Axxis House, 178a High Road
Byfleet, Surrey, KT14 7ED

t. 01483 825 609
e. enquiries@axxisfinancial.co.uk
w. www.axxisfinancial.co.uk

Example of a Trustee Investment Bond Report

For

The Trustees of the Example Trust

22nd March 2018

Axxis Financial Planning Ltd is regulated by the Financial Conduct Authority

Contents

Introduction

Our recommendations have been prepared based on information provided by you regarding your financial circumstances. If this report does not coincide with your view of the situation or you require any further clarification please contact me immediately. Any material facts in the confidential Suitability Questionnaire that have been incorrectly stated or have been omitted by you could alter the validity of the advice and we could no longer accept responsibility for them.

You have been provided with a copy of our Client Agreement and our Initial Disclosure Document.

Recommendations are based on our understanding of current legislation and Inland Revenue practice.

The principal purpose of this report is to:

1. Confirm your objectives
2. Provide a solution to those needs
3. Provide relevant background information

Objectives

- You have indicated to me that you wish to invest for potential growth over the medium to long term for and on behalf of the five beneficiaries.

- Wide investment powers are important and you require a comprehensive range of funds to switch in and out of.

- Internet access would be useful to allow you to obtain online valuations and to switch funds.

Current Situation

- You are acting in your capacities as joint Trustees and the Example Trust is an Interest in Possession Trust which was set up by a Deed of Variation since the Settlor died intestate.

- There is a wide range of ages between the 5 beneficiaries and no age limit on when they become entitled. So we need to ensure the proposed investment is set up for them to take their share at different points in the future.

Attitude To Investment Risk and Return

Many of the financial objectives that you wish to achieve will involve investment products where a degree of risk might be appropriate in order to enhance the potential returns you can obtain.

It is important that any such products match your feelings and preferences in relation to investment risk and return. To this end, we have matched your 'risk profile' to a scale of 1 - 20, where 1 represents low risk and 20 represents high risk.

You have indicated that you are require a broad risk profile of between 9-19 with exposure to both cautious and speculative sectors. This is indicated in the table below:

Examples of investment fund and product risk ratings:

Rating	Description	Product Type	Percentage to invest
20	Highly Speculative	Futures and Options Unquoted Stock	0%
17-19	**High**	**Venture Capital Trusts** **Single Company Stock** **Emerging Markets funds** **Far East funds**	**10%**
13-16	**Medium/High**	**UK Smaller Companies funds** **North American funds** **European Equity funds**	**20%**
9-12	**Medium**	**UK Equity Growth/Income funds** **Tracker funds** **Managed funds**	**70%**
5-8	Medium/Low risk	With profit funds Cautious Managed funds	0%
1-4	Low risk	Gilt and Fixed Interest funds National savings Deposit accounts (including cash ISAs)	0%

Investment Bonds

An investment bond is a non-qualifying, single premium "whole of life" policy although the life cover aspect is nominal. 'Top up' facilities are offered, allowing further amounts to be invested either on a regular or ad hoc basis. You anticipate that an additional £100,000 will be added to the investment later since there is still money owed to the Estate.

Bonds are collective investments in which the investments of many individual investors are pooled. This pooling enables all investors to benefit from the economies of scale made available to institutional fund managers.

All Investment Bonds are to be considered longer-term investments and as such some companies apply penalties should withdrawals be made during the first five years. I have avoided considering bonds with any Early Redemption penalties given the age of the eldest beneficiary.

Offshore Investment Bonds Tax Treatment

An offshore bond avoids paying tax at source on the growth of the investment, other than "withholding tax", which is a tax on dividend income and in some countries this cannot be reclaimed. This tax advantage is known as "gross roll-up" and provides the potential for an offshore bond to outperform compared to an onshore bond where the underlying assets are taxed more heavily. Whilst you are invested in an offshore investment bond, tax is liable when you surrender or part surrender it if this creates a "chargeable gain". This will depend on the tax and residency circumstances of the beneficiaries at the time they encash some or all of the bond. So an offshore investment bond allows you to control when and how much tax you pay on any growth. When profits are taken from the offshore investment bond, they are taxed as income at whatever tax rate applies to the investor in the country they are residing in. This allows the investor to defer tax and to time the surrender of an offshore investment bond and control what tax they pay and when they pay it.

