Tool

Tax Wrapper Comparison Tool Upgrade



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

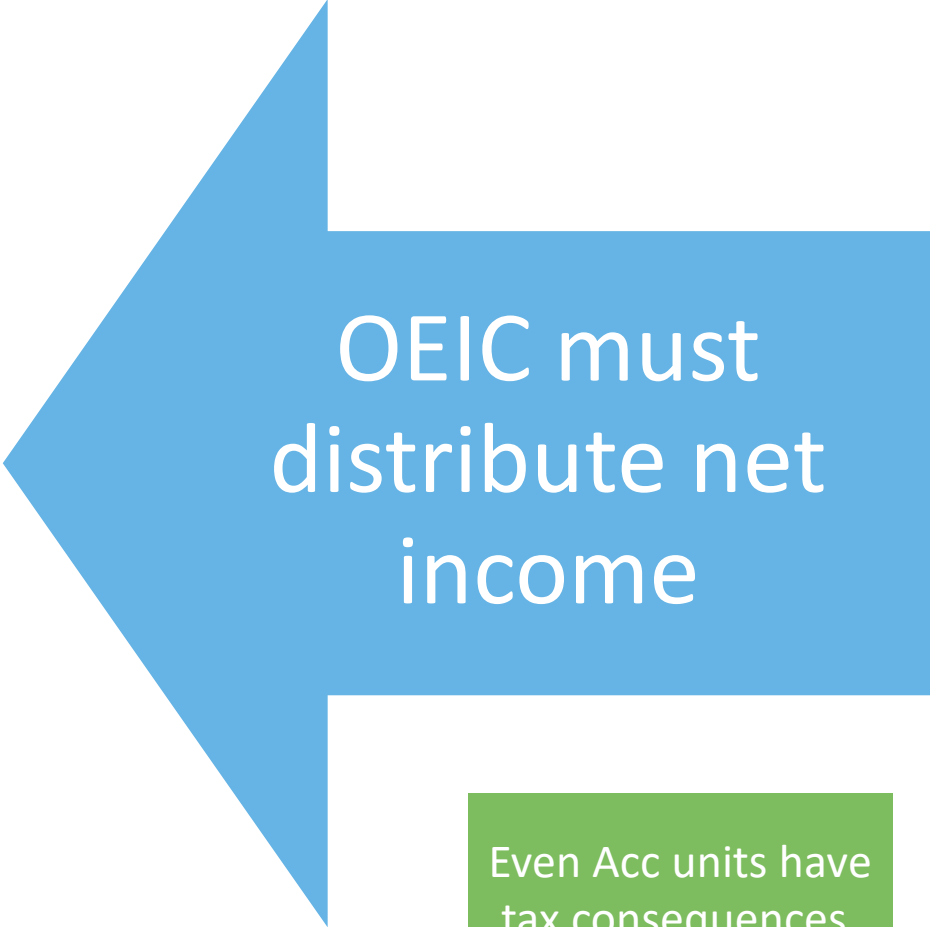
By the end of this session, you will be able to:

Explain the
taxation of
collectives,
onshore bonds
and offshore
bonds

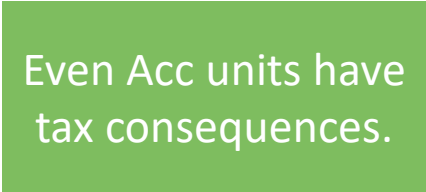
Describe the
operation of the
upgraded Tax
Wrapper
Comparison Tool

Demonstrate how
this can be used
in planning for
your clients

OEICs and Bonds - the fundamental difference



OEIC must
distribute net
income

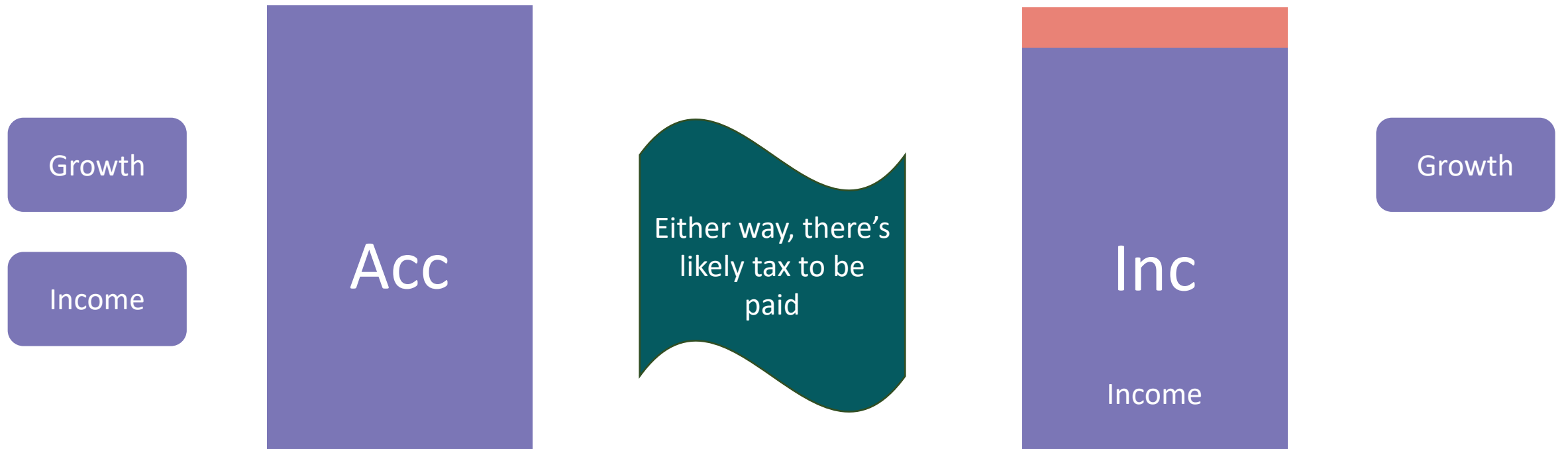


Even Acc units have
tax consequences.



Insurance Bond
is non income
producing

How Inc and Acc work





Calculating Bond Gains

Formula for excess gains

For regular withdrawals and partial withdrawals over the segments, calculate as follows:

