Understanding Investment Bonds

An Investment Bond is a single premium unit-linked life assurance policy, designed to achieve capital growth from the performance of units in funds usually managed by life assurance providers.

Investment Bonds generally fall into two categories, Onshore or Offshore and the main difference is their tax treatment. In high-level terms, Onshore Bonds are subject to UK corporation tax, which is offset by your provider, while Offshore bonds are issued from tax havens outside of the UK, for example the Isle of Man, Dublin, Luxembourg or the Channel Islands, where there is little or no tax charged on the funds.

Investment Bonds can be set up on the following bases:

- Single Life
- Joint Life First Death
- Joint Life Second Death
- With multiple lives assured
- Capital Redemption Bond (no lives assured)

On death of the life assured (or the second/last to die with joint/multiple life plans), up to 101% (depending on the product) of the value of the fund is payable to your beneficiaries.

Investment Bonds can invest in a range of investment funds and instruments (varies between providers) and some also allow for a third party discretionary fund manager to be appointed.

They are designed to provide capital growth but can also facilitate a regular income withdrawal. Regular withdrawals of up to 5% of the amount invested may be taken each year free of any immediate tax liability until 100% of the original investment has been withdrawn. Withdrawals in excess of this are possible, but an immediate tax charge is likely if you are a higher or additional rate taxpayer at the time. Nil or basic rate taxpayers may also face an income tax charge depending on the level of investment gain and period of investment.

Taxation
Gains realised from an Investment Bond are potentially assessable to income tax when the Bond is encashed or withdrawals are made in excess of the cumulative 5% annual allowances, or on the death of the nominated life assured (or last surviving life assured).

When you invest in an Onshore Bond you are treated as having paid income tax at the basic rate on any investment gains due to the ongoing taxation of the underlying funds while you are invested. This notional tax is not repayable in any circumstances. You will have no liability to Capital Gains Tax or basic rate Income Tax on bond gains.

A personal income tax liability will only be incurred on an Onshore Bond on **full encashment** if the gain, when divided by the number of years the Bond is held for, causes the policyholder's income to exceed the higher rate tax threshold when added to the policyholder's taxable income. If you are already a higher rate taxpayer then the same process will determine whether a liability to Additional rate tax will arise. If tax is payable, a credit is given for the 20% tax paid within the bond fund.

Different rules apply on **partial encashments** and you should seek professional advice before transacting any partial withdrawals from your Investment Bond.

Offshore Bonds are free of ongoing taxation (with the exception of withholding tax in some instances) during the period of your investment. As a result Income tax is paid at the policyholder's marginal rate on any gain realised, which means that nil or basic rate tax payers may also incur a tax liability, although the personal allowance, savings rate band and personal savings allowance may allow some gain to be taken tax free.

Important Information
Our advice has been prepared based on our company's understanding of the current law and HM Revenue and Customs' practice. Whilst we believe the interpretation is correct we cannot guarantee it. Tax treatment of funds may change in the future.

Bonds are intended to be a medium to long-term investment and should be held for at least five years.

PLEASE REFER TO OUR SEPARATE DOCUMENT 'GENERAL AND INVESTMENT RISK WARNINGS' FOR ADDITIONAL INFORMATION RELATING TO THE RISKS OF INVESTING.