



Where next
for investing?



Canada Life



**TAX EFFECTIVE ACCUMULATION AND
REALISATION**

**Tony Wickenden
Technical Connection**

LEARNING OBJECTIVES

1

Revise the fundamentals of investment taxation

2

Review the taxation of Collectives and UK and Offshore Investment Bonds

3

Consider the tax deferment qualities of Investment Bonds

4

Consider how to deliver tax efficient accumulation

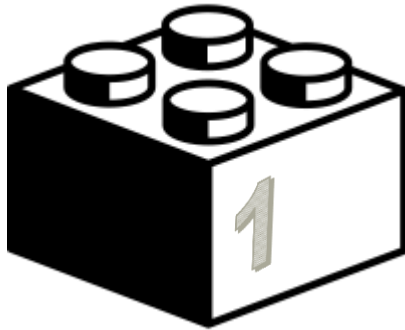
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Review how to create the ability to deliver high levels of tax free income in retirement

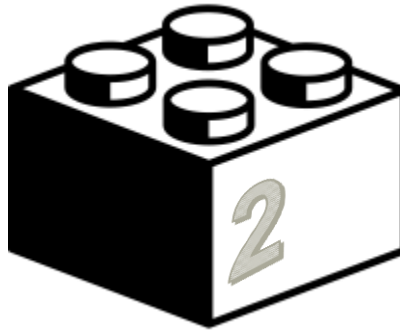
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Consider why Investment Bonds can be tax efficient trustee investments

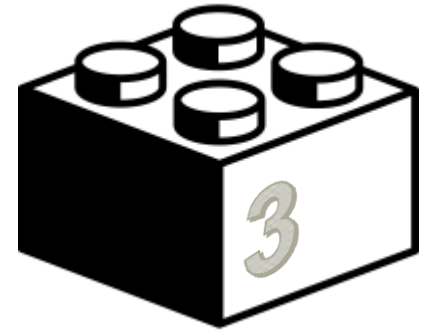
THE BASICS



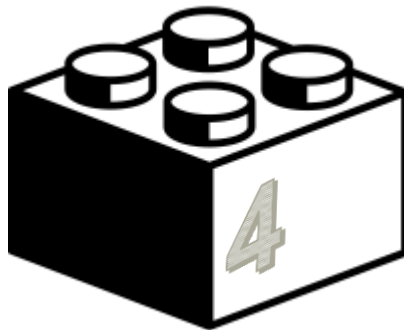
**THE RISE OF
THE PLATFORM**



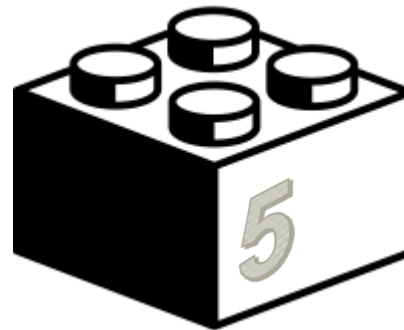
**CENTRALISED
INVESTMENT
PROPOSITIONS**



CGT GAINS



**UNWRAPPED AS THE
“DEFAULT”**



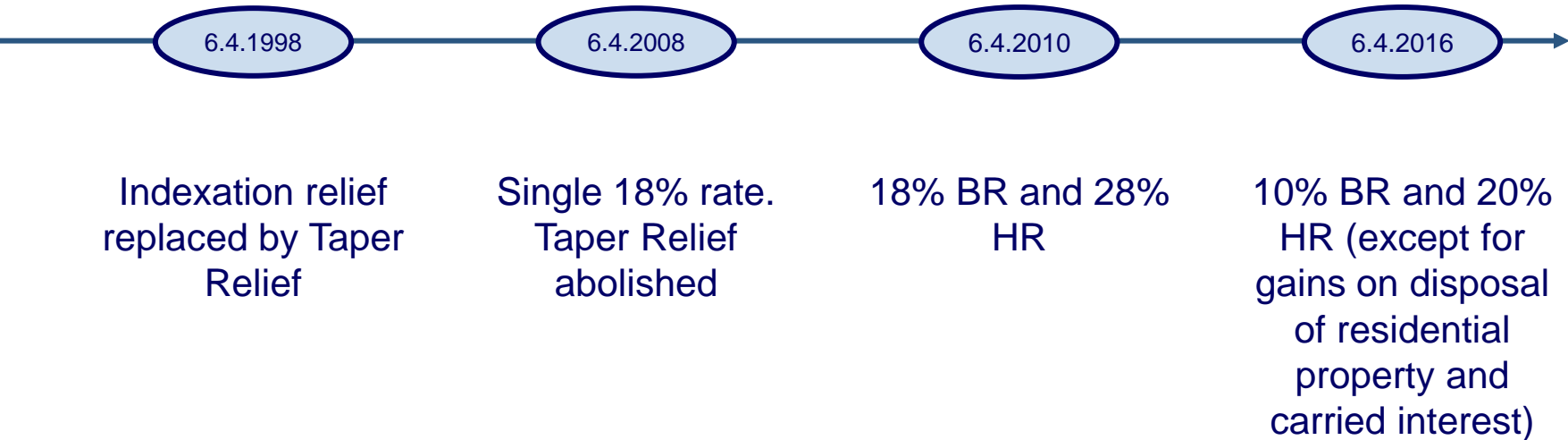
A NEW “DOGMA”

THE BASICS

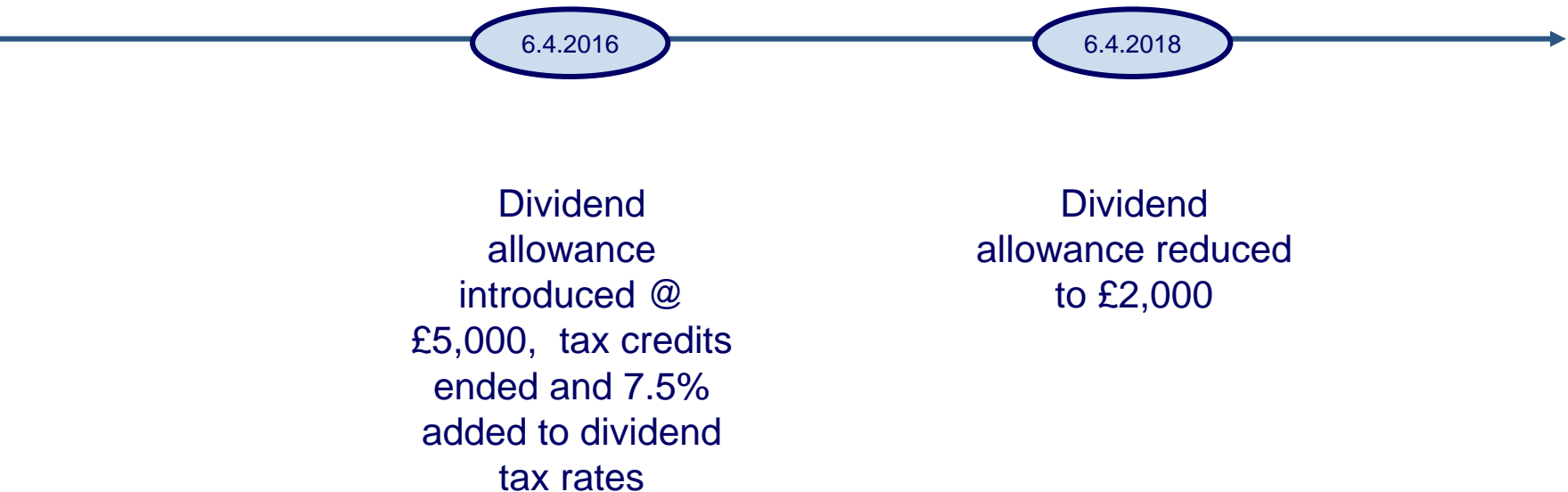
Start with **portfolio suitability** then add wrapper(s) if appropriate for tax efficiency