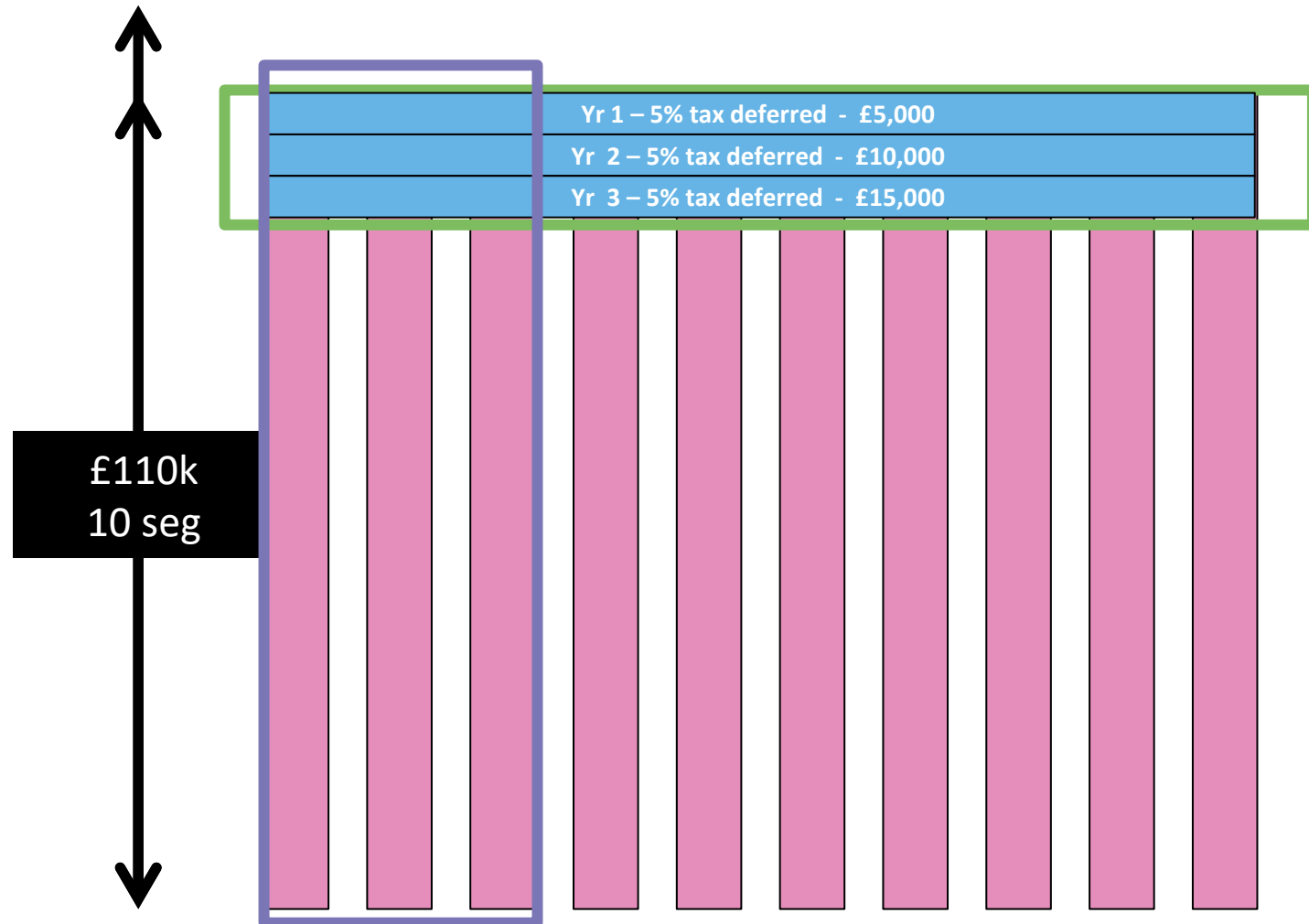
	Amount withdrawn over the policy year	← This includes ongoing adviser charges
Compare to	Available 5% tax deferred allowance	
Equals	Excess chargeable event gain	

Formula for final gain

For full surrender and surrender of segments, calculate the gain as follows:

	Surrender value	
Plus	Previous withdrawals (sum of regular & partial withdrawals)	← This includes ongoing adviser charges
Less	Investments in (sum of premiums paid)	
Less	Previous excess chargeable event gains	
Equals	Final chargeable event gain	

Full Surrender Vs 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



Taxing Bond Gains

Allowances that can be used

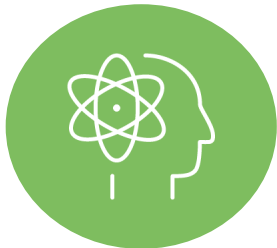
Personal Allowance £12,570

Savings Starting Rate £5,000

Personal Savings Allowance £1,000/£500

Bond
Gains

£18,570

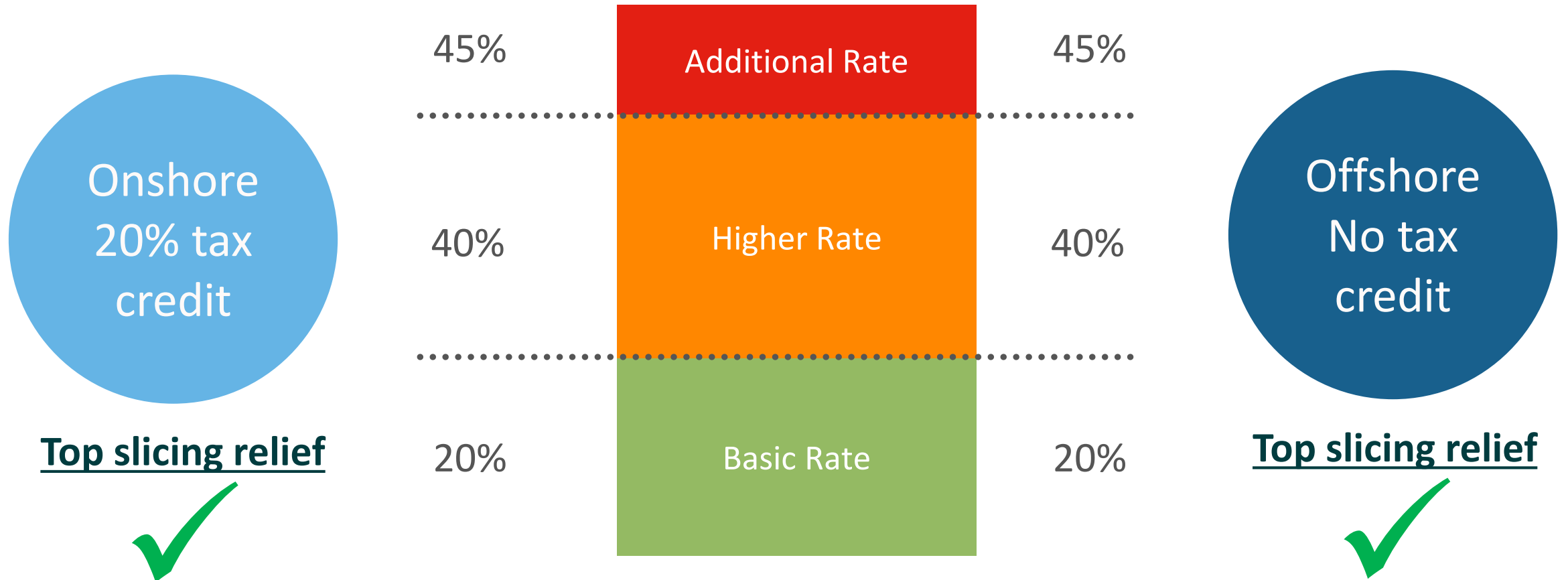


Offshore bonds

Those liable for gains:

