Cambrian

Onshore Investment Bond

What is it?

An investment bond is technically a single premium life assurance contract although the life cover aspect is only nominal. Bonds are collective investments in which the investments of many individual investors are pooled. This pooling enables relatively small investors to benefit from the economies of scale made available to institutional fund managers.

A wide choice of managed, general and specialist funds are available offering investment opportunities in equity, property and fixed interest securities. Bonds enjoy the facility to switch between these internal insurance company funds at a reasonable cost if desired. Although classed as single premium investments, 'top up' facilities are offered, allowing further amounts to be invested either on a regular or ad hoc basis.

Eligibility

To be eligible to invest in an investment bond, an individual investor must be 18 years of age or over. The investment can also be made on a joint basis, or by a company or trustee(s).

The nominated life (lives) assured is usually the applicant / investor but could also include an individual aged under 18.

Contribution limits

The minimum lump sum is usually £5,000 but this may be higher or lower depending on the provider. The maximum limit will be set by the provider.

Taxation

The underlying funds of Investment Bonds are subject to tax within the fund on income and gains (after indexation – to December 2017 only). Any 'income' you need is achieved by selling units.

Investment bonds are sometimes, incorrectly, described as a tax-free investment when they should really be described as tax-paid. Basic-rate tax is deemed to have already been deducted at source, and as such a basic-rate taxpayer will have no further liability to either income or capital gains tax (providing any top-sliced gain does not take their total taxable income above the basic rate band).

Investors also benefit from the '5% rule' which allows them to withdraw up to 5% of the initial premium each year (until such time as all of the original investment has been withdrawn, for example 20 years if 5% is withdrawn each year) with no immediate personal tax liability (which may be particularly attractive to higher and additional rate taxpayers).

Changes to top-slicing relief calculations for gains made from 11 March 2020 onwards:

- Allowances and reliefs have to be set as far as possible against other income in preference to the gain
- The personal allowance is reinstated within the top-slicing relief calculation where it has been reduced by reason of including a gain in their income for the year i.e. in the step of the calculation where the tax on the slice is worked out, the personal allowance used is that available based on income plus the ‘slice’ (Note: This doesn’t change the fact that the full gain forms part of Adjusted Net Income as described further below)

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

You can withdraw some or all of your money whenever you need to.

You can benefit from the '5% rule' which allows you to withdraw up to 5% of the initial premium in each policy year (until such time as all of the original investment has been withdrawn, for example 20 years if 5% is withdrawn each year) with no immediate tax liability. At the start of each policy year, a tax deferred allowance is accrued of 5% of the premiums paid. If this allowance is not used it can be carried forward to use in future policy years (the cumulative allowance).

Should you need to make withdrawals in excess of the 5% entitlement in order to achieve the necessary 'income' level in the future, any such excess would be added to your taxable income in the year and only if income goes into the higher rate tax band would a tax liability arise (with top-slicing being available if your total taxable income does not already fall into the higher rate tax band).

Top-slicing is also available to higher rate taxpayers where the total gain is not covered by the higher rate band, in order to assess whether any additional rate tax is due.

The fund is deemed to have suffered 20% on its own income and capital gains. The liability on the excess for an investor will depend on their level of total taxable income (in 2020 / 21 the additional tax rate will only apply if total taxable income, including the top-sliced bond chargeable gain, exceeds £150,000).

The final 'sweeping up' chargeable gain on full encashment is calculated by adding the amount paid on surrender to the total of all previous withdrawals and deducting from that the total of all previous chargeable excesses and the single premium paid. If you are not already a higher / additional rate taxpayer, the gain is then top sliced over the total number of years that the policy has been in force and the 'slice' added to income to establish the tax rate applicable.

On death of the last life assured a lump sum will be paid out based on the surrender value of the investment, this will be taxed in the same way as a surrender.

You should also be aware that if a chargeable gain occurs, the full gain is added to your other income in the tax year for the following purposes:

- In order to assess whether 'adjusted net income' exceeds £100,000 and the Personal Allowance is reduced or lost (lost completely once total income reaches £125,000 in 2020 / 21)
- In order to assess whether 'adjusted net income' exceeds £50,000 and the High Income Child Benefit Tax Charge is applied (the child benefit is clawed back completely by way of the tax charge once adjusted net income reaches £60,000)
- In order to assess whether Married Couple's Allowance is reduced (i.e. where at least one of the couple was born before 6 / 4 / 1935) - this allowance is reduced if 'adjusted net income' including the full gain exceeds £30,200 (2020 / 21)
- To calculate 'adjusted income' (a different figure to the above) and 'threshold income' when assessing whether the pensions annual allowance needs to be tapered – if adjusted income exceeds £240,000 and threshold income exceeds £200,000 the annual allowance is reduced (to a minimum of £4,000 if adjusted income reaches £312,000 plus)

The Provider may apply penalties to your investment in the event of partial or full surrender of the Bond within the first few years of investment. These are applied on a sliding scale basis, over the period.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Past performance is no guarantee of future returns.
- If growth is low, charges may eat into the capital invested.
- Any ad-hoc or ongoing adviser charges being paid from an investment bond will count towards the 5% tax deferred allowance.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount invested.
- If withdrawals are made at a rate which exceeds the net growth of the fund, capital will be eroded.
- Before making any withdrawals in excess of the cumulative 5% allowance, you should seek advice in respect of the most appropriate and tax efficient method of achieving this.
- The price of units and the income from them can fall as well as rise.
- An early withdrawal charge may apply.
- The government may change the tax rules that currently apply to onshore bonds.
- Please be aware that there may be occasions when an individual fund or funds may have a higher risk rating than your overall stated attitude to risk. If this is the case, then the overall risk rating applied to all of the combined funds being recommended will still be designed to meet your stated tolerance.
- The illustration uses certain assumed rates of growth, as prescribed by the Financial Conduct Authority, these rates are not guaranteed.