Drewberry

Core investing:

Ideas for higher-rate taxpayers

Welcome to Drewberry

Drewberry Wealth is a thriving advice business that aims to guide clients through every stage of their financial lives. We have a passionate team of financial planning experts in our London and Brighton offices, each of whom is focused on making a difference for our clients.

Tom Conner
Director

We set out to provide the highest levels of customer service in our industry and have more five-star reviews than virtually any other adviser in the UK. No less than 98% of our clients say they'd be happy to recommend us.

We run one of the top-rated personal finance websites in the UK and are frequently quoted as experts in our field by the national press.

COVER excellence AWARDS

Protection Review FINALIST 2014

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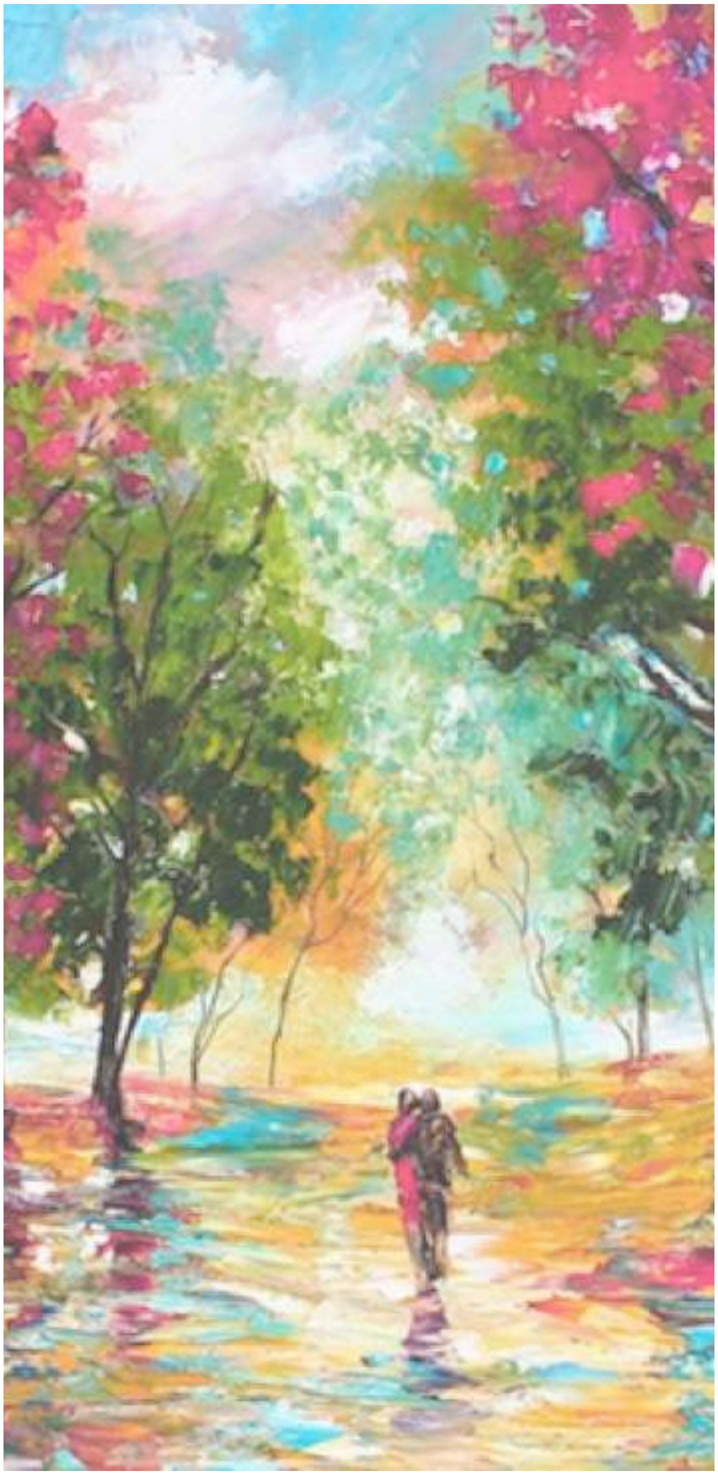
Rated 4.9 / 5 by our clients on the independent review site Reviews.co.uk

REVIEWS



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How Drewberry can help

At Drewberry Wealth we have experts in all aspects of investment, pension and tax planning.