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

Once you are out of allowances

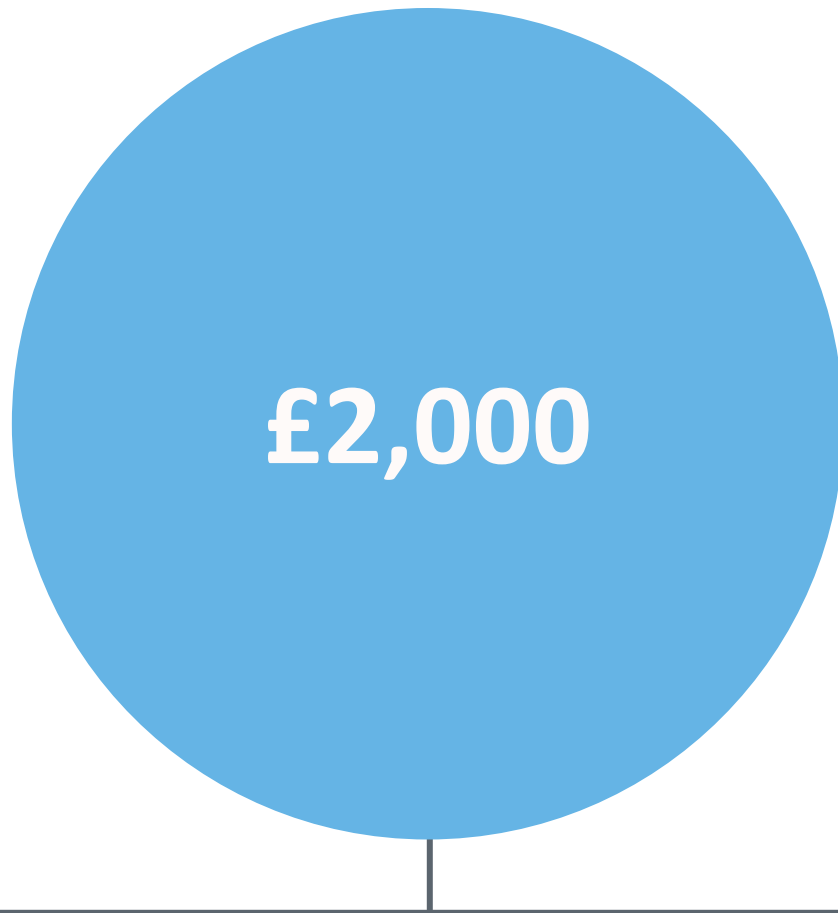


The tool calculates the tax each year and top slices where available



Taxing OEIC Income

Dividend Allowance



2022/23

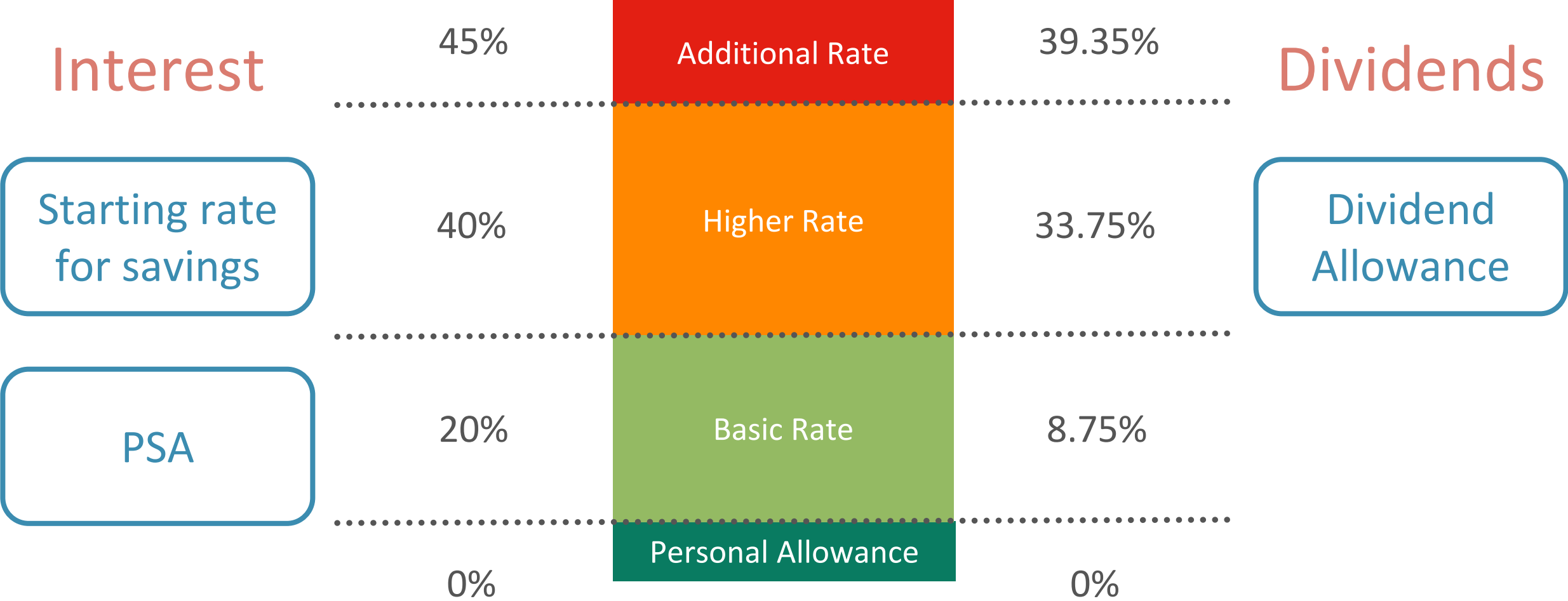


2023/24



2024/25

Tax Rates on OEIC Income





Calculating Capital Gains

Section 104 Calculation

Year	Unit Price	Units Bought	Cost
2015	£2.50	1,000	£2,500
2020	£4.00	500	£2,000

Sells 250 shares now for £5 each. Realising £1,250

$$\frac{\text{Total Cost}}{\text{Total Units}}$$

$$\frac{£4,500}{1,500}$$

=£3

Proceeds – Cost = Gain

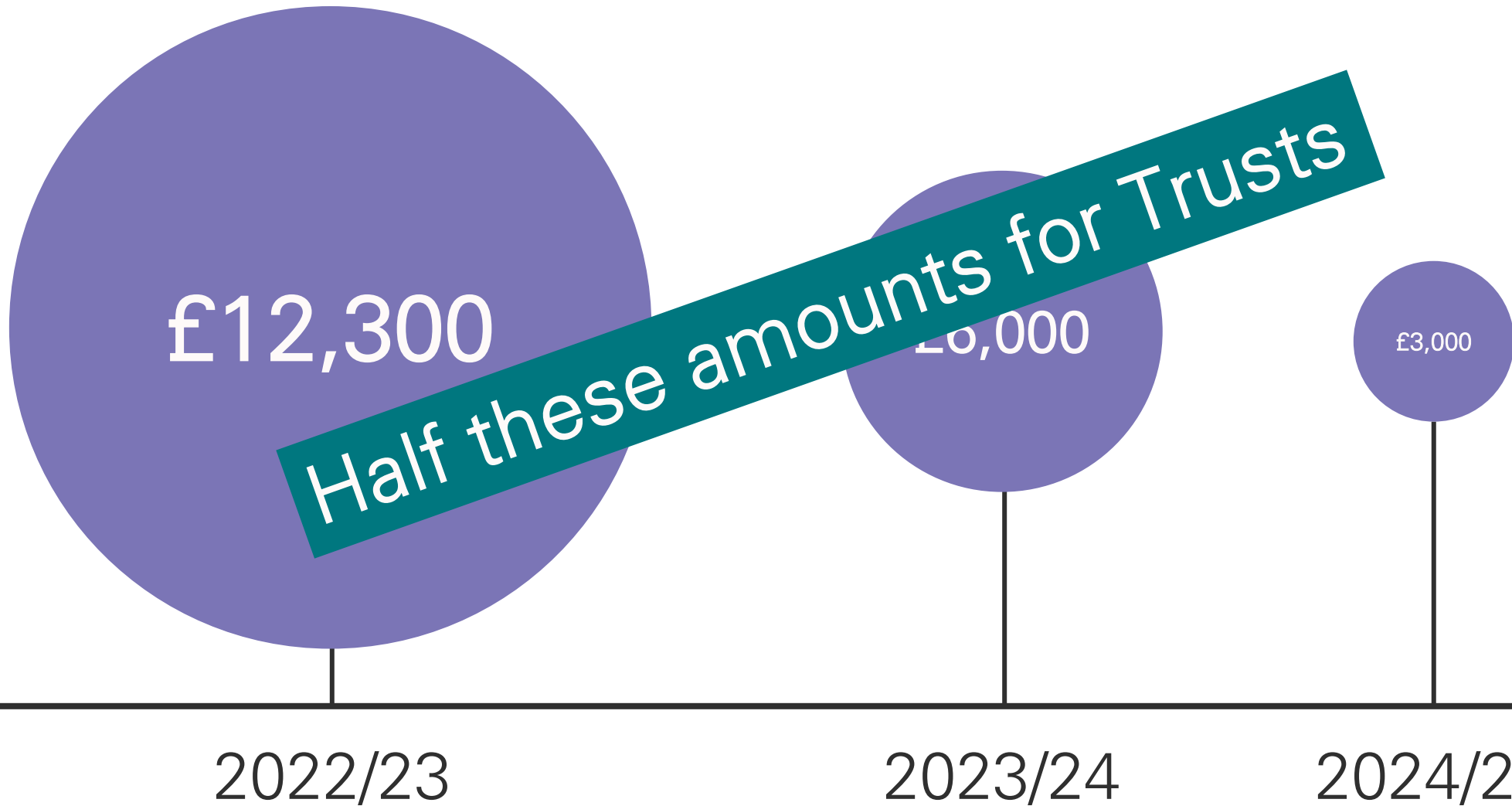
$$£1,250 - £750 = £500$$

The tool uses income units and reinvests where possible

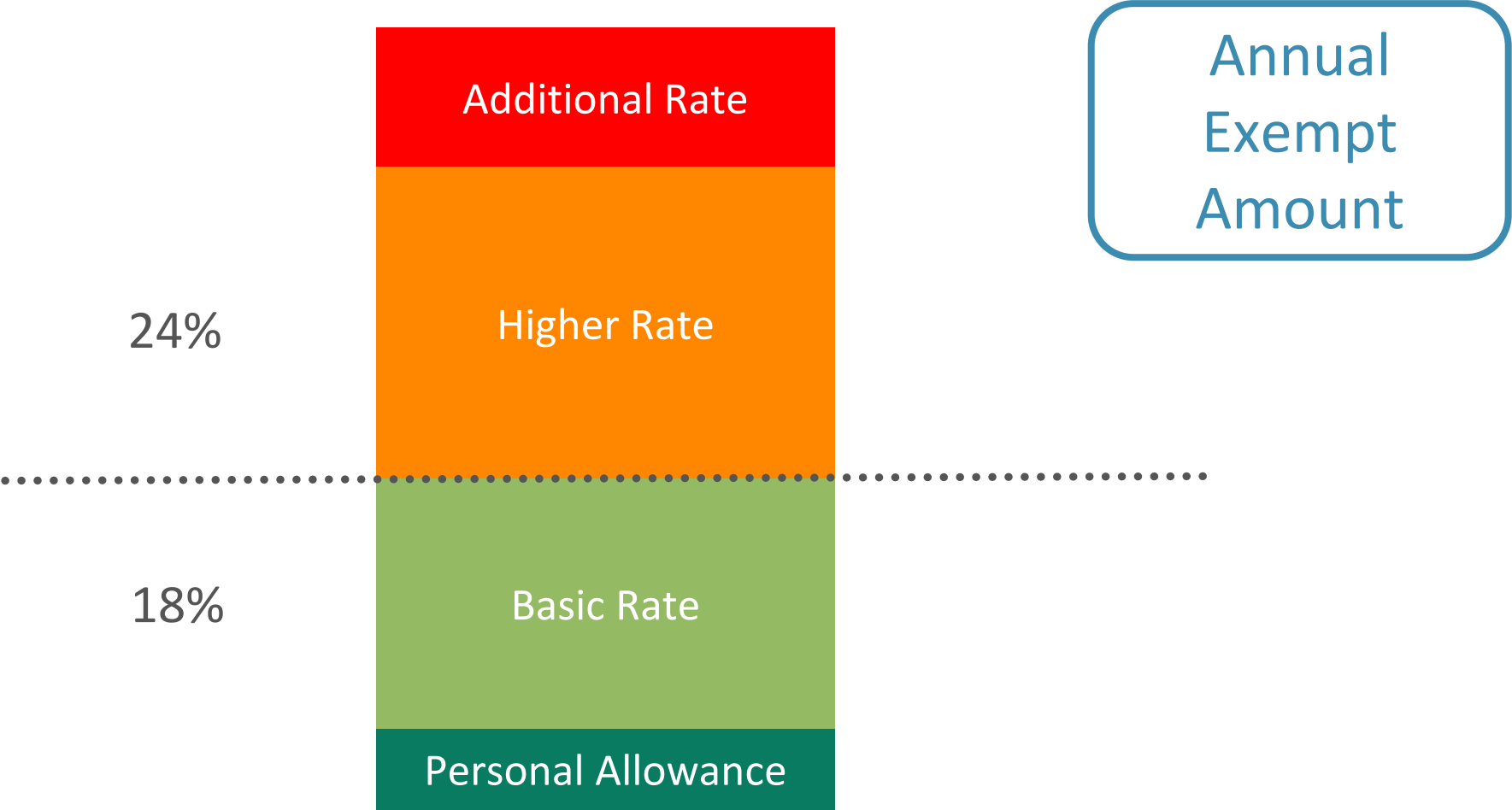


Taxing Capital Gains

CGT Annual Exempt Amount



Tax rates on OEIC Capital Gains





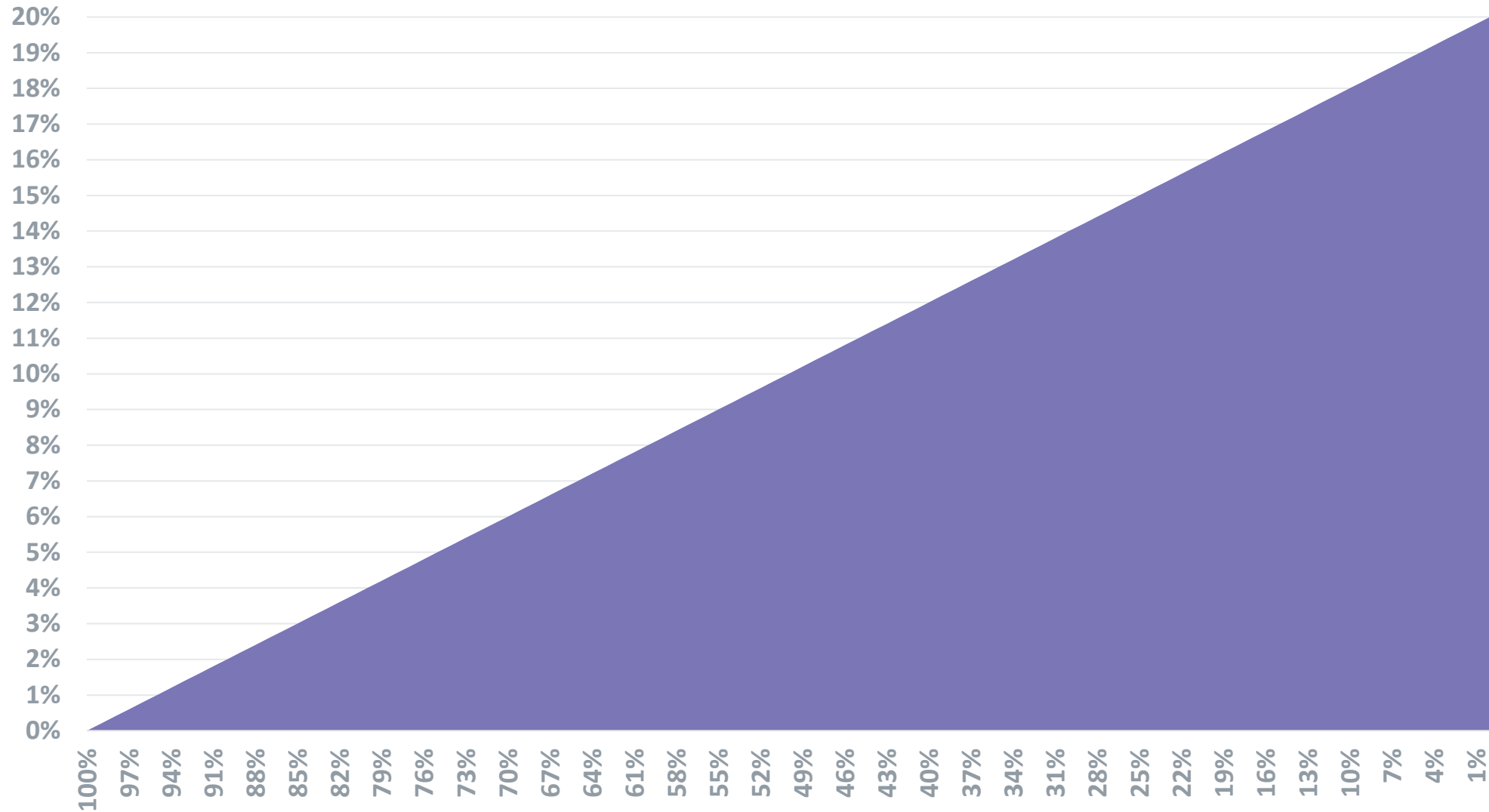
Internal Tax Rates

Internal Tax

Onshore
20% tax
credit

		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
			18% / 24%	

Onshore Bond Internal Tax Rate (by dividend component)





The Upgrade

Version 2.0

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2024/25

Invested Amount

£200,000.00

Year of encashment (5 to 10 only)

7

Use annual exempt amount?

Yes

Reset

Investment Yields

Savings income

Dividend Return

Capital Gain

Additional Cost for Bond Wrapper

3.00%

3.00%

0.00%

0.00%

Onshore Bond Internal Tax Rate

