Investment Bonds

Clarity Wealth Limited

Investment Bonds

Single premium life insurance policies

Investment bonds are single premium life insurance policies with a lump sum typically invested in a variety of assets. If you are solely requiring life insurance, you may want to research other options available. Investment bonds can be purchased from a life insurance company, or directly through a financial advisor. The premium will be invested on your behalf for potential capital growth, this will continue to grow until money is withdrawn from your policy. How much you get back will depend on the success of the investment, of course like any investment, their value can go down as well as up and you may not get back what you put in.

To mitigate paying tax on withdrawals, you may only withdraw up to 5% per year. There may be both a minimum investment amount and/or term. Typically the range is between £5,000 and £10,000. Charges may also apply to withdraw cash early to fixed term investments.

Types of investment bonds

There are two main categories of investment bonds, onshore and offshore. The differences between the two are the way they are taxed. Onshore bond gains can be subject to UK income tax, whilst offshore bonds are subject to little or no tax, issued from tax havens outside of the UK.

UK Investment Bonds are subject to a different tax treatment from other UK based investments, providing individuals with what could be valuable tax planning opportunities. The underlying funds of the bond are subject to UK life fund taxation resulting in the amount of your gain being treated as having paid income tax at the basic rate.

Income Tax liability events that may arise during the lifetime of the investment bond:

- Transferring legal ownership of part or all the bond
- Maturity of the bond
- Withdrawing more than 5%
- Cashing in all the bond
- Death

Income Tax liability may also result from being a higher tax payer or if your bonds take you into the higher tax threshold as a result of any above events.

Tax

On the gains made you are treated as having paid basic rate tax. Your eligibility for certain tax credits may also be affected and you could lose some or all of your entitlement to personal allowances. You might consider deferring any withdrawals from the bond (in excess of the accumulated 5% allowances) if you know in the near future you could become a basic taxpayer for example when you retire. This may mean you mitigate paying tax on any gains from your bond. Withdrawals of up to 5% a year are allowed for up to 20 years without incurring an additional tax charge. If no withdrawals are made in the year, the 5% allowance can be carried over to the following year, (although the total cannot be greater than 100% of the amount paid in).

Withdrawals

Money can usually be withdrawn whenever you need it, a surrender penalty may apply for the first few years. Tax may also be chargeable. Withdrawals of up to 5% each year of the investment amount can be made without becoming liable for immediate tax. Always read the terms and conditions of any investment to be aware of any charges and fees that you may incur.

Investment Planning

Retirement Planning & Pensions

Business & Protection

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