



Bonds & OEICs



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Learning Objectives

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

Understand the difference in the legal and beneficial ownership position of owners, lives assured and estate/trust beneficiaries

Evaluate and determine whether to use a life assured or capital redemption basis

Identify who should be the bond owner(s), lives assured and how many segments the bond should be set up with

Evaluate whether OEICs should be held directly or wrapped in a bond



What is a bond and who can invest in one?

Description of a bond



- A tax wrapper to hold investment funds
- Non-qualifying whole of life assurance policy
- Non-qualifying capital redemption policy (offshore)
- Non-income producing investment
- Single premium (regular premium is possible)

Bond providers



Onshore (UK) bonds

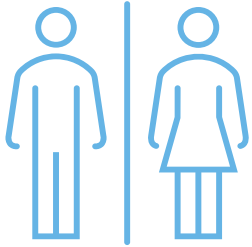
- Issued by UK based life companies
- Available to UK resident clients
- Open architecture and insured funds available
- Life assured basis only



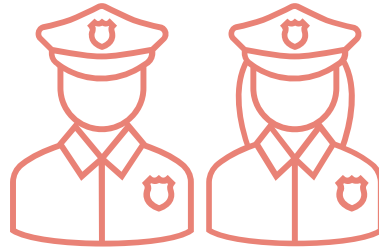
Offshore (International/Non-UK/Foreign) bonds

- Issued by life companies based in tax favoured jurisdictions
- Available to UK resident clients
- Some providers offer a compliant version for non-UK jurisdictions
- Open architecture and insured funds available
- Life assured and capital redemption basis available

Who can invest a bond?



Individuals



Trustees of non-charitable trusts



Incorporated associations

Who can't or shouldn't invest in a bond?



Unincorporated associations (e.g. clubs and societies) are not a legal entity and therefore **cannot** invest in a bond.



Charitable trusts and charitable companies **shouldn't** invest in a bond as they are not qualifying investments for charities.

Main differences between Life Assured & Capital Redemption basis



Life assured basis

- Bond ends when last life assured dies
- Sum assured payable on death
- Disregarded for long-term care cost assessment
- Available Onshore and Offshore



Capital Redemption basis

- Ends at maturity date (term of 99 years)
- Maturity benefit payable at maturity date
- Included for long-term care cost assessment
- Available on Offshore bonds only

Life Assured v Capital Redemption - what option should be chosen?

Life Assured (L/A) basis

- Bond ends when last life assured dies

Tax lead decision i.e. planning around “death” or “maturity” triggering a chargeable event

- Sum assured payable on death

Net benefit decision i.e. will this make the client or beneficiaries richer and is a “death” or “maturity” event likely?

- Disregarded for long-term care cost assessment

By-product of life assurance i.e. selecting a L/A basis over CR basis cannot be an objective (deprivation of assets rules)

- Available Onshore and Offshore

Tax & net benefit decision i.e. will onshore or offshore lead to a better net return

Capital Redemption (CR) basis

- Ends at maturity date (term of 99 years)

- Maturity benefit payable at maturity date

- Included for long-term care cost assessment

- Available on Offshore bonds



Parties to a bond - Owners & Lives Assured

Bond terminology

Policyholder

Legal owner

Life / lives
assured

Insurable
interest

At issue

Single or
Joint life

Joint tenancy

Single or
Jointly owned

Own life / life
of another

Single or joint
Applicant

Capital
Redemption

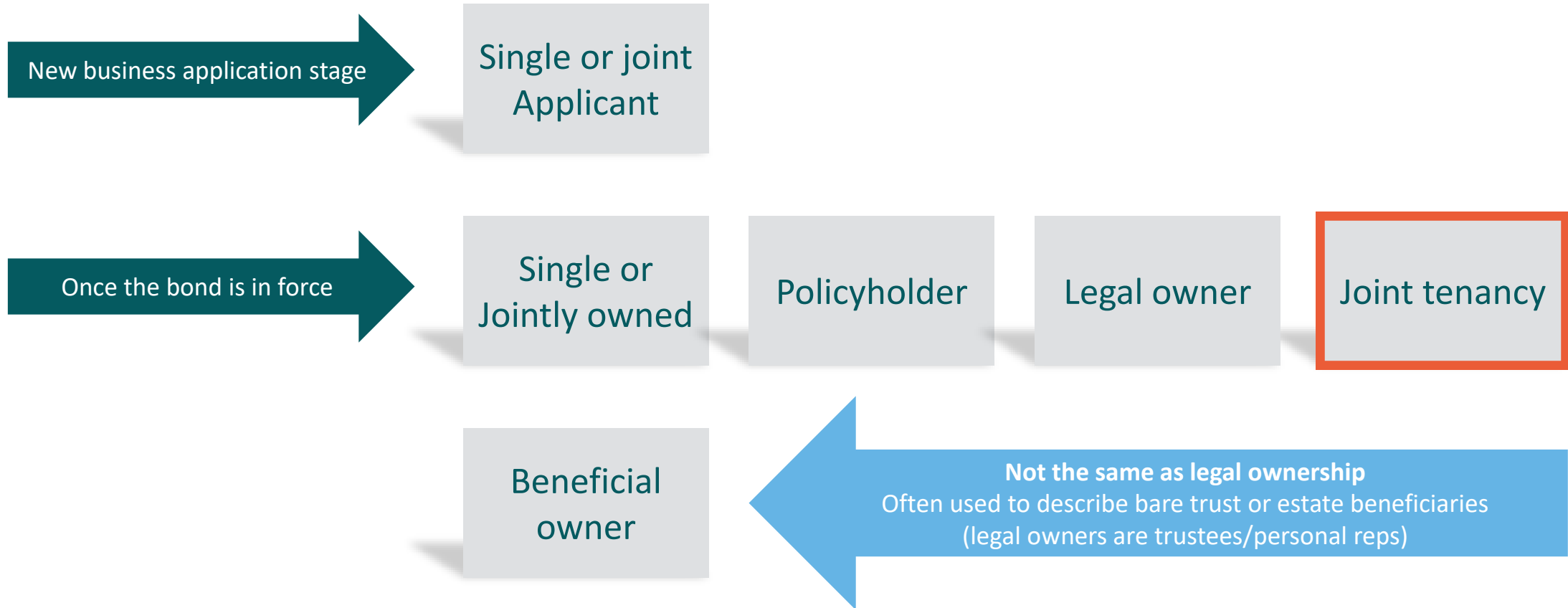
Person to be
covered

Segments /
Clusters

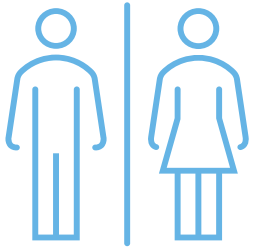
After issue

Beneficial
owner

Bond terminology – legal ownership



Bond terminology – Joint tenancy rules



Individuals

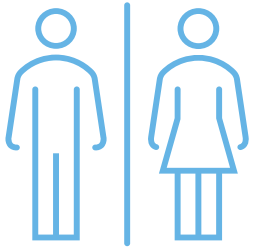
- All segments owned jointly
- On first death the survivor becomes the sole owner (survivorship rules)
- Value of deceased's owners share in their estate for IHT purposes
- Probate planning a by-product of joint tenancy (not the purpose)
- More than two individual owners is generally uncommon



