



For paraplanners and financial advisers only

Navigating recent tax changes: advising on tax wrappers and trust solutions

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April 2026

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Learning objectives

1. Compare the tax treatment of a GIA with open architecture offshore and onshore bonds.
2. Compare when a GIA, an onshore bond or an offshore bond might be more appropriate for individual investors and trustees following the 2025 Autumn Budget.
3. Consider trust planning solutions following the proposed extension of IHT to unused pensions.

Income tax and capital gains tax announcements – Autumn Budget 2025

Freezing of personal allowance and UK income tax thresholds until 5 April 2031.

- **Dividend income tax rates** increase of 2% from 6 April 2026 to:
- Ordinary – 10.75% (previously 8.75%)
 - Upper – 35.75% (previously 33.75%)
 - Additional – remains at 39.35%

Dividend tax free allowance still £500.

- **Savings rate of income tax** increase of 2% from 6 April 2027 to:
- Basic – 22%
 - Higher – 42%
 - Additional – 47%

£5,000 limit for zero percent savings rate and personal savings allowances of £1,000 and £500 remain.

- **CGT** annual exemption still £3,000 and the rates still 18% / 24%.

- **Planning opportunities**
Revisit wrapper choices to assess impact and continued suitability.

Make use of both spouses' allowances and exemptions.

Use of pensions and ISAs as dividends still exempt.

Tax wrapper choices for individuals



Pension

- Tax relief on premiums.
- Virtual gross roll up.
- Tax free cash.
- Income tax on withdrawals.



Flexible ISA

- No tax relief on contributions.
- Virtual gross roll up.
- Tax free withdrawals.



GIA

- No tax relief on contributions.
- Income taxed in year of receipt, even if reinvested.
- CGT on realised gains.
- Use of tax allowances and exemptions.



Offshore/onshore bond

- No tax relief on contributions.
- Virtual gross roll up offshore/tax paid by life company onshore (but tax credit).
- 5% tax deferred allowance
- Control of tax point – income tax on a chargeable gain.
- Use of assignments.

Other planning opportunities

Some may focus more on IHT planning and intergenerational wealth transfers in the future.

Others may want to fund junior products, such as JISAs and/or Junior SIPP. Investing in a VCT or an EIS could be another option.



ISAs

From 6 April 2027:

- Under 65s – cash ISA limit will be £12,000 with remainder of ISA allowance to be invested in stocks and shares.
- 65 and over – full £20,000 can be paid into cash ISA.

Awaiting legislation for detail, but HMRC has announced for under 65s:







- No transfers from stocks and shares to cash ISAs.
- Tax charge on any interest paid on cash in stocks and shares ISA.
- Tests on investments in stocks and shares ISA to see if 'cash like'.

What to consider – wrapper choices

- Time horizon
- Investment returns – growth, dividends, interest
- Active investment management
- Availability of tax allowances/marginal rate of tax – ongoing and on cashing in/taking withdrawals
- Simplicity of administration
- Cost of advice and product charges
- Exit strategy – IHT planning, moving overseas, lower tax rate in retirement, top slicing relief, use of assignments



Investment bonds – the drivers

-  **2% increase in ordinary and upper dividend income tax rates** from 6 April 2026 – dividends not generally subject to tax within offshore/onshore bond wrapper.
-  **Dividend tax free allowance reduced** from £2,000 (2022/23) to £500 (from 2024/25 onwards).
-  **CGT annual exemption decreased** from £12,300 (2022/23) to £3,000 (from 2024/25 onwards).
-  **CGT rates increased** from 10% to 18% for basic rate taxpayers and 20% to 24% for higher rate taxpayers for disposals after 29 October 2024.
-  **Income tax thresholds frozen** until April 2031.
-  **Extension of IHT to unused pensions** from 6 April 2027.

Who may want to use an investment bond?

Clients who:

- Have maximised use of tax allowances.
- Want control of the tax point.
- Don't want to be constrained by CGT annual exemption.
- Want to do IHT planning in the future.
- Are an additional/higher rate taxpayer now, but basic or non-taxpayer in retirement.
- May want to move overseas in the future.
- Have maximised their pension funding.
- Want to avoid loss of personal allowance.
- Want to protect tax-free child benefit.