10.00%

Existing income

Non Savings Non Dividend

Savings

Dividend

£85,000

£1,000

£10,000

Increase assumption per annum

0.00%

0.00%

0.00%

Expected Income year of encashment

Non Savings Non Dividend

Savings

Dividend

£50,000

£10,000

£0

Taxation over Term

	Collectives	Onshore	Offshore
Savings Income			
Amount	£45,931	£49,451	£50,363
Tax	£18,372	£9,890	£0
Dividend Income			
Amount	£45,931	£49,451	£50,363
Tax	£15,333	£0	£0
Capital Gain			
Amount	£0	£0	£0
Tax	N/A	£0	£0

Encashment Values

	Collectives	Onshore	Offshore
Surrender Value	£247,443	£289,011	£300,726
Gain (Cumulative)	£0	£89,011	£100,726
Slice	N/A	£12,716	£14,389
Tax payable	£0	£22,976	£45,464
Net return	£247,443	£266,035	£255,262

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	£0	£0
Basic Rate	£0	£0	£0
Higher Rate	N/A	£77,710	£77,710
CGT Allowance	£3,000	N/A	N/A

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.

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2025/26

Planning Assumptions

Invested Amount	£400,000.00
Proposed Term (5 to 10 only)	10
Use annual exempt amount?	No
ISA Wrap each year?	Yes
Regular withdrawal amount?	£0.00
Bond encashment method	Full segments and partials
Year 1 ISA Allowance from Investment?	Yes

Income Assumptions

Existing income		Increase assumption
Non Savings Non Dividend	£60,000	0.00%
Savings	£0	0.00%
Dividend	£0	0.00%
CPI Increase for Tax Bands from 2028		0.00%
Income in year of encashment		Projected income - encashment