THE TAX BACKDROP:CGT



THE TAX BACKDROP: DIVIDENDS



THE TAX BACKDROP: SAVINGS

6.4.2015

0% starting rate band raised from £2,880 to £5,000 of savings income. Lose £1 for every £1 of non-savings, non-dividend income over the personal allowance

6.4.2016

Bank + building society interest paid gross

6.4.2016

Personal savings allowance introduced at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers £0 for additional rate taxpayers

6.4.2017

Fixed interest funds interest paid gross

TAX ON INVESTMENT INCOME

Marginal personal Tax rate	0%	20%	40%	45%
Dividends < £2,000 pa	0%	0%	0%	0%
Dividends > £2,000 pa	0%	7.5%	32.5%	38.1%
Interest <£500 pa	0%	0%	0%	45%
Interest £500 - £1,000 pa	0%	0%	40%	45%
Interest > £1,000 pa	0%	20%	40%	45%

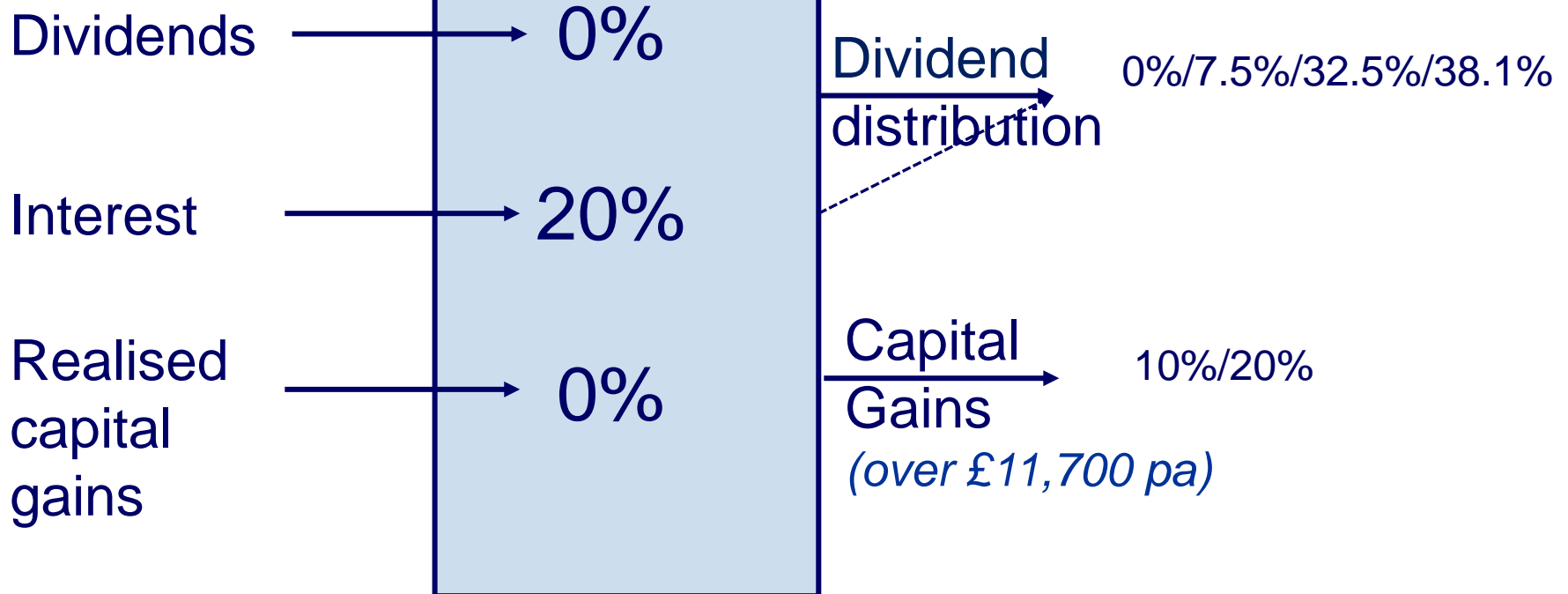
TAX ON CAPITAL GAINS

UK Tax rate	0%	20%	40%	45%
Up to £11,700 p.a	0%	0%	0%	0%
Over £11,700 p.a	10%	10%*	20%*	20%*

* For gains realised on disposals of residential property and carried interest the tax rate will be 18% (for basic rate taxpayers) and 28%(for higher and additional rate taxpayers)

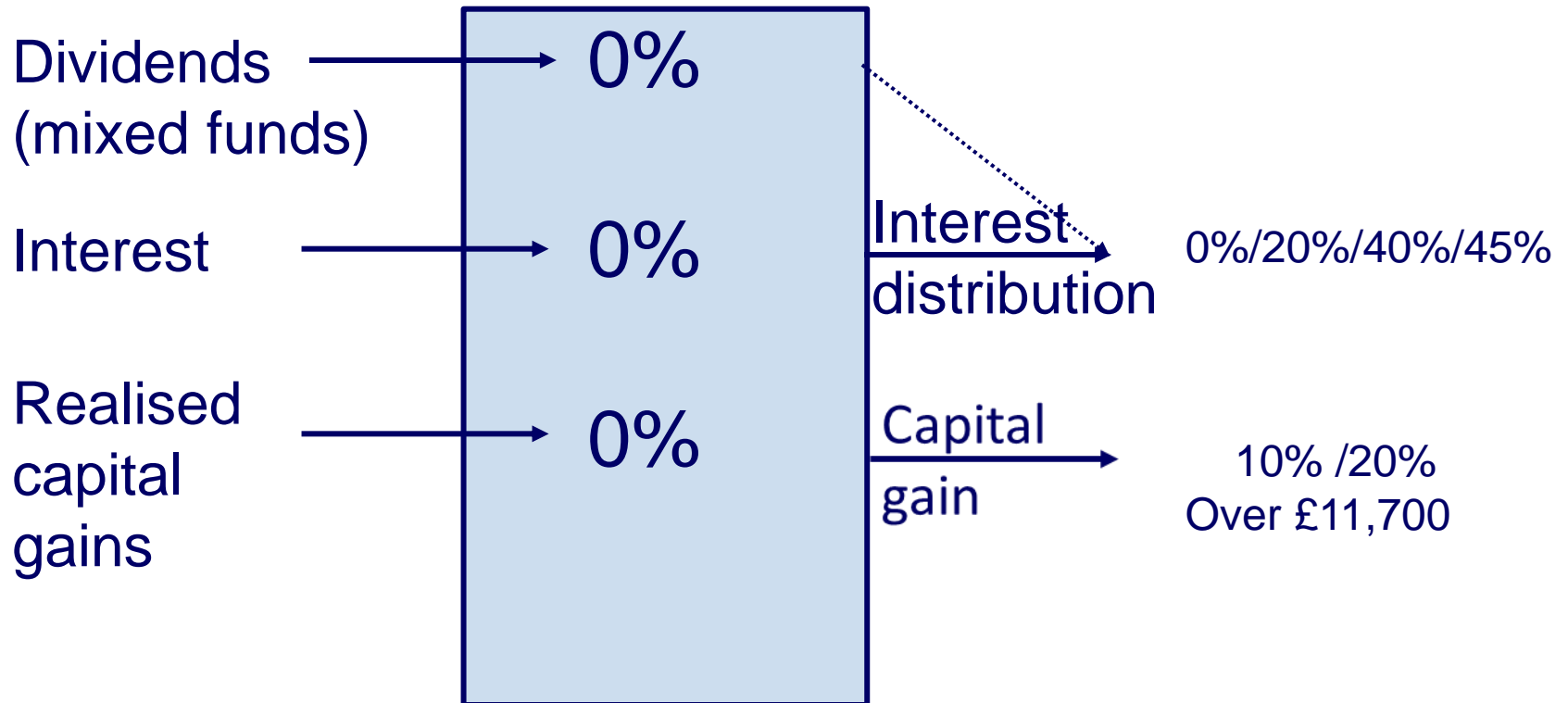
TAXATION OF COLLECTIVE INVESTMENTS

Equity Collectives



TAXATION OF COLLECTIVE INVESTMENTS

***Fixed interest collective
(60%+ invested in fixed interest)***



UK INVESTMENT BOND

Insurance fund taxation

Dividends	→	0%
Interest	→	20%
Realised and deemed capital gains *	→	20%

* Life fund deemed to dispose of and reacquire collective investments invested in every year with tax on deemed gains spread forward equally over 7 years. No indexation relief since 1/1/2018.