Internal taxation of collectives, onshore and offshore bonds

	Onshore bond	Offshore bond	Collectives
Dividends	No tax payable	No tax payable	No tax payable
Other income ²	20% (rising to 22%)	No tax payable	20% (rising to 22%)
Capital gains	20% (rising to 22%)	No tax payable	No tax payable

¹ Individual policyholders receive a 20% notional tax credit (rising to 22% from 6 April 2027).

² May be some irrecoverable withholding tax on foreign dividends and other foreign income.

Why consider an investment bond?

- Income tax deferral – non income producing
- No personal tax liability on switches
- Self-assessment friendly
- Tax deferred withdrawals
- Potential for top slicing relief
- Assignments of segment(s) / bond
- Inter-generational planning/trusts
- Time apportionment relief
- Gross roll-up offshore bond
- Cash in segments
- Multi lives assured or capital redemption
- Due to current lower dividend allowance and CGT exemption



Investing for growth



John is a higher rate taxpayer and Sarah is a basic rate taxpayer.



They want to invest £50,000 each in accumulation units, with the objective of maximising capital growth to allow them to pay off their remaining mortgage on retiring.



They have both used their allowances and exemptions elsewhere.

What would be the total potential net proceeds after 10 years?

Illustrative example – equity for growth

	Offshore bond basic rate	Offshore bond higher rate	Collective basic rate	Collective higher rate	Onshore bond basic rate	Onshore bond higher rate
Initial Investment	50,000	50,000	50,000	50,000	50,000	50,000
Growth after 10 years	31,444	31,444	31,444	31,444	24,928	24,928
Income (interest/dividends reinvested)	12,578	12,578	12,578	12,578	12,082	12,082
Taxable gain	31,444	31,444	18,866	18,866	24,928	24,928
Tax on gain	6,917	13,206	3,395	4,527	5,484	10,469
Tax on income	N/A	N/A	2,049	4,879	N/A	N/A
Net proceeds	74,527	68,238	76,000	72,038	74,928	69,943

Assumptions on comparing same investment wrapped versus unwrapped.

- Yield of 5% = 3% capital growth, 1% interest and 1% dividend yield (both of which are reinvested). Capital gains within the onshore bond taxed at 20% in 2026, then 22% from 2027. Chargeable event gain onshore and offshore doesn't straddle tax brackets. Investor can offset the notional 22% tax credit against tax on the gain on the onshore bond.
- Allowances and exemptions used fully elsewhere.
- The collective investor pays the tax on the reinvested income from other assets.
- Ignores charges.

Investing for growth

Summary

Basic rate taxpayers

CGT treatment on collectives can be beneficial, especially if CGT annual exemption available.

18% rate of CGT versus 20% (rising to 22%) income tax.

Higher rate taxpayers

CGT treatment on collective again can be beneficial, especially if CGT annual exemption available.

24% rate of CGT versus 40% (rising to 42%) income tax.

Other considerations

If very active investor may want to use multi-asset/multi-manager funds or use an investment bond.

Investing for income



Jill is a higher rate taxpayer and Jack is a basic rate taxpayer.



They are both in their early 60s and each have £50,000 tax free cash to invest to generate an income of £2,000 each year for 10 years.



They have both used their allowances and exemptions elsewhere.

What would be the potential after tax proceeds they'd receive?



Illustrative example – investing for income

	Offshore bond basic rate	Offshore bond higher rate	Collective basic rate	Collective higher rate	Onshore bond basic rate	Onshore bond higher rate
Initial Investment	50,000	50,000	50,000	50,000	50,000	50,000
Growth after 10 years	5,258	5,258	5,258	5,258	4,023	4,023
Income (interest/dividends)	21,031	21,031	21,031	21,031	19,457	19,457
Taxable gain	26,289	26,289	5,258	5,258	23,480	23,480
Personal tax on gain	5,783	11,041	946	1,261	5,165	9,861
Personal tax on income	0	0	2,842	7,837	0	0
Net proceeds (including total income of £20,000)	70,506	65,248	72,501	67,191	73,480	68,784

Assumptions on comparing same investment wrapped versus unwrapped.

