

Onshore and Offshore Bonds
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Ever wondered if there was a more efficient home for your money than a deposit account, or an additional investment vehicle for your retirement income? Well an investment bond may be the answer for you, depending upon your circumstances.

As a simple description, an investment bond is just a type of vehicle or “wrapper” in which you can hold different funds or deposits. They can be set up with a one off premium followed by “top up” investments and are suitable for some investors who require income or capital growth for the medium to long term. For instance you may be able to take 5% of your original investment every year, without an immediate liability to income tax. Other benefits to investment Bonds are that they can be used for Inheritance tax planning and you have the ability to assign ownership to others.

An onshore bond is one that is held within the UK, whereas an offshore bond is held outside the UK, for example in Eire or the Isle of Man. The main differences between the two types of bond are their tax treatment and policyholder protection.

Within an onshore bond growth is paid net of 20% tax within the fund, meaning a basic rate tax payer could en-cash with potentially no further liability. A higher rate tax payer could however have a further tax liability of 20% depending on various considerations.

Do you want to be told, or do you want to choose when you pay your tax? Within an offshore bond the growth is rolled up tax free and the tax is paid upon encashment. This can mean better growth within the bond and income tax can be reduced by taking the growth at a more tax efficient time i.e. a higher rate tax payer may become a basic rate tax payer before encashment of the bond, therefore paying less income tax.

Policyholder protection varies dependent upon the country in which the bond is held.

Who will bonds be suitable for and are there better alternative investments? To find out your options speak to an Independent Financial adviser today who can help you decide if a bond would be right for your circumstances and talk through what is quite a complex topic, with many alternative investment routes and important issues which should be considered in each case.

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