Non Savings Non Dividend	£60,000	£60,000
Savings	£0	£0
Dividend	£0	£0

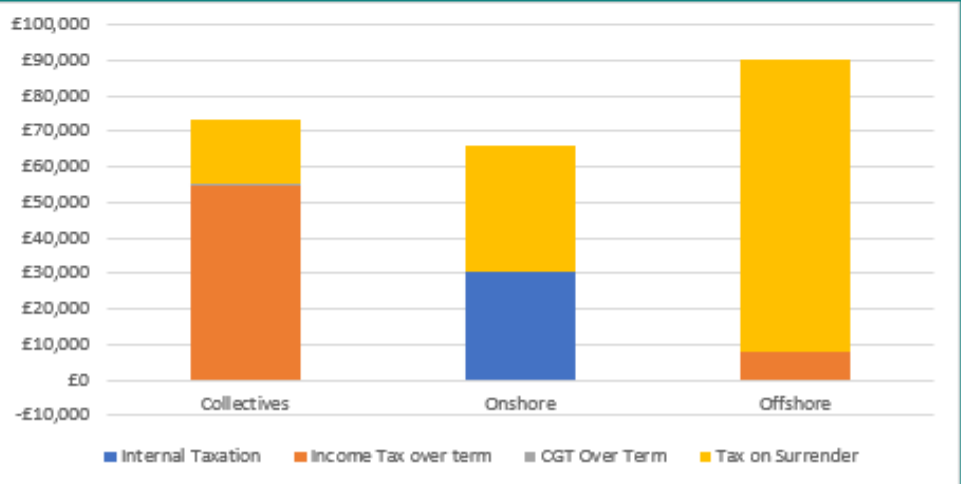
Investment Assumptions

Savings Income	2.00%	Onshore
Dividend Return	2.00%	Bond
Capital Gain	2.00%	13.33%
Extra Wrapper Cost	0.00%	
RESET		

Projected Values

	Collectives	Onshore	Offshore
End of term values			
Surrender	£436,906	£396,953	£436,906
Gain	£75,529	£187,953	£227,906
Taxation			
Internal Taxation	£0	£30,300	£0
Income Tax over term	£54,552	-£2	£7,830
CGT Over Term	£826	£0	£0
Tax on Surrender	£18,127	£35,687	£82,119
Net Proceeds			
On Surrender	£418,779	£361,266	£354,788
ISA Value	£279,433	£279,433	£279,433
Gross Withdrawals	£0	£0	£0
Personal Taxes Paid Over Term	£55,377	-£2	£7,830
Overall Outcome	£642,835	£640,701	£626,391

Tax Breakdown



New Functionality

Planning Assumptions

Invested Amount	£400,000.00
Proposed Term (5 to 10 only)	10
Use annual exempt amount?	Yes
ISA Wrap each year?	Yes
Regular withdrawal amount?	£10,000.00
Bond encashment method	Full segments and partials
Year 1 ISA Allowance from Investment?	

Income Assumptions

Existing income		Increase assumption
Non Savings Non Dividend	£60,000	0.00%
Savings	£0	0.00%
Dividend	£0	0.00%
CPI Increase for Tax Bands from 2028		0.00%
Income in year of encashment		
Non Savings Non Dividend	£12,000	
Savings	£0	
Dividend	£0	

Any withdrawals are taken at the end of the tax year, 5th April.

If withdrawal is for ISA wrapping the money is invested at the start of the next tax year, 6th April.