Income Tax Treatment

- You are allowed to withdraw 5% of the original amount invested each year (this 5% is cumulative so if you do not use it in one year you can carry it forward to future years) without any immediate liability to tax, or having to declare anything on your tax return up to a maximum amount of 100% of the initial investment.

- Any withdrawals exceeding 5% of the original amount invested may give rise to a charge to income tax at the appropriate rate.

- On full encashment of the investment bond, a "chargeable event" will occur. The final 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. 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.

Capital Gains Tax Treatment

- Life assurance bonds are not generally subject to capital gains tax as long as the policyholder is the owner on encashment.

Product Features

- There is a choice of a wide range of funds to choose from.

- You can usually switch between funds with nil or minimal charge. It is possible to switch funds within the bond without triggering a tax charge.

- Although the policy is a whole of life contract there is normally only a limited amount of life cover, usually 101% of the value of the units.

- Investment bonds have no fixed term so it can be encashed in whole or part at any time, but may be subject to encashment penalties in the early years.

- Investment bonds provide the potential for capital growth over the medium to long term.

- When required, a regular income can be generated. It is possible to withdraw 5% per annum of the original sum invested for 20 years without giving rise to an immediate income tax charge.

- An investment bond is a non-income producing investment and therefore it will help preserve the personal income tax allowance of the beneficiaries. Moreover, in future years we can deliberately trigger making a Chargeable Gain in a tax year when a beneficiary has no or a lower income to make good use of their personal allowances.

- An investment bond can be divided into a number of segments for maximum flexibility and tax efficiency. This can have tax advantages when triggering a “chargeable event” and can allow you to choose whether to draw down funds through surrendering segments or through taking withdrawals.

Adviser Charge

Axxis Financial Planning Ltd will receive payment of 0.25% of the value of the investment per annum. So if the investment bond was worth £400,000, Axxis Financial Planning Ltd would receive £1000 per annum for as long as the investment bond was in force. Please note that ongoing adviser charges paid by the provider come out of the product and are paid monthly to Axxis.

On-going adviser charges are paid after investing money in the product and deemed to be part surrenders. This means they form part of the 5% per annum cumulative withdrawal allowance. However, there is a way to avoid this which is to name Axxis as a Discretionary Asset Manager which will allow the 5% cumulative allowances to be unaffected by the Adviser Charge.

Asset Allocation

Finding value in today's market was challenging, given the strength of the FTSE and the weakness of the pound. To address this I have looked at Investment House views and the table below collates positive, negative and neutral outlooks for equities, bonds and currencies. Where we see a black triangle pointing downwards, this indicates a negative sentiment. A green triangle pointing upward shows a positive House view. The three sectors with a positive consensus (which is the last horizontal row) are Europe, Japan and Emerging Markets.

FEBRUARY 2018

These are Investment House views and are not fund-specific.

▼ Negative
↔ Neutral
▲ Positive
– View not provided
↑ Positive shift
↓ Negative shift