Trustees

- All segments owned jointly
- It is not uncommon for there to be more than two trustees
- Ownership continues with survivor if a trustee dies
- Probate not relevant

Bond terminology – Changes in legal ownership



Individuals

- Assignment by way of Gift to other individuals
- Assignment in relation to Judicial Separation, Divorce or Dissolution
- Assignment for money or monies worth (very rare)
- Assignment into trust



Trustees

- Assignment of some or all segments to a trust beneficiary
- Assignment by trustees to another trust (not very common)

Bond terminology – Lives assured

Life / lives
assured

Own life / life
of another

Single or Joint
life

Person to be
covered

Insurable
interest

Key Point

Relevant at the new business stage

Key Point

Onshore bonds often limited to two lives assured with Offshore providers allowing more than two lives assured

Key Point

A life assured has no legal or beneficial entitlement in their capacity as life assured

Key Point

Bond will end on death of sole or last surviving life assured and trigger a chargeable event

Key Point

Changing a life assured on an existing bond would be a fundamental reconstruction and trigger a chargeable event (not normally allowed)

Bond terminology – Insurable interest

Insurable
interest

The Life Assurance Act 1774

Key Point

Insurable interest exists on the applicants own life (applies to individuals & trustees)

Key Point

Insurable interest exists on the applicant's spouse (applies to individual applicants, not applicants who are trustees)

Key Point

The sum assured on life assurance bonds is negligible (e.g. 101% of surrender value or lower)

Key Point

Due to negligible sum assured, bond providers normally don't vet insurable interest

Key Point

Life of another basis (e.g. children/grandchildren of the applicant as life assured) is a tax strategy decision

Bond terminology – not related to legal ownership or lives assured

At issue

Key Point

Relates to when setting up a new bond in conjunction with a new trust

After issue

Key Point

Relates to assigning an existing bond into trust

Capital
Redemption

Key Point

An offshore bond that has no lives assured

Segments /
Clusters

Key Point

Each segment/cluster is a separate policy and uniquely designated by appropriate sub-numbering



Setting up a bond – 3 key steps

Setting up a bond – The applicant(s)



- The name of the applicant will be the individual(s) who are investing their own money or trustees of a trust fund
- For Power of Attorney and Deputyship Orders cases the Donor (Granter in Scotland) is still the named applicant with the Attorney or Deputy signing on their behalf
- For Power of Attorney and Deputyship Order cases it should generally be on a single applicant basis
- All applicants must sign the application (this applies even if trustees/attorneys/deputies can act jointly or severally)

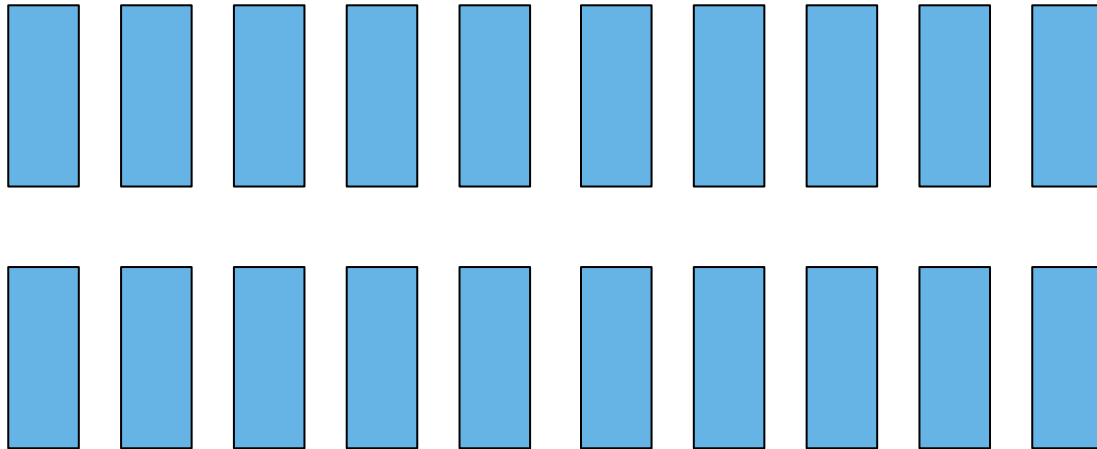
Setting up a bond – The live(s) assured



- Who you name is generally a tax lead decision
- If life of another basis you will generally select the youngest (and healthiest) family member(s)
- Assure the client(s) that not naming a trust or estate beneficiary as a life assured has no relevance to them benefitting – it's the trust or their will that dictates that!

Bond segmentation

Bond – 20 segments



Key Point

The highest number of segments possible is better from a chargeable event planning perspective

Key Point

Trust & Estate planning – ensure the number of segments is in line with intended distribution to beneficiaries e.g. if there are three beneficiaries with an equal share, ensure the number of segments is divisible by three