UK INVESTMENT BOND

Investor taxation

Withdrawal

- Tax deferred on withdrawal not exceeding (cumulative) unused 5% p.a. allowances.
- Tax at marginal rate due on any excess of the allowable 5% but with basic rate tax credit. Top slicing relief available.



Full encashment

- Gain plus untaxed past withdrawals taxed as savings income.
- Basic rate credit and top slicing relief to determine whether a liability arises and if so, at what rate it is taxed

INTERNATIONAL INVESTMENT BOND

Life fund taxation

Dividends → 0%

Interest → 0%

Capital
gains → 0%

INTERNATIONAL INVESTMENT BOND

(UK) Investor taxation

Withdrawal

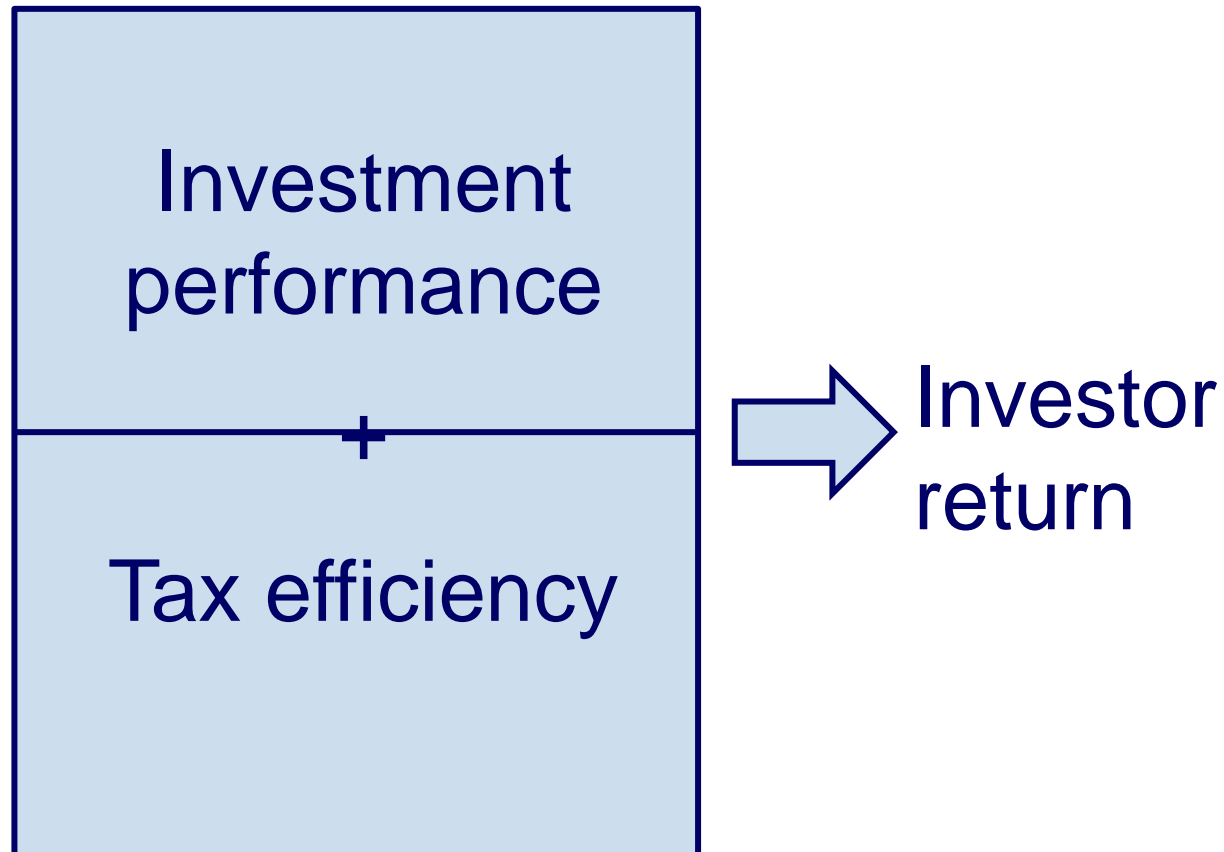
- Tax deferred on withdrawal not exceeding (cumulative) unused 5% PA allowances.
- Tax at appropriate rate due on any excess over the allowable 5%s (no basic rate credit).



Full encashment

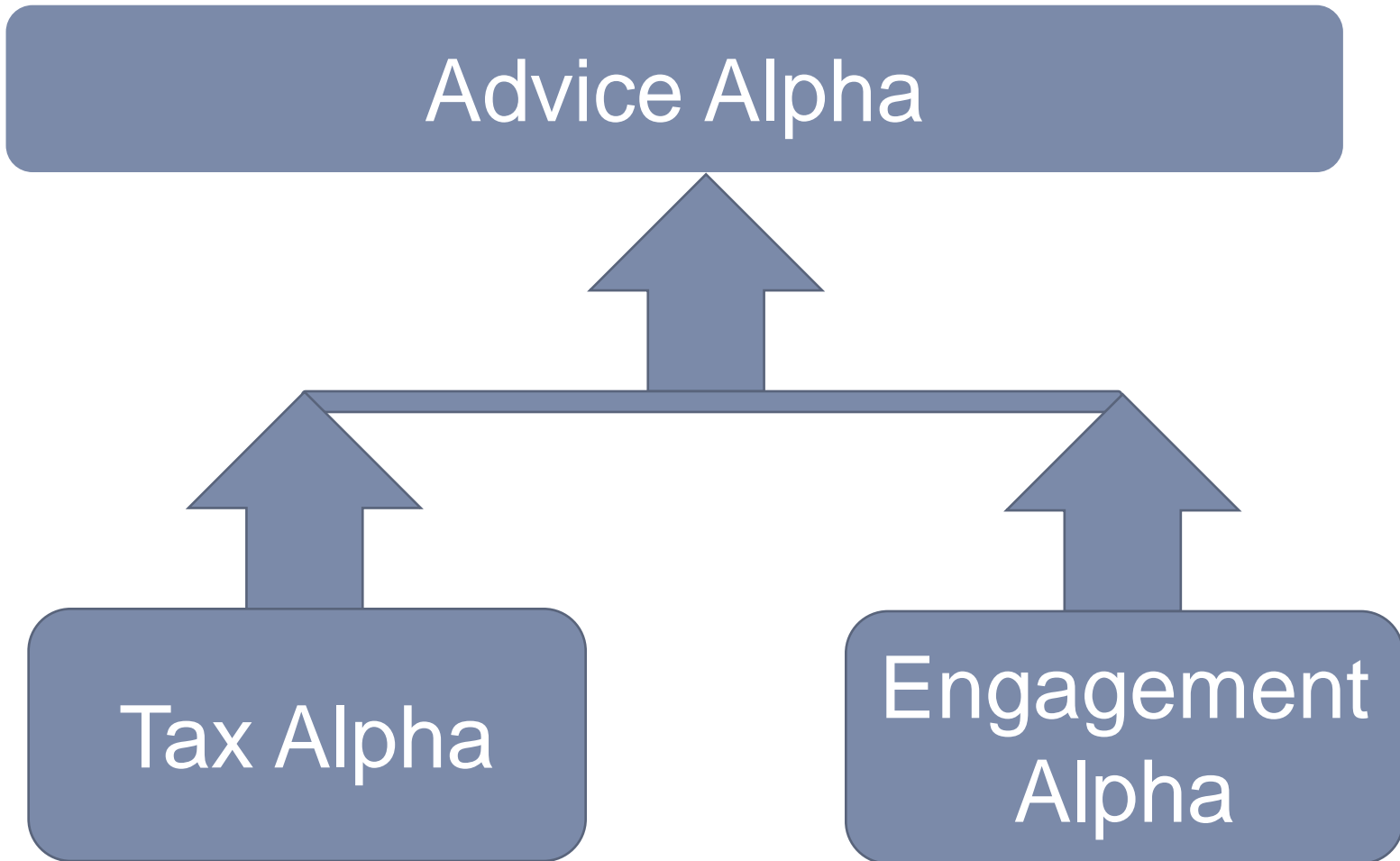
- Tax at appropriate rate on gain (as savings income) with no basic rate credit.
- Personal allowance, 0% starting band (up to £5,000) and personal savings allowance (£1,000 basic rate taxpayer and £500 higher rate taxpayer)