Detailed Tax Analysis

		Year									
		1	2	3	4	5	6	7	8	9	10
INCOME	Non Savings, Non Dividend	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£0
	Existing Savings	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Existing Dividend	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Total	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£60,000	£0
COLLECTIVES	Starting Value	£250,000	£242,500	£234,625	£226,356	£217,674	£208,558	£198,986	£188,935	£178,382	£167,301
	Capital Growth	£5,000	£4,850	£4,693	£4,527	£4,353	£4,171	£3,980	£3,779	£3,568	£3,346
	AEA for year	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000
	Portfolio realised to use AEA	£153,000	£108,328	£84,045	£68,786	£58,310	£50,673	£44,858	£40,281	£36,584	£0
	AEA used	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000
	Carried Gain	£2,000	£3,850	£5,543	£7,070	£8,423	£9,594	£10,574	£11,353	£11,920	£0
	Withdrawal										
	For ISA	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£0
	For income	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Total withdrawn	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£20,000	£0
	Closing Collective Value	£242,500	£234,625	£226,356	£217,674	£208,558	£198,986	£188,935	£178,382	£167,301	£175,666
	Additional Tax from Portfolio										
	Non-Savings Non-Dividend	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Tax	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Savings	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Tax	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
	Dividend	£7,500	£7,275	£7,039	£6,791	£6,530	£6,257	£5,970	£5,668	£5,351	£5,019
	Tax	£2,363	£2,287	£2,207	£2,123	£2,035	£1,943	£1,846	£1,744	£1,637	£0
	Gain (after AEA)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£15,266

The total tax for each investment is the additional tax caused.

Glossary

Inputs

Section	Input Name	Description
Planning Assumptions	Invested Amount	This is the gross amount that the client is looking to invest.
	Proposed Term (5 to 10 only)	This is the term that the money is to be invested for.
	Use annual exempt amount?	If yes is selected the tool will use the full value of the annual exempt amount to crystallise gains to rebase the CGT where possible. As an example if the gains are £6,000 it will sell and repurchase half of the portfolio (Bed and Breakfast rules are ignored for this).
	ISA Wrap each year?	If yes is selected the tool will take £20,000 gross from the investment and place this into an ISA. The disinvestment takes place on the 5th of April and is invested on the 6th of April.
	Regular withdrawal amount?	If the client is looking to take regular withdrawals from the portfolio the tool will take this gross amount from the investment on the 5th of April.
	Bond encashment method	For the Onshore and Offshore bonds you select if you want to do a partial surrender across all of the segments, or you can select to take full segments close to the withdrawal amount with any remainder being taken across the remaining segments.
	Year 1 ISA Allowance from Investment?	If yes is selected the tool will take the first years ISA investment amount from the gross amount that the client is looking to invest. E.g. if the gross investment amount is £250,000 the tool will take £20,000 from this at the start to place into an ISA and invest £230,000 in the Collectives and Bonds.
Income Assumptions	Non Savings Non Dividend	This is the amount of income a client has that is not classed as savings or dividends (employment income etc.).
	Savings	This is any existing savings income that the client has, this is required to know how much savings allowances may be available for the proposed investment.
	Dividend	This is any existing dividend income that the client has, this is required to know how much dividend nil rate that may be available for the proposed investment.
	Increase assumption	These are here so you can factor in any percentage increases in the clients existing sources of income.
	CPI Increase for Tax Bands from 2028	If you want to increase the tax bands from 2028 by CPI, please select the rate you feel is appropriate.
	Income in year of encashment	These are for the expected non portfolio income the client will have in the year of encashment.
	Projected income - encashment	If you wish to continue the increase assumptions for the client in the year of encashment, these are the figures required.
Investment Assumptions	Savings Income	This is the expected percentage return on the fund or portfolio produced by interest.
	Dividend Return	This is the expected percentage return on the fund or portfolio produced by dividends.
	Capital Gain	This is the expected capital growth return on the fund or portfolio produced by dividends.
	Extra Wrapper Cost	This can be a positive or negative number to reflect if it is more or less expensive to have the investments wrapped in a bond.

Outputs

What's under the bonnet?

Calcs on interest
and dividends from
OEICs.

Calcs on gains from Collectives

New Calculations

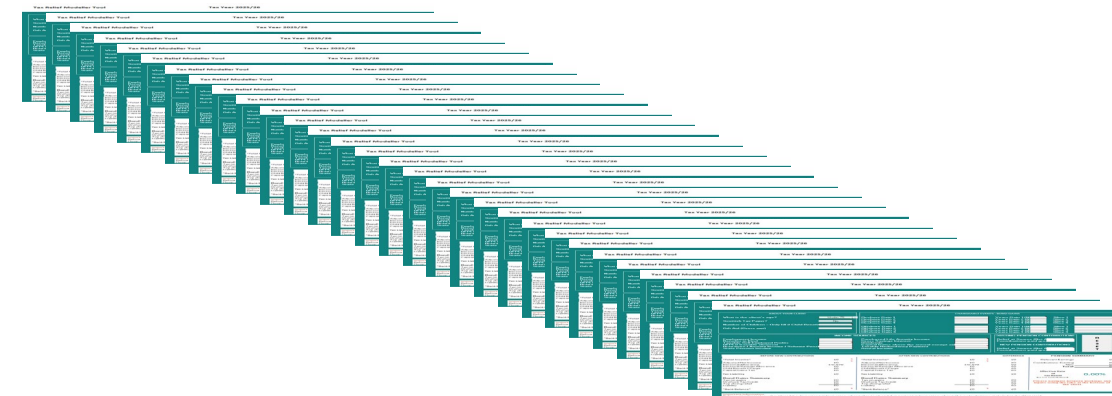
Calcs for onshore and offshore bond gains

Bond Gain Tool

[illegible]

Tax calcs for the investor during the journey and on encashment

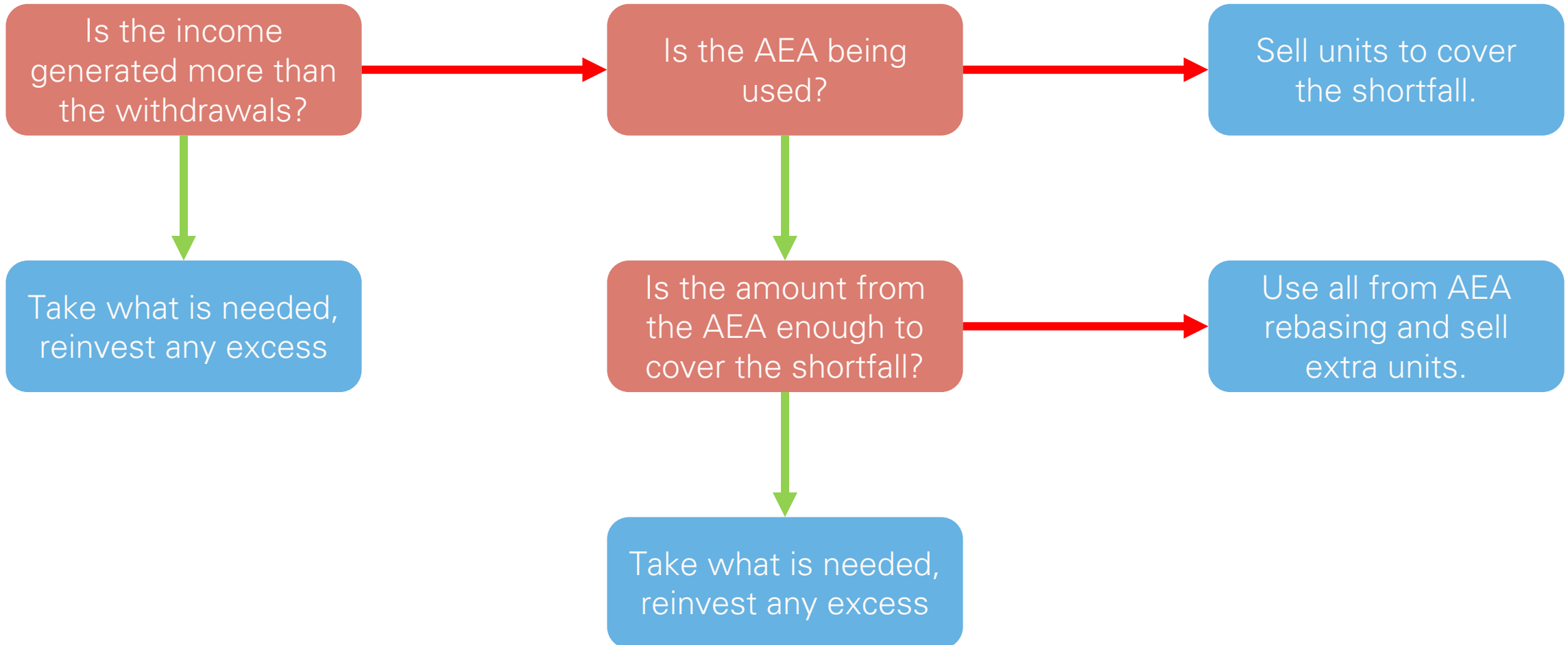
Tax Relief Modeller (3 per year)



