PARAPLANNERS' ASSEMBLY

FISCAL DRAG | HOW IT IMPACTS THE BEST FINANCIAL PLANS

A TECHNICAL BRIEFING ON STEALTH TAXATION AND OFFSHORE BONDS

A WEALTH *of* DIFFERENCE

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FISCAL DRAG

LEARNING OBJECTIVES

By the end of the session, delegates will be able to:

› Explain fiscal drag and how it impacts Income, Capital Gains and Inheritance taxes

› Quantify how frozen allowances erode log term wealth

› Explain how wrapped and unwrapped investments compare

- How an investment bond can assist efficient investment management.

› Discuss and explain this subject with a client in a clear and concise way.

› Apply this knowledge to appropriate, individual, client scenarios.

AGENDA

- FISCAL DRAG AND STEALTH TAXES
- FISCAL DRAG AND PORTFOLIO MANAGEMENT
- HOW AN INVESTMENT BOND CAN ASSIST EFFICIENT INVESTMENT MANAGEMENT
- CASE STUDY

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FISCAL DRAG AND STEALTH TAXES

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A RECAP

ACTUAL CHANGES

- The CGT annual exemption was reduced from £12,300 to £6,000 from April 2023 and to <u>£3,000 from April 2024</u>

- CGT annual allowance for trusts is a maximum of £1,500 from April 2024 – as per schedule 1 Section 2(2) TCGA 1992

- The rates of CGT for non and basic rate taxpayers **increased to18% from 30/10/24**

- The rate of CGT for higher and additional rate taxpayers is **24% from 30/10/24.**

STEALTH TAXES

Fiscal drag *'the situation in which people pay a larger part of their income in tax, because the government does not increase the levels at which people pay tax at the same rate as that at which inflation is increasing.'**

Government tax receipts rise without changes to the headline rates of tax.

<u>A hugely effective tax raising policy which should not be underestimated.</u>

"A tax that is collected in a way that is not very obvious so people may not realise that they are paying for it"*

**Cambridge Dictionary*

Autum Budget October 2024

Autum Budget November 2025

Next General Election no later than August 2029

2024 | 2025 | 2026 | 2027 | 2028 | 2029

1. October 2024

Autumn Budget Immediate Amends

Changes to the Inheritance tax (IHT) system – excluded property trusts established after Budget day (where settlor can benefit) would be a gift with reservation.

Increase to Capital Gains Tax (CGT)– basic and higher rate increase to 18% and 24% respectively.

Autumn Budget 2024

2. April 2025

Changes to the IHT regime to move from a domicile-based system to a residence-based system.

Test for long-term residence for IHT based on tax residency alone.

Trusts which were previously excluded property taxed to UK IHT if settlor is long-term resident

Removal of the remittance basis regime for non-domiciles and introduction of Foreign Income and Gains (FIG) regime.

Temporary Repatriation Facility starts for those previously claiming remittance basis –allowing reduced rates of tax on foreign income and gains that are remitted to the UK.

Autumn Budget 2024

3. April 2026

Changes to inheritance tax reliefs

£2.5m combined cap on the amount of Agricultural Property (AR) or Business Property (BR) that receives full 100% relief. The 100% relief for AR and BR will continue for the first £2.5m of combined AR and BR and will be 50% thereafter. BR reduced on AIM shares to 50% in all circumstances. Any unused relief is transferable between spouse and CPs
Autumn Budget 2024 amended 2025

Amendment to the £2.5m cap on Agricultural and Business Property to permit any unused £2.5m allowance to pass to surviving spouse or civil partner.

Dividend tax changes

Changes to dividend tax rates for basic and higher rate taxpayers – increased by 2% to 10.75% and 35.75% respectively from 6 April 2026.

Limit applied to Relevant Property charges to Excluded Property Trusts settled prior to 30 October 2024

A rolling 10-year limit to the relevant property charges for pre-30 October 2024 excluded property trusts of £5m put in place.

Income tax relief reduced to 20% for VCTs
Autumn Budget 2025

4. April 2027

Pension death benefits charged.

Unused pension death benefits will become part of a person's estate for IHT purposes on death.

Temporary Repatriation Facility - rate increases
The TRF rate moves up to 15%

Autumn Budget 2024

Property and Savings rates of tax changed

2% increase on property and savings rates of income tax – basic rate increased to 22%, higher rate increased to 42% and additional rate increased to 47%. Changes to order of taxation with property income sitting after non-savings income but before savings income.

The personal allowance will be deducted against non-savings income prior to property, savings or dividend income.

The annual Cash ISA allowance will be reduced to £12,000 for under-65s. The Government also confirmed the overall ISA limit will remain as £20,000 until 2030/31.
Autumn Budget 2025

5. April 2028

Temporary Repatriation Facility ends

End of the Temporary Repatriation Facility for those previously claiming remittance basis.

Autumn Budget 2024

Introduction of High Value Council Tax Surcharge

Introduction of The High Value Council Tax Surcharge (HVCTS) – an annual levy on residential properties valued above £2 million starting at £2,500 and increasing to a maximum of £7,500 on houses worth £5m and above.

Autumn Budget 2025

6. April 2029

Salary Sacrifice changes

Changes to pension salary sacrifice rules come into effect. NI payable on contributions above £2,000

Autumn Budget 2025

April 2031

Income tax and IHT thresholds frozen until April 2031.

PERSONAL TAXES

STEALTH TAXES

CAPITAL GAINS TAX
AE reduced by **over 75%** to £3,000

INHERITANCE TAX
No change to NRB or RNRB
No change to rates

BUT
Frozen until April 2031

PERSONAL INCOME TAXES
SRBS – no change
PSA – no change

PERSONAL INCOME TAX ALLOWANCE & BANDS
PA – remains £12,570
BR - remains £37,700
HR - remains £125,140
Dividend Allowance £500

AND
Frozen until until April 2031

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LITTLE CHANGE

ALLOWANCES OVER THE LAST TEN YEARS

	Personal allowance	Dividend Allowance	PSA BR	PSA HR	SRBS	IHT	RNRB
2016 to 2017	£11,000	5,000	1,000	500	5,000	£325,000	Nil
2017 to 2018	11,500	5,000	1,000	500	5,000	£325,000	£100,000
2018 to 2019	11,850	2,000	1,000	500	5,000	£325,000	£125,000
2019 to 2020	12,500	2,000	1,000	500	5,000	£325,000	£150,000
2020 to 2021	12,500	2,000	1,000	500	5,000	£325,000	£175,000
2021 to 2022	12,570	2,000	1,000	500	5,000	£325,000	£175,000
2022 to 2023	12,570	2,000	1,000	500	5,000	£325,000	£175,000
2023 to 2024	12,570	1,000	1,000	500	5,000	£325,000	£175,000
2024 to 2025	12,570	500	1,000	500	5,000	£325,000	£175,000
2025 to 2026	12,570	500	1,000	500	5,000	£325,000	£175,000
2016 to 2026	**+14.2%**	**-90%**	**0%**	**0%**	**0%**	**0%**	**?**

Source HMRC https://www.gov.uk/government/statistics/income-tax-personal-allowances-and-reliefs

