

TECHNICAL SALES BRIEFING

TAX PLANNING USING BONDS ADDITIONAL INVESTMENT

The following information is based on our interpretation of current law and taxation practice in the Isle of Man and the UK as at 1 February 2019.

- › This technical briefing is part of a series intended to shine a light on various areas of overseas single premium bond taxation from the point of view of a UK resident investor
- › It considers additional investments, looking at the choice between setting up a new bond or topping-up an existing one

NEW BOND OR 'TOP-UP'?

Where an individual owns a bond and wishes to make an additional investment, it would normally be advantageous for tax purposes, for the funds to be added as a 'top-up' to an existing bond. A top-up increases the value of the existing segments within the bond, rather than the individual taking out a new bond.

This is because, for the purposes of top-slicing relief on final encashment, the chargeable gain (including the chargeable gain in respect of the additional investment) can be divided by the number of complete years the bond has been in force since the original investment.

In simple terms, top-slicing relief on final encashment recognises the fact that the chargeable gain has accrued over the whole period for which the bond was in force and not merely in the tax year in which tax is to be assessed on the chargeable gain.

If the additional investment is used to purchase a new overseas bond, top-slicing relief in respect of the chargeable gain on final encashment of this bond will be calculated by reference only to the number of years the new bond has been in force.

The different approaches can create different tax outcomes depending on the individual's personal tax position.

AN EXAMPLE TO HELP

Peter invested £50,000 into an overseas bond 5 years ago. He then tops up this bond by a further £50,000 today. The bond is then encashed 5 years later.

Steve also invested £50,000 into an overseas bond (Bond A) 5 years ago. He now invests £50,000 into a new bond (Bond B). Both bonds are then encashed 5 years later.

Assuming the funds grow at the rate of 5% per annum (after charges), and that no withdrawals are taken, Peter's bond is worth £145,250 and Steve's bonds are also worth £145,250 in total (£81,500 and £63,750 respectively).

A TOTAL TOP-SLICED GAIN OF £5,900 TO ADD TO STEVE'S INCOME

So Peter's top-sliced gain is £4,525 and Steve's is £5,900. It can be seen that, if Peter and Steve are both in receipt of taxable income approaching the higher rate tax threshold, Steve's larger top-sliced gain could potentially give rise to a larger tax liability.

The following points should be noted:

- › as the bonds are overseas bonds, there is potential for basic rate tax liability on the whole gain, although:
- › the bond holders personal allowance, starting rate band for savings income and personal savings allowance may be available to reduce the amount of the gain chargeable to tax.
- › the overseas bond gain is added in full (ie not top-sliced) to income in order to determine eligibility for the personal allowance (tapered where income exceeds £100,000) and the personal savings allowance (of £1,000 for a basic rate taxpayer, £500 for a higher rate taxpayer and not available to an additional rate taxpayer.)

TOP-SLICED GAIN TO ADD TO PETER'S INCOME

| SINGLE BOND | £ |
|------------------------------------|---------|
| Encashment | 145,250 |
| Less: Investment £50,000 + £50,000 | 100,000 |
| Chargeable gain | 45,250 |
| Top-slicing divisor | 10 |
| Top-sliced gain | 4,525 |

TOP-SLICED GAIN TO ADD TO STEVE'S INCOME

| BOND A | £ |
|---------------------|--------|
| Encashment | 81,500 |
| Less: Investment | 50,000 |
| Chargeable gain | 31,500 |
| Top-slicing divisor | 10 |
| Top-sliced gain | 3,150 |

| BOND B | £ |
|--------------------------|--------|
| Encashment | 63,750 |
| Less: Investment £50,000 | 50,000 |
| Chargeable gain | 13,750 |
| Top-slicing divisor | 5 |
| Top-sliced gain | 2,750 |

CONCLUSION

As can be seen in the example above, by 'topping-up' an existing bond, a smaller top-sliced gain figure is achieved. The larger the 'top-up' the more the effect is magnified, owing to the higher number of years the gain under the 'top-up' can be divided by.

The same principle applies where the time between the 'top-up' and encashment is relatively short yet the initial investment occurred many years past.

TECHNICAL SERVICES
FEBRUARY 2019

A WEALTH *of* DIFFERENCE

www.utmostinternational.com

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Utmost International Isle of Man Limited is registered in the Isle of Man under number 24916C. Registered Office: King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 1NU, British Isles. Tel: +44 (0)1624 643 345. Licensed by the Isle of Man Financial Services Authority.

Utmost Wealth Solutions is registered in the Isle of Man as a business name of Utmost International Isle of Man Limited.

Utmost PanEurope dac is regulated by the Central Bank of Ireland (No 311420). Its registered office is Navan Business Park, Athlumney, Navan, Co. Meath C15 CCW8, Ireland. Utmost PanEurope dac is a Category A Insurance Permit holder with the Jersey Financial Services Commission.

Utmost Wealth Solutions is registered in Ireland as a business name of Utmost PanEurope dac

UL PR 0036 | 11/22