THE TAX FACTOR



ADVICE ALPHA – CORE COMPONENTS

important contributor to securing an optimum outcomes



TAX ALPHA



***“The (non-market dependent)
improvement in net return driven
through tax efficiency”***

ALPHA CONTEXT

DETAIL

Evasion

£11 bn pa

Anti-avoidance

Litigation

TAAR

GAAR

Information

DOTAS

Hidden economy

On-line business (Amazon; Air BnB)

Connect

Trust registration

Digitising tax



THE WAY WE WERE

“Every man is entitled if he can to order his affairs so that the tax attracted under the appropriate Act is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax.”

Lord Tomlin in Duke of Westminster v CIR (1936) AC1

THE WAY IT IS

Not Acceptable

- Aggressive
- Abusive
- Tax avoidance that defeats the intent of Parliament won't work

Acceptable

- Tax reduction through strategies transactions and products that are contemplated by the legislation and do not defeat the intent of Parliament

BORING IS THE NEW EXCITING



TAX ALPHA FUNDAMENTALS

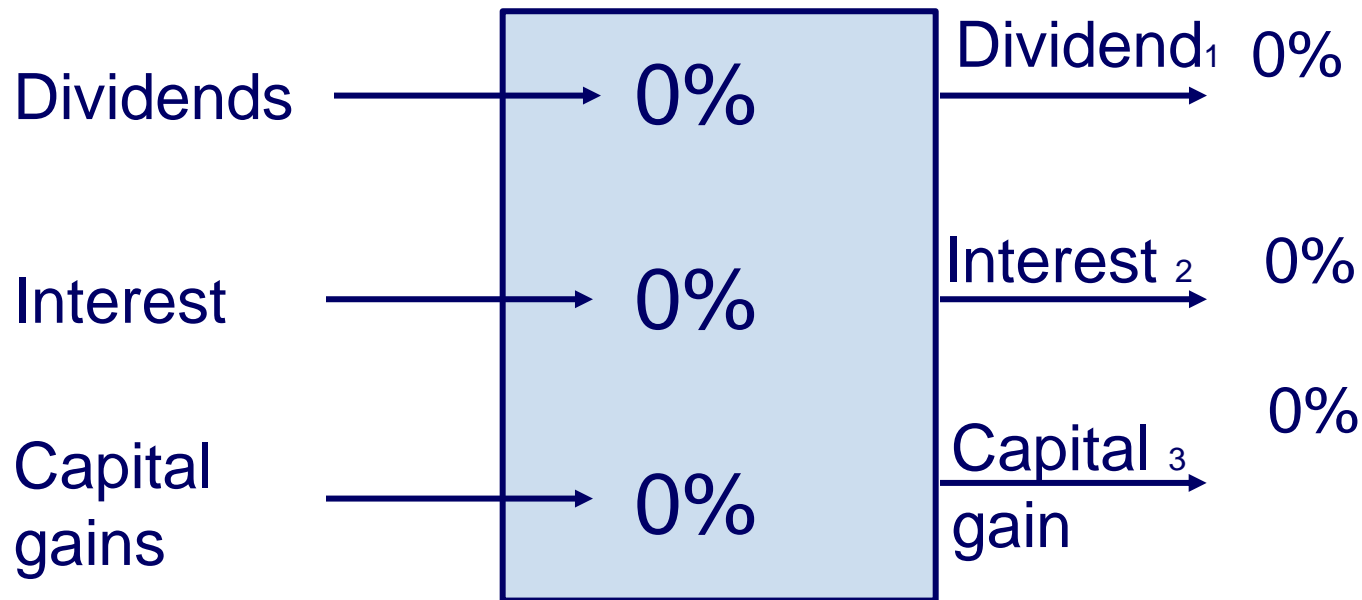
Beyond Pensions , ISAs ,EIS/VCT *tax alpha* is about *maximising the use of*

- The dividend allowance
- The capital gains tax exemption
- The personal savings allowance
- The 0% starting rate

to minimise tax and maximise net returns

A “NO BRAINER” TO START

- Use the annual dividend allowance
- Use the annual CGT exemption
- Use annual savings allowance and, if possible, starting rate



1. Up to £2,000 pa tax free
2. Up to £6,000 pa tax free (PSA + SR)
3. Up to £11,700 pa tax free

A (tax) NO BRAINER

Investment to cover dividend allowance
of £2,000 p.a.

Dividend Yield	Individual	Couple
2%	£100,000	£200,000
3%	£66,666	£133,333
4%	£50,000	£100,000

Will deliver tax free income
and (possibly)
tax free capital gains through regular use of the
annual exemption

BUT CAUTION

- Reinvested dividends can produce more dividends which may exceed the dividend allowance
- Dividend allowance is not automatically indexed
- What if the dividend allowance is further reduced... there is recent history!

USING THE CGT ANNUAL EXEMPTION

EASIER SAID THAN DONE?



AS A CONSEQUENCE OF
REBALANCING?



SALE & REACQUISITION:

- TO REBASE WITHIN EXEMPTION
- TO REALISE A LOSS

USING THE CGT ANNUAL EXEMPTION

EASIER SAID THAN DONE?



AS A CONSEQUENCE OF
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SALE & REACQUISITION:

- TO REBASE WITHIN EXEMPTION
- TO REALISE A LOSS

CARE!!

IN TAX YEAR LOSSES FIRST OFFSET AGAINST GAINS IN SAME TAX YEAR BEFORE CARRY FORWARD NO SALE / REACQUISITION OF THE SAME SHARE CLASS WITHIN 30 DAYS UNLESS RE-ACQUIRED BY:

- ISA
- PENSION
- SPOUSE

BUT ... BEYOND THE ALLOWANCES AND EXEMPTIONS



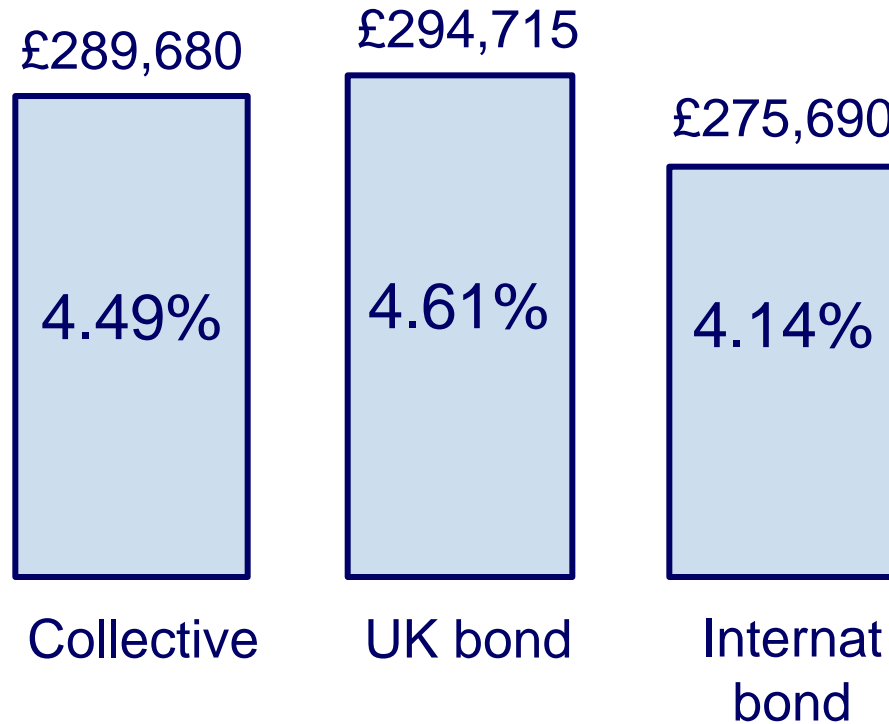
**The investment bond can
deliver impressive tax
deferral and tax planning
opportunities**