	Equities								Property	Bonds			Currencies		
	UK	UK Smaller Companies	US	US Smaller Companies	Europe	Japan	Pacific ex Japan	Emerging Markets	Property	UK Government	UK Corporate	Global	£/$	£/Euro	£/Yen
Aberdeen*	↔	–	▼	–	▲	↔	▼	↔	↔	▼	↔	↔	▲	▼	↔
Aviva Investors	▼	▼	▼	▼	▲	▲	▼	▲	↔	↔	▼	▼	↔	▲	↔
Barings	↔ ↓	↔ ↓	▼	▼	▲	▲	↔	▲ ↑	↔	↔	↔	▲ ↑	↔	▲	↔
BNP Paribas	↔	▼	↔	▼ ↓	▲ ↑	▲ ↑	↔	▲ ↑	↔ ↓	▼ ↓	▼	↔	▲ ↑	▼ ↓	↔ ↓
BNY Mellon	▲	↔	▼	↔	▲	▲	▲	▲	↔	▼	▼	▼	↔	↔	▼
BMO	▼	▼	↔	↔	▲	▲	▼	▲	–	▼	↔	↔	–	–	–
Columbia Threadneedle	↔	↔	▼	▼	▲	▲	▲	↔	▲	▼	↔	▼	↔	▼	▲
Fidelity **	▼	–	▼	–	▲	↔	↔	↔	▼	–	–	▼	↔	↔	↔
Janus Henderson	▼	▼	▼	▼	↔	▲	▲	▲	↔	↔	▼	↔	↔	↔	↔
HSBC	↔	–	↔	–	▲	▲	▲	▲	↔	▼	▼	▼	–	–	–
Invesco Perpetual	↔	↔	↔	↔	▲	↔	▲	↔	↔	▼	▼	▼	↔	↔	↔
Investec	↔	↔	▲	▼	▲	▲	▼	↔	↔	▼	↔	↔	↔	↔	▼
JPMorgan	▼	–	▲	–	↔	▲	–	▲	–	–	–	–	–	–	–
M&G	▲	▲	↔	↔	▲	▲	▲	↔	↔	▼	↔	↔	▲	▲	▲
Pictet	↔	↔	▼	▼ ↓	▲	▲	▲	↔	↔	↔	▼	▼	↔ ↑	↔	↔ ↑
Rathbones	↔	↔	▼	▼	▼	▲	▲	▼	▼	▼	↔	▼	↔	↔	▲
Schroders	↔	–	▲	–	▲	▲	▲	▲	↔	▼	▼	–	▼	▲	↔
Wells Fargo	–	–	▲	↔	–	–	▲	▲	–	↔	▼	▼	↔	–	▼
Consensus	↔	↔	▼	▼	▲	▲	▲	▲	↔	▼	▼	▼	↔	↔	↔
Indices Monthly % Performance	-0.81	0.52	0.69	-1.38	1.62	0.13	1.13	2.34	-1.65	-1.89	-0.45	-1.70	-4.87	-1.32	-1.83

* *This is the view of the Aberdeen Solutions Team, they do not represent those of Aberdeen Asset Management PLC or of other underlying investment teams. These views are general indicators and do not specify a numerical value in relation to their outlook.*

** *This is the view of Fidelity Multi Asset' Tactical Asset Allocation team. It does not represent those of Fidelity Multi Asset, or Fidelity International more broadly. These views give an overall sense of our investment view, but do not indicate a specific numerical value or index in relation to their outlook.*

I have based the proposed asset allocation on your attitude to investment risk questionnaire. I have included a mix of both actively managed funds and lower cost Exchange Traded funds, which are often referred to as "passive" since they replicate the appropriate indices which they track. I have mixed the styles if the funds to include funds biased towards generating higher yields, growth funds and funds which target undervalued shares, sometimes referred to as "value" investing.

I recommend you invest in the following funds:

Fund	Type	Risk rating	% to invest	Initial Charge	Yearly charge
VANGUARD JAPAN	ETF	High	5%	0.00%	0.23%
FIRST STATE GREATER CHINA GROWTH	Managed	High	5%	0.00%	1.00%
VANGUARD DEVELOPED EUROPE	ETF	Medium High	10%	0.00%	0.12%
VANGUARD FTSE DEVELOPED WORLD	ETF	Medium High	5%	0.00%	0.15%
LINDSELL TRAIN GLOBAL EQUITY	Managed	Medium High	5%	0.00%	0.65%
VANGUARD FTSE ALLSHARE	ETF	Medium	17%	0.00%	0.08%
VANGUARD UK EQUITY INCOME INDEX	ETF	Medium	18%	0.00%	0.22%
ROYAL LONDON UK EQUITY INCOME	Managed	Medium	18%	0.00%	0.59%
FIDELITY SPECIAL SITUATIONS	Managed	Medium	17%	0.00%	0.67%

It should be noted that the portfolio can evolve over time through on-going monitoring and supervision of the portfolio. By taking profits from sectors which become over-valued and by investing in undervalued sectors we can continue to spread the risk and improve the diversification of the portfolio.

