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## Considerations when comparing investments

When constructing suitable investment and wrapper recommendations for clients there are a number of, sometimes competing, factors which needs to be considered:

### 1. Provider taxation

There will be a change to the rates of savings and property income tax from April 2027. The rate will increase by two percentage points at each rate of tax. The credit given to investors for the corporation tax paid within the fund for onshore bonds is due to increase from 20% to 22% from this date.

Asset	Onshore bond	Offshore bonds	Collectives
UK dividends	Exempt*	Exempt*	Exempt*
Non-UK dividends	Usually exempt though may have withholding tax or double tax relief applied	Usually exempt though may have withholding tax or double tax relief applied	Usually exempt though may have withholding tax or double tax relief applied
Interest, coupons and other income	Corporation tax paid at 20%	No tax payable	Corporation tax paid at 20%
Capital gains	Corporation tax paid at 20%	No tax payable	No tax payable

\* If the client is invested in REITS, tax advice should be sought as to the type of distribution being paid and how this is taxed. Please see [here](#).

## 2. Investor taxation: income tax

Both onshore and offshore bonds are non-income producing assets, meaning they don't produce a taxable income. Investment bonds held by individual investors are subject to the chargeable event regime, which means there might be income tax to pay when a chargeable gain occurs.

Corporate owned investment bonds will be taxed depending on the accountancy basis of the company. This factsheet does not consider investment bonds held by corporations, but if your corporate clients are considering investment bonds, they should discuss with the company accountant first to understand how they will be taxed.

The below table represents an individual investor and the tax position after a chargeable event has happened for either the onshore or offshore bond or the income tax for UK collectives.

The order of income tax should be remembered when looking at the income tax position for a client and the application of tax allowances, noting there will be a change from April 2027, as confirmed in the [Finance Act 2026](#).

Gains from both onshore and offshore bonds are classified as savings income but the order in which they appear in the income tax calculation differs. If top slicing relief is applicable, then this is always the highest part of income, and the order of income may need to be altered. For more information, please see [Top slicing relief factsheet](#).

### Key:

PA – Personal allowance  
 PSA – Personal savings allowance  
 SRSB – Starting rate for savings band  
 BRT – Basic rate taxpayer  
 HRT – Higher rate taxpayer  
 ART – Additional rate taxpayer

Tax rate	Onshore bond	Offshore bond	Collective
Non-taxpayer	<ul style="list-style-type: none"> <li>• Unused PA against the gain</li> <li>• SRSB £5,000 at 0% available</li> <li>• PSA of £1,000 available</li> <li>• No further tax payable</li> <li>• Basic rate tax credit can't be reclaimed</li> <li>• Top slicing relief may be applicable depending on size of gain</li> </ul>	<ul style="list-style-type: none"> <li>• Unused PA against the gain</li> <li>• SRSB £5,000 at 0% available</li> <li>• PSA of £1,000 available</li> <li>• No further tax payable</li> <li>• Gross roll up, non-reclaimable withholding taxes</li> <li>• Top slicing relief may be applicable depending on size of gain</li> </ul>	<ul style="list-style-type: none"> <li>• Unused PA, against the savings and dividend income in the manner most beneficial to the individual currently, due to change from April 2027</li> <li>• Interest will be paid gross. PSA and SRSB can be used to offset against savings income.</li> <li>• £500 dividend allowance available</li> <li>• Dividend income more than £500 charged at individual's marginal tax rate</li> <li>• Dividends are taxable even if they are reinvested</li> </ul>

Tax rate	Onshore bond	Offshore bond	Collective
Basic rate taxpayer (BRT)	<ul style="list-style-type: none"> <li>No further tax if, once the whole gain has been added to the client's income, they remain BRT</li> <li>SRSB is reduced by £1 for every £1 of earned income above the PA</li> <li>PSA of £1,000 available but would be reduced to £500 if gain took them to HRT</li> <li>Top slicing relief may be available as a result of the chargeable gain being added to the client's income, tax advice required</li> </ul>	<ul style="list-style-type: none"> <li>20% tax to pay if, once the whole gain has been added to the client's income, they remain BRT</li> <li>SRSB is reduced by £1 for every £1 of earned income above the PA</li> <li>PSA of £1,000 available but would be reduced to £500 if gain took them to higher rate taxpayer</li> <li>Top slicing relief may be available as a result of the chargeable gain being added to the client's income, tax advice required</li> </ul>	<ul style="list-style-type: none"> <li>20% tax on interest but PSA and any available SRSB can be used to offset against tax due</li> <li>£500 dividend allowance available</li> <li>Dividend income more than £500 charged at the tax rate of the individual. The rate for BRT is 10.75% from April 2026.</li> <li>Dividends are taxable even if they are reinvested</li> </ul>
Higher rate taxpayer (HRT)	<ul style="list-style-type: none"> <li>20% tax due on gain</li> <li>PSA of £500 can be used to offset against gain</li> <li>Top slicing relief not available if HRT and remain HRT</li> <li>Top slicing relief may be available as a result of the chargeable gain being added to the client's income, tax advice required</li> </ul>	<ul style="list-style-type: none"> <li>40% tax due on gain</li> <li>PSA of £500 can be used to offset against gain</li> <li>Top slicing relief not available if HRT and remain HRT</li> <li>Top slicing relief may be available as a result of the chargeable gain being added to the client's income, tax advice required</li> </ul>	<ul style="list-style-type: none"> <li>40% tax on interest but PSA and any available SRSB can be used to offset against tax due</li> <li>£500 dividend allowance available</li> <li>Dividend income more than £500 charged at the tax rate of the individual. The rate for HRT is 35.75% from April 2026.</li> <li>Dividends are taxable even if they are reinvested</li> </ul>