FOR EXAMPLE

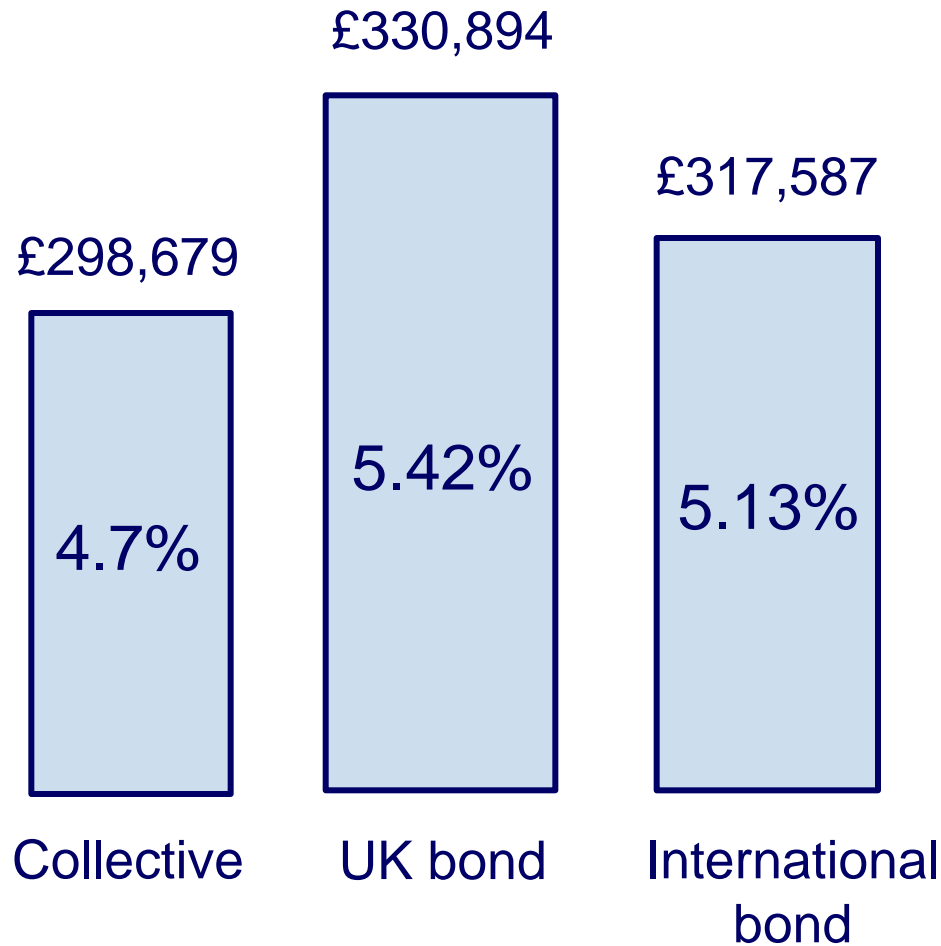
Invested	→	£150,000
Term	→	15 years
Equity/fixed interest	→	80/20
Equity yield	→	3.5%
Fixed interest yield	→	2.0%
Capital growth (equity)	→	3.5%
Capital growth (FI)	→	0%
Tax rate during investment	→	40%
Tax rate on encashment	→	40%/20%
Dividend allowance	→	0
CGT exemption available	→	No
CPI Inflation	→	2.5%

No account of charges

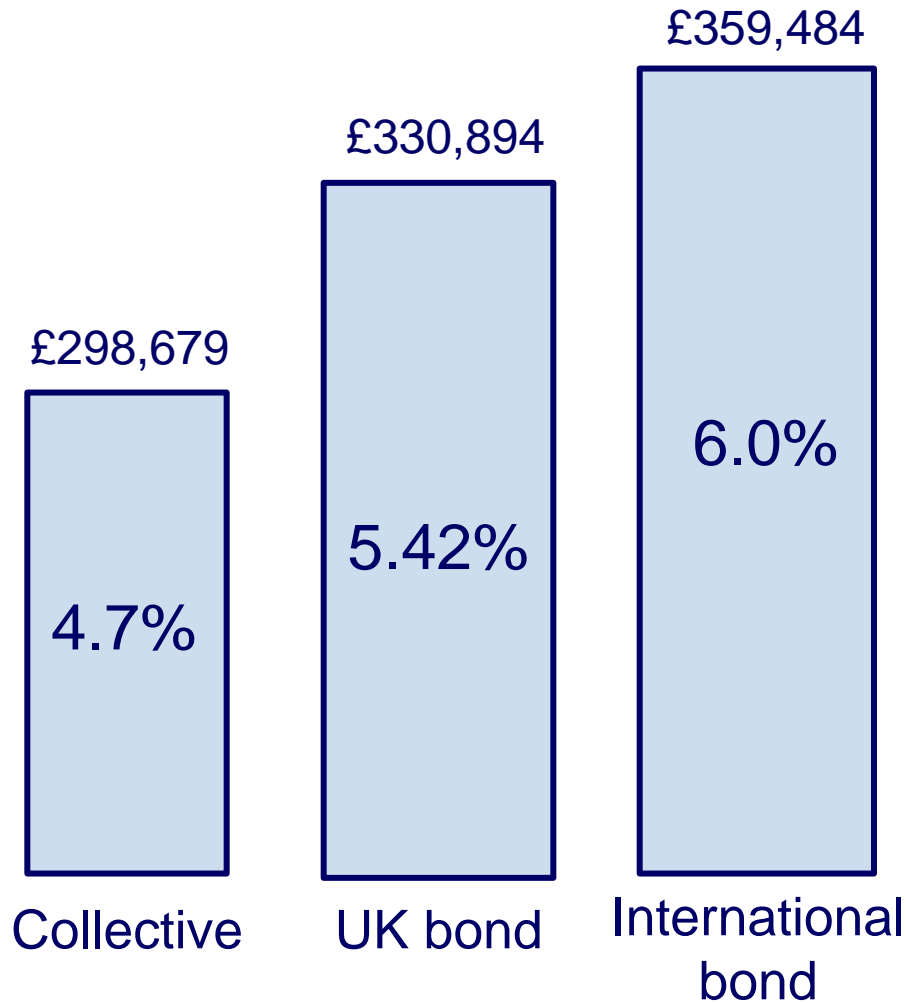
HIGHER RATE TAXPAYER ON ENCASHMENT



BASIC RATE TAXPAYER ON ENCASHMENT



NON TAXPAYER ON ENCASHMENT



RULES OF THUMB

	Collective	UK bond	International bond
Tax –free Dividends within allowance and gains within exemption	✓		
Dividends and capital gains taxable and UK taxpayer on encashment		✓	
Dividends and capital gains taxable and UK taxpayer on encashment but with a reduced tax rate (eg. 40%-20%)		✓	
Dividends and capital gains taxable but bond gain not subject to tax on realisation			✓

INVESTMENT BONDS IN RETIREMENT PLANNING BEYOND PENSIONS AND ISAS

B O N D S

The image features five light-colored wooden blocks arranged horizontally to spell out the word 'BONDS' in bold, black, sans-serif capital letters. The blocks are resting on a surface covered with several US dollar bills, including a prominent \$100 bill in the foreground. The background is slightly blurred, showing more currency and a dark object, possibly a calculator, in the upper right. The overall composition is clean and professional, emphasizing the financial theme of the text.