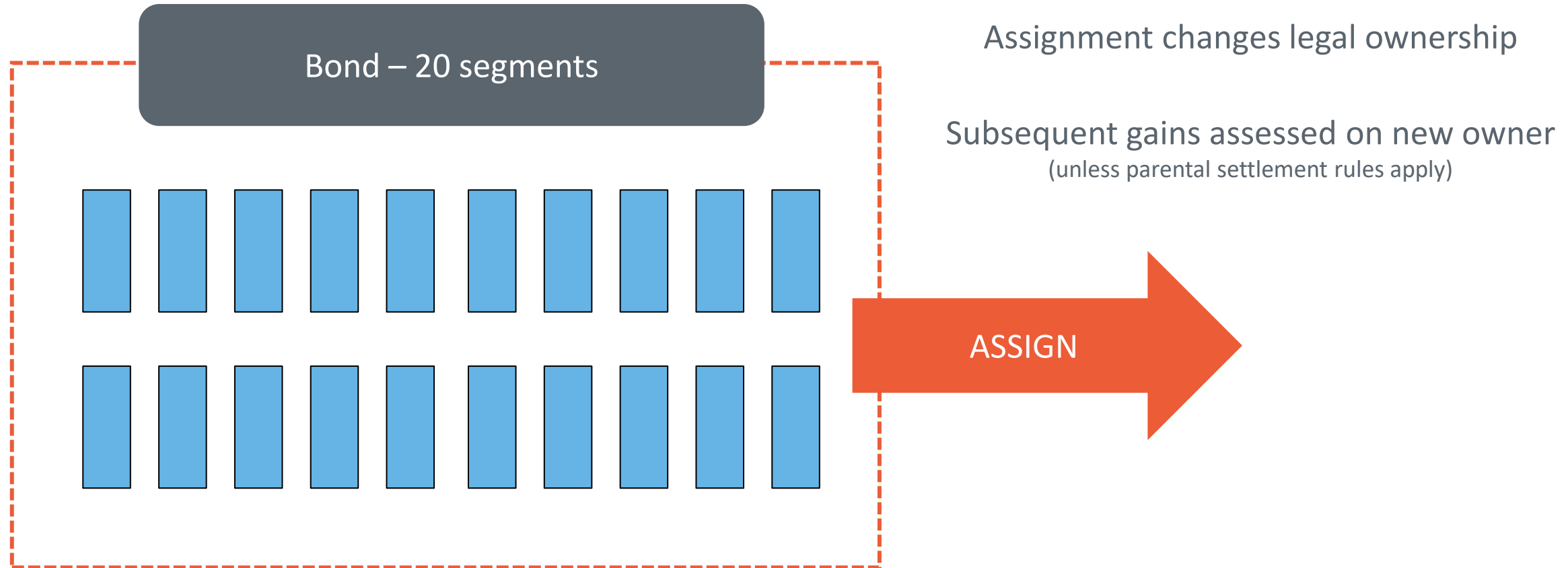
Key Point

Each segment is a uniquely identifiable policy and can be surrendered or assigned to another individual or into trust

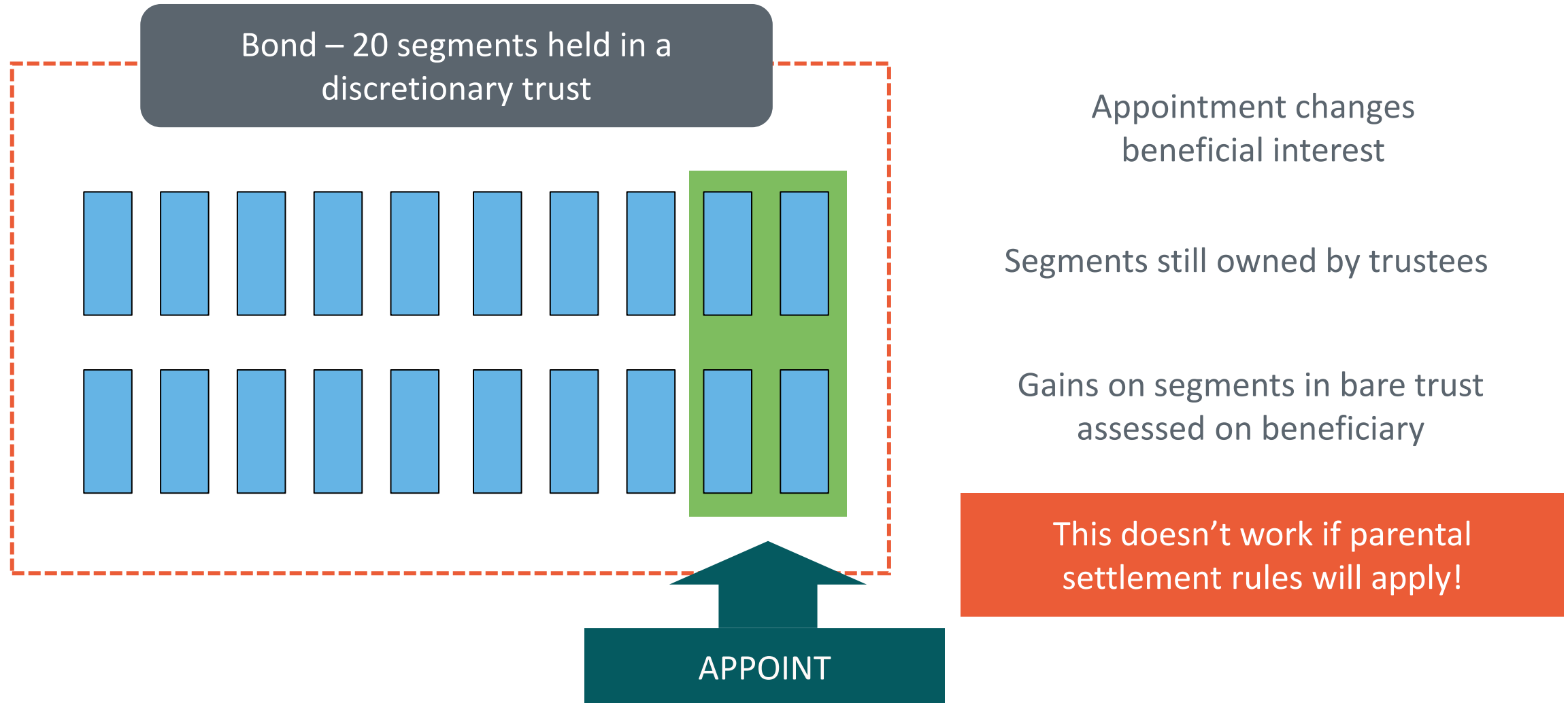
Key Point

Each segment is also uniquely identifiable for tax purposes

Setting up a Bond – Assignment of segment



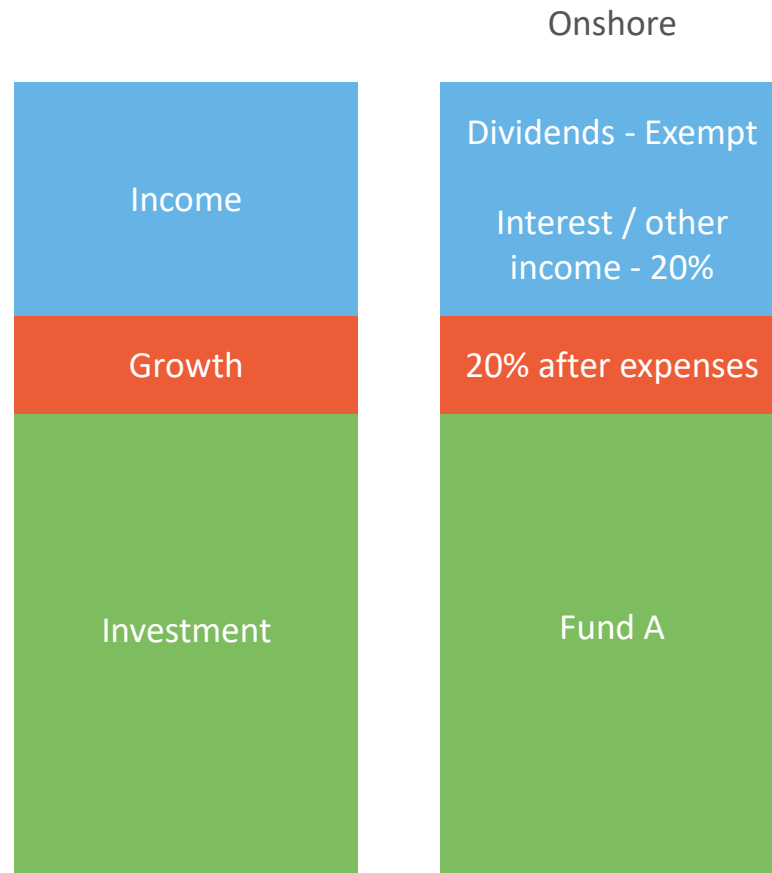
Setting up a Bond – Appointment of segments