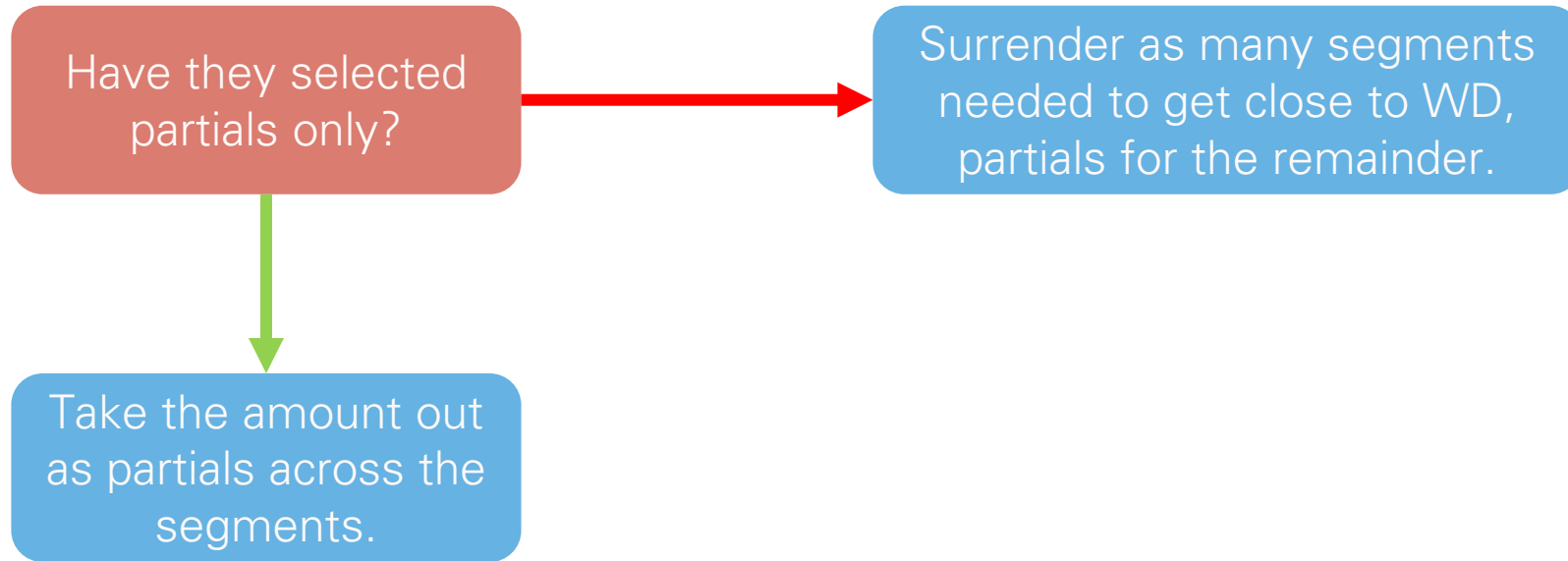


How the tool takes withdrawals

How the TWCT gets the wrapping and withdrawals done - OEICS



How the TWCT gets the wrapping and withdrawals done - Bonds





The Numbers

Basic Rate/Basic Rate: £250,000 (4% div, 4% gain)

	OEIC directly held				OEIC in Onshore Bond
	2022/23	2023/24	6/4/24 – 29/10/24	30/10/24 onwards	2022/25
£10,000 (Dividends)	£875	£875	£875	£875	£0
£10,000 (Gain)	£0 (£12,300 AEA)	£400 (£6,000 AEA)	£700 (£3,000 AEA)	£1,260 (£3,000 AEA)	£2,000
Overall Tax Rate	4.3%	6.3%	7.8%	10.6%	10%

Higher Rate/Higher Rate: £250,000 (4% div, 4% gain)

	OEIC directly held			OEIC in Onshore Bond	
	2022/23	2023/24	6/4/24 – 29/10/24	30/10/24 onwards	2022/25
£10,000 (Dividends)	£3,375	£3,375	£3,375	£3,375	£0
£10,000 (Gain)	£0 (£12,300 AEA)	£800 (£6,000 AEA)	£1,400 (£3,000 AEA)	£1,680 (£3,000 AEA)	£2,000
Overall Tax Rate	16.9%	20.9%	23.9%	25.2%	?

DNR used up, AEA available, no PSA available

Overall tax on higher rate taxpayer

OEIC in Onshore Bond

2022/25

Journey	£2,000
Exit	£3,600
Overall Tax Rate	28%

- Gain £20,000
- Tax @ 20% within fund = £2,000
- Net gain £18,000
- Tax @ 20% for HRT policyholder = £3,600
- Overall net gain = £14,400

Higher Rate/Higher Rate: £250,000 (4% div, 4% gain)

	OEIC directly held				OEIC in Onshore Bond
	2022/23	2023/24	6/4/24 – 29/10/24	30/10/24 onwards	2022/25
£10,000 (Dividends)	£3,375	£3,375	£3,375	£3,375	£0
£10,000 (Gain)	£0 (£12,300 AEA)	£800 (£6,000 AEA)	£1,400 (£3,000 AEA)	£1,680 (£3,000 AEA)	£2,000
Overall Tax Rate	16.9%	20.9%	23.9%	25.2%	28%

DNR used up, AEA available, no PSA available

Journey Tax v Exit Tax

Higher Rate Exit

OEIC directly held

30/10/24 onwards

OEIC in Onshore Bond

2022/25

Journey

£3,375

£2,000

Exit

£1,680
(£3,000 AEA)

£3,600

Overall Tax
Rate

25.2%

28%

Basic Rate Exit

OEIC directly held

30/10/24 onwards

OEIC in Onshore Bond

2022/25

£3,375

£2,000

£1,260
(£3,000 AEA)

£0

23.2%

10%

DNR used up, AEA available, no PSA available



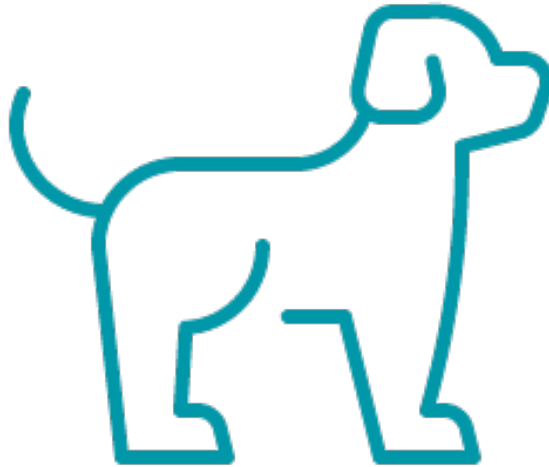
Let's go live

To wrap or not to wrap

UNWRAPPED	WRAPPED
Lower income tax rates	Higher income tax rates
Growth Bias	Income bias (especially dividends)
Smaller / Inactive portfolios (CGT)	Larger / Active Portfolios (CGT)
No gifting expected	Gifting anticipated
Savings Rates / PSA available	Access savings allowances
No tax trap issues	Avoid tax trap issues
CGT Annual Exempt Amount available	No CGT AEA available
Dividend allowance available	Dividend allowance not available
Happy with admin	Ease of admin / simplicity