Charges

There are three sets of charges which apply to the proposed investment bond.

1. **Fund charges.** These have been explained in the table on the previous page in the column called "Yearly Charge". These charges are deducted by the Investment House or Exchange Traded Fund provider.

2. **Adviser Charge.** As disclosed on page 7 of the report 0.25% of the value of the bond is paid to Axxis Financial Planning Ltd each year.

3. **Platform Charge.** This is the charge made by the investment bond providers and is based on the valuation of the investment bond according to the tiered charging structure outlined in the tables below:

Value of bond	Old Mutual Select (Offshore)	Old Mutual Portfolio (Offshore)	Old Mutual (Onshore)
£0 - £25,000	0.60%	0.45%	0.35%
£25,001 -£100,000	0.45%	0.45%	0.35%
£100,001 - £500,000	0.40%	0.35%	0.30%
£500,001 - £1 million	0.35%	0.35%	0.25%
Over £1 million	0.25%	Refer	0.15%

Value of bond	Prudential International Portfolio (Offshore)
£0 - £249,000	0.70%*
£250,000 -£499,000	0.40%*
£500,000 - £1 million	0.20%*
Over £1 million	0.15%*

**There is an additional fixed charge of £126.26 per quarter for the Prudential International Portfolio Bond*

Value of bond	Transact Investment Bond (Onshore)
£0 – Over £1 million	0.30%*

**There is an additional fixed charge of £18 per quarter as well as buying charges of 0.05% on fund purchases for the Transact Onshore Bond*

By projecting future growth rates in line with the Financial Conduct Authorities prescribed guidelines which assumes future investment performance of 5.0% per annum, the table below shows the effect charges have on the future returns of an investment amount of £400,000 with no withdrawals being taken for three offshore bonds:

Surrender values	Old Mutual Select	Old Mutual Portfolio	Prudential International*
Year 1	415,000	416,000	£415,000
Year 2	431,000	432,000	£431,000
Year 3	448,000	449,000	£447,000
Year 4	466,000	467,000	£465,000
Year 5	484,000	486,000	£483,000
Year 10	586,000	591,000	£584,000
Reduction in yield after 10 years	1.1%	1.0%	1.07%

The last row of the table shows something called the "Reduction in Yield". This is the amount the future growth rate is reduced by all charges after 10 years. In other words, the cumulative effect of charges on the future value of the investment bonds.

**Please note the Prudential were not able to include the First State Greater China fund, so the figures are not completely on a "like for like" basis. Also the Prudential used a future assumed growth rate of 4.97% instead of 5%.*

The table below also shows the effect of charges for onshore investment bonds but uses a lower future assumed growth rate of 4.5% per annum, instead of the 5% per annum used for offshore bonds in the previous table. This reflects the less favourable taxation treatment of the underlying assets.

Surrender values	Old Mutual Collective Investment Bond	Transact Onshore Investment Bond
Year 1	£413,000	£412,000
Year 2	£427,000	£425,000
Year 3	£442,000	£439,000
Year 4	£457,000	£453,000
Year 5	£473,000	£468,000
Year 10	£561,000	£549,000
Reduction in yield after 10 years	1.1%	1.3%

We can see that the Reduction in Yield for onshore investment bonds is comparable to the figures in the previous table for offshore investment bonds.

Segmentation

We can atomise the bonds to create a cluster of mini policies. Although the default position is 12 segments, I recommend that you select the maximum number of policy segments available (investment amount divided by £400 = 1000) so as to increase flexibility and future potential tax-efficiency. You can choose to surrender these policy segments individually, as required. When it comes to partial surrender it can be advantageous to compare surrendering segments against utilising the cumulative 5% per annum allowances to see which one is the most efficient. Hence having a larger number of segments can allow us to target the desired surrender amount more accurately should this be the best way of taking benefits. I would assist the Trustees or beneficiaries in this task as and when the need arises.

