Quilter

Exploring opportunities in onshore bonds

For UK financial advisers only.

Welcome

We know your time is precious, so grab yourself a drink, sit back and relax. This brochure summarises the advice opportunities for onshore bonds, and will give you some food for thought while you are having your tea break.

What you need to know

- What are the growing advice opportunities?
- Key advantages of onshore bonds
- How they fit into your clients' wider financial plans
- How they can help add value to your clients
- Our Collective Investment Bond and range of trusts

Why you should read this brochure

Your clients value your knowledge and expertise, and being able to demonstrate this value to your clients is becoming increasingly important.

Using ISA and pension allowances is often seen as standard practice, but taking your clients beyond those conversations, and constructing a well-rounded, long-term financial plan is where the real value is added.

This value can be further enhanced if you also consider generation planning, an area your clients won't look to do themselves.

Opportunities

If the opportunities highlighted in this brochure resonate with your clients, please do get in touch.

As one of the most trusted platform providers in the market, we can provide specialist support and expertise to you and your clients.

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Growing advice opportunities

More of your clients will be hit by Inheritance Tax

Data from HMRC for the tax year 2021/22 shows the amount collected through inheritance tax stands at £6.1bn.

HMRC data also shows that 27,800 estates needed to pay an inheritance tax charge that year. With inheritance tax at 40%, that charge would have had a significant impact on those estates.

The inheritance tax nil rate band of £325,000 is now frozen until April 2030, so it is likely that even more estates will be impacted by inheritance tax in the coming years.

£6.1bn

received through inheritance tax

Advice opportunity

You may have clients who face an IHT liability. IHT now impacts more families, and the rise in property prices means it's not just the wealthy who are impacted.

IHT is sometimes referred to as a voluntary tax, as it can be mitigated through careful planning. Being able to mitigate IHT for your clients and help them gain control over wealth distribution is a great way for you to demonstrate the value of your advice to your clients.

More of your clients will pay tax on savings income and gains

With the Dividend Allowance falling in 2023/24 (£1,000) and again in 2024/25 (£500) along with a reducing Capital Gains Tax (CGT) Annual Exempt Amount (£6,000 2023 then £3,000 2024) and increased rates from 30 October 2024, more of your clients will be looking for your help.

Whether that is maximising their tax efficient allowances in their ISA and pension or helping them manage their wealth across other product wrappers, this can be a real value add providing better net returns.

Dividend Allowance changes

£3.03bn

Projected increase in revenue for the Treasury over 5 years

CGT Annual Exempt Amount changes

£1.6bn

Projected increase in revenue for the Treasury over 5 years

CGT rate changes

£8.9bn

Over 5½ years.

Advice opportunity

You are likely to have clients who have not had to concern themselves with paying tax on investment income and/or gains. The reduction in allowances/ exemptions will change this and they will need your help to ensure their wealth is held in the most tax efficient way, maximising net investment returns.

More of your clients will want to save for their children/grandchildren

You may have read about the struggling millennials, how they are saddled with debt from university and can't afford to get on the property ladder.

In September 2024, Halifax data revealed that the average price paid for a typical home continues to grow, and is now £293,399, an increase of 4.7% on the year before.

With the average first time buyer deposit and cost of going to university reaching unprecedented levels, it's easy to see why a growing number of parents (and grandparents) feel the need to save to help the next generation.

£293,399

average price paid for a typical home.

Advice opportunity

You are likely to have clients who want to save for their children and grandchildren, but want a solution which keeps them in control without compromising on tax-efficiency. (Remember, a Junior ISA automatically becomes the child's when they reach age 18 so the parents lose control over how they spend it!)

More of your clients will have a complex family structure

Complex family structures are becoming the new norm. With four in ten marriages ending in divorce[1], nearly half of which have dependent children[2], and with a parent of a child (under 18) dying every 22 minutes in the UK[3], the family structure can change rapidly.

42%

of marriages ending in divorce

22 minutes

every 22 minutes a parent of a child dies in the UK

Advice opportunity

It is important that your clients think through the financial implications of their death. You can help them realise the importance of estate and trust planning in ensuring their wealth is distributed in accordance with their wishes, and children don't end up inadvertently disinherited.