- Yield of 5% = 1% capital growth and 4% income yield (1% interest and 3% dividends). Capital gains within the onshore bond taxed at 20%/22%. Chargeable event gain onshore and offshore doesn't straddle tax brackets. Investor can offset the notional 22% tax credit against tax on the gain on the onshore bond..
- Withdrawing £2,000 each year.
- Allowances and exemptions used fully elsewhere.
- Ignores charges.

Investing for income

Summary

Onshore bond

No income tax on dividend income within wrapper, but policyholder gets 20% (rising to 22%) tax credit.

UK onshore bond could be beneficial for basic, higher and additional rate taxpayers, for higher levels of dividend yields.

Assignment by way of gift to a non-taxpayer – example

- Jim received an inheritance of £150,000.
- 5 years ago - invested it in an offshore bond.
- Higher rate taxpayer.
- Current bond surrender value = £155,650.
- Previous withdrawals, within the 5% tax deferred allowance, = £12,920.
- Potential chargeable gain = £18,570.
- Cash in liability = £7,428 (18,570 x 40%).

Jim decides to assign it to his non-taxpaying spouse for her to cash in.

For a non-taxpayer	<ul style="list-style-type: none">• £12,570 – personal allowance.• £5,000 – zero percent savings rate.• £1,000 – personal savings allowance means no tax to pay on the chargeable event gain.
What's savings income?	Interest, income from purchased life annuities, chargeable event gains.



If the bond had been onshore, the 20% (rising to 22%) notional tax credit couldn't be reclaimed. This means tax would be paid inside the wrapper, with no benefit compared to the virtual gross roll-up available in an offshore bond.

Investor protection



Onshore bond

- Financial services compensation scheme.
- Covers 100% of the life company's liability to the bondholder.



Offshore bond – Isle of Man

- Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991.
- Covers 90% of offshore bond provider's liability to the bondholder.



Offshore bond - Dublin

- No formal insurance policyholder compensation scheme but a robust regulatory framework exists.

Very general guidelines – offshore v onshore

Offshore bond



Clients who intend to move overseas in the future (with an onshore bond there would be no relief for the tax within the wrapper).



High net worth clients.



For clients who want to have wider investment choice.



Non-taxpayers to use personal allowance, personal savings allowance and zero percent savings rate.



Discretionary or flexible trusts where tax status of beneficiaries is not clear.

Onshore bond



UK resident basic rate taxpayers investing for income and likely to be taxpayers when they cash in segments/the bond, so can use 20% (rising to 22%) tax credit.



Why hold a GIA within an offshore bond wrapper?

- Means same investments can be held in client's pension, ISA, offshore bond.
- Provides access to wide range of funds and discretionary fund managers (as permitted under terms and conditions/under personal portfolio bond legislation).
- Allows access to centralised investment proposition.
- Online trading.
- Usual agreed platform fees.

Inheritance tax planning and trusts



Numbers likely to be affected by extension of IHT to pensions¹



10,500 new estates not previously affected.



38,500 estates paying more.



