

For financial advisers only

Bonds benefits

'Tax-free' withdrawals

Virtually tax-free growth

Control of the tax point

Inheritance tax efficiency

Assignment

Top-slicing

Bonds could give your clients the financial edge over unit trusts and open-ended investment companies (OEICs). This case study, one of a series of six, shows how a bond's virtually tax-free growth can benefit your clients.



The client

Gemma has just returned to the UK after working in Dubai for a number of years. She made quite a bit of money in Dubai and now wants to make the most of it to help fund her in retirement – where she expects to be in a lower tax bracket. Gemma has an adventurous outlook on life, which is reflected in her attitude to investment – she’s happy to take a risk or two.

Her financial objective

Gemma wants to build as much money as possible for her retirement. If she needs to take a risk to achieve this, then she will. But she doesn’t want to risk everything, so she needs an investment that can help her achieve as much growth as possible. She has £150,000 to invest.

The solution

Achieving the best possible growth from her investment and having control over the tax point are Gemma’s key objectives. After considering everything, her adviser recommends an offshore bond.

Bonds versus unit trusts and OEICs

Benefit	Offshore bond	Unit trust or OEIC
Key objective – virtually tax-free growth	This should help Gemma over the longer term. The fund isn’t subject to tax on income or gains (other than non-recoverable withholding tax), often known as ‘gross roll-up’. Add this to Gemma’s appetite for riskier and potentially higher returning funds, she could really benefit from this feature of her offshore bond. <i>Key objective met.</i>	This isn’t a feature of a unit trust or OEIC. Investors face a yearly income tax charge at their highest income tax rate, even if the income is accumulated within the fund. <i>Key objective not met.</i>
Key objective – control over the tax point	Gemma won’t face any personal tax liability until a chargeable event occurs, such as cashing in her offshore bond. Gemma can wait until she’s in retirement, and potentially a lower tax bracket, before she does this. <i>Key objective met.</i>	This isn’t an option in a unit trust or OEIC as there’s a yearly income tax charge. <i>Key objective not met.</i>

As you can see, an offshore bond gives Gemma everything she was looking for – and more besides. She could also benefit from its other features, including the vast range of investments available, no capital gains tax liability on switching funds, inheritance tax efficiency and easy assignment.

Other benefits	Offshore bond	Unit trust or OEIC
'Tax-free' withdrawals	Gemma can withdraw 5% of her initial investment every year for 20 years without facing an immediate tax charge. She can also carry forward any unused allowance to future years. Any withdrawals within this allowance are included when calculating the tax on the final gain when the bond is cashed in.	Income from unit trusts and OEICs does incur a potential income tax liability of 32.5% on dividends and 40% on interest (for higher rate taxpayers), even if the income stays within the investment.
Simpler tax returns	Gemma won't need to put information about the bond on her self-assessment tax return while she stays within her 5% withdrawal allowance. She'll need to include information when she cashes in her bond, though.	Investments in unit trusts or OEICs do generate a large burden of paperwork associated with the tax return, as yearly income must be included and CGT calculations may be required on disposals.
Top-slicing	Top-slicing is a relief against higher rate tax on a chargeable gain as it takes into account that the gain has built up over a number of years. If Gemma isn't a higher rate taxpayer when she cashes in her bond, she may be able to use this to reduce her tax liability. Ask us for our sales aid on top-slicing for more information.	Top-slicing isn't a feature of a unit trust or OEIC.
Time apportionment relief	Gemma won't benefit from this, as she didn't take out her bond until she returned to the UK. However, in other circumstances this feature can be used to reduce the gain on offshore investments proportionately for any period where the investor was a non-UK resident.	Time apportionment relief isn't a feature of a unit trust or OEIC.



To find out more about all the benefits clients can get from investing in bonds, take a look at the other sales aids in our series. Please get in touch with us for your copies.

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

If you want any more information on our investment offering, please get in touch with us.

Committed to meeting investment needs

We're committed to helping you meet your clients' needs. Included in our overall investment offering are our two five-star rated bonds.

Onshore	Offshore
Investment Control	Wealth Management Portfolio
	

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