Because we analyse your assets alongside your future income needs, your financial ambitions and those of your family, we can create investment solutions that are tailor-made to your unique needs.

Whatever your circumstances, we can help ensure that you don't pay more tax than you need to on the wealth you worked so hard to create.

At Drewberry we'll help you to make the most of your tax allowances and to turn your savings into an efficient long-term portfolio designed to meet your individual needs.

This can include:

- Helping you and your family make the most of the UK pension regime;
- Creating a programme of long-term tax efficient savings;
- Managing your portfolio to make the most of your annual capital gains tax and dividend allowances including 'bed & ISA' arrangements;
- Advising on a broad range of recognised tax-shelter products including venture capital trusts, enterprise investment schemes and offshore bonds;
- Setting up and monitoring any trust arrangements that might be required; and
- Regulated advice.

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BN1 6AF

Pensions: your first port of call

There may be no short cuts when it comes to building up your long-term savings but, thanks to the tax relief and tax-free growth on offer, a pension is still the best way to travel

The UK's pension regime may not be nearly as generous as it once was, but it still represents by far the most tax-efficient way in which to save for retirement or, more accurately, for when you turn 55 and gain full access to your pension savings.

How much can you invest each year?

Most of us can still contribute up to £40,000 (gross) to our pensions each year or the equivalent of our annual salary (whatever is lower).

It's called a 'gross' contribution as this includes the value of any tax relief that you receive at your highest marginal rate.

Pensions: your first port of call

Tapering top earners

The rules are different for those with 'adjusted income' of over £150,000 and a 'threshold income' of more than £110,000.

Since, the start of the 2016 tax year, new rules introduced act to taper the annual pension allowance of the UK's highest earners £1 for every £2 of 'adjusted income' that someone enjoys over £150,000.

The maximum reduction in annual allowance is £30,000, which is reserved for those enjoying adjusted income of £210,000 a year or more. If you're in this position, the most you can now contribute to a pension, including the tax relief you'll receive, is £10,000 a year.

If you're a higher earner struggling to get a handle on how the new tapered allowance will impact you, our [Annual Allowance Calculator] has been created especially for you.

To ensure you make the maximum allowable contribution every year you can take advantage of the carry forward rules.

Use 'carry forward' while you can

The carry forward rules allow you to make use of any previously unused annual allowance from the preceding three tax years (starting with the tax year three years ago) and to receive tax relief on these contributions at your highest marginal rate.

This means that, assuming you earned this much, you could potentially invest an additional £80,000 in your pension in the 2017/18 tax year (assuming you didn't use any of your allowance in the previous three tax years) on top of your tapered allowance for the 2016/17 and 2017/18 tax years.

Salad days

This is because the annual allowance was still set at £40,000 in the 2014/15 and 2015/16 tax years before the introduction of the new tapered allowance for higher earners at the start of the 2016/17 tax year.

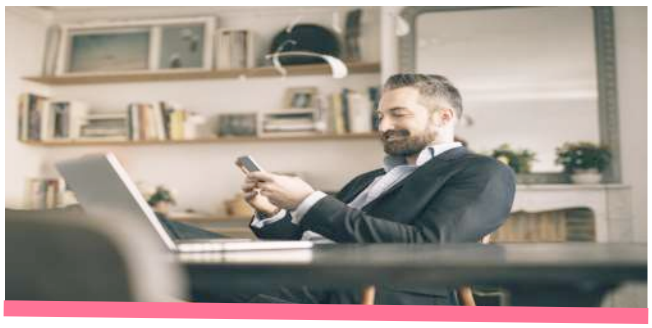
So the clock is ticking on carry forward for higher earners. This is because the onset of the 2018/19 and 2019/20 tax years will close the door on the two remaining past years when you still enjoyed a £40,000 annual allowance.

This means that if you wait until the outset of the 2019 tax year you'll have lost all of the now generous-seeming annual allowances of yesteryear and be left with just your tapered allowance for each of the preceding three years.

