**Unit 10: Investment Bonds**

[**https://quizlet.com/gb/894685338/unit-10-investment-bonds-flash-cards/?i=24ef59&x=1qqt**](https://quizlet.com/gb/894685338/unit-10-investment-bonds-flash-cards/?i=24ef59&x=1qqt)

Investment Bonds Full Name

Life Assurance Investment Bonds

What are Investment Bonds

Single premium life assurance policies.

How many policy holders?

Single, joint, multiple owner basis.

How do you offload an investment bond?

Open- Ended: Return to provider.

What determines their price?

NAV

Can access to money be suspended?

Yes.

What is a qualifying policy?

No additional income tax if meets set criteria regardless of investors status.

Qualifying Policy Criteria

Regular premiums: Min once a year.

Min 10 years policy.

Life cover: 75% of premiums.

Man annual premium : £3600.

Implication of Qualifying Policy Criteria

Due to strict rules, mainly used for pure life cover.

What is a qualifying policy?

Maybe additional Income Tax on gains & chargeable events.

Corporation Tax on Life Policies

Corporation tax on income/ gains WITHIN the fund (unlike Funds/Trusts).

Creates a ‘tax drag’.

Can investor reclaim corporation tax paid within fund?

If onshore no.

Even if non- taxpayer. (tax liability of for firm not them)

CGT for life assurance policies.

No CGT for either qualifying/ non-qualifying as long as haven’t been traded.

Only original owner of policy.

Chargeable Events for non-qualifying policies

DAMPS

Death

Assignment

Maturity

Partial Surrender

Surrender

Chargeable Events: does death the policy?

Not necessarily.

Can have multiple lives insured.

Chargeable Events: Is income tax payable after death?

Yes- estate responsible.

Depends on other income received in tax year of death.

Chargeable Events: Surrender in full- what is tax levied on?

Income tax on GAIN (odd)

Assignment: what is this?

Change in ownership of life policy via deed of assignment.

Assignment: When is this a chargeable event?

Only if exchanged for ‘money or moneys worth’ – e.g. paying off a debt.

Outright gift NOT chargeable.

Assignment: Are gifts chargeable events?

No.

Part Surrender: When is this a chargeable event?

If exceeds 5% tax-deferred allowance.

Part Surrender: 5% Annual Allowance

Can withdraw 5% original investment every policy year for 20 years.

Cumulative Basis: if don’t withdraw anything, in year 8 could take out 8x5% of original investment.

Part Surrender: What if withdraw more than 5% Annual Allowance

Only excess above 5% would be charged tax immediately.

Is the 5% tax-deferred allowance tax-free?

No.

Deferred to later chargeable event – death/ maturity.

Taxable Gain on Full Surrenders or Death Formula

Value + Untaxed Withdrawals – Original investment

Corporation Tax on Onshore Vs Offshore Bonds

Onshore: Paid within fund.

Offshore: None. (Maybe withholding tax)

Income Tax on Onshore Bonds

Basic rate deemed paid.

HRT owe additional 20/25%.

Can non- taxpayers reclaim Income Tax on Onshore Bonds

No.

What type of product isn’t suitable for non-taxpayers?

Onshore Bond.

Cant reclaim income tax that has been deemed to have been paid.

Income Tax on Offshore Bonds

No income tax deemed paid.

NT: Owe nothing.

Basic: 20%

Higher: 20/25%

Fees/ charges on Offshore Bonds

Tend to be higher.

What type income is investment bond income classed as?

Savings income.

Can use PSA.

Top-slicing

Divides gain by number of policy years.

Only top-sliced amount is taxable for each year.

Top-slicing purpose

Stops people going into higher tax bracket.

Top-slicing: Part years

Full surrender or death: Only Complete years.

Partial surrender: Can conclude part years

Top-slicing: Are slices equal?

Yes.

When would top-slicing be beneficial?

If takes you into next bracket

If would lose personal allowance- net income over £100k.

If haven’t utilized their PSA.

What type of investors would investment bonds be suitable for?

People who are higher rate taxpayers now

Create chargeable event later when earn less.

Segmentation

Splitting bonds into mini-bonds to create flexibility.

Segmentation Options

1. Part surrender ALL mini-bonds.
2. Fully surrender some mini-bonds.

When to part surrender mini-bonds.

If large gain and has been running for several years.

When to fully surrender mini-bonds.

If smaller gain in early years.

‘With Profits’ Bond

Annual bonuses

Try and keep these consistent – hold money back in good times.

May have a terminal bonus (not guaranteed)

Market Value reduction

ERC if access with profits bond during the term.

Market Value reduction : Purpose

Protect other investors from people removing money from fund.

Unitized ‘With Profits’ Bond

Bonus either increases unit value or number of units.

Unit Linked Bond

Buy units which change in value on daily basis with NAV.

Unit Linked Bond: Pros/cons

Simpler but more variable.

Issues with open-ended property funds?

Liquidity.

Can suspend trading for up to 6 months.

Not the case with REITs.

Guaranteed Income Bond

Single premium.

Guaranteed income for set period- 5 years.

Capital returned at end.

Guaranteed High-Income Bond

Same as standard income bond but capital not guaranteed.

Guaranteed Growth Bond

Single premium.

Guaranteed capital sum.

Guaranteed Growth Bond: Pros

Good if want capital growth as no CGT.

Distribution Bonds

Income is paid out at set time.

This is kept separate from the capital.

Pros of Investment Bonds

Control timing of chargeable events – 5%

Assignment as gift tax free

No CGT switching funds

Simple admin for trusts.

‘Tax-Drag’

Corporation tax on onshore bonds will reduce investment returns.

Wont grow as quickly as funds/trusts.

Cons of Investment Bonds

Corporation tax creates ‘tax-drag’

Onshore bonds not suitable for non-taxpayers.

Not good if tax liabilities will increase.

What is a Friendly Society?

Mutual version of life insurance company.

Offer certain tax-free products can’t get elsewhere.

Friendly Society limits per person

Regular: £25 per month

Lump sum: £270