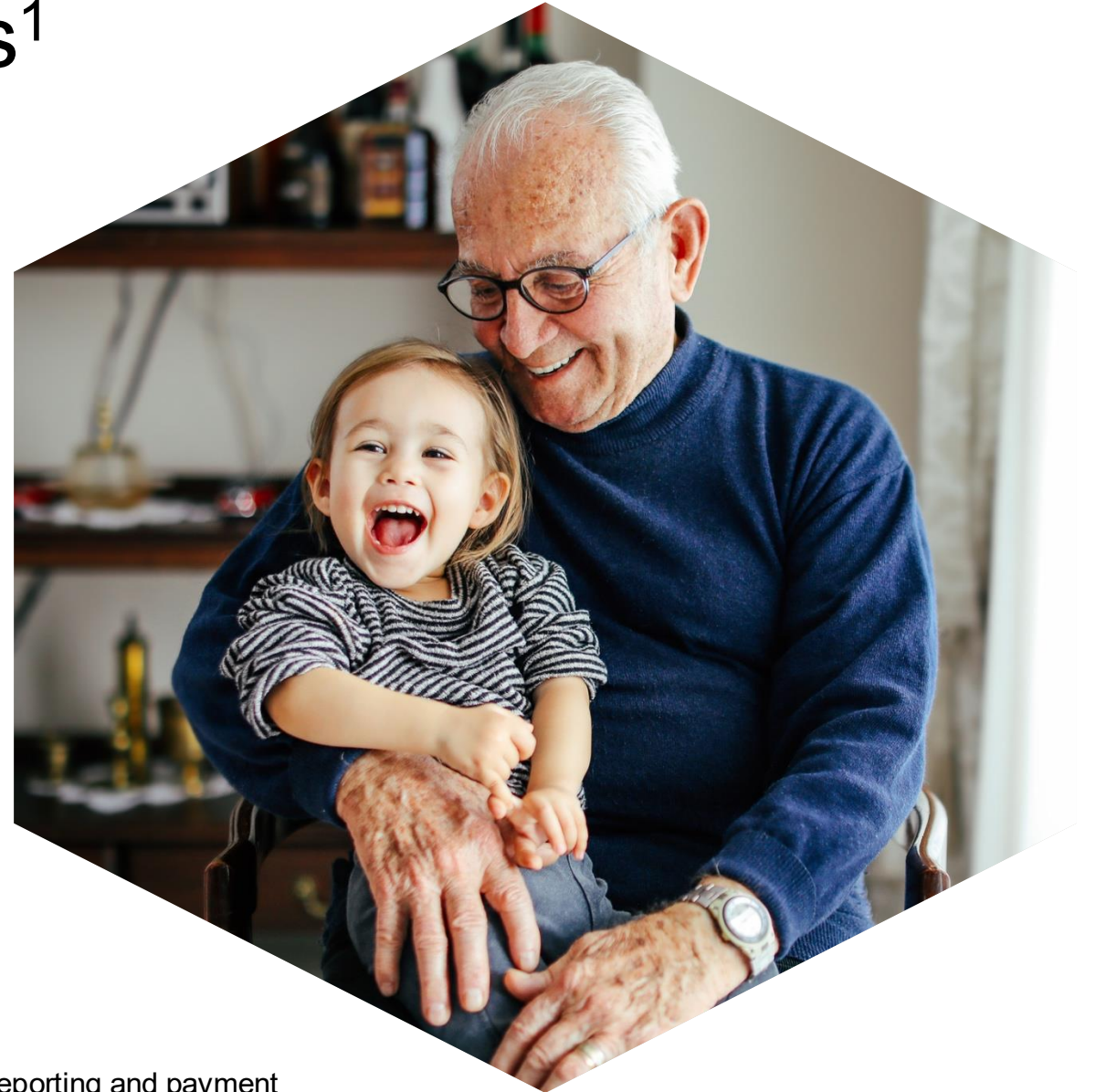
Average **£169,000** IHT liability currently.



Average increasing by **£34,000** when pensions included.



Figures don't factor in behavioural changes.



¹ Source: HMRC Technical Consultation – Inheritance Tax on pension liability, reporting and payment

'Off the shelf' trusts



General rule – greater the access for the person creating the trust, the less IHT efficient.

Increasing access
and flexibility for
Settlor(s)



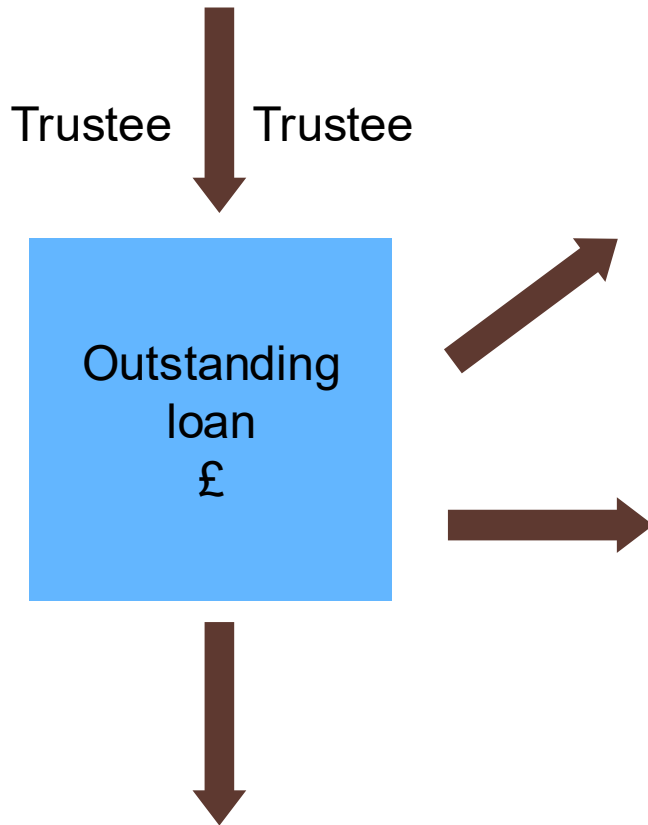
Gift trust (bare or discretionary)
Discounted gift trust
Flexible reversionary trust
Gift and loan (or loan trust)
Probate trust