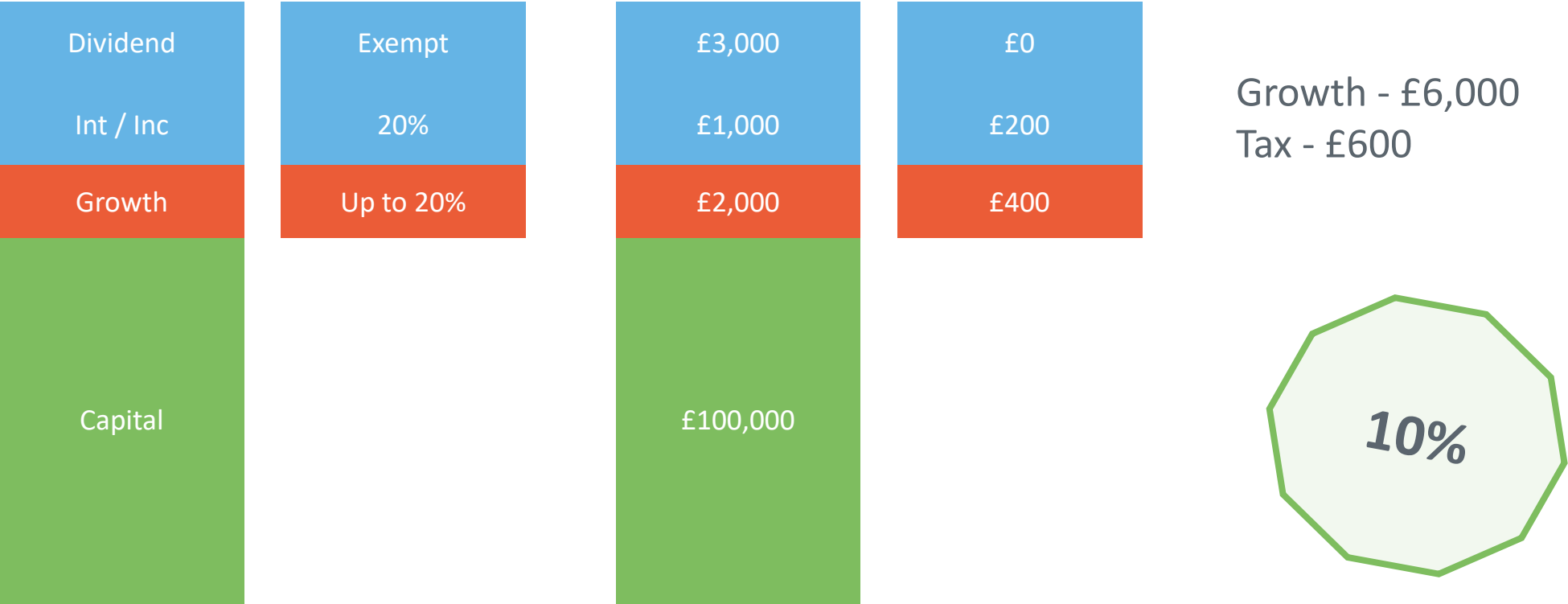


OEICs – directly held or bond wrapped?