.....IF YOU ARE “TAX MOTIVATED”

VCT

- 30% tax credit (on investment up to £200,000)
- Tax free dividends
- CGT freedom (on gains)

EIS

- 30% tax credit (on investment up to £2m*)
- CGT deferment
- CGT freedom (on gains)
- IHT business relief

BUT EXTRA RISK

** Of which £1m in Knowledge Intensive Companies*

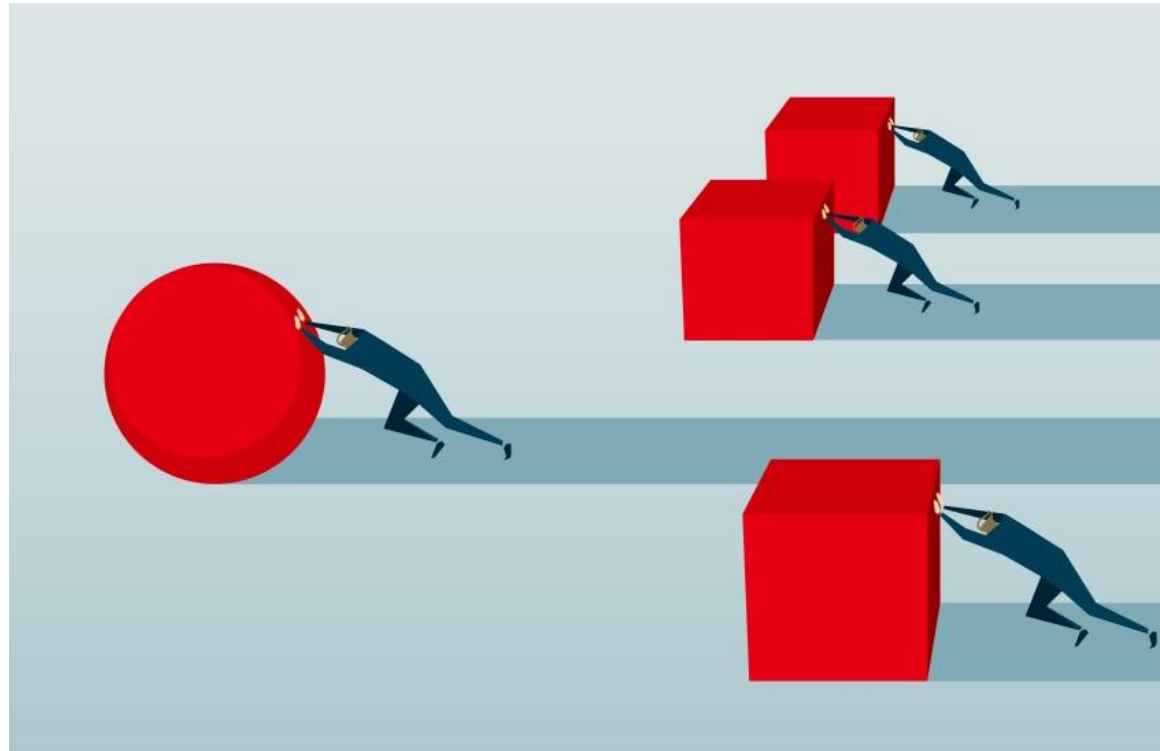
AND BEYOND EIS/VCT

COLLECTIVES

ONSHORE BONDS

OFFSHORE BONDS

can all offer tax
efficiency



START WITH THE END IN MIND

- You can only work with and plan based on the system as it exists

AND

- Build flexibility and control into your plan

AND DON'T FORGET THIS...

***Performance within
your control***



The less tax you pay – the
easier it is to achieve your
financial objective



A QUESTION

How much can
you receive tax
free under the
law as it
stands?



TAX FREE INCOME

Bond withdrawal (tax-deferred)	? *	}	Lots more!
VCT dividends	∞		
ISA income	∞		
Dividend allowance	£2,000	}	19,850
Personal saving allowance	£1,000		
Starting rate band 0% (savings income)	£5,000		
Personal allowance	£11,850		

* Up to 5% of original investment PA – cumulating if unused

HOW ABOUT INVESTMENT BONDS ?

**UK INVESTMENT BONDS TO
PRODUCE ADDITIONAL
RETURNS FREE OF INVESTOR
TAXATION FOR INVESTORS
WHO ARE UK TAXPAYERS**

LETS CONSIDER A 20 YEAR INVESTMENT PERIOD



- Examples based on current tax rates and reliefs **BUT**
- 2.5% CPI applied to all allowances , exemptions and thresholds

A QUICK REMINDER: TAX FREE INCOME NOW

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TAX FREE INCOME : 20 YEARS ON

ISA **		+£35,000
Collectives	£3,300	£32,600* pa tax free
Deposits + fixed interest/offshore bond gains	£9,800	
State pension and other income	£19,500	

Without touching your pension!

**£19,850 in 2018 terms :2.5% CPI inflation assumed*

*** Value of ISA if £20,000 pa invested each year for 20 years and grew at 5% pa after charges would be £700,000*

Tax free income of 5% of £700,000 – assuming the nominal capital value maintained

UK INVESTMENT BOND: TO SUPPLEMENT FUTURE TAX FREE INCOME

£150,000 invested for 20 years

Fund= 80% Equity /20% Fixed Interest

3.5% equity yield /2% fixed interest yield

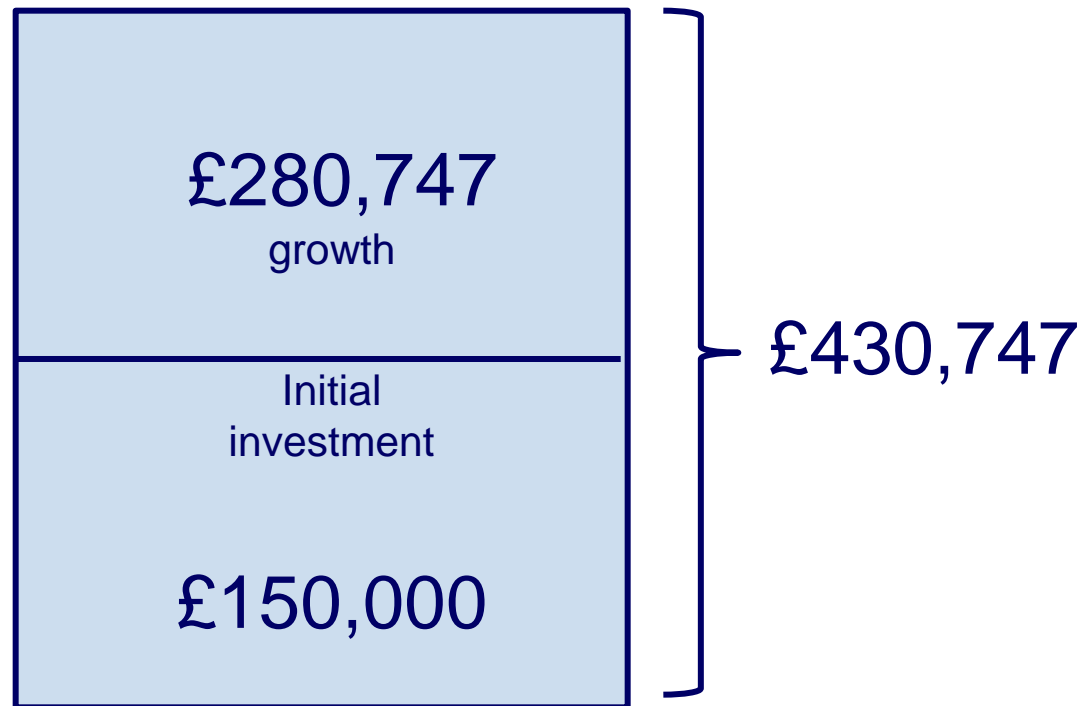
3.5% equity capital growth/0% fixed interest