Pensions: your first port of call

A sitting target?

More broadly, there's a growing consensus in the pension industry that the government's next major raid on the market will be to remove higher-rate tax relief altogether.



This is yet another reason for higher earners to ensure that they don't delay maximising their pension contributions.

To help illustrate how carry forward works in practice, we've included a worked illustration overleaf.

In real life, calculating your previously unused allowances for the purpose of carry forward can be a far more complex exercise.

That's why our Annual Allowance Calculator will also calculate your 'carry forward' entitlement for you.

Don't forget to top up your spouse's pension

Don't forget that if your spouse or civil partner is employed they'll also have their own personal allowance equal to their annual earnings and capped at £40,000 a year.

There's nothing to prevent you from providing the funds they need to maximise their pension contributions. This will ensure they receive all of the tax relief to which they might be entitled.

Even if your other half isn't employed, you can still fund a pension for them with a net contribution of up to £2,880 a year. This will qualify for an additional £720 of tax relief (although you can't make use of carry forward here).

Carry forward in action…

An illustration

Let’s imagine that Elaine, who runs her own business, wants to make the largest pension contribution she can in the 2017/18 tax year by carrying forward any unused annual allowance from the previous three years. Let’s also assume that, thanks to her high level of income, since the new tapered allowance was introduced in April 2016, her annual allowance has been tapered to just £20,000.

The annual allowance for both the 2015/16* and 2014/15 tax years was still £40,000, but Elaine saw her annual allowance halved when the tapered allowance was introduced at the start of the 2016/17 tax year.

Let’s imagine that Elaine paid £5,000 into her pension in each of these years. This means that she’d have £15,000 of unused allowance for the 2016/17 tax year, and £35,000 of unused allowance from the 2015/16 and 2014/15 tax years (which needs to be used first after Elaine’s made the maximum contribution for this tax year).

This means Elaine has total unused allowances of £85,000 from the three previous years.

Consequently, Elaine could choose to contribute her full 2016/17 annual allowance of £20,000 as well as an additional £85,000 in unused allowances making a total of £105,000.

To receive full tax relief on this, Elaine would need to have earnings of at least this much in the current tax year. Hence, opting to stagger her carry forward contribution across more than one tax year would enable Elaine to not only claim tax relief on the whole amount but to claim significantly more higher-rate tax relief.

Remember

You’ll only receive tax relief on total contributions that don’t exceed your earnings in the tax year that you pay them and you’ll only receive higher-rate tax relief to the extent that you’ve paid it.

* Any unused annual allowance for 2015/16 must be based on the contributions paid in the ‘post-alignment tax year’, 9 July 2015 to 5 April 2016.

Make the most of the ISA regime

Although ISAs don't offer tax relief, they effectively remove your investments from UK tax while you're alive, allowing them to deliver tax-free growth and income in perpetuity

Although they don't offer tax relief, with the ISA limit rising from £15,240 to £20,000 a year at the start of the 2017/18 tax year, those whose retirement plans are now under threat from a shrinking pension annual allowance should make optimising their ISA investments their next step.

Although the annual allowances may seem diminutive, there are a great many Britons who, through sensible annual savings are now 'ISA millionaires'.

Tricks of the trade

Ever since the predecessor to the ISA, the humble personal equity plan (PEP), was introduced 30 years ago, advisers have reminded investors to make use of their spouse's allowance as well as their own.

This is still good advice as today it means that a married couple can utilise the ISA regime to put up to £40,000 a year beyond the reach of the UK taxman in the 2017/18 tax year.

Historically, advisers have always emphasised how investing on either side of the tax year-end can effectively double the amount you can invest in one go, and this also still holds true.

Make the most of the ISA regime

Child's play

The other people in your household who qualify for an ISA allowance are your children.

Every UK resident child under 18 years of age is entitled to own a junior ISA, so long as they don't already own a child trust fund (these apply only to children born between 2002 and 2011). However, any children with child trust funds can now transfer these into a junior ISA.

The subscription limit for junior ISAs rose to £4,128 in the 2017/18 tax year from £4,080 the year before.

This means that a family with three children can now notionally invest £104,768 in ISAs if they invest on both sides of the 2017/18 tax year end.