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LITTLE CHANGE SINCE 2015

INCOME AND EXPENDITURE OVER TEN YEARS

	Average Salary	Average house prices	Petrol price (1 litre)	Price of pint of lager (index)	New State pension
Nov 2015	£25,168	£188,000	109.3	100	£155.65*
Nov 2025	£38,532	£271,000	136.2	132.9	£230.25
	ONS	ONS	RAC	ONS CPI index	
% growth	**+53%**	**44%**	**24.6%**	**32.9%**	**47.9%**

*April 2016

CGT EXEMPTIONS AND RATES OF TAX

YEAR	ANNUAL EXEMPT AMOUNT
2020/21	£12,300
AE in 2025/26 assumed increase of 2.5% p.a.	£13,578
Actual AE in 23/24	**£6,000**
Actual AE in 24/25	**£3,000**
Drop from indexed rate	**78%!**

TAX YEAR	MAIN CGT RATE (GENERAL ASSETS)	ANNUAL EXEMPT AMOUNT (£)	NOTES ON MAIN RATE	PRIMARY SOURCE
1988/89–2007/08	Aligned to income tax (up to ~40%)	Varied	CGT aligned to marginal income tax rates	IFS
2008/09	18%	£9,600	Flat rate introduced	IFS
2009/10	18%	£10,100	Flat rate continues	IFS
2010/11	18% / 28%	£10,100	Tiered basic/higher rates	IFS
2011/12	18% / 28%	£10,600	No rate change	IFS
2012/13	18% / 28%	£10,600	No rate change	IFS
2013/14	18% / 28%	£10,900	No rate change	IFS
2014/15	18% / 28%	£11,000	No rate change	IFS
2015/16	18% / 28%	£11,100	Final year of this regime	IFS
2016/17	10% / 20%	£11,100	Rates cut for most assets	IFS
2017/18	10% / 20%	£11,300	No rate change	IFS
2018/19	10% / 20%	£11,700	Allowance increased	IFS
2019/20	10% / 20%	£12,000	Allowance increased	IFS
2020/21	10% / 20%	£12,300	Allowance peak	IFS
2021/22	10% / 20%	£12,300	No change	IFS
2022/23	10% / 20%	£12,300	No change	HMRC
2023/24	10% / 20%	£6,000	Allowance reduced	HMRC
2024/25	18% / 24%	£3,000	Rates increased Oct 2024	HMRC
2025/26	18% / 24%	£3,000	Current regime	HMRC

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2026/27 | THE TAX BANDS (FROZEN UNTIL APRIL 2031)

INCOME TAX

Key
- SRBS £5,000 – only available if taxable non-savings income < £5,000
- PSA - £1,000 if sitting in BRT, £500 in higher rate and £0 in ART
- Dividend allowance £500 – divi's highest from of income and taxed at zero within allowance

CAPITAL GAINS TAX

Capital gains tax annual exempt amount - £3,000 then taxed after income

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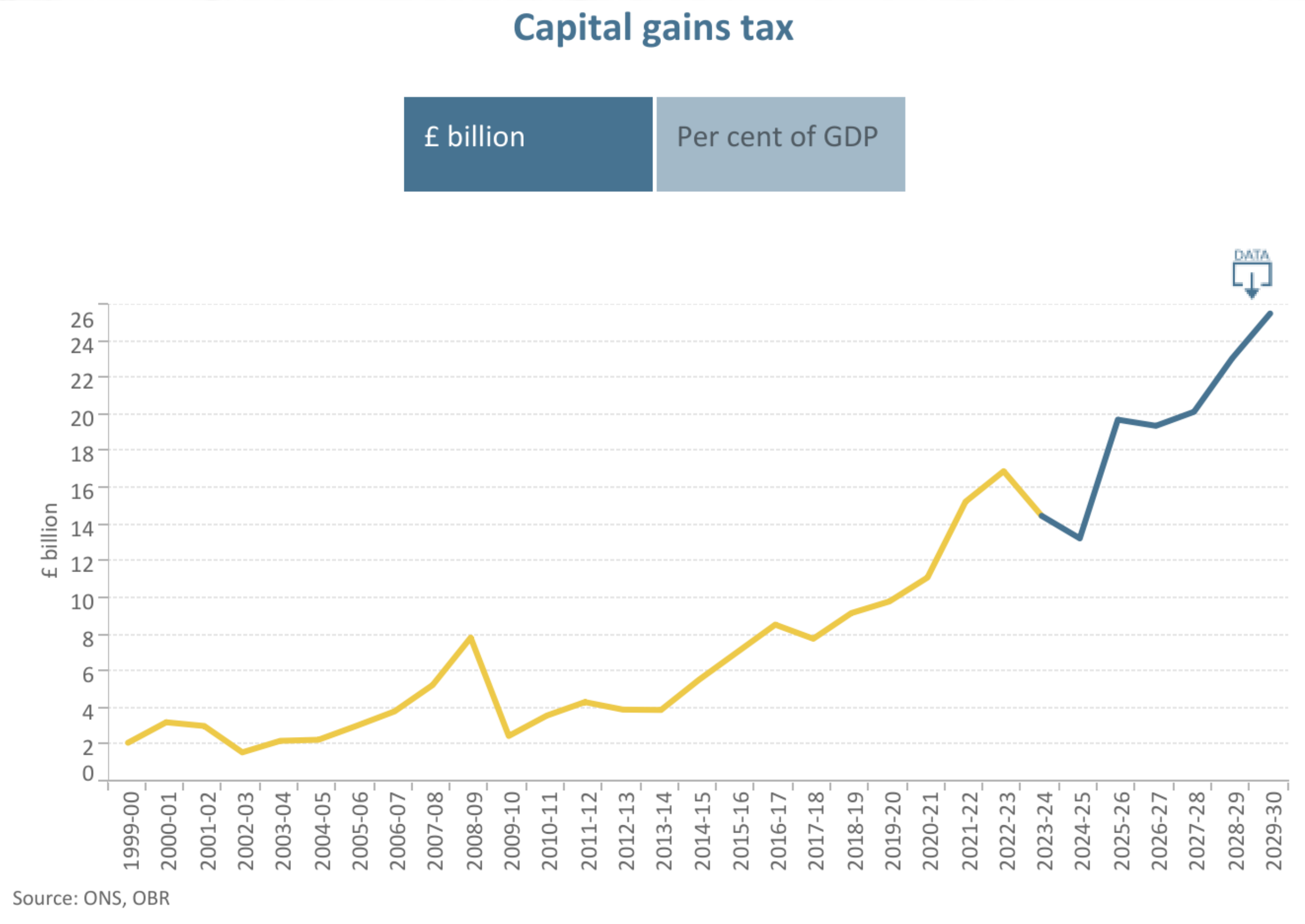
CAPITAL GAINS TAX FORECAST

CGT receipts fell slightly in 2023-24, reflecting a return to the long-run trend in receipts after two years of unusually high-value disposals.

CGT receipts then rise temporarily in 2025-26 due to people bringing forward asset disposals in advance of anticipated rate rises at the October 2024 Budget.

In the long run receipts continue to rise in line with equity and property prices.