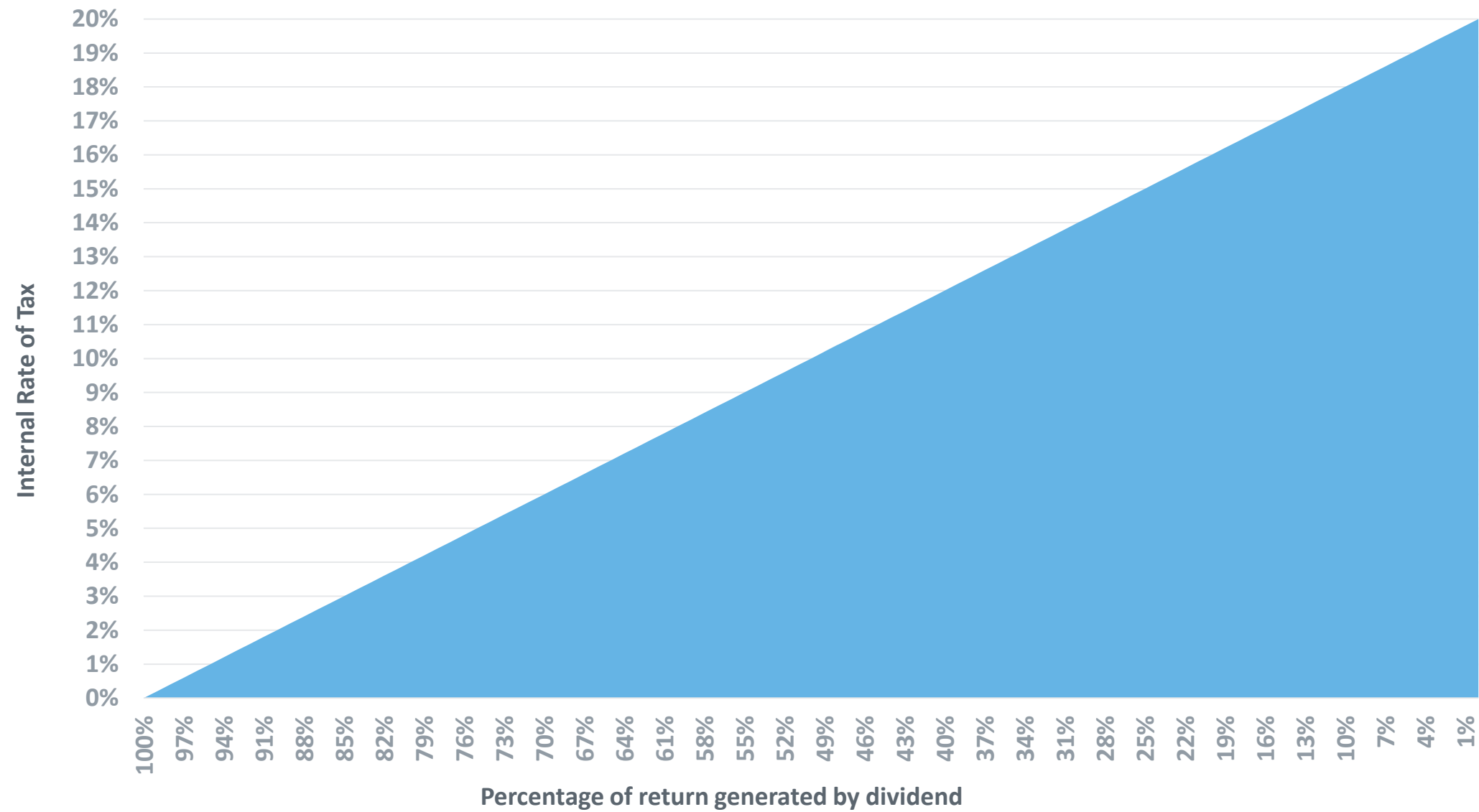
Internal Bond Taxation



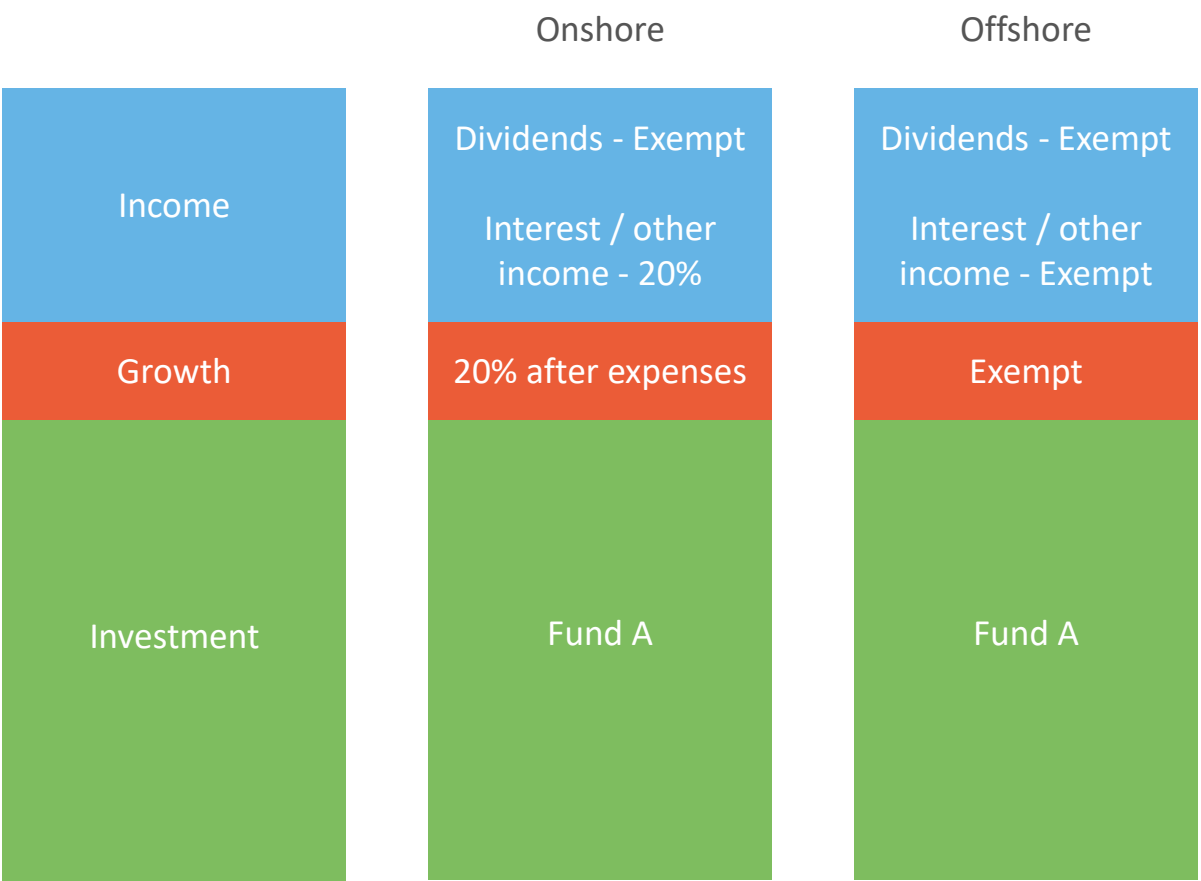
Internal Bond Taxation – Onshore Bond



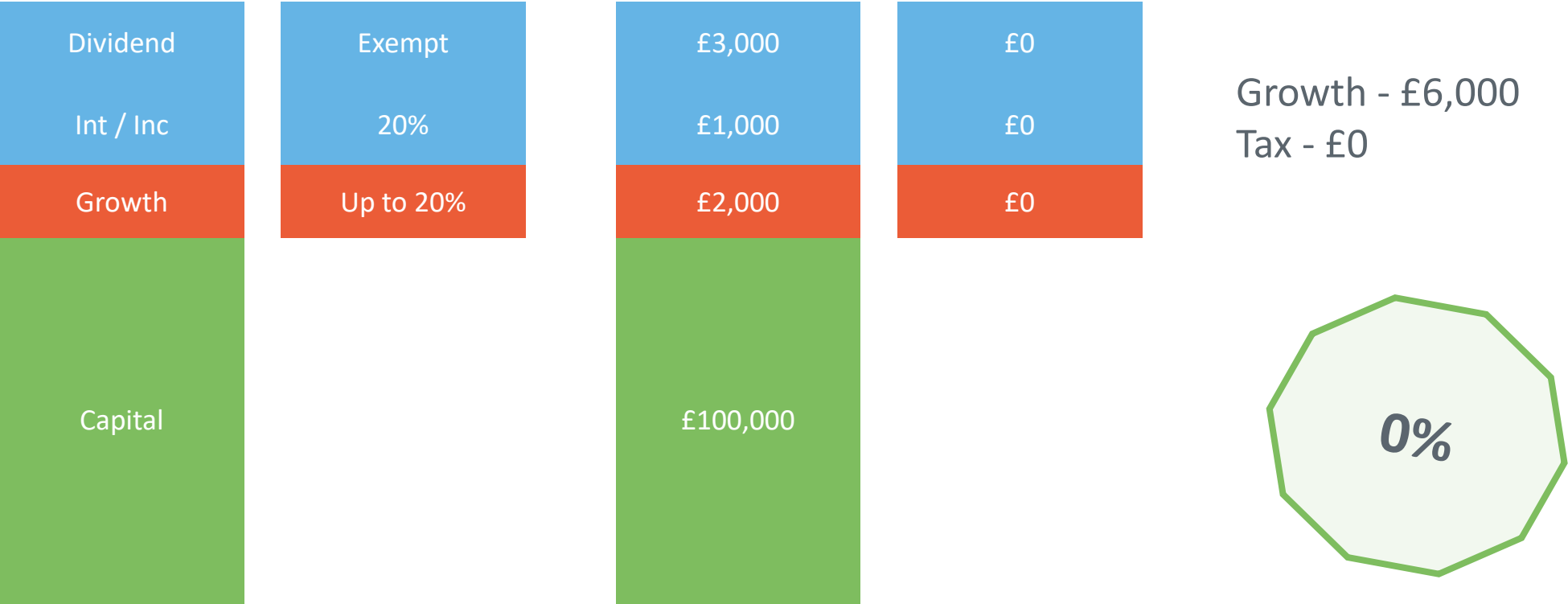
Onshore Internal Tax Rate (by dividend component)