Remember that your children assume control of the account when they're 16. When they turn 18, their ISAs automatically convert to adult ISAs, which means your children can withdraw as much as they want. (It's worth noting that children of 16 can also open an adult cash ISA).

The new 'flexible ISA' rules introduced in April of 2016 now allow you to replace any money withdrawn from an ISA without it counting against your ISA allowance (so long as it's done in the same tax year). This makes ISAs even more like bank accounts.

Think twice about cash ISAs

The annual allowance for a cash or stocks and shares ISA stands at £20,000 in 2017/18 after rising from £15,240 the year before.

But with UK interest rates now locked at historic lows there's little benefit in using your annual ISA allowance to shelter cash investments from tax.

Remember: Most ISA providers will now allow you to combine your cash or stocks and shares ISAs into one big holding.

Importantly, cash ISAs can also now be converted into stocks and shares ISAs (and vice versa) without affecting your annual allowance.

For more sophisticated UK investors, the age of the cash ISA has effectively ended. This means it's time for most Britons to think about moving up the risk spectrum if they want their savings to at least keep pace with UK inflation.

This is especially so since the introduction of the personal savings allowance which grants £500 a year of tax-free interest to higher-rate tax payers and £1,000 to basic-rate payers.

For most investors this will be more than sufficient to shelter the cash part of their portfolio.

Make the most of the ISA regime

Don't wait for LISA...

The start of the 2017/18 tax year also saw the advent of a new kind of ISA called the lifetime ISA or LISA.

These blur the boundary between pensions and ISAs as they offer annual government bonuses to encourage saving for retirement and to make it easier for first-time buyers to get on the property ladder. Consequently, they're only available to those aged between 18 and 40.

You can save £4,000 a year into a LISA, but the government will top up your contributions by 25% every year until your 50th birthday. This means an 18 year-old opening a LISA in 2017 could net a potential £1,000 per year from the government for 32 years.

However, unless you purchase a property, you can't access a LISA until age 60 (barring exceptional circumstances like ill health) without triggering hefty withdrawal charges.

Passing your ISA allowance

A useful rule change that came into force in December 2014 means that when an ISA investor dies their spouse or civil partner can now inherit their ISA tax advantages.

Since April 2015, surviving spouses have also been able to match their late spouse's ISA contributions while maintaining their own ISA's usual allowance. This enables them to preserve the tax-free status of any savings or investments their spouse held in ISAs.

Making the most of your family's ISA allowances can be quite a challenge.

Make sure you do what's best for your family by talking through your tax-free saving options with a professional adviser.

You'll be glad that you did in the years to come.

Venture capital trusts & enterprise investment schemes

The next step is to consider well-established tax shelter investments such as venture capital trusts (VCTs) and enterprise investment schemes (EIS).

These offer generous tax reliefs and the potential for attractive long-term returns but they're not for everyone...

Venture capital trusts (VCTs)

Venture capital trusts (VCTs) share a number of traits with their better-known 'cousins' investment trusts.

They're funds that invest in portfolios of small company shares with managers who are accountable to an independent board. Likewise, VCT shares are also listed on the London Stock Exchange.

They were introduced in 1995 as a means to encourage private investment into smaller British companies. Although VCTs have been remodelled since their introduction, the attractive tax reliefs they still offer means they continue to attract hundreds of millions of new investment into 'UK plc' every year.

The combination of upfront tax reliefs and tax-free dividends make the yields offered by mature VCTs especially attractive to higher and additional-rate taxpayers. They also have great appeal for director/owners of limited companies and others who might already be utilising their dividend allowance.

