TAX TREATMENT OF ONSHORE BONDS

We use the Transact onshore bond wrapper where you wish to defer or mitigate higher rates of tax and, in many cases, receive regular income.

The flexibility of the Transact wrapper does mean, however, that when considering what cash to hold throughout a year we have to allow for tax as well as charges, income and withdrawals. This note is designed to explain how the tax works.

1. TAX DEDUCTED BY TRANSACT WHILST YOUR BOND IS INVESTED

The Transact bond wrapper is similar to the other Transact wrappers, in that all costs and charges paid within it are clearly identifiable and this even extends to the taxation of the investments held within the onshore bond policy.

IntegraLife UK (ILUK), in its role as the provider of the onshore bond, is in common with all providers of onshore bonds, required by law to pay tax in respect of:

- Unrealised gains on units trust and/or OEIC Investments at each company financial year end.
- Realised gains on unit trust and/or OEIC Investments since the last company financial year end.
- Any income from or within the bond which has been taxed at source at a rate less than the standard rate of tax set by HM Revenue and Customs (20%).

Investments in onshore bonds are taxed on the insurance company. Changes in January 2018 mean that Transact can no longer deduct inflation from gains before paying corporation tax so one can assume 19% tax is paid on asset growth.

The tax charge is levied on ***each investment each quarter*** or upon a sale when that occurs. Falls in value are deducted from the tax due (but losses below the original purchase price of the investment are ignored). You cannot offset losses on one investment against another whilst the bond is live but clearly when the whole bond is encashed its total gains and losses are taken into account for personal taxation purposes.

You will therefore see on a bond valuation a current price and an encashment value. The latter takes into account taxation which is due.

2. TAXATION PAID BY THE INVESTOR

2.1 Whilst The Bond Is Invested

Insurance company bonds have a unique feature which enables an investor to withdraw up to 5% of the original capital invested for up to 20 years (i.e. 20 x 5% = 100% of the capital). This is cumulative so if you have not withdrawn anything for the first 10 years you can withdraw up to 50% of the original capital (***not*** the current value) in one lump sum.

No tax is levied on the withdrawals however, they are taken into account when assessing any additional tax to pay when the bond is finally encashed.

2.2 On Encashment

Bonds are taxed by taking the total gain (ie the value at maturity plus withdrawals) then dividing this by the age of the investment (complete years) to create an average gain.

Original Investment	£100,000
Withdrawal Income before encashment	£60,000
Encashment Value	£150,000
Complete plan years since investment	12
Total Maturity Proceeds	£210,000
Less Investment	(£100,000)
Gain equals	£110,000
Average Gain equals	£9,167

If this average gain when added to your other income has you still in basic rate tax, then there is no further tax to pay. If the income has you in higher tax rates additional tax may be due.

If the income straddles basic and higher rates of tax, then partial higher rate tax will be due.

Regardless of the tax, the gain is added to income for personal allowance purposes.

If we are dealing with a married couple and the bond holder is a higher rate tax payer, we can often assign the bond to the basic rate tax paying spouse to mitigate these higher rates of tax.

The encashment of bonds requires special consideration which can often avoid higher rates of tax by perhaps adjusting other income in the year of encashment.

3. SUMMARY

Unfortunately, with flexibility can come complexity. Nevertheless, Bonds have their place for higher rate tax payers and trusts which wish to defer and perhaps avoid completely higher rates of tax.

E.&.O.E.