[1] *Office of National Statistics estimate 42% of marriages end in divorce.*

[2] *Office of National Statistics, Divorces in England and Wales: Children of Divorced Couples, released Nov 2015, shows in 2013, 114,720 couples divorced, and 55,323 had one or more child under the age of 16.*

[3] *www.childbereavementuk.org/death-bereavement-statistics*

Financial planning solutions

The advice opportunities outlined in the previous pages could impact a growing number of your clients. The majority of these clients will have already maximised their annual allowances, such as pensions and ISAs, and will be looking for other solutions to help them achieve their financial goals.

When exploring other solutions, you should consider how onshore bonds can benefit your clients when held as part of a wider financial plan.

Here are the key reasons that financial advisers and their clients choose *onshore bonds*:

Simplicity

- You and your clients are busy and want solutions that are easy to administer and don't require onerous tax reporting. With an onshore bond, a wide choice of assets can all be held in one place, and as onshore bonds are considered a non-income producing asset, they don't need to be included on a tax return (unless there is a chargeable event, such as a surrender). This means that a real mix of assets can be held, from income to growth, without concern for ongoing reporting obligations.
- Onshore bonds are subject to a charge for the UK corporation tax on interest and capital gains the insurer has paid. This gives the bond holder a 20% income tax credit on any chargeable events – reducing the personal tax due on encashment.

Tax efficient withdrawals

Onshore bonds are taxed under Chargeable Event rules, this brings two key benefits:

- 5% p.a. tax-deferred withdrawals - clients can access up to 5% of their premium each year (for up to 20 years) with no immediate income tax liability. Any unused allowance can be carried forward and used in future years.
- Top slicing relief – Bonds defer the tax liability until a chargeable event is triggered. When that happens, a UK resident individual may be able to utilise top slicing relief to average the gain over a number of 'relevant years' in order to calculate a relief against higher and additional rates of tax.

Flexibility

Onshore bonds are a solution that divide the premium invested into policy segments to provide maximum future flexibility. The benefit this has is that clients can assign the individual segments to someone else by way of a gift, e.g. to their children, or into trust, without the need to encash the segments or create a chargeable event.

Control

Onshore bonds can help clients stay in control of the tax payable on their investment returns. As mentioned, as a non-income producing asset, income and gains are assessed on the UK insurer rather than the policy holder. Tax is only assessed on certain chargeable events, such as a surrender. This can provide a `shelter' from higher rates of tax for individuals and trustees. When used with trusts, onshore bonds can also help to control when wealth is distributed onto future generations.

Combination of solutions

Having a combination of solutions can help provide better overall control, flexibility and tax-efficiency. Understanding how onshore bonds can benefit your clients will help you understand how they can fit as part of their overall financial plan.

	Onshore bonds	Junior ISA	ISA	Collective investments	Pension
Financial planning benefits for the client:					
No lock-in period: clients can usually access money any time	✓	✗	✓	✓	✗
No subscription limits: any amount can be paid in	✓	✗	✗	✓	✗
Pass wealth to future generations: money can be passed on without encashing it and realising a gain	✓	✓	✗	✗	✗
Product taxation: investment income/growth is not subject to tax as it arises (except any deducted at source that cannot be reclaimed)	✗	✓	✓	✗	✓
No tax reporting: no annual tax reporting regardless of dividends/interest received (unless there is a chargeable event)	✓	✓	✓	✗	✓
No CGT: funds can be switched without worrying about capital gains tax implications	✓	✓	✓	✗	✓
Trust planning: a popular solution to be held inside a trust	✓	✗	✗	✗	✗
IHT efficient: generally viewed as outside of the estate for IHT	✗	✗	✗	✗	✓
Tax allowances that the client can use:					
Income tax personal allowance	✓	✗	✗	✓	✓
Income tax personal savings allowance and savings rate band	✓	✗	✗	✓	✗
Annual subscription allowance	✗	✓	✓	✗	✓
Annual CGT exemption	✗	✗	✗	✓	✗
Annual dividend allowance	✗	✗	✗	✓	✗

Onshore bond solutions in action

How onshore bonds can help in retirement planning

Case study

I'm Fred. I'm 50, and plan to retire in 10 years.

Because I'm a high earner, I've been impacted by the tapered annual allowance.

