Discover the benefits of rewrapping

Do you have clients invested in an unwrapped environment such as a General Investment Account (GIA)? If yes, there could be significant potential tax savings waiting to be realised by rewrapping their wealth. The following case studies highlight why it's so important to check, particularly given the changing tax landscape.

Jennifer

Age: 55
Gross salary: £65,000

Jennifer is 55 and is the mother of two teenage children, Jason aged 19 and Mia who is 16.

She has built up good savings over her working life including a workplace pension, ISA and a collection of funds (OEICs and unit trusts) in a general investment account (GIA).

Every year she maximises her ISA subscription and her GIA is valued at £150,000 with an unrealised gain of £16,250.

She earns a gross salary of £65,000 and has the potential to receive a bonus of up to 20%, depending on her performance at work.

Jennifer has read in the papers that more people are paying higher rates of tax and she's worried that it is going to affect her. Her adviser discusses Jennifer's concerns and explains that fiscal drag is an issue that will affect many people in the coming years but there are options available to help minimise its effect.

Jennifer's adviser agrees to carry out a full review of her investments and tax wrappers. Recent reductions to the dividend allowance and CGT annual exempt amount will continue to impact Jennifer's net returns.

Her adviser's next step is to calculate whether it might be in Jennifer's interest to move the wealth held in her GIA into a single premium, unit linked onshore bond, to reduce her tax liabilities.

What tax will Jennifer pay if she continues to hold the money in her GIA?

Investment value - £150,000 (including unrealised gain of £16,250)

5-10 year investment horizon with 2% capital growth, 3% dividend yield, and 1% interest yield

Rates of tax
- Capital gains above £3,000* – 24%
- Dividends above £500* – 33.75%
- Interest above £500* – 40%

End of year	Opening value	Capital growth	Tax due**	Dividend yield	Tax due	Interest yield	Tax due	Tax for year
1	£150,000	£3,000	£0	£4,500	£1,350	£1,500	£400	£1,750
2	£157,250	£3,145	£0	£4,718	£1,423	£1,573	£429	£1,852
3	£164,833	£3,297	£0	£4,945	£1,500	£1,648	£459	£1,959
4	£172,763	£3,455	£0	£5,183	£1,577	£1,728	£487	£2,064
5	£181,065	£3,621	£0	£5,432	£1,657	£1,811	£516	£2,173
6	£189,755	£3,795	£0	£5,693	£1,742	£1,898	£547	£2,289
7	£198,852	£3,977	£0	£5,966	£1,830	£1,989	£579	£2,409
8	£208,374	£4,167	£0	£6,251	£1,923	£2,084	£612	£2,535
9	£218,342	£4,367	£0	£6,550	£2,020	£2,183	£648	£2,668
10	£228,775	£4,576	£0	£6,863	£2,121	£2,288	£685	£2,806
							Total	**£22,505**

*For the purposes of this illustration, allowances are assumed to remain frozen until year four, at which point they are indexed by 2% per annum.
**For the purposes of this illustration, gains up to the annual exempt amount are realised each year but no gains above this are realised.
Tax is deducted from the investment to provide an illustrative net return.

As you can see, the total tax Jennifer will pay if she leaves her money in the GIA is £22,505.

What tax will Jennifer pay if she moves the net investment amount into an onshore bond?

Value of assets from GIA - £150,000

CGT liability - £3,180

Investment value into the bond - £146,820

Rates of tax[1]
- Capital gains – 20%
- Dividends 0%
- Interest 20%

End of year	Opening value	Capital growth	Tax charge	Dividend yield	Tax charge	Interest yield	Tax charge	Total charge	Tax saved vs GIA
1	£146,820	£2,936	£587	£4,405	£0	£1,468	£294	£881	£869
2	£154,748	£3,095	£619	£4,642	£0	£1,547	£309	£928	£924
3	£163,105	£3,262	£652	£4,893	£0	£1,631	£326	£979	£981
4	£171,912	£3,438	£688	£5,157	£0	£1,719	£344	£1,031	£1,033
5	£181,196	£3,624	£725	£5,436	£0	£1,812	£362	£1,087	£1,086
6	£190,980	£3,820	£764	£5,729	£0	£1,910	£382	£1,146	£1,142
7	£201,293	£4,026	£805	£6,039	£0	£2,013	£403	£1,208	£1,201
8	£212,163	£4,243	£849	£6,365	£0	£2,122	£424	£1,273	£1,262
9	£223,620	£4,472	£894	£6,709	£0	£2,236	£447	£1,342	£1,326
10	£235,695	£4,714	£943	£7,071	£0	£2,357	£471	£1,414	£1,392
							Total	**£11,289**	**£11,216**