UK taxpayers enjoy the following tax reliefs when they invest in new VCT shares:

The tax benefits of VCTs

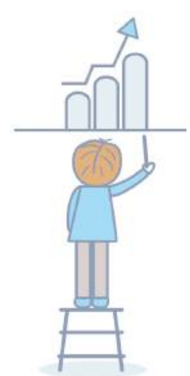
Income tax relief of 30% on all investments up to £200,000 a year	Tax relief can only be claimed to the extent that the investor has incurred it. Hence, someone paying only £20,000 a year in tax will be limited to tax relief of this amount – regardless of how much they might invest.
Tax-free dividends	VCTs can yield around 5% a year but thanks to the tax relief and their tax-free dividends, the effective yields to higher and additional-rate taxpayers are much higher. For a higher-rate taxpayer, a VCT yielding 5% offers an effective gross yield (against the cost of investment) of almost 12%. For a 45% taxpayer it's closer to 13%.
Tax-free capital gains	There's no capital gains tax on VCT share disposals made after the qualifying period. Moreover, as VCTs generally target high-growth smaller companies, the gains they make can be substantial. As VCTs usually exit their investments by selling their holdings and distributing the proceeds as tax-free dividends they're able to turn their gains into tax-free income for their subscribers.

Eligible investments for VCT managers

To 'qualify' for VCT investment, a company must either be unquoted (ie private) or have its shares traded on AIM (formerly the Alternative Investment Market) or the ICAP Securities & Derivatives Exchange (ISDX).

There are detailed rules surrounding every aspect of the companies in which VCTs can invest, but generally they must be trading companies. Those involved in areas such as energy generation, financial dealing, farming, care homes or shipbuilding are usually excluded.

To reduce risk and improve returns, VCTs are also permitted to invest in some 'non-qualifying' investments including cash, loans, quoted company shares or mainstream funds.



Venture capital trusts & enterprise investment schemes

A five-year lock-in

A key proviso is that VCT shares are held for at least five years. If they're sold prior to this, the tax rebate must be repaid.

Those who sell early are also likely to suffer a hit as, thanks to their poor liquidity, VCT shares usually trade at significant discounts to their net asset value (NAV).

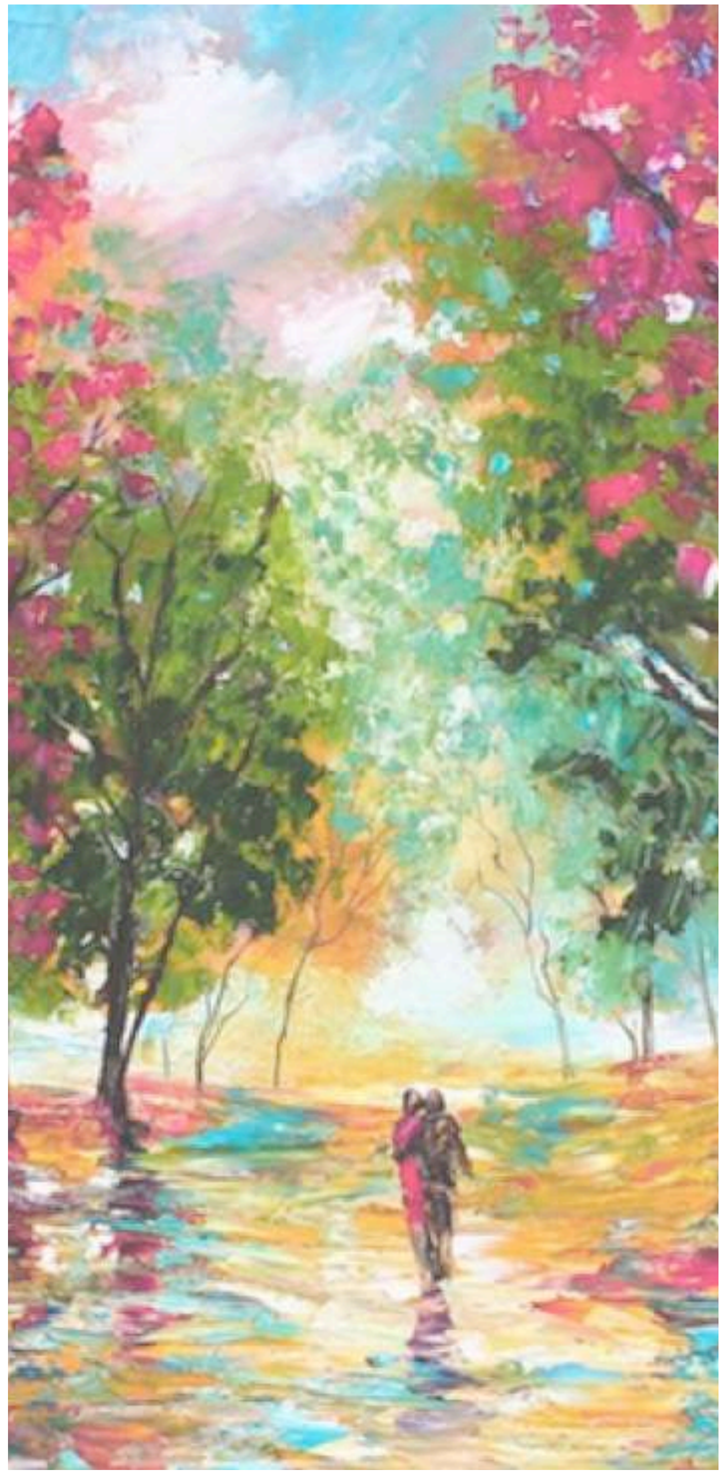
This arguably compensates buyers on the secondary market, as such VCT purchases don't offer income tax relief, even though they count against the buyer's annual £200,000 allowance.