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INHERITANCE TAX

Nil Rate Band **£325,000** since **2009/10**

Max NRB + TNRB = £650,000

Residence Nil Rate Band **£175,000** since **2020/21**

Max RNRB + TRNRB = £350,000

<u>Overall maximum = £1,000,000</u>

INHERITANCE TAX
Changes to NRB or RNRBs

PENSION CHANGES

Death benefits subject to IHT after April 2027

ALLOWANCES
Frozen until April 2031

THE IMPACT OF FREEZING THE NRB AND RNRB TO DATE

EXTRA INHERITANCE TAX

YEAR CURRENT RATE WAS SET	NRB/ RNRB	ACTUAL VALUE IN 2026/27	VALUE IN 2026/27 IF INCREASED BY 2.5% P.A.	POTENTIAL EXTRA TAX COLLECTED @ 40%
2009/10	£325,000	£325,000	£495,000	£68,000
2020/21	£175,000	£175,000	£203,000	£ 11,200
TOTAL				**£69,200**
TRANSFERABLE NRB AND RNRB (x2)				**£138,400**

House prices have continued to rise and inflation is increasing values of other asset. Average house price in 2025 is approx. £293,000 (58% of the current NRB and RNRB combined) but would have been only 42% of the NRB had it growth with inflation.

Is IHT still a tax for the rich?

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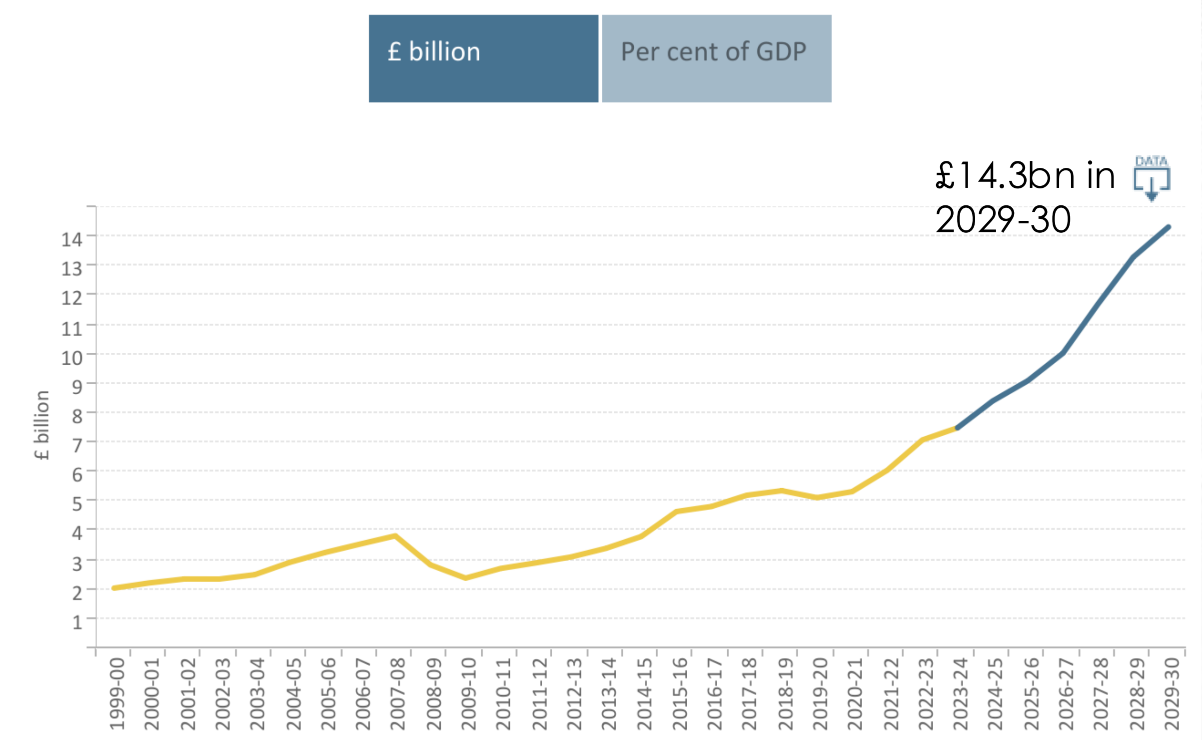
INHERITANCE TAX FORECAST

Inheritance tax: latest forecast



Source: ONS, OBR

"Residential property makes up the largest share of most estates and average **house prices** have risen by more than 70 per cent between 2009 and 2023.

The rise also reflects significant fiscal drag as the IHT threshold has remained at £325,000 since 2009"

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FISCAL DRAG AND PORTFOLIO MANAGEMENT

FISCAL DRAG AND CAPITAL GROWTH

Fiscal drag occurs when:

- **Allowances are frozen or cut**
- **Rates stay the same or rise**
- **Asset prices rise with inflation**
- → but **tax thresholds don't move**

For CGT, this has been extreme.

Tax Year(s)	CGT Annual Exempt Amount
2020–21	£12,300
2021–22	£12,300
2022–23	£12,300
2023–24	£6,000
2024–26	£3,000
2026–27	£3,000

A 75.6% actual cut in the tax-free annual exempt amount.

Result:

- Small rebalancing trades now trigger CGT
- Long-term "low-turnover" portfolios are no longer tax-efficient by default
- Inflationary gains are being taxed as *real* gains

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BREACHING THE ANNUAL EXEMPTION OF £3,000 2026/27

COLLECTIVE INVESTMENT CAPITAL GROWTH

GROWTH PER ANNUM

INITIAL INVESTMENT

	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%
37,500	375	750	1,125	1,500	1,875	2,250	2,625	**3,000**
42,855	429	858	1,286	1,715	2,143	2,572	**3,000**	3,429
50,000	500	1,000	1,500	2,000	2,500	**3,000**	3,500	4,000
60,000	600	1,200	1,800	2,400	**3,000**	3,600	4,200	4,800
75,000	750	1,500	2,250	**3,000**	3,750	4,500	5,250	6,000
100,000	1,000	2,000	**3,000**	4,000	5,000	6,000	7,000	8,000
150,000	1,500	**3,000**	4,500	6,000	7,500	9,000	10,500	12,000
300,000	**3,000**	6,000	9,000	12,000	15,000	18,000	21,000	24,000

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IMPACT ON PERFORMANCE

Post-tax returns are structurally lower

Assume:
- Nominal return: 8%
- Inflation: 3%
- Real return: 5%
- CGT at 24%

Tax 24% x 8% = 1.92%
After tax nominal return is 8% - 1.92% = 6.08%
After tax real return is 1.0698/1.03

Effective real return after CGT ≈ 2.99%

Rebalancing now has a real cost

Classic portfolio theory assumes:
- Costless rebalancing

Reality under fiscal drag:
- Selling winners to rebalance triggers CGT
- CGT allowance is tiny (£3k)
- Frequent optimisation = tax leakage

Result:
- **“Optimal” portfolios underperform after tax**

A WARNING! THE VALUE OF THE CGT ANNUAL EXEMPTION…

TAX YEAR	ANNUAL EXEMPTION	TAX SAVED BY HRT UTILISING ANNUAL EXEMPTION	AMOUNT DISPOSED	MAXIMUM CHARGE BEFORE COST EXCEEDS TAX SAVED
2026/27	£3,000	£720 (£3,000 x 24%*)	£53,000	1.35%

*Assumes asset was not residential property

In 2026/27 if an investment of £50,000 makes a capital gain of 6% over 12 months this results in a gain of £3,000. The investor would get back £53,000 but what is the cost of re-investing this £53,000?

For a HRT, if the charge for re-investment is greater than 1.35% the charges will exceed the Capital Gains Tax saved!

For a BRT, the charge for re-investment mustn't be greater than 1.01%!

Compare with re-balancing a portfolio within an investment bond?