Recommendation

Having considered all the issues, including your situation, objectives and attitude towards investment risk, I recommend that you take out an Offshore Investment Bond. This is because of the preferential tax treatment of an offshore investment bond, when compared to an onshore bond. A non-taxpaying beneficiary will not be able to reclaim the tax paid by an onshore bond. Furthermore several of the beneficiaries are likely to have several years of very low earnings should they stay in higher education. Careful use of their future personal income tax allowances, which is currently at £11,500, could allow them to deliberately trigger chargeable event gains which stay below the threshold at which they start to pay basic rate tax. Furthermore, the beneficiaries can utilise the 0% starting rate for the first £5,000 of savings since any gain is taxed at the 'savings income' rate. This, combined with the fact that some of the beneficiaries are likely to hold the bond for a long period of time and so will have plenty of years to apply when working out the “top slicing” calculation favours the use of an offshore investment bond.

I also recommend that you use a type of investment bond with no lives assured. This is called a Capital Redemption Bond and is often favoured by Trustees because it means that the bond will always continue within the trust even if the lives assured die. This allows the beneficiaries to time the triggering of chargeable events so that they can reduce or eliminate any future tax on the proceeds of the bond.

When setting up the bond I considered whether it would be prudent to set up five bonds for equal amounts within the trust. This would be appropriate should you prefer to write an onshore bond, rather than offshore because “top slicing” for an onshore bond only goes back to the latest chargeable event. So this would be unequal for the younger beneficiaries if we only wrote one bond. This does not apply to the offshore bond where the top slicing always goes back to the original date of investment so does not create unfairness for younger beneficiaries. We could set up “policy linking” for an onshore bond where 5 separate bonds are aggregated prior to applying the tiered charging structure to reduce the platform charges. However we cannot do policy linking for offshore bonds and each bond would have an administration charge of £102 per quarter. So should you prefer an offshore bond it would be cheaper to write one bond and make assignments to each beneficiary as and when required.

Charges for offshore investment bonds used to be significantly more expensive than for onshore bonds and this remained the case until quite recently. However, it is now possible to access offshore bonds for much lower cost and this was evident in the Reduction in Yield figures for onshore compared to offshore bonds. It used to be a question of whether the benefits of virtually “gross roll up” for an offshore bond compensated for the higher charges relative to onshore. However this is no longer the case as the charges for offshore bonds have reduced.

I recommend that you invest £400,000 with Old Mutual International into an offshore Investment bond. I favour the “Portfolio Bond” over the “Select Bond” because it is slightly cheaper and it has wider investment powers in terms of the amount of funds available to switch to. This investment bond is domiciled in the Isle of Man and I have included a summary of the Isle of Man Investors Compensation Scheme.in the appendix of this report.

Risk Warnings

It is important that you are not only fully aware of the advantages of the recommendations I am making, but also the potential disadvantages. You must carefully consider all the aspects of my recommendation, together with the potential drawbacks.

In relation to the recommendations made in this report, I would like to draw your attention to the following risk warnings:

- This is a medium to long-term investment and should not be entered into if you envisage withdrawing your money during the first five years.

- For a full explanation of the charges, please refer to the personalised illustration supplied by the product provider. This describes the features of the contract and the various ways the provider charges to provide those features.

- The value of the investment is determined by the value of units, the price of which can fall as well as rise. The overall value of the investment is therefore not guaranteed and you might get back less than you originally invested, especially in the early years.

- You should remember that past performance is not necessarily a guide to future performance.

- You will receive a summary of the plan details from the product provider shortly after completion of an application form. If within 14 days of receipt of this you should wish to cancel the plan, you can do so by returning a 'cancellation notice' that is included with the paperwork they send you.

- If your selected withdrawals exceed 5%, you will be subject to income tax at your highest marginal rate on the withdrawal amount over 5%.

- Where a fund invests in overseas markets, changes in currency exchange rates can affect the value of your investment.

- If income is taken at a rate which exceeds the net growth of the fund, your original capital will be eroded.

- Our recommendations are made on the basis of current legislation which is subject to future changes. We cannot be held liable should the tax treatment or legislation change in the future.

