

Investment Bonds

Technically, Investment Bonds are a single premium life assurance contract and will usually include nominal life cover.

The owner of the Bond does not pay tax until a 'chargeable event' occurs, for example surrendering the investment, which means the tax is therefore 'deferred'.

It is possible to withdraw 5% of the initial value of the Bond each year for at least 20 years without any tax charge applying. These 5% tax deferred withdrawals are cumulative. However any chargeable gains, for example on surrender or withdrawals exceeding the cumulative 5% limit available, will be subject to income tax.



Helen Jeffrey
Chartered Financial Planner

An investment Bond can be 'Onshore' or 'Offshore' and different taxation applies to each.

Onshore Investment Bond

An Onshore Bond is deemed to have paid basic rate tax on any gains or income within the fund, which means that no further tax should be payable for a non or basic rate taxpayer at the chargeable event .

However an additional income tax charge could arise if, at the chargeable event date, any (average) chargeable gain when added to the Bond owner's income results in them becoming higher/additional rate tax payers.

Offshore Investment Bond

An Offshore Bond is deemed not to have paid tax or gains within the fund, which means at the chargeable event date tax should be payable.

The full chargeable gain would be added to the Bond owner's total taxable earnings for the year but could utilise any available Personal Allowance (currently £12,570), Standard Rate Limit for savings income (currently £5,000) and Personal Savings Allowance (currently £1,000 for basic rate tax payers). Therefore if you have no income then the total amount taxed at 0% would be £18,570 and the balance taxed at 20%.

As for an Onshore Bond, an additional income tax charge could also arise if, at the chargeable event date, any (average) chargeable gain when added to the Bond owner's income results in them becoming higher/additional rate tax payers.

Inheritance Tax Planning

Bond holders (Onshore and Offshore) may wish to consider making gifts from their investments in future to reduce the potential Inheritance Tax liability on their estate. Segments of the Bond can be assigned to the Bond holder's beneficiaries and if those beneficiaries made encashments in excess of the 5% allowance, those gains would be taxed at their own highest tax rate which could be advantageous if, for example, the beneficiaries are non-taxpayers.

For further information please call us on 01789 263257 or email: justask@jjsltd.com

Information in this document is valid for tax year 2023/24

04/2023