

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 can generate tax-efficient income.





The client

John is an accountant from Solihull who lives with his wife and three children. He wants to spend more time with his family and, although he's getting ready to wind down to retirement, he doesn't want to stop working just yet. John's a relatively cautious investor.

His financial objective

John already has good pension provision, but he wants to supplement his current income, in the most tax-efficient way possible, as he gets closer to retirement. He has £75,000 to invest and isn't sure where to put his money.

The solution

John's key objective is to generate extra income in the most tax-efficient way. However, because he's still some way from retirement, his financial adviser knows John also needs an investment that's flexible enough to change if his circumstances do.

After taking everything into consideration, his adviser recommended an offshore bond to John.

Bonds versus unit trusts and OEICs

Benefit	Onshore bond	Unit trust or OEIC
Key objective – 'Tax-free' withdrawals	John can withdraw 5% of his initial investment every year for 20 years without facing an immediate tax charge. He can even carry over any unused entitlement to future years. Any withdrawals within this allowance are included when calculating the tax on the final gain when he cashes the bond in. Key objective met.	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. Key objective not met.

As you can see, an offshore bond gives John everything he was looking for – and more besides. He could also benefit from its other features, like top-slicing or the freedom to switch funds without a tax liability, although these aren't a priority for him.

Other benefits	Offshore bond	Unit trust or OEIC
Virtually tax-free growth	Even though this wasn't a key objective for John, his new offshore bond allows his fund to grow virtually tax-free.	Investors in a unit trust or OEIC face a yearly income tax charge.
Assignment	John can assign his offshore bond to a child (aged 18 or over) without incurring an income or capital gains tax liability. As long as he's genuinely gifting his bond, this means the tax due on cashing the bond in will be at the children's tax rates.	Gifting a unit trust or OEIC could incur a capital gains tax liability.
Control of the tax point	John will only need to pay tax if a chargeable event occurs. And with an offshore bond, he can control when that happens. So if he wants he can wait until he's in a lower tax bracket so he can reduce his tax liability.	This isn't an option in a unit trust or OEIC as there's far less control because income tax is due each year.
Simpler tax returns	After years of record keeping for others, John might find avoiding the need to record his 5% withdrawals on his self-assessment tax return an added bonus.	Investments in unit trusts or OEICs do generate a large burden of paperwork associated with the tax return – just what John could do without when he's looking to retire.



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 tax ation 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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