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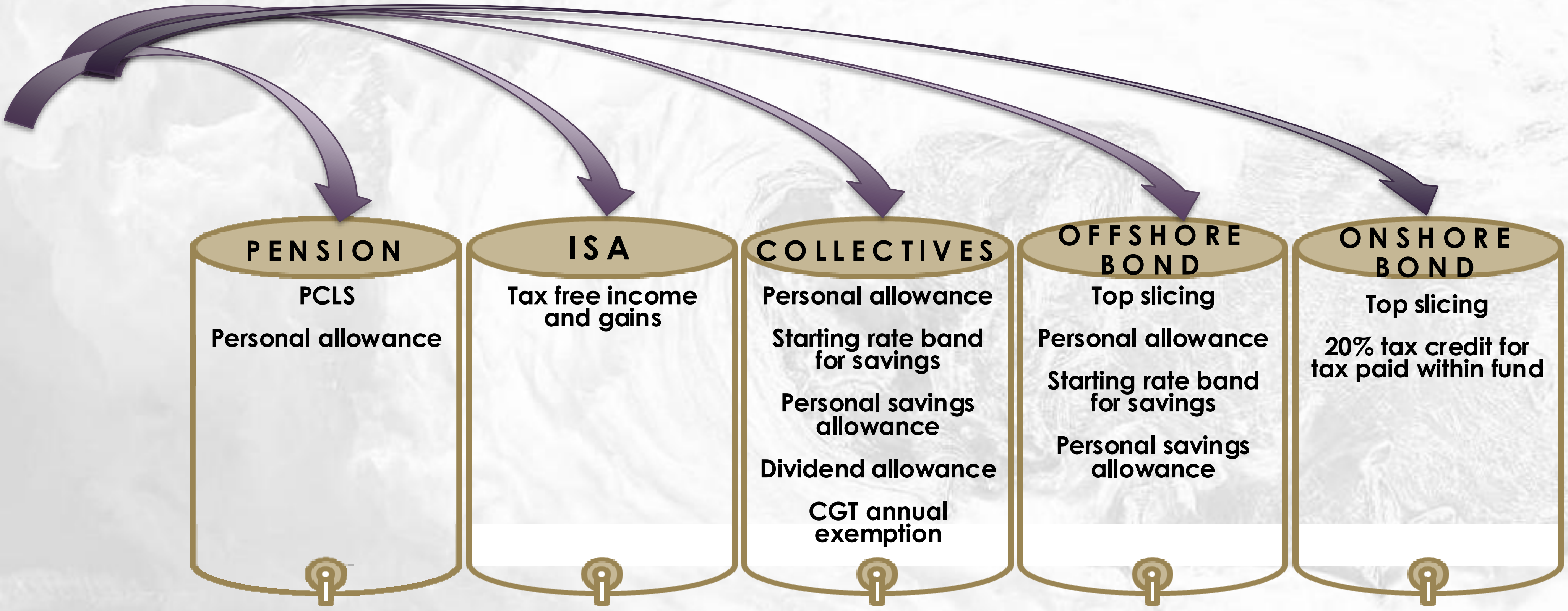
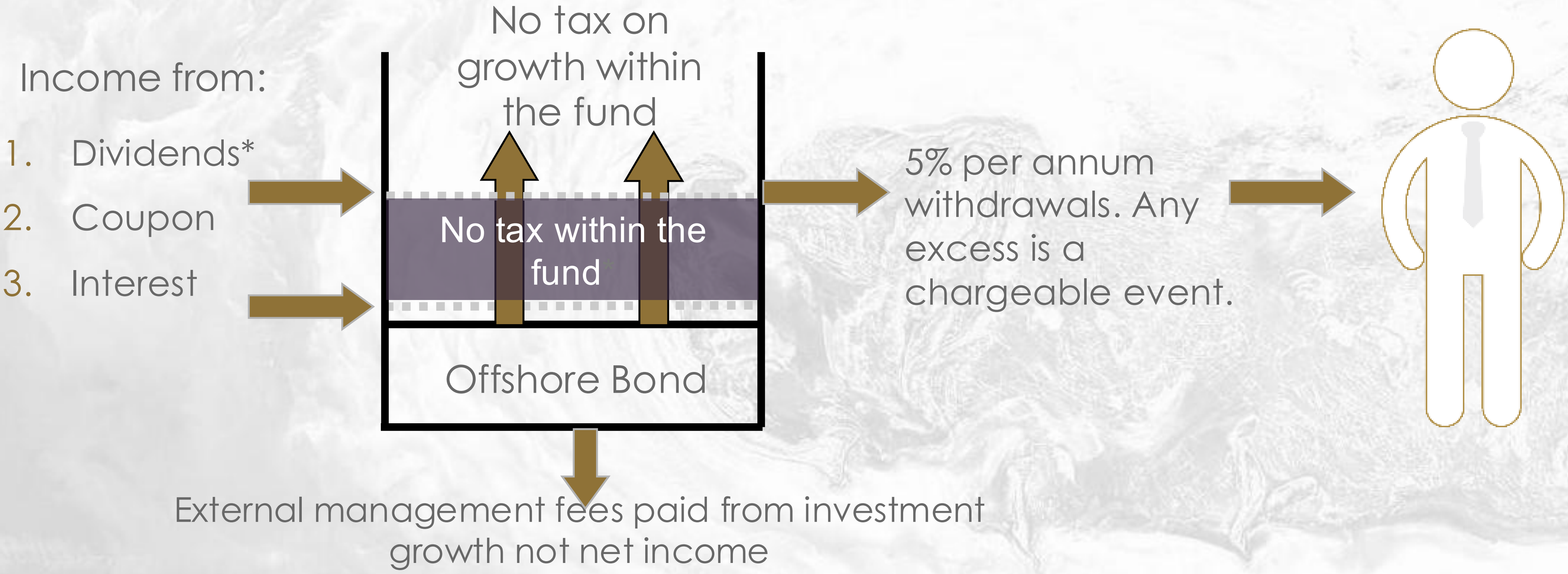
HOW AN INVESTMENT BOND CAN ASSIST EFFICIENT INVESTMENT MANAGEMENT

TAX ALLOWANCES POTENTIALLY AVAILABLE

THE TAX “TEA URN! – ACCUMULATION?



OFFSHORE SINGLE PREMIUM BOND



* Net of any withholding taxes

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ADMINISTRATION

No income or CGT – so no need to complete a tax return

Investments held in one wrapper – simple to administer and manage

CAPITAL LOSSES AND INCOME IN SAME TAX YEAR

TAX YEAR	PORTFOLIO SUBJECT TO CGT	PORTFOLIO LINKED TO INVESTMENT BOND – NO CGT
CHANGE IN VALUE	Capital Loss (£50,000)	Loss (£50,000)
DIVIDEND INCOME	Div' Income £50,000	Income £50,000
CGT PAYABLE	(Loss) £0	N/A
2026/27 TAX ASSUMING ADDITIONAL RATE TAXPAYER (39.35%) Div' allowance £500	£19,487 income tax £50,000 loss can be offset against other gains (if available). Max 24% relief	Nil. Losses on assets can be offset against gains and accumulated income linked to the bond. Effectively the 'capital' loss is offset against any gain AND/OR income the policy receives.

