

Investment Bond Factsheet

2026/2027

An Investment Bond is a tax-efficient investment wrapper that can be useful once other allowances (such as ISAs and pensions) have been fully utilised.

Typically funded via a lump sum, the investment is placed into a range of underlying funds (commonly unit trusts and OEICs), offering the potential for long-term growth.

Regular Income

- You can withdraw up to 5% per year of the original investment
- These withdrawals are treated as a return of capital, not income, therefore no tax calculation will occur
- The allowance can continue for up to 20 years before a potential tax liability arises

Key points:

- Unused 5% allowances can be carried forward to future years
- Adviser charges taken from the bond will reduce the available 5% allowance
- Exceeding the allowance may trigger a chargeable gain, which can result in an income tax charge

Onshore Bond Taxation

- No capital gains tax (CGT) applies
- Gains are instead assessed under income tax rules

On encashment or chargeable event:

- A 20% basic rate tax credit is deemed to have been paid within the bond
- Basic rate taxpayers: typically no further tax to pay (subject to total income)
- Higher rate taxpayers: may be subject to an additional 20% tax
- Additional rate taxpayers: may be subject to an additional 25% tax

Top Slicing Relief

- Works by spreading the gain over the number of years the bond has been held to determine whether the gain pushes you into a higher tax band
- May reduce the tax payable on gains

Offshore Bonds

Offshore bonds are typically based in jurisdictions such as the Channel Islands, Isle of Man, or Dublin.

Key differences from onshore bonds:

- No internal basic rate tax applied to growth within the bond
- Tax is generally deferred until withdrawal or encashment
- Gains are taxed at your marginal rate of income tax when withdrawn (with top slicing relief available)

Potential advantages:

- Greater potential for tax-deferred growth
- May be suitable if you expect to be in a lower tax bracket in the future

Planning opportunities:

- Can be assigned to another individual (e.g. an adult child) and they may utilise their personal allowance, potentially reducing or eliminating any tax liability. Whilst an onshore bond can be assigned, you cannot recoup the 20% basic rate tax credit.

Risks

The full product particulars supplied by the insurer or investment house should be read for specific details as this is only a summary. Once you have made the investment, its value can go down as well as up. Past performance is no guarantee of future performance. You may not get back the amount originally invested.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of, and reliefs from taxation are subject to change.

Investment Bonds suffer internal corporation tax which can result in the investment returns being marginally lower than other wrappers such as ISAs or Investment Accounts. However, this tax is dealt with internally by the Investment Administrator.

Additional advantages

Means testing for care fees

- A single premium investment bond is not typically included in local authority means testing for residential care assessments.
- However, this depends on individual circumstances and care should be taken to ensure that no deliberate deprivation of assets rules apply.

Trust planning efficiency

Investment bonds can be a tax-efficient solution when held in trust, as:

- Trustees are not liable for income tax or capital gains tax on fund switches within the bond
- This allows for investment flexibility without triggering immediate tax liabilities
- The bond can be assigned out to beneficiaries prior to surrender to manage tax exposure