We strive to provide you with a first class professional service and hope that we can continue to be of service to you for many years to come. Should you require advice at any time with regard to any aspect of your financial planning, please do not hesitate to contact me and I shall be pleased to assist.

Appendix

Capacity for Loss

Having identified your attitude to risk, we also discussed your capacity for loss when investing any money. In other words, the amount of money you could afford to lose when making your investment.

- When asked to indicate the phrase which best describes your investment objective, you indicated that in you capacity Trustees you regard yourselves as a balanced investors. The potential for higher returns that may be achieved by investing in world stock markets as more attractive to you than the lower growth potential that more secure funds could offer. You are prepared to accept some fluctuation in the value of the fund. You understood that you could lose money, but you are seeking a balance between safety and investment growth.

- When asked how significant a drop in value of your portfolio would make you want to change your holdings your responses were that you were prepared to see the portfolio drop in value between 11% to 20%. .

- Your tolerance to market volatility was that you were prepared to accept a degree of short term reductions in the value of your investment in return for improved prospects of long term growth potential. However you still prefer the majority of your investments to be relatively free of higher rates of fluctuations.

- You indicated that if your investment portfolio fell in value by 16% you would not sell it, instead you would hold it in the hope that the value will improve.

- If your entire investment portfolio lost money over the next 12 months, you indicated that you would not sell your investments and invest the proceeds more conservatively.

Isle of Man Investor Compensation Scheme

Segregation of Assets.

Under the Isle of Man Insurance Act 2008, companies based on the Isle of Man are required to ring fence 100% of customers' assets by holding them in a long-term business fund (LTBF). The assets in the LTBF can only be used to meet the claims and long-term liabilities of customers. They cannot be used for any other purpose. Being segregated or 'ring-fenced' in this way means that if Old Mutual International was unable to meet its liabilities, customers' assets are protected.

Solvency and Reporting.

Companies operating from the Isle of Man have to hold a minimum solvency margin of 0.25% of the value of liabilities for 'linked' business (i.e. an Offshore Investment Bond) and 1% value of 'non-linked' business (i.e. life cover). The solvency margin is the difference between company assets and liabilities.

Isle of Man Compensation Scheme.

If a shortfall in the assets backing liabilities were to occur, customers are protected by The Life Assurance (Compensation of Policyholders) Regulations 1991. This provides customers with up to 90% protection if Old Mutual International were unable to meet their liabilities.

Interest in Possession trusts

An interest in possession trust is a form of legal arrangement which gives a person a "present right to the present enjoyment of something". At least one of the beneficiaries of this type of trust will have the right to receive the income generated by the trust (if trust funds are invested). The beneficiary with the right to enjoy the trust property for the time being is said to have an interest in possession. A trust can give the interest in possession to a beneficiary for a fixed period, for an indefinite period or, more usually, for the rest of the beneficiary's life.

Transfers of property to interest in possession (IIP) trusts are treated as Chargeable Lifetime Transfers (CLTs) for Inheritance Tax (IHT) purposes. This means that if the amount gifted is in excess of the settlor's available nil rate band, IHT will be payable at 20% on the excess.

Further, under these types of trust, ongoing IHT exit (when capital is appointed to a beneficiary) and periodic charges (on each ten-year anniversary) apply. Broadly, the tax charge is no more than 6% of the value of the trust fund in excess of the nil rate band (currently £325,000). For these purposes the nil rate band available to the trust is the current nil rate band (i.e. at the time the charge arises) reduced by CLTs made by the settlor in the seven years before creating the trust – Potentially Exempt Transfers are ignored for these purposes. If you inherit an interest in possession trust from someone who has died, there's no Inheritance Tax at the 10-year anniversary. Instead, 40% tax will be due when you die.

As these trusts tend to be set up for a number of beneficiaries, the trust fund does not vest in anyone's estate for IHT purposes. Further, these types of trust provide flexibility and control because the trustees can choose who they wish to benefit and when. Under an IIP trust, however, any income generated from the trust fund must be paid to the beneficiary(ies) having the interest in possession. The beneficiaries have an immediate and automatic right to the income from the trust as it arises. The trustees must pass all of the income received, less any trustees' expenses, to the beneficiary(ies).