40% tax rate during investment

Basic rate on encashment

CPI Inflation 2.5%

AFTER 20 YEARS

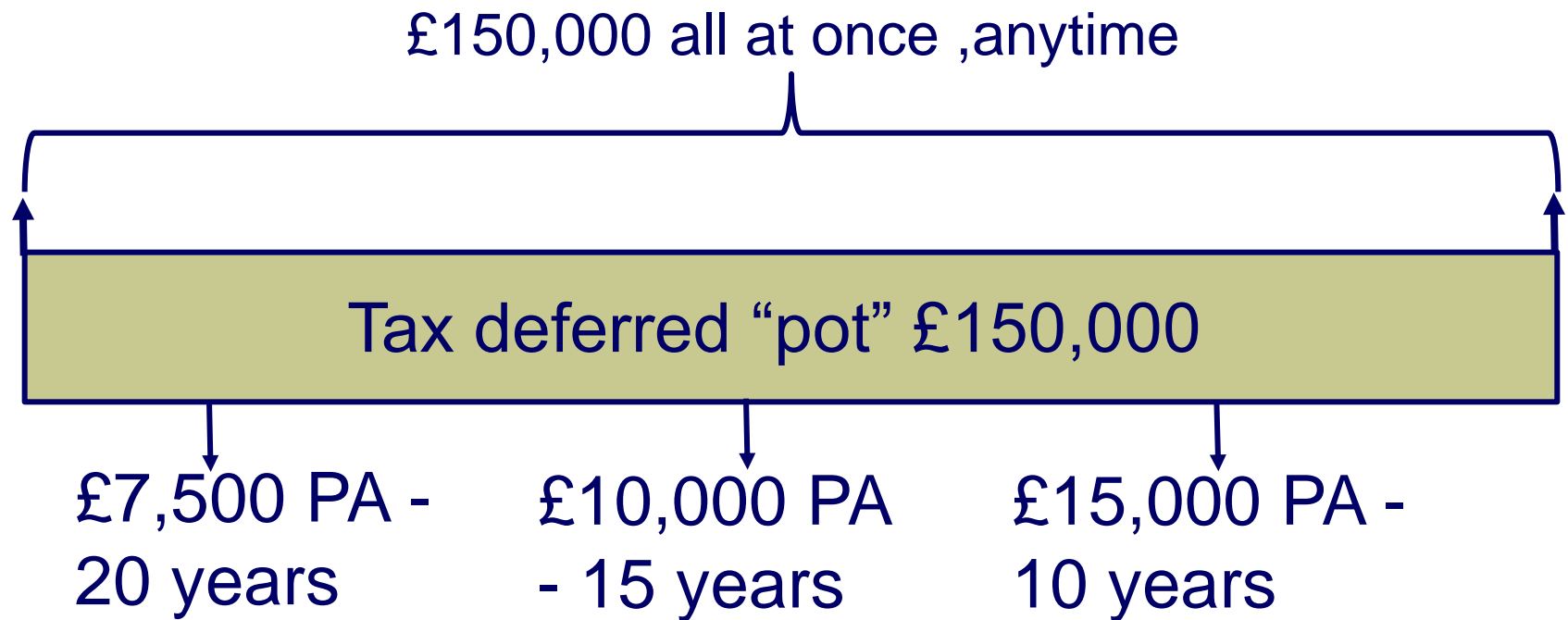


Overall return 5.42%
Top Sliced “gain” £14,038

WITH TAX EFFECTIVE DRAWDOWN FLEXIBILITY

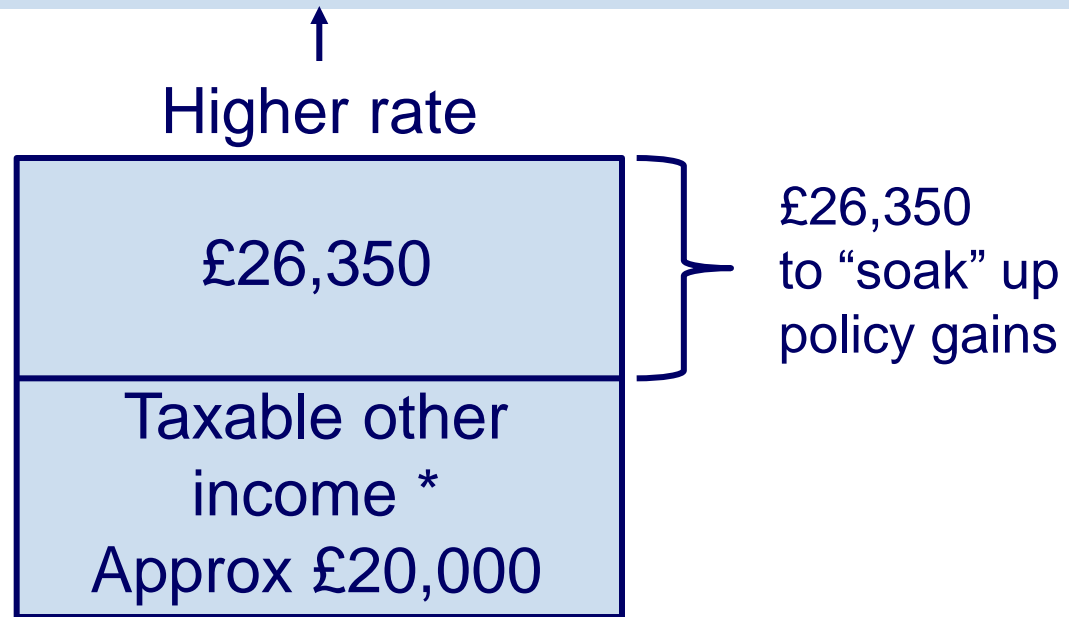
Options : By withdrawals

- Drawdown flexibility: First £150,000 drawn is tax deferred



And post withdrawal bond funds remain invested

WHOLE POLICY ENCASHMENT 2018



*

Not taxed ,as within:

Personal allowance

PSA/0% starting rate

Dividend allowance

£11,850 pensions etc

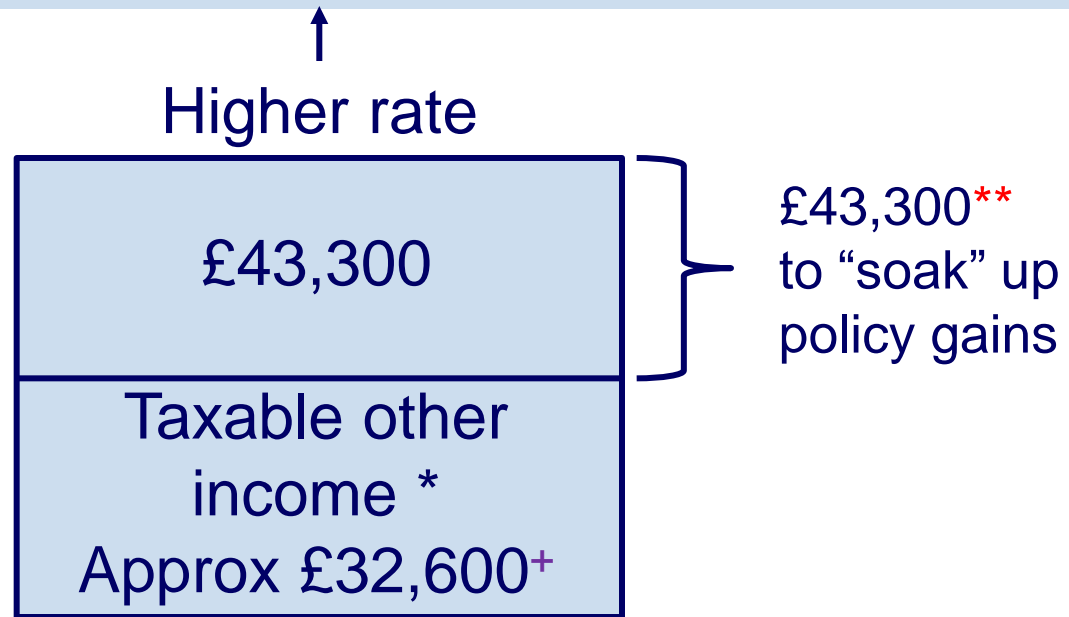
£6,000 savings income (from fixed interest/deposit/offshore bond)