I have used my pension allowance, ISA allowance and all other capital gains and income tax allowances. I have a surplus income of £20,000 each year to invest. I'm looking to save for my retirement and see what other options there are.

Advice opportunity using onshore bonds:

- You can help Fred build a nest egg for retirement.
- Unlike the pension and ISA, there are no limits to how much Fred can put in his bond.
- Unlike some investment solutions, such as Venture Capital Trusts, there is no lock-in period (to qualify for tax relief), and the onshore bond can align with the client's risk profile, and hold a spread of assets.
- An onshore bond can replicate Fred's investment portfolio on his pension (perhaps outsource it to the same investment manager).
- Fred can accumulate the 5% p.a. tax-deferred withdrawals each year, for up to 20 years. Fred can access this as a tax-deferred lump sum when he retires, or use it to provide regular tax-deferred withdrawals.
- Fred can choose when to access his money, and does not need to wait until he retires if his circumstances change, providing him with flexibility.
- If Fred decides that he doesn't need to access his onshore bond in retirement, he has the flexibility to gift it into trust, providing future IHT efficiency.

How onshore bonds can help provide control over tax payable and simplicity in reporting

Case study

I'm John, and this is my daughter, Eve.

I'm a higher rate taxpayer and have used all my allowances. I have existing investments of £350,000 but am worried I will start paying unnecessary tax on investment returns.

I would like to have options allowing me to transfer wealth to my daughter in the future.

Advice opportunity using onshore bonds:

- You can help John 'shelter' his investment returns by reducing the rates of tax dragging down his net returns (see the table on the following page).
- John will not need to declare the details of the onshore bond (or investment returns achieved within it) on his annual tax return, making it simple from a reporting perspective.
- When it's time for Eve to go to university, or buy her first house, as she is likely to be a basic rate tax payer, onshore bonds become extremely attractive as segments can be assigned to be encashed at Eve's marginal rate:
  - Each time John passes money to Eve, by way of a gift assignment and subsequent surrender by Eve, the gain needs to be calculated (which, in simple terms, is the value of the segments being assigned on surrender, less the original value of the segments).
  - If the gain is below the higher rate band when added to Eve's other income, then she will not have further tax to pay, as the liability is covered by a 20% tax credit.
- As John has not surrendered the policy segments, he does not have anything to report on his tax return. It is also unlikely that Eve will need to report anything on her tax return unless the gain is significant (in excess of £10,000).

How an onshore bond works, looking at the investment returns for John:

Investment amount	£300,000 (£50,000 left within existing account(s))	
Projected returns		
Dividend yield	2%	£6,000
Interest yield	1.5%	£4,500
Capital growth	3%	£9,000

To demonstrate, let's assume John places an investment of £300,000 and achieves the projected returns (above) each year. The table below shows the personal tax John would pay on a general investment account until 2027/28, compared to the bond tax charge he would pay on the same investment within an onshore bond.
For the purpose of the case study, the returns have not been compounded:

	2024/25		2025/26		2026/27		2027/28	
	Personal tax	Bond tax charge	Personal tax	Bond tax charge	Personal tax	Bond tax charge	Personal tax	Bond tax charge
Dividend[1]	£1,856.25	£0	£1,856.25	£0	£1,856.25	£0	£1,856.25	£0
Interest[2]	£1,600.00	£900.00	£1,600.00	£900.00	£1,600.00	£900.00	£1,600.00	£900.00
Capital[3]	£1,440.00	£1,800.00	£1,440.00	£1,800.00	£1,440.00	£1,800.00	£1,440.00	£1,800.00
Total	**£4,896.25**	**£2,700.00**	**£4,896.25**	**£2,700.00**	**£4,896.25**	**£2,700.00**	**£4,896.25**	**£2,700.00**

[1] *Dividend Allowance of £500 applied. Above this, 33.75% dividend higher rate has been applied. Within the bond, there is no further liability to corporation tax on exempt dividends resulting in nil charge on the bond.*

[2] *Personal savings allowance of £500 applied for all years. Above this 40% higher rate has been applied. Within the bond, interest is liable at 20% and the charge reflects this.*

[3] *CGT Annual Exempt Amount of £3,000 applied. Above this 24% rate has been applied. Within the bond, there is a maximum of 20% and the charge reflects this.*

Over the period shown, by 'sheltering' the investment returns from higher rates of tax, John has paid £7,957 less and removed the reporting obligations associated with this.