Tax rate	Onshore bond	Offshore bond	Collective
Additional rate taxpayer (ART)	<ul style="list-style-type: none"> <li>• 25% due on the gain</li> <li>• No PSA</li> <li>• No top slicing relief</li> </ul>	<ul style="list-style-type: none"> <li>• 45% tax due on gain</li> <li>• No PSA</li> <li>• No top slicing relief</li> </ul>	<ul style="list-style-type: none"> <li>• 45% liability on interest</li> <li>• £500 dividend allowance applied</li> <li>• Dividend income more than £500 will be charged dependent on the marginal tax rate of the individual. The rate for ART is 39.35%.</li> </ul>
Discretionary trustees**	<ul style="list-style-type: none"> <li>• £500 tax free 'de minimus' applicable for income less than £500</li> <li>• Income/gain over £500 taxed at trustees rate of 45%</li> <li>• Basic rate tax credit is given for tax already paid on the underlying fund, so the trustees pay 25%</li> <li>• No top slicing relief</li> </ul>	<ul style="list-style-type: none"> <li>• £500 tax free 'de minimus' applicable for income less than £500</li> <li>• Income/gain over £500 taxed at trustees rate of 45%</li> <li>• No top slicing relief</li> </ul>	<ul style="list-style-type: none"> <li>• £500 tax free 'de minimus' applicable for income less than £500</li> <li>• Income/gain over £500 taxed at trustees rate of 39.35% for dividend income and 45% for other income</li> <li>• No dividend allowance</li> </ul>

\*\*The £500 de minimus amount can be split depending on the number of discretionary trusts the settlor has created up to a maximum of five, meaning minimum is £100 per trust.

## Investor taxation – Capital gains tax (CGT)

Onshore bond	Offshore bond	Collectives
Not applicable.	Not applicable.	<ul style="list-style-type: none"> <li>• Annual exempt amount – £3,000.</li> <li>• Discretionary trustee exempt amount – £1,500***</li> <li>• Non and basic rate taxpayer rate – 18%</li> <li>• Higher and additional rate taxpayer rate – 24%</li> <li>• Trustees and personal representatives rate – 24%</li> </ul>

\*\*\* If settlor created more than one settlement then the annual exemption is split up to a maximum of five so this could be a minimum of £300.

## Features and benefits

Below are some of the features and benefits for consideration when looking to make suitable recommendations to different types of clients:

### 1. Onshore bond

- If the policyholder remains a non or basic rate taxpayer after a chargeable event occurs, then no further tax is due. However, there still may be reporting requirements to HMRC depending on the size of the gain.
- Changing the underlying investment is a 'fund switch' and does not give rise to any personal tax liability.
- Tax deferred allowance of 5% of the amount(s) invested can be withdrawn over a twenty-year period. This allowance is cumulative and any withdrawals within the cumulative allowance don't have an immediate tax liability.
- Most onshore bonds are created with multiple individual and identical policies, usually ranging between 100 to 1,000 policies. This segmentation adds flexibility for passing wealth to family or the policyholder's beneficiaries by assigning part or all the bond by way of gift. It also allows the trustees to distribute via assignment by gift to beneficiaries of the trust. It can also add control over when and who pays any tax due upon a chargeable event.
- Non-income producing asset, so no ongoing reporting requirements to HMRC until a chargeable event occurs.
- Chargeable gains are classified as savings income for income tax purposes. Policyholders can use their available personal tax allowances, such as their personal allowance, personal savings allowance or starting rate for savings band to offset against the tax payable.
- Product charges are usually cheaper compared to its offshore counterpart.
- Top slicing relief may be available to reduce the tax payable upon a chargeable event, depending on the personal circumstances of the client.
- Individuals may get deficiency relief if they have made a loss on full surrender and they have suffered a higher rate tax liability due to an excess chargeable event gain on the same bond during the policy term.
- Time apportionment relief is available for individuals with onshore bonds issued after 6 April 2013. Individuals may be able to reduce a chargeable event gain if they were non-UK resident during the time they owned the policy and they were a UK resident when the chargeable event occurred.
- Financial Services Compensation Scheme protection of up to 100% of the value of the claim with no upper limit should the life company fail is available for individuals.
- Adding multiple younger lives assured allows for the potential of extending the longevity of the policy beyond the death of the policyholder(s) if written on a last death basis.
- As there is usually an element of life assurance attached to the policy, the value of a bond should be excluded from consideration by local authorities for the financial assessment for long term care provisions unless deliberate deprivation of assets can be proved.