[1] Income and gains are not taxed at the normal rates of Corporation Tax but at a 'policyholder rate' linked to the basic rate of income tax – 20%. The exception to this is dividends which are generally exempt. An element of the dividend distribution may be a non-exempt payment. This element is subject to 20% tax. Overseas dividends may be subject to withholding tax.

As you can see, by moving the money into a bond, the total tax Jennifer will pay is £11,289. That's a saving of £11,216 over ten years.

What capital gains tax (CGT) will Jennifer pay?

- There is an initial CGT bill to move the assets from the GIA, as gains of £16,250 remain.
- After deducting the CGT annual exempt amount (£3,000) this creates a CGT liability of £3,180.
- If we consider the £3,180 CGT bill deducted from the onshore investment bond investment, the net return value of the bond after 10 years is £248,423 compared with £239,696 for the GIA.

The reduction in tax provides 0.6% per annum increased net return on the bond investment over 10 years and the CGT liability incurred by moving the GIA assets is recouped by the end of the third year.

Summary of advice

For this particular example, Jennifer can save income tax on a yearly basis by placing her savings into a bond compared with leaving them in her GIA.

When Jennifer looks to decumulate her wealth from her bond in the future this will be a new 'advice event' with a strategy being formed.

Bond taxation

A detailed explanation of how bonds are taxed is beyond the scope of this case study. At a high level, the policyholder owns the insurance contract (the bond), which has 'notional units', which are valued by reference to the rise and fall of the underlying funds. The underlying funds are legally and beneficially owned by the life company; for us this is Quilter Life & Pensions ltd.

Any income and gains made on the underlying funds are taxable on the life company at the rates shown in the case study above. If no policy withdrawals are made, then any income or gains within the insurance bond do not create a liability to personal tax or any associated personal reporting obligations.

For more information on how Quilter manages the life funds within the Collective Investment Bond please refer to our ***'taxation of the life fund' guide***.

The policyholder will only become liable to income tax when a chargeable event occurs. These events include (but are not limited to) full surrender of one or more policy segments (including all), exceeding the 5% tax deferred allowance, and/or the death of the last life assured. To recognise that the life company has incurred tax during the term, any gain realised carries a tax credit of 20%. This means a basic rate taxpayer (who remains so) has no further liability whilst higher rate taxpayers pay a further 20%, and additional rate pay a further 25% of any gain.

For more information on bond taxation visit our ***www.quilter.com/cehub***.

Collective Investment Bond: taxation of the life fund

Qui

For financial adv

This document outlines how Quilter Life & Pensions Limited ('Quilter') pays Corporation T income and gains within the Collective Investment Bond. It also explains how Quilter recoup through a 'Life Fund Tax Charge' deducted as part of the bond charges payable by the policyh

Key Takeaways:

- All UK life companies who offer an onshore single premium insurance bond will be subject to Corporation Tax on inco gains on 'policyholder funds'. These are funds held solely for the purposes of backing the value (liability) of the insurar policies they have written
- Income and gains on policyholder funds are not taxed at the normal rates of Corporation Tax but at a 'policyholder rat to the basic rate of income tax – 20%
- All UK life companies recoup the tax they are subject to from policyholders. This traditionally is done through the price unit in the life company's internal life funds
- As Quilter does not offer internal life funds, the Collective Investment Bond is linked directly to the underlying fund. This means the price is consistent across all products on the platform
- The way the corporation tax is recouped on the Collective Investment Bond is through the Life Fund Tax Charge, an expli charge taken from the investment bond ('the bond')
- The amount of the Life Fund Tax Charge will vary dependent on the investments to which the policyholder links the value their Collective Investment Bond
- The amount of the Life Fund Tax Charge will be equal to or less than 20% of any income or gains
- The policyholder will receive a 20% tax credit, which can be used against any income tax liability as a consequence of a 'chargeable event gain' on the bond.