£2,000 Divs from collectives £67,000

+ tax free/tax “ignored” ISA income

* Assuming the bond had been in force for 20 years by 2018

WHOLE POLICY ENCASHMENT ..20YEARS ON ***



* Not taxed though ,as within:

Personal allowance £19,500 pensions etc

PSA/0% starting rate £9,800 interest from Fixed interest investment

Dividend allowance £3,300 Divs from collectives

Plus tax free/tax “ignored” ISA income

+ £19,800 in 2018 terms

****£26,500 in 2018 terms**

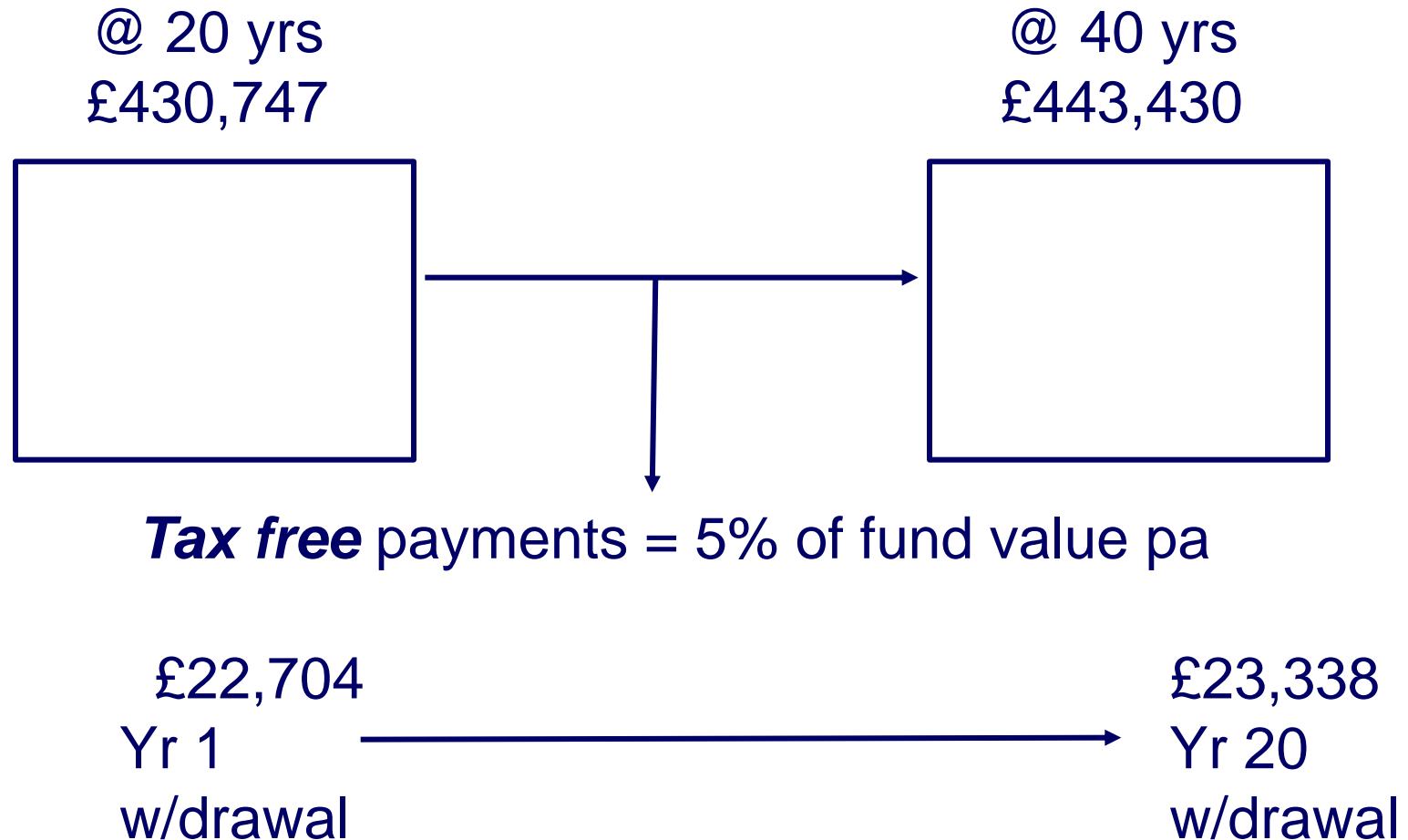
***** 2.5% CPI inflation applied to all tax bands and allowances**

TOP SLICING



Means that almost any reasonable level of regular payments could be taken from the bond free of tax by withdrawal, and/or full policy encashment

FOR EXAMPLE



* Based on previously stated growth on tax assumptions

SO, IN 2038... assuming 2.5% cpi inflation applied to all thresholds and exemptions

Bond “income”	£22,000	} Approx £90,000 pa tax free
ISA income	£35,000	
Dividends	£3,300	
Savings income	£9,800	
State pension and other income	£19,500	

WE REST OUR CASE!

AND WHEN IT COMES TO ESTATE PLANNING

The tax deferment and planning qualities of investment bonds make them the “standout” candidates when combined with...

Gift trusts

Loan trusts

Discounted gift Trusts

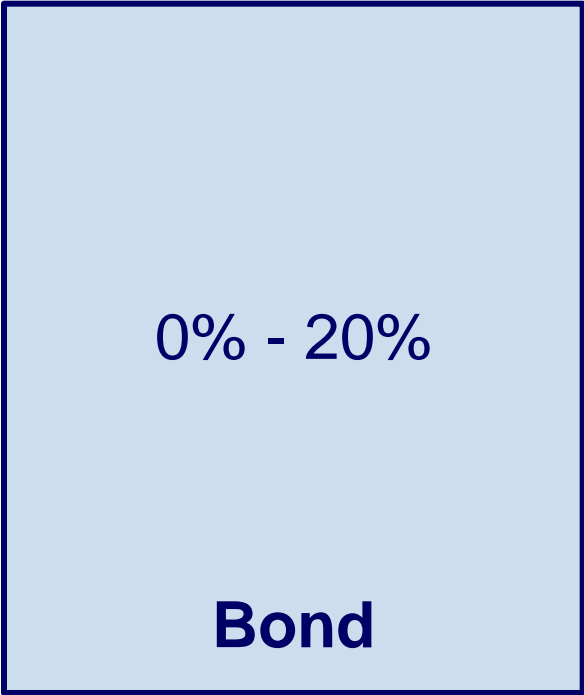
...and as potentially appropriate investments for existing trusts

WHY BOND AS TRUSTEE INVESTMENT?

Trust taxation

Investment

Dividends	38.1%
Interest	45%
Capital gains	28%
Annual CGT Exemption	£5,850



Tax
deferment +
exit planning

...and it's simple as
well as tax efficient!

THE TRUST EQUATION

Credibility + Reliability + Intimacy

Self orientation

WHAT DO CLIENTS NEED ADVICE ON?



C Complexity

C Consequences

C Can't

GET ON THE HARD STUFF!

The proven way to add value :

“Do extremely difficult work. That seems obvious, right? If you do something that’s valued but scarce because it’s difficult, you’re more likely to be in demand and to be compensated fairly for what you do.

The implication is stunning, though: When designing a project or developing a skill, seek out the most difficult parts to master and contribute. If it’s easy, it’s not for you.”

Seth Godin’s daily Blog: 17 May 2014



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Review how to create the ability to deliver high levels of tax free income in retirement

6

Consider why Investment Bonds can be tax efficient trustee investments

ALL THE RIGHT TOPICS



But not necessarily covered in the right order!

TO FIND OUT MORE

www.technicalconnection.co.uk

www.techlink.co.uk

ONE MORE THING....

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