Never-ending tax relief...

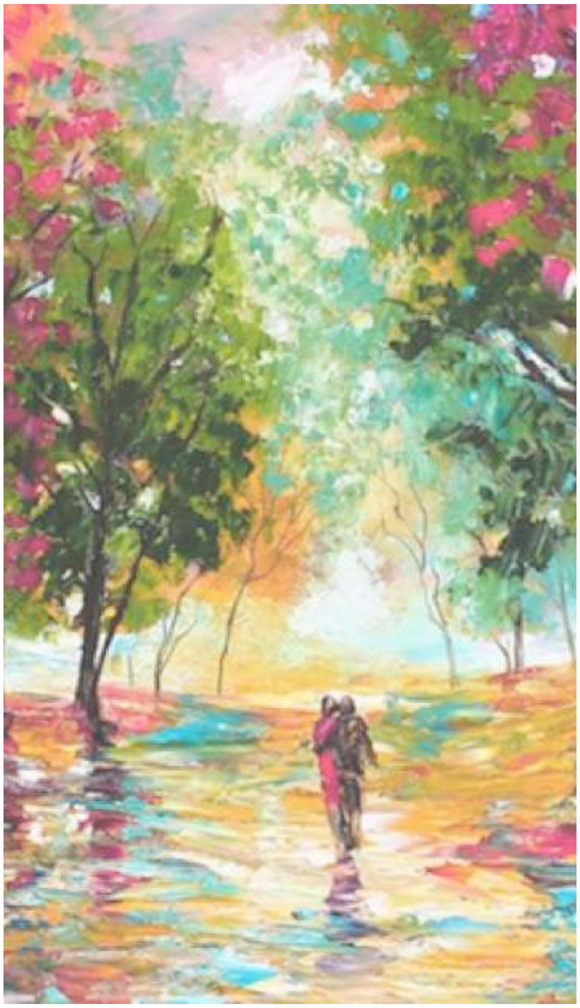
There's nothing to prevent you from selling your VCT shares after the qualifying five years and simply reinvesting in new VCT shares. You can even reinvest in the same fund so long as you wait at least six months.

The moment you do, you'll receive another dose of 30% income tax relief on your entire investment.

This means that after five consecutive years of VCT investment you'll be able to claim a new round of tax relief every year while continuing to invest with the same fund managers!



Venture capital trusts & enterprise investment schemes



Tax shelter products like a VCT or an EIS aren't for the novice.

If you'd like to learn more about how you could benefit from the tax and investment opportunities they offer, talk to a professional.

Talk to a Drewberry Wealth adviser today on 0208 432 7333

The main types of venture capital trust

1. Generalist (private equity) VCTs

These invest in unquoted companies frequently in the form of loan notes or preference shares alongside an equity stake. Often a VCT manager will sit on the investee company's board.

Some generalist VCTs invest in both unquoted and AIM-listed companies.

2. AIM VCTs

AIM is the junior market of the London Stock Exchange but companies quoted here are regarded as unquoted for the purposes of VCT investment.