Increasing IHT mitigation

Trust solutions – Loan trust (Bare or Discretionary)

Settlor makes loan to trustees.
Interest free – repayable on demand.



IHT position for the settlor

- Outstanding loan remains part of settlor's estate.
- Deed of gift.
- Spend repayments.
- Growth outside the settlor's estate from day one.
- No PET (Bare Trust) or CLT (Discretionary Trust) as trust created with a loan.

Ongoing IHT treatment of trust

- Bare Trust - No immediate or ongoing IHT charge.
- Discretionary Trust - Potential 10-year and exit charges, if trust fund value exceeds nil rate band.

If Bare Loan Trust – beneficiaries fixed at outset.

If Discretionary Loan Trust – class of potential beneficiaries.

Loan trust

Benefits

- Settlor keeps access to loan capital and regular / ad hoc loan repayments.
- IHT liability capped – growth outside IHT estate from start.
- No PET / CLT – so could be suitable for older clients, those in poor health or those who don't want to make a gift.

Drawbacks

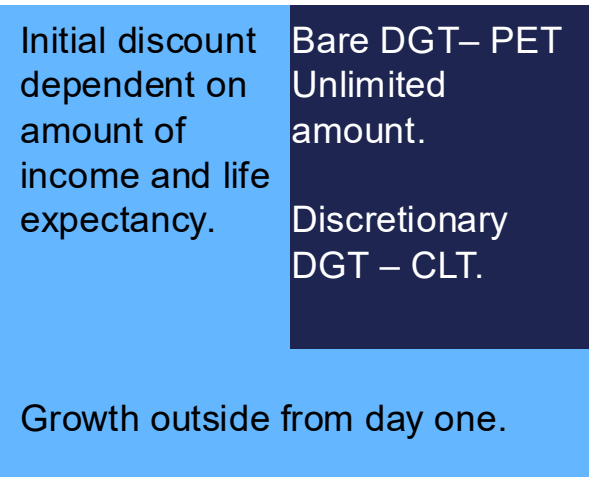
- Outstanding loan remains within the IHT estate reducing as repayments taken and spent.
- If discretionary trust, then 10 year and exit charges.



Trust solutions – Discounted Gift trust (Bare or Discretionary)

Settlor(s) is underwritten to establish mortality.
 Makes gift to trustees and selects regular income level.

Trustee ↓ Trustee



Regular fixed income for life (or until the trust fund is exhausted, if earlier.) ←

Ongoing IHT treatment of trust
 Bare DGT – No ongoing charge to IHT.
 Discretionary DGT – 10-year charge and exit charges.

↓
 Bare DGT – beneficiaries fixed at outset.
 Discretionary DGT – class of potential beneficiaries.
 Beneficiaries can't benefit until after settlor's death.

- Inside estate for 7 years
- Outside estate

Discounted Gift trust

Benefits

- Underwritten discount immediately outside estate.
- Growth outside the estate from the start.
- Continued access to regular fixed repayment stream.
- Gift falls outside the settlor's estate after 7 years.