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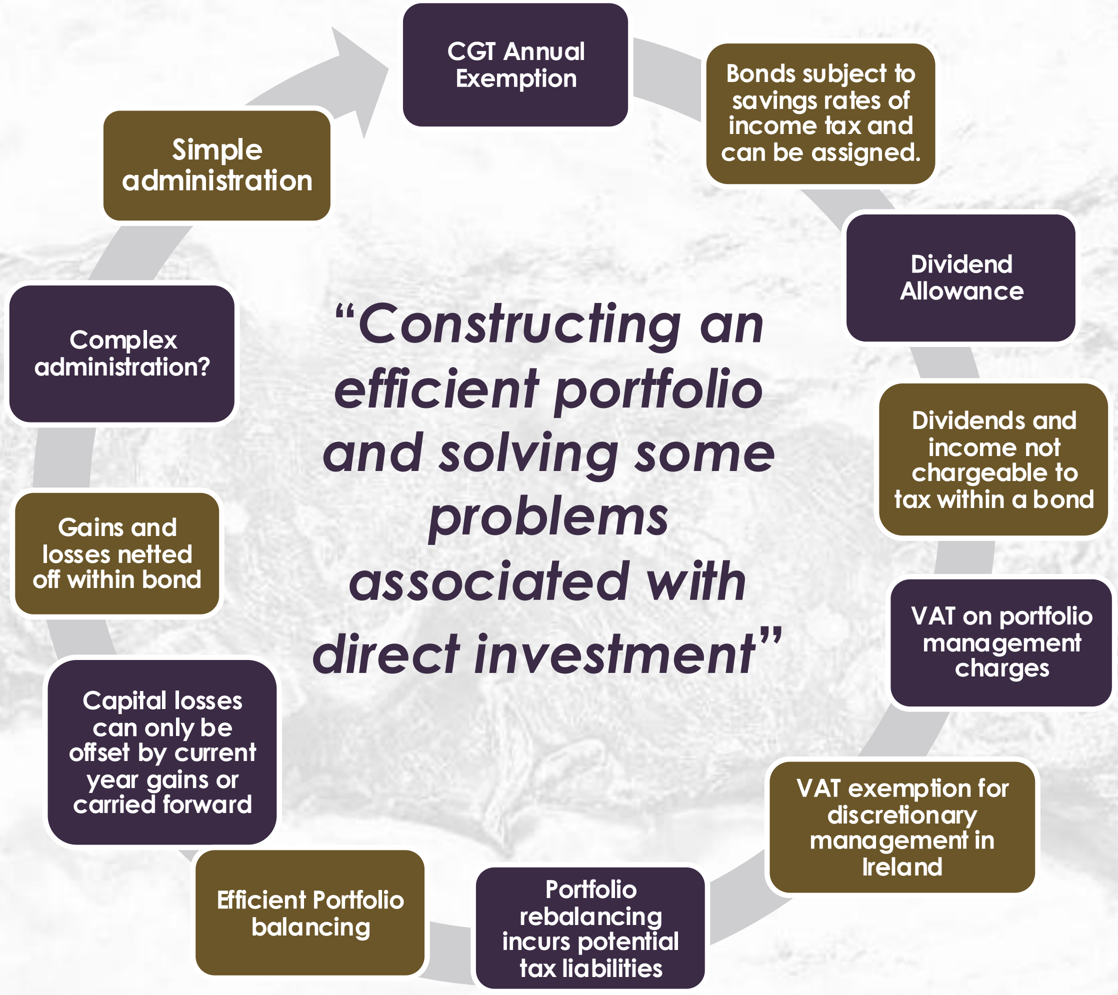
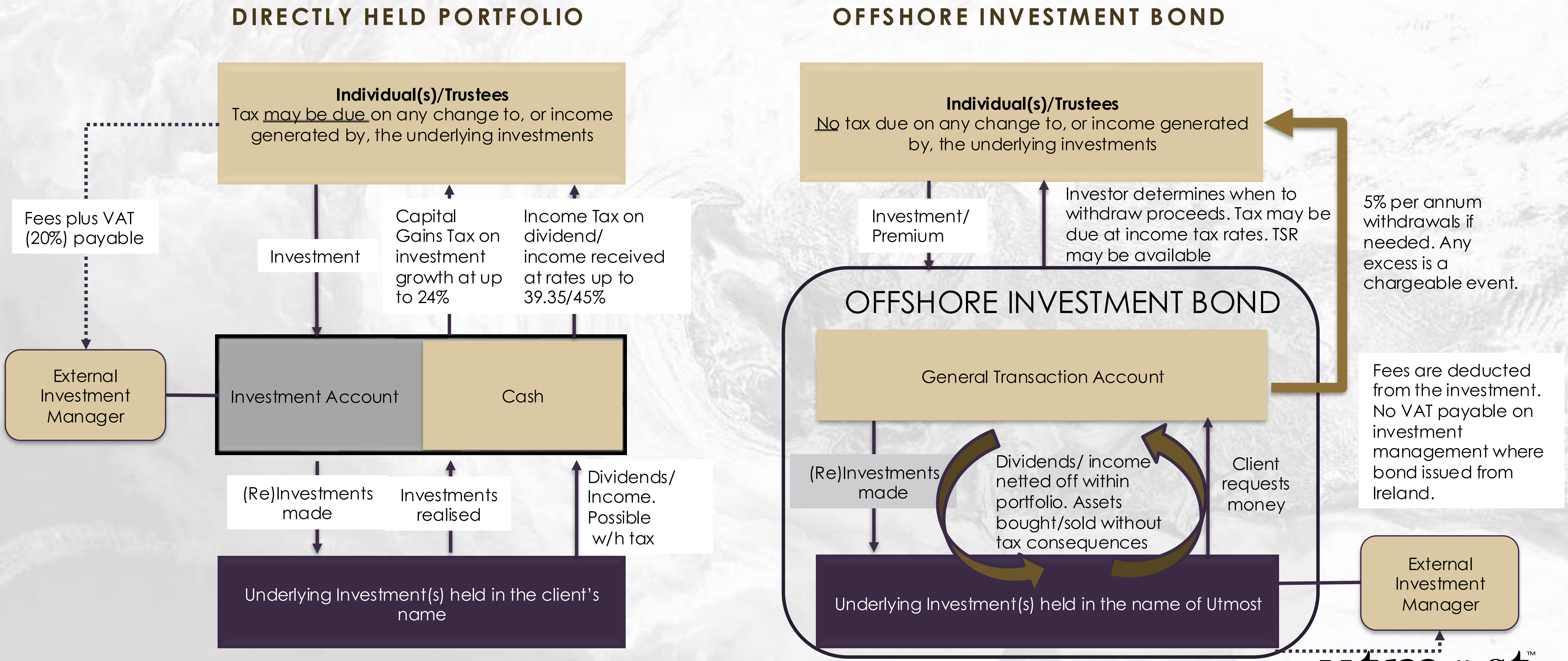
PLANNING FOR THE CHANGES TO UK CAPITAL GAINS TAX