## 2. Offshore bond

- Policyholders benefit from the investment growing in a no/low tax environment except for non-reclaimable withholding taxes from foreign dividends. This benefit of 'gross roll-up' can have a benefit to the investment value over time, though tax could be paid when this money is repatriated back to the UK depending on the policyholder's tax status at the time.
- Changing the underlying investment is a 'fund switch' and doesn't give rise to any personal tax liability.
- Tax deferred allowance of 5% of the amount(s) invested can be withdrawn over a twenty-year period. This allowance is cumulative and any withdrawals within the cumulative allowance don't have an immediate tax liability.
- Most offshore bonds are created with multiple individual and identical policies, usually more than their onshore counterparts. This segmentation adds flexibility for passing wealth to family or the policyholder's beneficiaries by assigning part or all the bond by way of gift or if trustees are distributing to beneficiaries of the trust. It can also add control over when and who pays any tax due upon a chargeable event.
- Non-income producing asset, so no ongoing reporting requirements to HMRC until a chargeable event occurs.
- Chargeable gains are classified as savings income for income tax purposes. Policyholders can use their available personal tax allowances, such as their personal allowance, personal savings allowance or starting rate for savings band to offset against the tax payable.
- The product charges can be more expensive but the potential tax savings from gross roll-up could counterbalance this over the longer term.
- Top slicing relief may be available to reduce the tax payable upon a chargeable event, depending on the personal circumstances of the client.
- Individuals may get deficiency relief if they have made a loss on full surrender and they have suffered a higher rate tax liability due to an excess chargeable event gain on the same bond during the policy term.
- Time apportionment relief may be available to individuals to reduce a chargeable event gain if they were a non-UK resident during the time they owned the policy.
- Offshore bonds can be set up on a life assured or capital redemption basis.
- **Life assured** – Adding multiple younger lives assured allows for the potential of extending the longevity of the policy beyond the death of the policyholder(s) if written on a last death basis. As there is usually an element of life assurance attached to the policy, the value of a bond should be excluded from consideration by local authorities for the financial assessment for long term care provisions unless deliberate deprivation of assets can be proved.
- **Capital redemption** – No lives assured and the bond has a fixed term of 99 years until it matures, which would be a chargeable event. This could provide greater longevity and flexibility as death wouldn't trigger a chargeable event.
- Policyholder protection scheme may be available, but this will depend on the tax jurisdiction issuing the policy.

### 3. Collectives

- The underlying investments will be subject to income tax (rates will depend on the source of income and tax status of the individual) and capital gains tax and will have ongoing HMRC reporting requirements.
- Individuals could use their personal tax allowances such as their personal allowance, personal savings allowance or starting rate for savings band to offset against the income tax payable. Investor could also use their £500 dividend allowance as well.
- The rate for dividend income for basic and higher rate have increased from April 2026 and the current rates for dividend income are 10.75% for BRT, 35.75% for HRT and remain at 39.35% for ART and trustees.
- Investors may have the option to receive the natural distributions from the underlying assets rather than taking fixed withdrawals to help prevent the erosion of the original capital invested if the withdrawal rate exceeds the growth rate.
- Taxable capital gains above the annual exempt amount are charged capital gains tax (CGT) at either 18% or 24% depending on the tax status of the individual.
- Individuals have a capital gains tax (CGT) exemption of £3,000 and up to £1,500 for trustees to set against capital gains made in a tax year.
- If an investor uses their CGT exemption regularly, this could push up the average price of the investment so more could be taken out tax free in future years.
- If collectives are held within ISAs, JISAs or pensions, then these wouldn't be subject to income or capital gains tax whilst held within these wrappers.
- For spouses and registered civil partners, equalising assets between them could have multiple benefits.
- Disposals between spouses is done on a 'no gains, no loss' basis so no CGT should be due.
- It could allow for both CGT exemptions to be used rather than just one and potentially reducing the tax on any gain.
- Where there is a disparity in the income tax rate paid between spouses, equalising assets could increase the household income and reduce the income tax bill.
- If the investor crystallises a capital loss, then this can be carried forward indefinitely to offset against future gains after applying any exemptions and ensuring the current year's losses are used first. Losses need to be registered with HMRC within four years of the tax year when it occurs.
- When the investor dies, any capital gains accrued during their life are not subject to CGT though could be subject to inheritance tax (IHT). The deceased's beneficiary(ies) would inherit the investment with a new base cost as at the date of death. Also, it would be possible for the investment to be re-registered to a beneficiary rather than having to be sold, should they wish to have an investment rather than cash.
- Suitable asset for trustees of interest in possession trusts where there is a requirement to provide the life tenant of the trust income for their lifetime.
- Gift hold-over relief may be available to defer any CGT due depending on the circumstances. This is a claim that needs to be made, and tax advice should be sought to understand the qualifying criteria and the process involved.

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