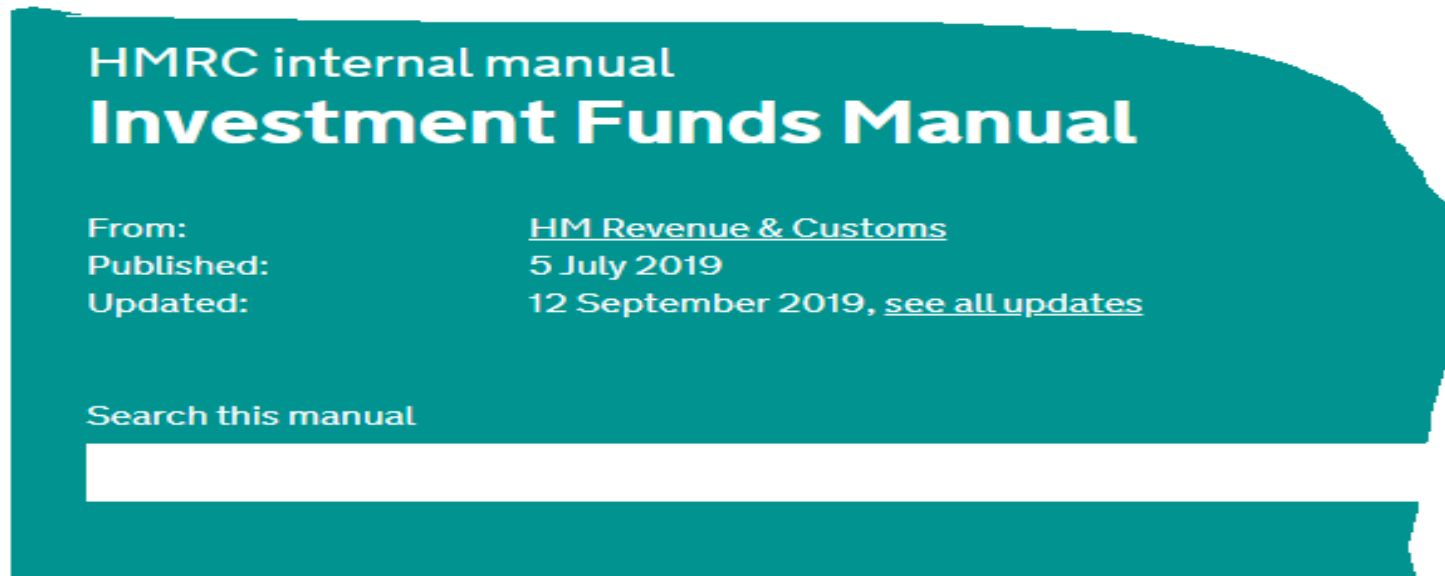
Internal Bond Taxation



Internal Bond Taxation – Offshore Bond



OEIC tax while invested - income always turned on for tax purposes



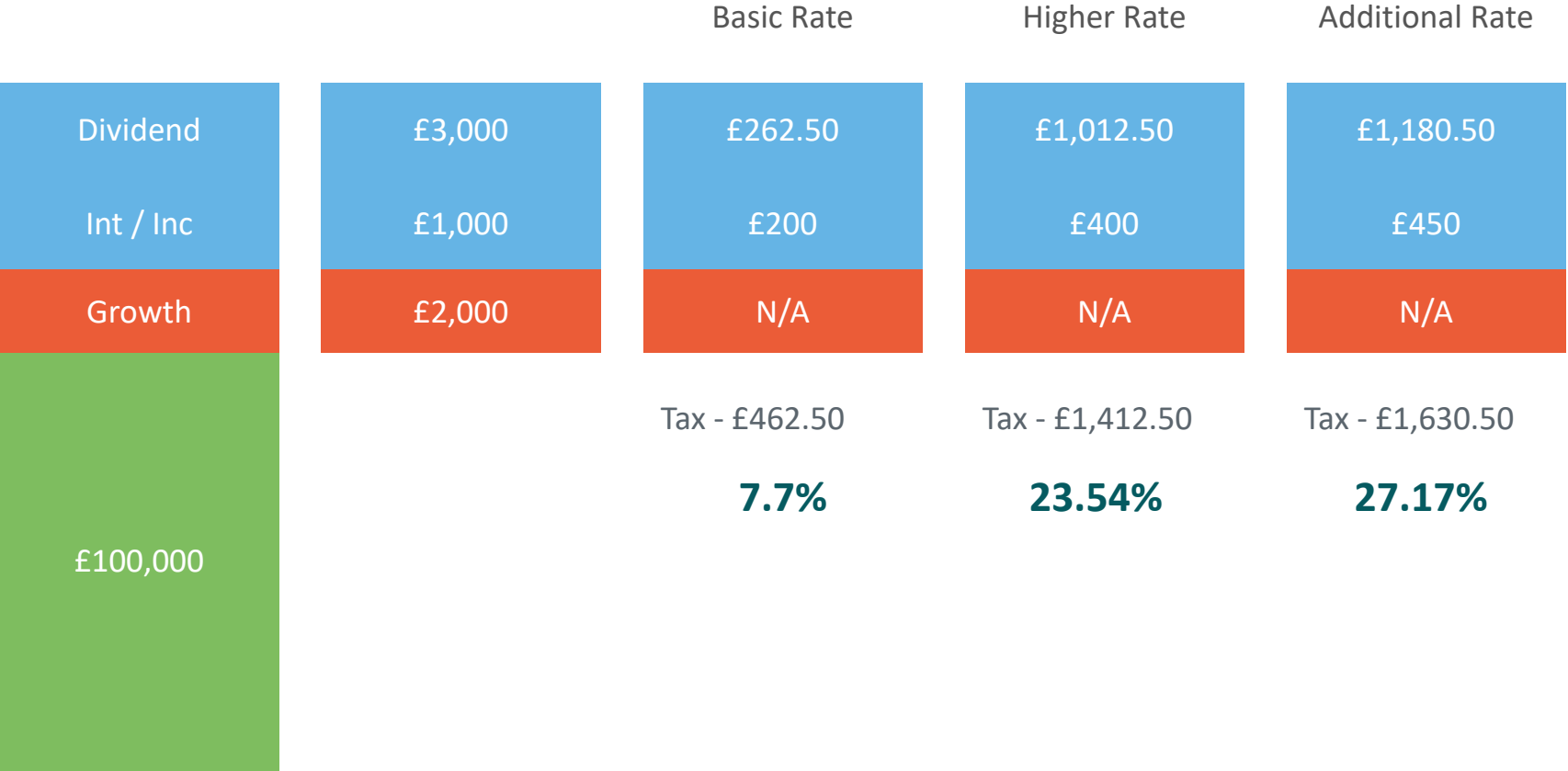
[Contents](#) > [IFM02000](#) > [IFM02200](#) > IFM02220