THE EFFICIENT PORTFOLIO PLANNING WHEEL

POTENTIAL ISSUES WITH DIRECTLY HELD INVESTMENTS	HOW AN OFFSHORE BOND CAN ASSIST
Reducing annual exemption for capital gains tax. CGT annual exemption £3,000. Unused CGT annual exemption cannot be carried forward	**Not subject to Capital Gains tax** Bonds are subject to savings rates of income tax allowing for tax-deferral. Bonds, or individual segments, can be assigned without creating a chargeable event which can allow for efficient tax-planning passing wealth down the generations.
Dividend allowance only £500.	**Dividends not chargeable to tax** **Changes to assets within bond are not subject to CGT.**
VAT on management of portfolio. Investment management of an external portfolio would usually be subject to VAT at 20%.	**VAT exemption in Ireland.** Where the discretionary services are provided to an Insurer based in Ireland the investment management fees are not subject to VAT.
Rebalancing limited by tax considerations Due to the reduction in annual exemption any partial-disposals of holdings in direct assets may incur gains.	**Efficient Portfolio Rebalancing.** Changes to assets within bond not subject to UK CGT. The manager doesn't need to consider the impact of any immediate tax when rebalancing.
Capital losses can only be offset against current year gains or carried forward to be used against future capital gains.	**Gains and losses 'netted off' within bond** Gains and losses in the bond are netted off in the value of the overall portfolio, with no requirement to file returns or to consider which assets to sell to net off capital losses. This allows the manager to focus on generating investment returns rather than selling assets that they may otherwise retain.
Complex administration. Self-assessment for dividends, coupons and capital gains.	**Simple administration.** No self-assessment unless there is a chargeable event.



STRUCTURING AN INVESTMENT PORTFOLIO



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CASE STUDY

MEET ROBERT

CASE STUDY

- Robert was born in the UK and spent the first part of his working life in the UK. He left the UK some 15 years ago to work abroad.
- He returned to the UK 4 years ago and intends to remain in the UK long-term.
- He has savings of £1m in an offshore account and wants to invest his money in a tax efficient way. He is aware that his allowances and tax bands remain frozen causing the net return from his investments to reduce due to ‘fiscal drag’.
- He is concerned about future changes to savings rates of income tax and would like to mitigate his inheritance tax liability to maximise the amount his children may receive on his death.
- Robert would prefer if his investments were managed by another party and is risk averse.

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A SOLUTION

CASE STUDY

Robert invests £800,000 into an insurance bond, split into 800 segments (£1,000 each).

The insurance bond doesn't allow Robert any selection rights but instead requires that the bond is managed by a discretionary manager nominated by Robert and appointed by the insurer.

The bond is managed by Robert's bank under their discretionary management offering, allowing Robert to apply a 'hands off' approach to his investment.

No limit on the amount that can be paid in

Funds will grow virtually tax-free with gross roll up – similar to growth within a pension fund

Wide choice of linked assets / no Capital Gains Tax (CGT) on switches

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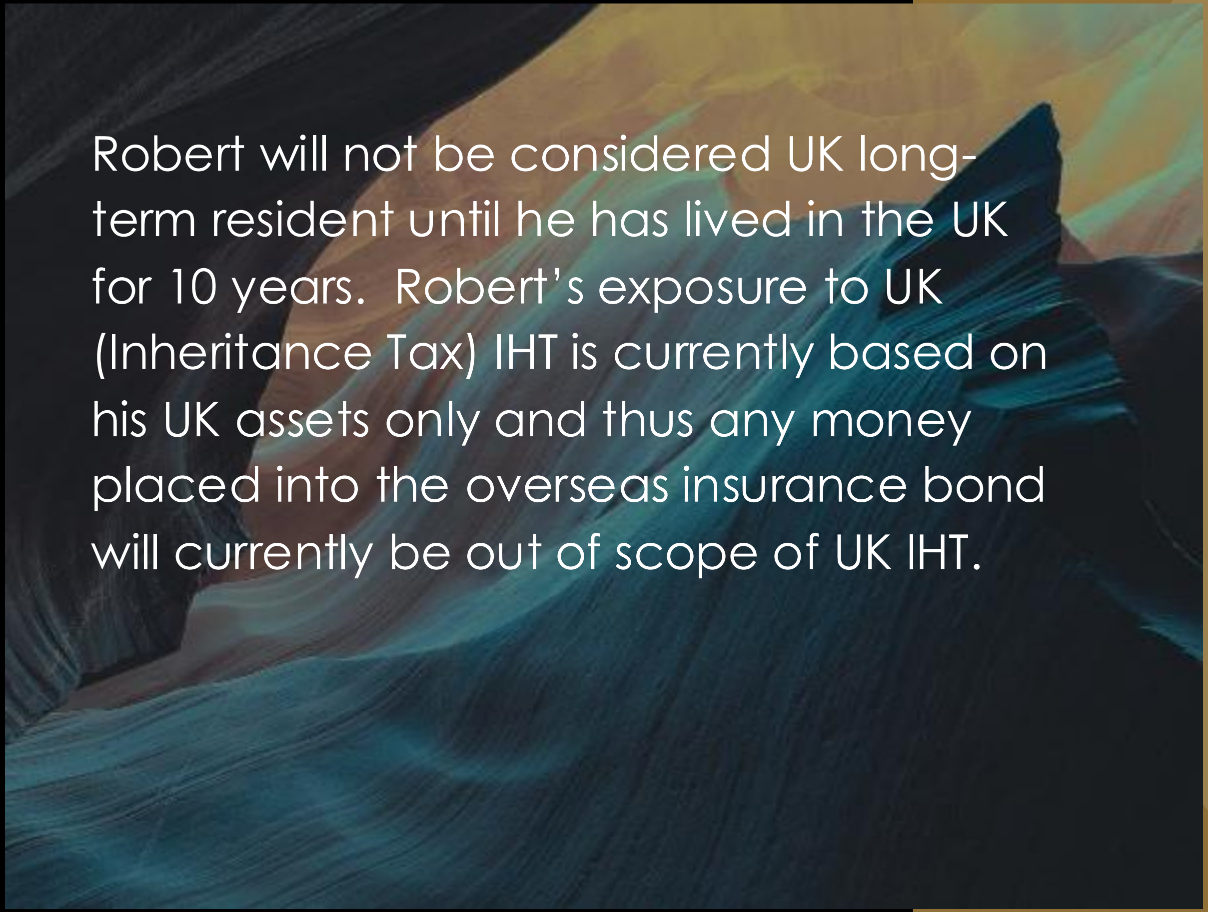
BENEFITS

CASE STUDY

1. The test for whether non-UK assets are in scope for IHT depends on whether an individual has been resident in the **UK for at least 10 out of the last 20 tax years** immediately preceding the tax year in which the chargeable event (including death) arises.

2. The time an individual remains in scope after leaving the UK will be 10 years maximum but will be shortened where they have only been resident in the UK for between 10 and 19 years.



Robert will not be considered UK long-term resident until he has lived in the UK for 10 years. Robert's exposure to UK (Inheritance Tax) IHT is currently based on his UK assets only and thus any money placed into the overseas insurance bond will currently be out of scope of UK IHT.

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ROBERT

CASE STUDY

NO LIMIT AS TO SETTLEMENT VALUE

Carve out Value £Nil or £Value of rights

Gift Value of Settlement exempt

Prior to Robert becoming UK long-term resident in future, Robert could settle segments of his bond onto various trust arrangements allowing for IHT efficiency. If the trusts are settled before Robert becomes long-term resident there is no limit to how much he can settle into the trust without an inheritance tax charge entry charge occurring. When he is long-term resident, the trust will be charged to IHT but at a maximum rate of 6% every ten years and on distribution.

