

For customers

Capital gains tax and your bond

The Finance Act 2008 changed the capital gains tax (CGT) regime. Here we answer your questions about what this means for you and your bond.

While the 2008 Budget changes don't affect the tax position of onshore bonds, you may still want to know more about them and if another product might be better for you in the future.

We can't give you any financial advice but we hope that the following Q&A gives you a useful summary. We recommend you contact your financial adviser if you need advice.

The current regime – a summary

What products are affected?

Collective investments are affected. These include products that you may be familiar with such as unit trusts, investment trusts or open-ended investment companies (OEICs).

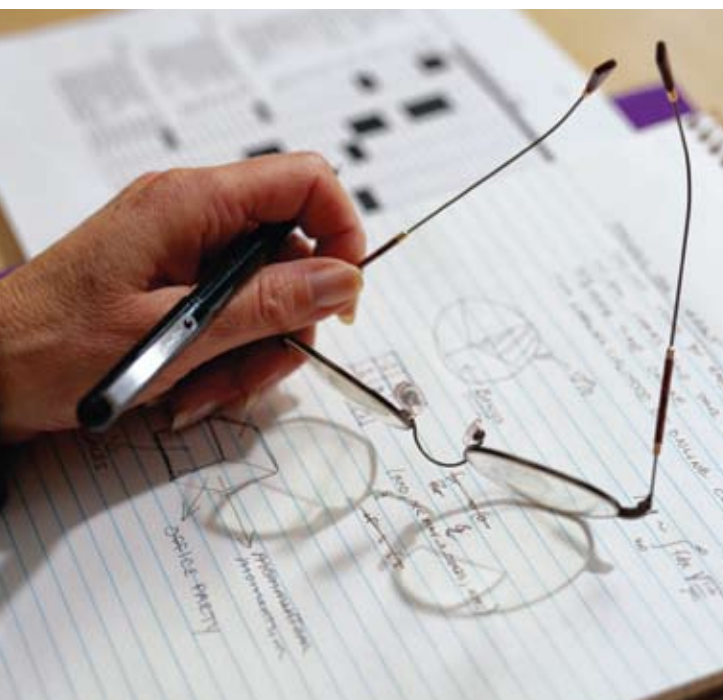
At what rate is CGT payable?

Individuals and trustees now pay CGT on the sale of a collective investment at a new single rate of **18%**. Before the changes, any CGT would be charged at an individual's top income tax rate but reduced depending on how long the individual held the collective. For example if they'd held the collective investment for 10 years, the CGT would be 12% for a basic rate taxpayer or 24% for a higher rate taxpayer.

This means the relative tax advantages of OEICs and bonds have changed, but a lot still depends on each individual's circumstances.

What does this mean for me?

Your onshore bond isn't affected by the change to CGT and if you're happy with your investment, you don't have to do anything. But, if you want to compare the tax position of your bond and a collective investment, then we strongly recommend that you discuss this with your financial adviser, as we can't give financial advice.



Some key points to remember

It's easy to focus on the tax position of a particular investment but this should never be the only consideration. You should also consider the product features, the range of funds you can switch between, performance, charges and service.

We can't give you advice, but here are some key points you might want to discuss with your adviser:

- Onshore bonds pay about 20% tax on the gains made each year, the same as it was when you made your investment.
 - You can take money from your bond whenever you want.
 - If you're a basic rate taxpayer when you take money from your bond, there'll be **no further tax** to pay.
 - If you're a higher rate taxpayer when you take the money, you would have to pay the difference between basic rate and higher rate tax – currently an additional **tax charge of 20%** on the bond growth.
 - Whichever rate of tax you pay you can still take 5% of the amount you invested each year for 20 years without paying any immediate tax.
 - If you don't take the 5% allowance in one year you can carry it forward and take it in another year.
- Unlike collective investments, 5% withdrawals don't need to be included on a self-assessment tax return and could simplify your financial affairs and save money for specialists completing your tax return.
 - Any amounts you take within your 5% allowance are included when working out whether you have to pay tax when you cash in your bond. If you're a basic rate taxpayer, there'll be no further tax to pay. But if you're a higher rate taxpayer, you would have to pay the difference between basic and higher rate tax – currently 20%.
 - Unlike collective investments, it's possible to assign the bond to, for example, a spouse who may be a lower rate taxpayer without an income or capital gains tax liability occurring.
 - When considering inheritance tax (IHT) planning, you can gift the bond without incurring a liability to CGT or income tax.
 - 5% withdrawals don't affect your entitlement to age allowance.

This information is based on our understanding of current taxation law and HM Revenue & Customs practice in the United Kingdom, which may change.

If you want more information on your onshore bond, contact your financial adviser.

If you don't have an adviser and want to find one in your area, visit [IFA Promotion Ltd](http://www.unbiased.co.uk) at www.unbiased.co.uk or the [Personal Financial Society](http://www.thepfs.org) at www.thepfs.org