CARPENTER BOX
FINANCIAL ADVISERS

Investment Bonds

What is an investment bond?

An investment bond is a single premium life assurance policy. However it’s s fundamentally a collective investment enabling the investor to invest a lump sum in order to benefit from the features of the product and the tax treatment that applies to them.

How can I invest my fund?

Investment options are often limited by the bond provider. Sometimes the options are restricted to a selection of the provider’s own ‘insured’ funds. Some bonds can offer a wide range of investment options. These bonds are known as ‘open-architecture’ and may allow investment in:

- Insurance company funds (own and external companies’);
- Unit Trusts;
- Open-Ended Investment Companies (OEICs);
- Investment Trusts;
- Exchange Traded Funds (ETFs);
- Bank and building society deposits;
- Discretionary Fund Manager (DFM) portfolio.

In addition, some offshore bonds can hold small foreign currency deposits, but cannot ’invest’ in currency for speculative purposes.

- Some providers offer ‘with profits’ bonds.
- Care must be taken when investing within an investment bond as a ‘personalised’ bond would be subject to tax during the life of the bond.

Who can take out an investment bond?

- *Individuals over the age of 18 (solely or jointly with another investor)*
- *Maximum age limits may apply.*
- *Trustees*
- *Limited companies*
- *Charities*

Different tax treatment will apply to non-resident investors, limited companies and charities.

Main features of investment bonds

- A vehicle for investing a lump sum. Additional lump sums can often be added once the bond is in force.
- It is sometimes also possible to add regular contributions to an investment bond.
- The term of a bond is usually open-ended. Where the bond has lives assured, if not encashed earlier, the bond must end on the death of the last ‘life assured’.
- Alternatively, for joint life plans it is possible for the bond to end on the ‘first death’. This must be decided at outset
- Most investment bonds will pay a little more than 100% of the value of the bond on the death of the life assured. This is the life assurance element of the bond.
- Some providers offer ‘Capital Redemption’ Bonds. The term of these bonds is openended and not dependent on the life of a ’life assured’.
- Investment bonds can be based onshore (in the UK) or offshore.
- You can take withdrawals whenever you need to. However, the provider may apply a penalty in the early years.
- It is possible to take regular withdrawals of capital. Up to 5%pa of the capital invested can be withdrawn each year without an immediate tax charge.
- If not taken the 5% withdrawals can be ‘rolled up’. For example, 10% of the capital invested can be withdrawn in year two.
- Regular withdrawals of more than 5% can be taken but an immediate tax charge will apply.
- After 20 years of 5% withdrawals being taken, any further withdrawals will be taxed as income (although onshore bond gains come with a basic rate tax credit based on the tax already paid within the life fund).
- Lump sums can be taken from the bond at any time and regular withdrawals can be stopped, started or amended at any time subject to any limits imposed by the provider
- Investments within an investment bond can be sold and reinvested without any immediate tax consequences
- There may be charges to switch funds within a bond.
- Bonds are often arranged in a number of ’segments’ which can be treated separately, providing greater opportunities for tax planning.
- Bond segments can often be assigned to a new owner. As long as the assignment is ‘not for monies worth’ there will be no income tax consequences on assignment. However, there may be Inheritance Tax consequences.
- Some types of investment bonds can distribute natural income.

The tax treatment of investment bonds is complex and financial advice is important before taking any action to withdraw funds.

Chargeable gains are taken into account when calculating your ‘adjusted income’. As such, chargeable gains can affect your personal allowance, the High Income Child Benefit Tax charge, the Married Couple’s Allowance, and your income for Annual Allowance purposes.

Tax treatment for personal investors

Investment bonds are subject to UK tax at the same rates as Income Tax.

Onshore bonds are deemed to have paid UK tax at the basic-rate. Any higher rate tax liability will be charged via your Self-Assessment tax return.

For offshore bonds any chargeable gain will be potentially subject to Income Tax. A potential tax liability will occur when there is a chargeable event. Most commonly a chargeable event occurs on the death of the last life assured, when the bond is encashed or partially encashed, or when withdrawals of more than the allowable accumulated 5%'s are taken.

When a chargeable event occurs, the chargeable gain is calculated. The chargeable gain may attract top-slicing relief to help limit the amount of tax paid on encashment / partial encashment.

Investment bonds and Trusts

Investment bonds are often used by Trustees as there is little ongoing administration for the Trustees avoiding the need for Trustees to complete tax returns and incur accountancy fees on a regular basis.

The tax treatment of any gains depends on the type of Trust and whether or not the Settlors (the person/people making the gift into Trust) are alive and UK resident.

DISCLAIMER: An investment bond is a long-term investment. The fund value may fluctuate and can go down, which could have an impact on the fund available.

This represents our understanding of law and HM Revenue & Customs practice as at May 2021. The Financial Conduct Authority does not regulate tax planning.

Find out more

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