TRUST BASED IHT SOLUTIONS

NON-LONG-TERM RESIDENT

DISCRETIONARY TRUST (DT)

(INCLUDING LOAN TRUSTS)

REVERSIONARY INTEREST TRUST (RIT)

DISCOUNTED GIFT TRUST (DGT)

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FOR THOSE WHO MAY RETURN TO THE UK TO LIVE

	LONG TERM RESIDENT (LTR)	NON-LONG-TERM RESIDENT (NLTR)
INITIAL SETTLEMENT	› **DGT** – Nil rate gift planning and initial transfer of value reduced. No gift with reservation issues (GWR) › **RIT** – Nil rate gift planning and able to make gift and retain rights to access without GWR › **DT** – Nil Rate gift planning only.	› Transfer into trust is exempt so no IHT benefit on initial settlement › **No restriction to nil rate band**
RELEVANT PROPERTY	**DGT** reduced by open market rights and full value for **RIT** and **DT**	Excluded property if the settlor is NLTR **and will remain if the settlor dies whilst NLTR!**
AMOUNT SETTLOR CAN ACCESS	› **DGT** - Fixed withdrawals › **RIT** - Segments surrender scheduled at outset by the settlor › **DT** -(loan trust) access to capital only › **DT** - No access assuming settlor cannot benefit (to avoid gift with reservation)	
FLEXIBLE ACCESS?	› **RITs** - Reversionary rights can be deferred by Settlor. › **DGTs** not flexible › **DTs** – no access	

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INTERNATIONAL SINGLE PREMIUM BOND

On encashment/chargeable events

Income and realised gains stay within the policy

Wide range of investments as listed under s520 ITTOIA including:

- Cash
- Structured products
- Internal Funds
- S 520 CIVs –OEICs, UTs and approved investment trusts
- Assets falling outside s520 (products with no selection rights and managed by a DFM)

International Bond

NTP & NRs	No tax to pay
BRTP	0%, 20% to pay
HRTP/ARTP	0%, 40% / 45% to pay

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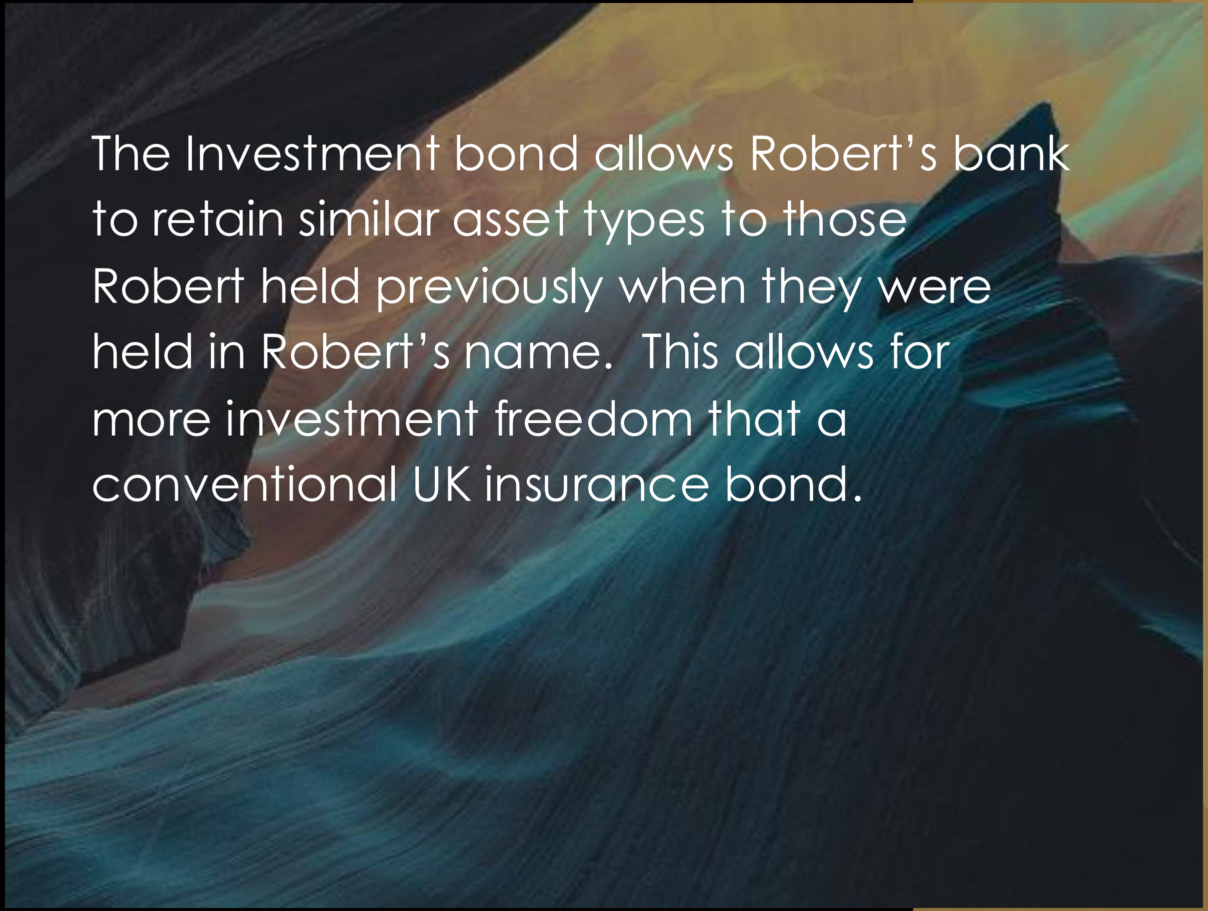
BENEFITS

CASE STUDY

OPEN DISCRETIONARY (NO SELECTION RIGHTS)
Investment managed by experts who are free to invest into a wider range of assets including assets normally excluded from conventional bonds, which are usually constrained by the personalised portfolio bond rules to purchase collective funds and cash deposits only
Therefore, reduces administrative burden and responsibility on investor
Chosen EMC manages investment in line with client's appetite for risk and their standard portfolio management practices (which often includes investing in assets not normally allowable under a conventional bond)
This can potentially result in cheaper portfolio management costs



BENEFITS

CASE STUDY

- All income and gains in the bond are not taxed until Robert takes benefits from the bond allowing for tax-deferral until a later date.
- This allows Robert to defer any tax liability until time that the economy recovers and the tax bands are more favourable.
- It also allows Robert to potentially assign segments to his children during his lifetime without a charge to tax, which is useful if he wants to pass on wealth prior to death.

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BENEFITS

CASE STUDY

- Assignment to lower taxpayers
- Assignment to individuals with little or no NSI
- Control NSI – using trading losses or stopping pension drawdown
- Control NSI by gifting rental properties – spouse, civil partner?
- Reduce slice by encashing over more than two or more tax years
- Reduce ANI by gifting savings – spouse, civil partner?
- Reduce ANI and protect savings allowances by investing savings in other assets.

INVESTMENT BONDS

Insurance-based wealth solutions can offer important benefits where fiscal drag persists. These products allow clients to defer taxation within the policy, creating opportunities to:

› Manage income tax exposure through tax-deferred growth

- Time future tax points more effectively
- Support intergenerational planning.

› Clients can settle their policies into trust structures. This approach can:

- Reduce IHT exposure
- Support staged transfers to beneficiaries
- Maintain control and flexibility across generations.