Structure of an investment bond

In order to understand how bonds are taxed it is important to highlight the unique structure of an investment bond (see diagram).

- A bond is a unit-linked life insurance policy usually offering a death benefit. Most will be written as a number of identical policy segments. The Collective Investment Bond offers 101% (of the surrender value) death benefit and 1,000 policy segments
- The policyholder owns the bond, which has 'notional units', which are valued by reference to the rise and fall of the underlying funds
- The underlying funds are legally and beneficially owned by the life company
- Any income and gains made on the underlying funds are taxable on the life company
- If no policy withdrawals are made, then any income or gains within the insurance bond do not create a liability to personal tax or any associated personal reporting obligations
- A personal liability to Income Tax will only arise when one or more chargeable events occur in

Investment Bond

Notional units

Death benefit 101%

Underlying funds owned by life company

Internal life fund tax

Chargeable events

How would the outcome change if Jennifer was a basic rate taxpayer?

To demonstrate that the outcome for each client could be different, the above case study has been reworked below on the basis Jennifer is a basic rate taxpayer. The table shows the amount of tax Jennifer would pay if she maintained her investments in the GIA and the extra tax she would pay if she moved her investments to a bond. All other assumptions remain the same.

Rates of tax

- Capital gains above £3,000* – 18%
- Dividends above £500* – 8.75%
- Interest above £1,000* – 20%

As the internal bond tax rates remain unchanged by Jennifer being a basic rate taxpayer, the bond taxation is the same as in the initial example, with the exception of the investment amount being slighter higher due to a lower CGT bill for selling the GIA (£2,385 instead of £3,180) because Jennifer is a basic rate taxpayer.

End of year	Opening value	Capital growth	Tax due**	Dividend yield	Tax due	Interest yield	Tax due	Tax for year	Tax loss using a bond
1	£150,000	£3,000	£0	£4,500	£350	£1,500	£100	£450	£436
2	£158,550	£3,171	£0	£4,757	£372	£1,586	£117	£489	£444
3	£167,573	£3,351	£0	£5,027	£396	£1,676	£135	£531	£453
4	£177,097	£3,542	£0	£5,313	£420	£1,771	£150	£570	£467
5	£187,152	£3,743	£0	£5,615	£446	£1,872	£166	£612	£481
6	£197,769	£3,955	£0	£5,933	£473	£1,978	£183	£656	£496
7	£208,980	£4,180	£0	£6,269	£501	£2,090	£201	£702	£512
8	£220,816	£4,416	£0	£6,624	£531	£2,208	£220	£751	£528
9	£233,314	£4,666	£0	£6,999	£563	£2,333	£241	£804	£545
10	£246,509	£4,930	£0	£7,395	£597	£2,465	£263	£860	£563
							Total	**£6,425**	**£4,925**

*For the purposes of this illustration allowances are assumed to remain frozen until year 4 at which point, they are indexed by 2% per annum.
**For the purposes of this illustration, gains up to the Annual Exempt Amount are realised each year but no gains above this are realised.

Tax is deducted from the investment to provide an illustrative net return.

Summary of advice

As you can see, if Jennifer was a basic rate taxpayer, she could save income tax on a yearly basis by leaving her savings in the GIA compared with moving them to a bond. The savings are due to the lower dividend rate of 8.75% and higher personal savings allowance of £1,000. Jennifer will continue to have annual reporting obligations on any income and realised gains above the tax-free allowances.

Conclusion

In Jennifer's case, moving her money from the GIA to a bond could result in a better financial outcome over a ten-year period. However, it's important to consider your client's tax status and wider circumstances. The analysis in this document achieves a particular objective and only considers the ongoing tax treatment of the investment returns. There may be other reasons to use one product over another which have not been considered for the purposes of this case study.

All figures used in the examples above have been generated using our ***General Investment Account - Ongoing Tax Comparison Tool***, that can be found on our website, and should be taken as illustrative only.

Your clients' investments may fall or rise in value and they may not get back what they put in.
This document is based on Quilter's interpretation of the law and HM Revenue and Customs practice as at December 2024.
We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.
The value of any tax relief will depend on the investor's individual circumstances.

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