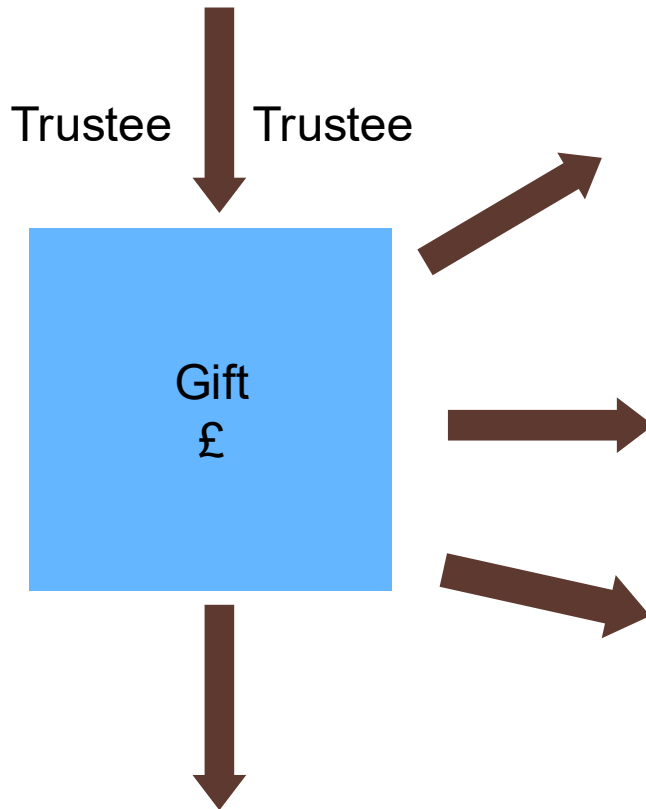
Drawbacks

- Payment stream is fixed at outset and can't be changed later.
- No ad hoc access to capital.
- Beneficiaries can't benefit until after settlor's death.
- If discretionary trust, 10 year and exit charges.



Trust solutions – Flexible Reversionary Interest trust

Settlor gifts bond/series of endowment policies into trust.



IHT position for the settlor

- Growth outside settlor's estate from day one.
- Chargeable lifetime transfer (CLT) – no discount applies.
- Outside settlor's estate after seven years. Potential 20% tax on excess CLT over nil rate band.

Access to trust

- Trustees can choose to defer maturity to a future date or take proceeds (capital and growth) to pay settlor.
- They can surrender policy on maturity to pay beneficiaries.

Ongoing IHT treatment of trust

- 10-year and exit charges.

- Settlor retains a reversionary interest.
- Class of potential beneficiaries, who could benefit from trust fund.

Flexible Reversionary Interest trust

Benefits

- Growth outside the estate from outset.
- CLT falls outside the estate after 7 years.
- Settlor retains optional access to maturing segments (capital plus growth).
- Flexibility as trustees can defer maturities to future date.
- Ability to redirect or assign maturing policies to beneficiaries during settlor's lifetime.

Drawbacks

- No discount for IHT purposes.
- Subject to 10 year and exit charges.
- More complex to administer.



Impact of Autumn Budget 2025 tax changes

Dividend tax rate remains at 39.35%.

Tax on interest/property income increases from 45% to 47% from 6 April 2027.

CGT annual exemption £1,500 and rate applying is 24%.

Trustees will have to certify they've paid 45% income tax when making an income distribution from April 2027.

Trustee investment considerations



Investment bonds allow ease of administration – 5% withdrawals don't have to be included in the tax return and tax only on chargeable event gain.



With trusts (other than bare trusts) flexibility over income tax point with an investment bond – settlor vs beneficiary or trustees vs beneficiary.



Income tax liability only on a chargeable event gain with an investment bond, so possible control over tax point but not generally able to use trust's and/or beneficiary's allowances and exemptions year on year.



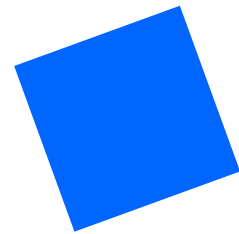
Virtual gross roll up within an offshore bond wrapper and opportunity to do switches in the offshore bond wrapper without CGT constraints.



With an onshore bond, tax within the fund on non-dividend income and capital gains and a non-taxpaying beneficiary can't reclaim notional 20% (rising to 22%) tax credit.

Thank you. Any questions?





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