Authorised investment funds (AIFs): distributions and unit classes

Distribution

In each distribution period an AIF must distribute the total amount available for distribution shown in the accounts as available for distribution to investors in proportion with their rights. For this purpose a distribution includes an amount credited to the capital part of the scheme property of an AIF on behalf of an investor who holds accumulation units (see regulation 15 of SI2006/964).

Unwrapped personal tax while invested



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

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 – 5/4/25 | 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

The “exit”



Employment income

Gain Disposal Zone

Fixed pension income

Who will be liable?

What will their income
position be?

Journey Tax v Exit Tax

| | Higher Rate Exit | | Basic Rate Exit | |
|------------------|------------------------|----------------------|------------------------|----------------------|
| | OEIC directly held | OEIC in Onshore Bond | OEIC directly held | OEIC in Onshore Bond |
| | 30/10/24 onwards | 2022/25 | 30/10/24 onwards | 2022/25 |
| Journey | £3,375 | £2,000 | £3,375 | £2,000 |
| Exit | £1,680 (£3,000 AEA) | £3,600 | £1,260 (£3,000 AEA) | £0 |
| Overall Tax Rate | 25.2% | 28% | 23.2% | 10% |

DNR used up, AEA available, no PSA available

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2024/25

Invested Amount

£500,000.00

Year of encashment (5 to 10 only)

10

Use annual exempt amount?

Yes

Reset

Existing income

Non Savings Non Dividend

£60,000

Savings

£0

Dividend

£0

Increase assumption per annum

0.00%

0.00%

0.00%

| Taxation over Term | | | |
|--------------------|-------------|----------|----------|
| | Collectives | Onshore | Offshore |
| Savings Income | | | |
| Amount | £199,462 | £202,731 | £214,532 |
| Tax | £73,831 | £40,546 | £0 |
| Dividend Income | | | |
| Amount | £132,975 | £135,154 | £143,021 |
| Tax | £43,192 | £0 | £0 |
| Capital Gain | | | |
| Amount | £30,000 | £202,731 | £214,532 |
| Tax | N/A | £40,546 | £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.

Investment Yields

Savings income

3.00%

Dividend Return

2.00%

Capital Gain

3.00%

Additional Cost for Bond Wrapper

0.25%

Onshore Bond Internal Tax Rate

15.00%

Expected Income year of encashment

Non Savings Non Dividend

£30,000

Savings

£0

Dividend

£0

| Encashment Values | | | |
|-------------------|-------------|----------|------------|
| | Collectives | Onshore | Offshore |
| Surrender Value | £914,796 | £941,481 | £1,052,778 |
| Gain (Cumulative) | £172,462 | £441,481 | £552,778 |
| Slice | N/A | £44,148 | £55,278 |
| Tax payable | £40,671 | £49,270 | £182,085 |
| Net return | £874,125 | £892,211 | £870,693 |

| 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 | £0 | £20,270 | £20,270 |
| Higher Rate | N/A | £87,440 | £87,440 |
| CGT Allowance | £3,000 | N/A | N/A |

Tax Wrapper Comparison Tool

built by M&G

Tax Year 2024/25

Planning Assumptions

| | |
|---------------------------------------|----------------------------|
| Invested Amount | £500,000.00 |
| 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? | No |

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 | | | 2.00% |
| Income in year of encashment | | | |
| Non Savings Non Dividend | £30,000 | | |
| Savings | £0 | | |
| Dividend | £0 | | |

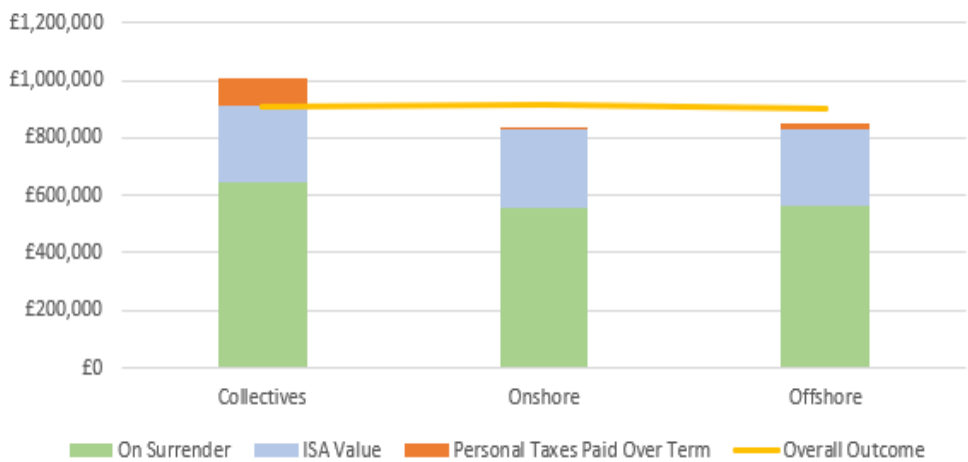
Investment Assumptions

| | | |
|--------------------|-------|---------|
| Savings Income | 3.00% | Onshore |
| Dividend Return | 2.00% | Bond |
| Capital Gain | 3.00% | 15.00% |
| Extra Wrapper Cost | 0.25% | |
| RESET | | |

Projected Values

| | Collectives | Onshore | Offshore |
|-------------------------------|-------------|----------|----------|
| End of term values | | | |
| Surrender | £674,866 | £566,019 | £653,713 |
| Gain | £139,825 | £291,019 | £378,713 |
| Taxation | | | |
| Internal Taxation | £0 | £61,721 | £0 |
| Income Tax over term | £95,087 | £3,314 | £19,364 |
| CGT Over Term | £0 | £0 | £0 |
| Tax on Surrender | £32,838 | £6,401 | £92,900 |
| Net Proceeds | | | |
| On Surrender | £642,028 | £559,617 | £560,813 |
| ISA Value | £269,731 | £269,731 | £269,731 |
| Gross Withdrawals | £90,000 | £90,000 | £90,000 |
| Personal Taxes Paid Over Term | £95,087 | £3,314 | £19,364 |
| Overall Outcome | £906,672 | £916,034 | £901,181 |