Onshore bonds in trust planning

Why are Onshore bonds used in trust planning?

In trust planning, it is important to use the right underlying solutions to help the trust run efficiently.

Using onshore bonds inside a trust is a real financial planning sweet spot. Onshore bonds arguably deliver more advantages than other solutions held inside a trust, and here's why:

1

Simple for trustees to administer

As onshore bonds are considered non-income producing, there is no income for trustees to report or tax to pay on an arising basis, so there's less administration for the trustee.

2

Tax-efficient distributions

Distributions to beneficiaries can be tax-efficient, for example, by using the 5% tax-deferred withdrawals, or assigning segments to a beneficiary to encash at their marginal rate. For those beneficiaries, top slicing relief may also be available reduce their income tax liability on the gain.

3

Continuity

Using multiple lives assured can provide continuity by helping to ensure the bond continues beyond the life of the settlor.

4

Convenience

Gifting segments to a trust does not create a chargeable event for income tax purposes and the segments remain invested. In most cases, neither the donor nor the trustee(s) will need to declare it as income on a tax return.

5

Future flexibility

Our onshore bonds allow clients to assign segments into trust as and when required in the future. Clients can even assign segments to multiple trusts at different times.

The importance of trust planning

Case study

I'm Annie, and this is my family.

I'm happily married to Steve, and these are my two young children, William and Mia.

I've recently received a £200,000 which I want to invest for my children's future.

Here's what happened to Annie and her family:

Annie passes away.

- Annie didn't place the £200,000 in trust, so it was included in her estate, and passes to Steve.
- Steve eventually meets someone else, called Alison, and decides to remarry.

Steve then also passes away unexpectedly.

- Steve fails to leave in place a will or carry out any trust planning. Alison becomes the main beneficiary of his wealth. The money which Annie had wanted to pass to her children now passes to Alison, and William and Mia are disinherited.

How trust planning could have helped:

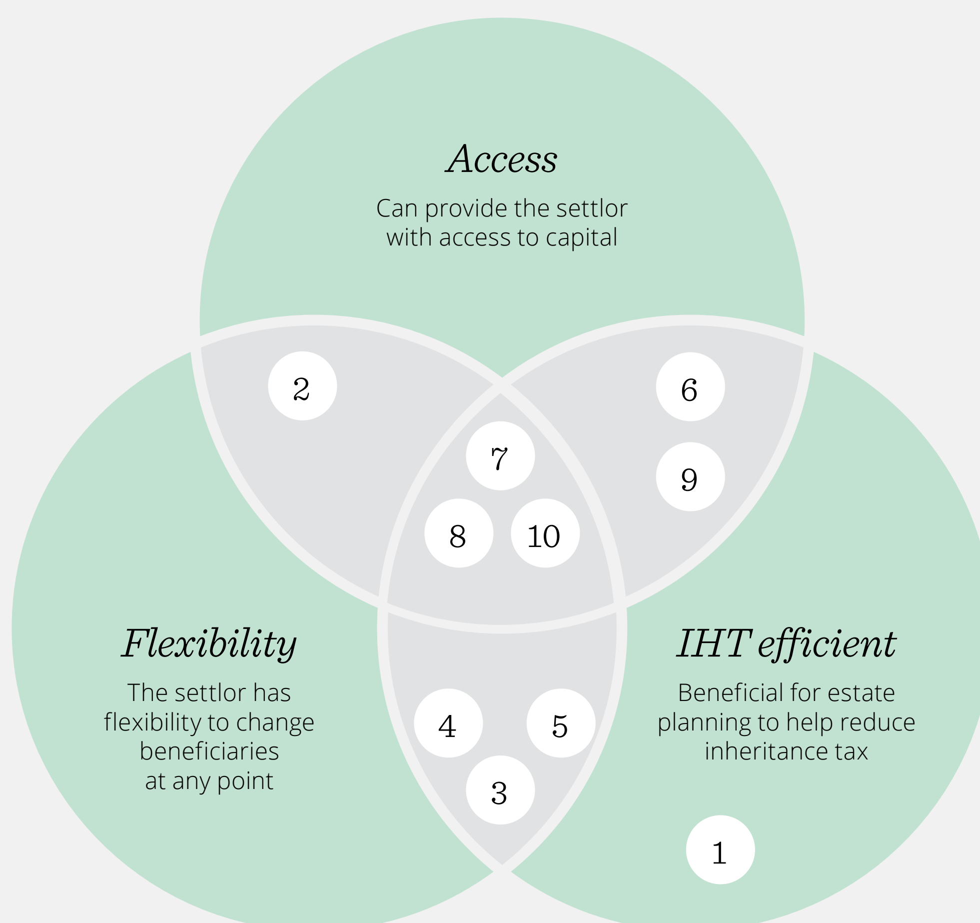
- Annie could have placed the £200,000 into a discretionary trust for her children.
- In her letter of wishes to the trustees, she could have expressed her preference for how and when the money is passed to her children.
- The trustees could have then passed the money to William and Mia to pay for university, and passed them the remaining funds for them to use as a deposit for their first homes.

