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Are we entering an investment bond renaissance?

Exploring why they are an attractive option to mass-affluent investors

Onshore investment bonds typically carry a lower risk and contribute significantly to a well-rounded portfolio. Historically, numerous investors have opted for a 60% equities and 40% bonds split in their portfolios, as these two assets often (keep in mind, not always) exhibit contrasting performances under varying economic circumstances – a beneficial attribute during market volatility.

Following the Capital Gains Tax (CGT) changes announced in last year's November Autumn Statement, many investors are likely considering investment bonds a more attractive option. The Chancellor's decision to reduce the CGT allowance to £6,000 this year and to £3,000 in April 2024 means investment bonds are more attractive to mass-affluent investors who previously held money in OEICs and unit trusts.

INVESTMENT BONDS OFFER SEVERAL BENEFITS:

- Onshore bonds are not liable to CGT. Onshore bonds are treated as having already paid 20% tax on any gains when calculating a chargeable gain. In reality, the tax deducted is likely to be less than this.
- They can be ideal for Inheritance Tax (IHT) planning and are exempt from IHT after seven years if held in a trust.
- Investors can withdraw up to 5% of their initial investment annually without triggering a chargeable event or any immediate tax liability.
- Top slicing relief is available to reduce tax liability, which can eliminate or significantly reduce any tax liability when a chargeable event is incurred – helpful if investors are in the accumulation phase and are preparing for retirement (maybe a higher rate taxpayer while owning the bond, but a basic rate taxpayer when encashing).
- There are options to assign a bond (for example, between husband and wife as a genuine gift). For tax purposes, the assignment will generally be treated as if the new owner had always owned it – if one is a basic rate taxpayer, they could have no tax to pay on encashment.

HAVE YOU EXHAUSTED YOUR OTHER TAX ALLOWANCES?

Changes to CGT and the tax-free dividend allowances are also likely to appeal to investors looking to reduce IHT liabilities and those who have used their Individual Savings Account (ISA) allowances or received a large windfall payment. ■

WANT TO LEARN MORE ABOUT INVESTMENT BONDS?

If you would like to arrange a no-obligation consultation to discover your investment options, please get in touch with us to discuss your distinct needs. We're looking forward to hearing from you.