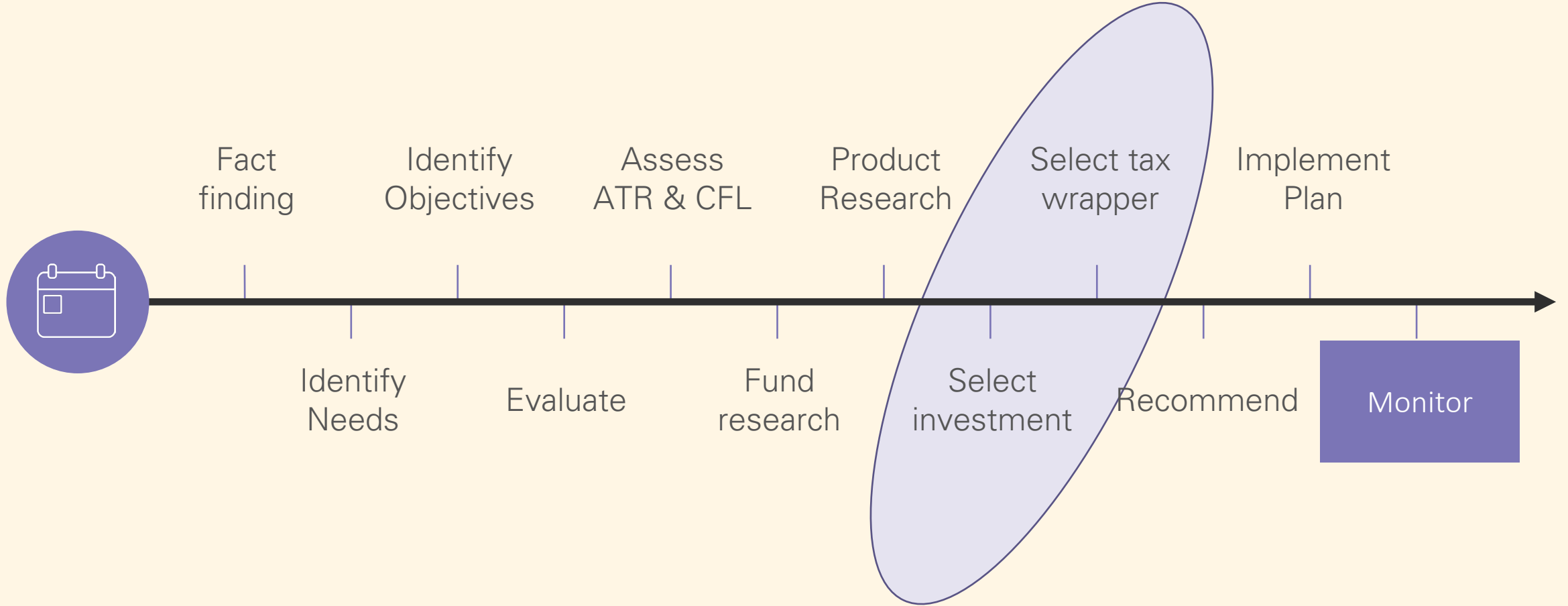
The plan

Should you let the
tax tail wag the
investment dog?

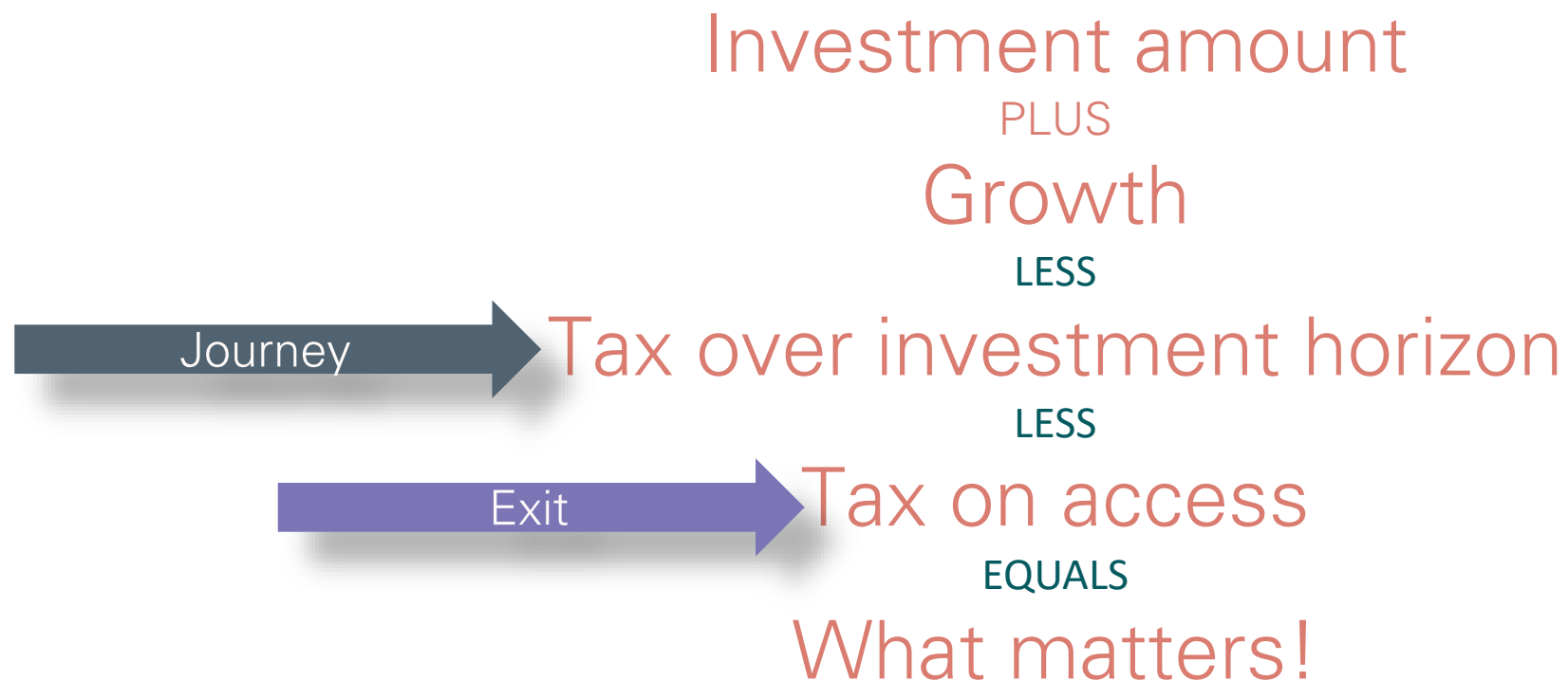


Should you let the
solution tail wag
the outcome dog?

Planning for clients



The crux



The net return at the point you need/want it.

Learning objectives - Recap

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

Explain the
taxation of
collectives,
onshore bonds
and offshore
bonds

Describe the
operation of the
upgraded Tax
Wrapper
Comparison Tool

Demonstrate how
this can be used
in planning for
your clients

QUESTION TIME





Thank you for your time

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