End of Term Position



The “gain disposal zone” (no taxable income)

Collectives

BEFORE NEW CONTRIBUTIONS

| | | |
|----------------------------|-----------------|---|
| "Total Income" | £500,000 | ▼ |
| Adjusted Net Income | £0 | ▼ |
| Personal Allowance | £12,570 | |
| Personal Savings Allowance | £0 | |
| Child Benefit Charge | £0 | |
| Capital Gains Tax | £117,738 | |
| Tax Liability | £117,738 | |
| Bond Gains Summary | | |
| Tax on gains | £0 | |
| Onshore Tax Credit | £0 | |
| Top slicing relief | £0 | |
| Liability | £0 | |
| "Bank Balance" | £382,262 | ▼ |

Onshore

BEFORE NEW CONTRIBUTIONS

| | | |
|----------------------------|-----------------|---|
| "Total Income" | £500,000 | ▼ |
| Adjusted Net Income | £500,000 | ▼ |
| Personal Allowance | £0 | |
| Personal Savings Allowance | £0 | |
| Child Benefit Charge | £0 | |
| Capital Gains Tax | £0 | |
| Tax Liability | £0 | |
| Bond Gains Summary | | |
| Tax on gains | £210,203 | |
| Onshore Tax Credit | £100,000 | |
| Top slicing relief | £110,203 | |
| Liability | £0 | |
| "Bank Balance" | £500,000 | ▼ |

Offshore

BEFORE NEW CONTRIBUTIONS

| | | |
|----------------------------|-----------------|---|
| "Total Income" | £500,000 | ▼ |
| Adjusted Net Income | £500,000 | ▼ |
| Personal Allowance | £0 | |
| Personal Savings Allowance | £0 | |
| Child Benefit Charge | £0 | |
| Capital Gains Tax | £0 | |
| Tax Liability | £100,000 | |
| Bond Gains Summary | | |
| Tax on gains | £210,203 | |
| Onshore Tax Credit | £0 | |
| Top slicing relief | £110,203 | |
| Liability | £100,000 | |
| "Bank Balance" | £400,000 | ▼ |

£500,000 gain, no taxable income, accrued over 10 yrs

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

Helping a client achieve their “rich life” is not always based on the highest net return

Non tax benefits of bonds?

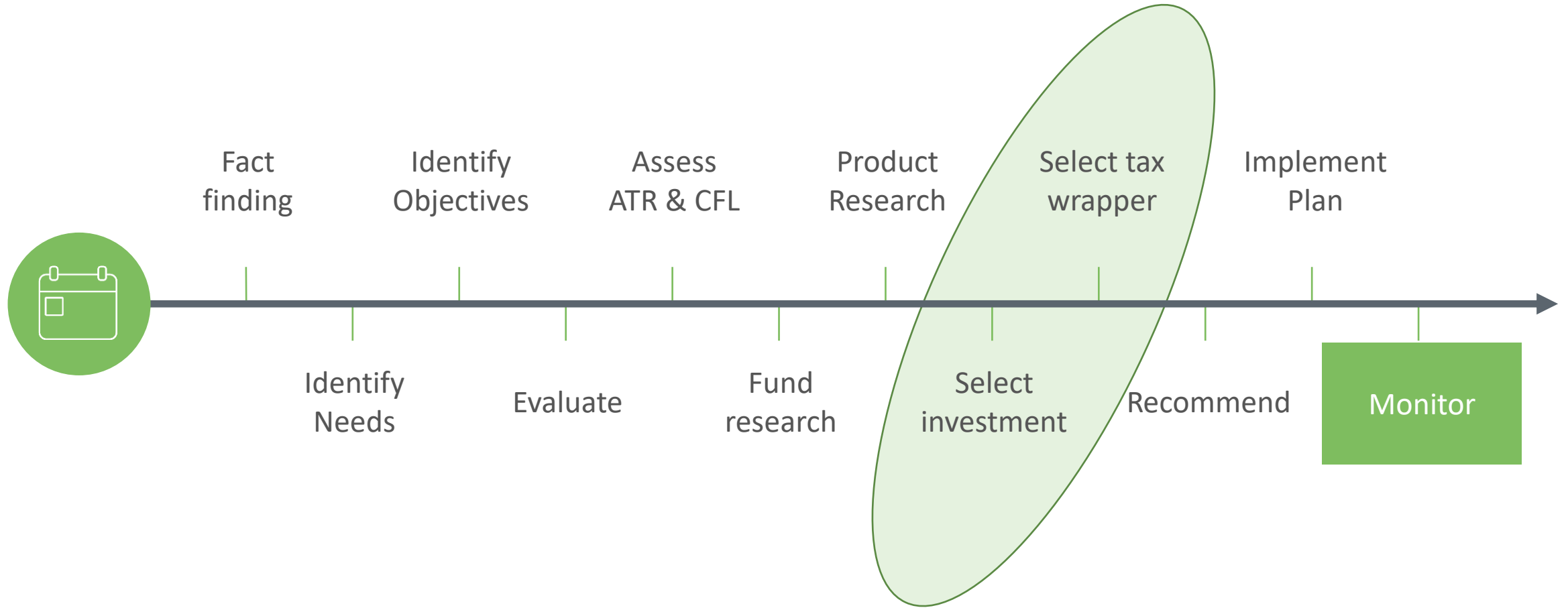


Simplicity
Tax Admin

Simplicity
Gifting

“Unique”
Funds

Planning for clients



Learning Objectives recap

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

Understand the difference in the legal and beneficial ownership position of owners, lives assured and estate/trust beneficiaries

Evaluate and determine whether to use a life assured or capital redemption basis

Identify who should be the bond owner(s), lives assured and how many segments the bond should be set up with

Evaluate whether OEICs should be held directly or wrapped in a bond



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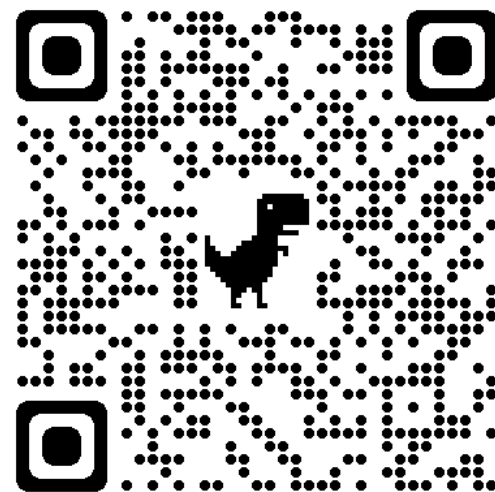
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