For clients concerned about static tax thresholds, these strategies help counter rising tax friction and provide more predictable long-term outcomes.

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ULTRA AND HIGH NET WORTH INVESTORS

PRIORITIES

- Maximising after-tax, inc iht tax
- Controlling the timing, character, and recipient of taxation
- Maintaining optionality under hostile future tax regimes
- Accounting and planning with the FIG regime.

AVOID: Annual taxation + forced realisation + loss of control

USE: Tax deferral + gross roll-up + discretion over exit

ULTRA AND HIGH NET WORTH INVESTORS

INVESTMENT BOND

BEST SUITED FOR
- **High-growth, Income producing, high-turnover strategies**
- Assets that would otherwise crystallise CGT repeatedly
- Inter-generational planning with trusts

LINKED INVESTMENTS
- Active strategies
- Income and/or growth funds/equities
- Global equities

WHAT SHOULD NOT GO INSIDE
- Assets expected to be realised soon
- Assets likely to be matched with capital losses

BENEFITS
- Converts **CGT into income tax**, but:
  - At a **time of your choosing**
  - With **top-slicing relief**
- Possibly taxed on beneficiaries
- No CGT reporting, no rebalancing friction

FIC

BEST SUITED FOR
- Long-term compounding pools
- Assets producing UK dividend **income**
- Inter-generational planning where control matters

INVESTMENTS;
- IUK dividend-producing equities
- Property SPVs
- Private equity / private debt

WHAT IS LESS SUITABLE
- High-turnover trading strategies
- Assets requiring frequent extraction of capital
- Assets producing capital growth – possible double tax

TAX:
- Corporation tax on profits (not gains)
- Dividend tax on extraction
- Extraction can be delayed
- Value compounds inside the corporate envelope

WHY UHNW LIKE THEM
- Separation of **control vs benefit**
- Easy to scale
- Familiar legal framework

GIA

BEST SUITED FOR
- Low turnover of assets
- Predictable exit
- Low-income assets
- Assets where **losses are expected or useful**

INVESTMENTS
- Equity/Funds with long horizons
- Assets expected to be rebased on death

WHAT IS LESS SUITABLE
- **Assets held over the short term**
- Assets with a high turnover
- Income producing assets

TAX
- CGT uplift on death (for now)
- Use losses
- No wrapper cost

KEY RISK
- Fiscal drag
- Allowance erosion
- Political risk to CGT uplift

DISCRETIONARY TRUST AND BONDS

TRUSTEES

FEATURE/ASPECT	BENEFIT
Capital redemption bond	Timing of tax management – no surprises
Dividends and income taxable at 39.35% and 45% above standard rate band	Tax deferred within bond – improved accumulation?
Assignment	Tax management - Over 18 - utilise beneficiary's income tax allowances. Below 18 – assign to bare trust for non-parental settlements?
Non income producing	Eases administrative burden in terms of self assessment and tax management i.e. tax pool! Improve income position for beneficiaries where dividends distributed.
Open architecture	Helps to meet TA 2000 standard investment criteria

- Easy for trustees to use their CGT exemption? (£1,500 at best or £300 at worst for tax year 2025/26!)
- How much of portfolio will be turned over every year?
- What is the cost of rebalancing?

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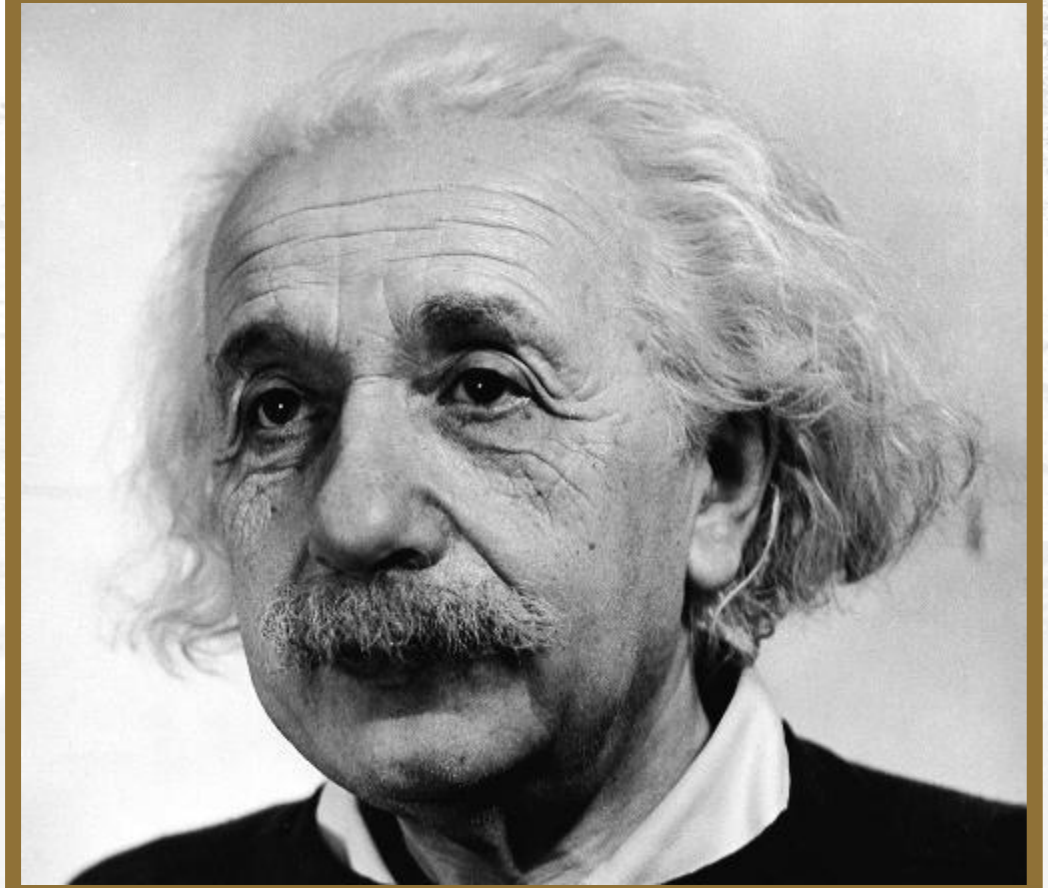
BENEFITS OF LIFE ASSURANCE



"Compound interest is the eighth wonder of the world.

He who understands it…
EARNS IT.
He who doesn't…
Pays it."

Albert Einstein

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SUMMARY

Fiscal drag is currently a feature of the UK tax landscape and continues to pull more clients into higher tax bands.

As thresholds remain frozen, advisers play a crucial role in helping clients understand their exposure and adopt strategies that protect long-term wealth.

Insurance-based wealth solutions, combined with appropriate trust planning, offer a practical way to defer tax, mitigate IHT and provide flexibility across generations.

With the right structure in place, clients can manage rising tax pressures with confidence and retain greater control over their financial future.

A WEALTH *of* DIFFERENCE

IMPORTANT INFORMATION

The information contained in this document does not constitute advice. It is designed for financial adviser use only and is not intended for use with individual investors.

Information regarding tax and practise is based on our interpretation of current legislation and HM Revenue & Customs policy/practice in the UK, Isle of Man and Ireland as at 23 February 2026. Tax treatment is subject to change and individual circumstances. There is therefore a risk that the value of the tax treatment provided by a bond may change.

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