A beneficiary who is entitled to the income of the trust for life is known as a 'life tenant' or as 'having a life interest'. A beneficiary who is entitled to the trust capital is known as the 'remainderman' or the 'capital beneficiary'. The beneficiary(ies) who receive income (the 'income beneficiary(ies)') often doesn't have any rights over the capital of such a trust – instead the capital will normally pass to a different beneficiary or beneficiaries in the future. Depending on the terms of the trust, the trustees might have the power to pay capital to a beneficiary even though that beneficiary only has a right to receive income.

Trustees are responsible for declaring and paying Income Tax on income received by the trust. They do this on a Trust and Estate Tax Return each year.

During the life of the trust there's no Inheritance Tax to pay as long as the asset stays in the trust and remains the 'interest' of the beneficiary.

Taxation advantages and disadvantages of an Offshore Investment Bond

The advantages and disadvantages have been listed below and they are aimed at UK investors. Should you reside in another country when triggering any “chargeable event”- such as taking more than the 5% per annum deferred withdrawal allowance, you would need to check the local tax legislation in your country of residence.

Tax Advantages of an Offshore Investment Bond

• Dividends and interest received benefit from “gross roll up” but cannot reclaim any “withholding tax”.
The fund is not taxed on capital gains. Any gains are assessed to income tax in the hand of the bondholder instead of capital gains tax.
• You do not have to disclose details of your offshore bond on your tax return unless you withdraw more than your 5% per annum deferred allowance, surrender your bond or the bond comes to an end because the last life assured dies. It is possible to set up an offshore investment bond with multiple lives assured which can avoid a chargeable event on the death of a bondholder.
• Income tax is only payable on any chargeable gains if the gain takes the investor into the starting rate tax threshold. So non taxpayers pay nothing. Higher rate taxpayers pay 40% tax, additional rate taxpayers pay 45%.
• You are allowed to receive up to 5% per annum withdrawals with no immediate liability to tax. This allowance is cumulative, so if you do not use it one year, you can carry it over to the next.
• “Top slicing” relief applies to encashment of part or all of an offshore investment bond which exceeds the 5% per annum deferred allowance of the original amount invested. Top slicing years are reduced by the number of full policy years the bondholder has been non-UK resident.
• “Time apportionment relief” can be claimed by investors in offshore investment bonds who have lived overseas and during this time were not resident in the UK for tax purposes. In these circumstances, gains can be reduced by the amount of time spent away from the UK. For example, if you have been resident outside of the UK for half the term your bond has been held for, the taxable gain would correspondingly be reduced by half.
• You can switch funds within an offshore investment bond without creating any capital gains tax or income tax liability on the policyholder and you do not need to declare it on your tax return.
• Withdrawals within the 5% per annum deferred allowance are not treated as income when working out an individual’s “Age Allowance”.
• Individuals who make top ups to their offshore investment bonds will benefit from top-slicing relief from the date of the commencement of the bond.
• Offshore investment bonds can be written in trust to help mitigate future inheritance tax liabilities.

Tax Disadvantages of an Offshore Investment Bond

For individuals resident in the UK any gains from encasing the offshore investment bond will be chargeable to income tax at their highest marginal rate of income tax in the tax year in which the gain is realised. Under the current income tax rules, this could be 0%, 10%, 20%, 40% or 45%.

- You cannot utilise your personal capital gains tax allowance to mitigate gains from your offshore investment bond since the gains are taxable to income tax, not capital gains tax.

- You cannot apply indexation to revalue the base cost of the offshore investment bond when calculating the income tax due following the death of the bondholder.

- A chargeable event results on the last death of the lives assured.

- It is not possible to offset the loss of one offshore investment bond against the gain on another offshore bond. However, it may be possible to offset a loss against other income.

- No credit is given for withholding tax paid when working out chargeable gains.

- Tax relief is not available for management expenses incurred by the product providers.

.