We have a trust planning hub available at ***www.quilter.com/products-and-services/trust-planning/*** which offers support in this area of financial planning, helping explain our range of trusts, and helping you select the right one for your client.

Quilter's range of trusts

Quilter is renowned for its market-leading range of trusts.

Choosing the right trust solution for your client depends on the amount of flexibility, access and IHT efficiency they need.



Trusts

1. Absolute trust
2. Discretionary trust – settlor included
3. Discretionary trust – settlor excluded
4. Best Start in Life Trust
5. Excess Income Trust
6. Discounted gift trust – bare
7. Discounted gift trust – discretionary
8. Lifestyle Trust
9. Loan trust – bare
10. Loan trust – discretionary

Our Collective Investment Bond

Unlike many other platforms, we offer a fully integrated, single premium, onshore bond, which can provide your clients with potentially tax efficient benefits.

Combined with our comprehensive suite of trusts, the Collective Investment Bond (CIB) can be a powerful tool for inheritance tax planning.

Features and benefits

- Access to over 2,100 OEICs and unit trusts with consistent pricing across product wrappers.
- Ability to access adviser and discretionary model portfolios.
- Constructed of 1,000 life policies for effective tax management.
- Assign part or all of the bond to another individual, trust or company and manage any assigned assets, simply, online.
- Instruct one-off withdrawals or manage income online up to £75,000 for bonds owned by an individual.
- Regular withdrawals can be taken on any day from 1 to 28 of the month.
- Minimum initial investment of £10,000.
- Potential 5% tax deferral on withdrawals from the bond, allowing full return of capital over 20 years.

Capital Protected Death Benefit

This feature gives your clients reassurance by protecting the value of any death benefit when a life assured dies. It works where the death of the life assured coincides with a drop in the value of the bond, ensuring that the death benefit payable is guaranteed as the higher of:

- 100.1%* of the value of the bond, or
- the total investment paid into the bond, less all withdrawals (including adviser and discretionary management portfolio fees) and applicable charges.

If Capital Protected Death Benefit is not selected, the standard death benefit will apply, which is 100.1%* of the value of the bond.

**101% prior to 25 November 2024*

Extra value for your clients

Did you know, when your clients invest in our Collective Investment Bond, they can also benefit from Family linking. With Family Linking we add together all family investments, to calculate a reduced platform charge for all family members.

How family linking works

- Up to four generations can be linked.
- Clients have to be with the same financial adviser firm.
- All linked clients will benefit from a reduced platform charge.

To set up family linking for your clients, simply complete and send the ***Family Linking Request*** form, available from our website, **quilter.com**.

Your next steps

Let us help you

Contact your Quilter Wealth Management consultant today to find out more about our Collective Investment Bond.

Quilter

Information is based on our current understanding of HMRC tax practice as at November 2024.

The value of investments may fall as well as rise and an investor may not get back what they put in.

All case studies used are fictional.

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Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

Quilter is the trading name of Quilter Investment Platform Limited which provides an Individual Savings Account (ISA), Junior ISA (JISA) and Collective Investment Account (CIA) and Quilter Life & Pensions Limited which provides a Collective Retirement Account (CRA) and Collective Investment Bond (CIB).

Quilter Investment Platform Limited and Quilter Life & Pensions Limited are registered in England and Wales under numbers 1680071 and 4163431 respectively.

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