Because AIM-listed shares can be sold on the secondary market, AIM VCTs have greater flexibility than generalist VCTs but because they take equity stakes, returns tend to be more volatile. They also carry a higher risk of capital loss when an underlying company fails.

3. Limited life VCTs

These differ from 'mainstream' VCTs, which are open ended with no fixed lifespan.

By contrast, limited life (or 'planned exit' VCTs) aim to wind up after the initial five-year holding period expires. By necessity, these funds adopt a far more conservative investment approach usually aimed at capital preservation.

4. Asset-backed VCTs

These can be either limited life or open ended, but they focus on investing in businesses where the VCT has a first charge over an asset or income stream of the business. This means that the VCT can sell the asset in question to mitigate any losses.

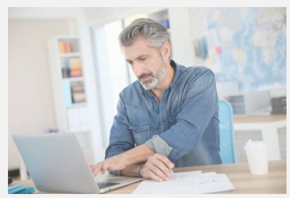
Who will benefit most from VCTs?

VCTs aren't for the novice investor. Because they target relatively illiquid, unquoted and smaller listed companies, they're higher risk than more mainstream funds, their returns tend to be more volatile and investment charges are much higher (although most advisers will be able to negotiate improved initial fees).

If you need to secure a guaranteed income, can't afford to take losses or are likely to need access to your funds within the five-year qualifying period, then VCTs aren't for you.

Even so, their merits mean that VCTs will be especially attractive to:

Higher and additional-rate taxpayers – especially those who may have lost a large portion of their pension annual allowance

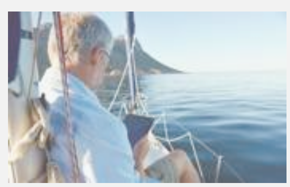


Those with regular bonuses that they'd like to shelter from tax and who can invest for five consecutive years

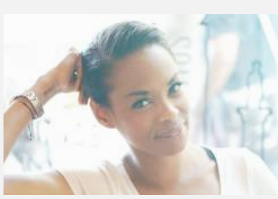
Those subject to the money purchase annual allowance (MPAA) which has, in theory, reduced their pension allowance to just £4,000

Those attracted by the prospect of receiving a new round of 30% income tax relief every five years or so

Those who already hold well-diversified portfolios of mainstream funds who've made the most of their pension and ISA allowances



Pension investors who are nearing the lifetime limit and need a tax-efficient alternative for their retirement savings



Company owners who want to reduce their income tax bills over time while increasing the net earnings they enjoy from the dividends they receive

Those in retirement who, because they don't need immediate access to their funds, can use VCTs to offset their retirement income tax bill

Those able to diversify their investments across a number of different VCT managers and strategies

Enterprise investment schemes (EIS)

Enterprise investment schemes (EIS) exist to help incentivise investment into fledgling UK unquoted companies.

Like VCTs they offer a range of attractive tax reliefs although that's where the similarity ends.

For instance, the underlying investments in an EIS must be held for at least three years while the underlying companies must receive EIS qualifying status and maintain it throughout the term of your investment.

A three-year lock-in?

Any EIS shares you purchase will need to be held for at least three years or you'll have to pay back the tax relief you received.

Shares held for more than three years remain free from CGT if the qualifying conditions continue to be met. However, keep in mind that the EIS manager will often have a longer-term investment horizon for the companies they target.

Consequently, with no secondary market for EIS shares, you'll effectively be tied into your investment until the manager decides that the time has come to liquidate their portfolio.

The main types of EIS

1. The asset-backed EIS

Here any losses are cushioned by a first charge on the physical assets of a company (premises, heavy machinery or equipment).

2. The growth EIS

Invests in companies whose value derives from the business they transact not their assets. There are any number of companies that might fit the bill here from 'metal bashers' to biotechs.

3. The single company EIS

These invest in just one business, which increases the risk substantially and the need to diversify.

4. The portfolio EIS

This is the opposite of a single company EIS with a portfolio of up to 20 different qualifying companies. This diversifies risk and enables investors to benefit from the portfolio manager's acumen.

Venture capital trusts & enterprise investment schemes

UK taxpayers enjoy six main tax reliefs when they invest in EIS shares:

The tax benefits of EIS

30% income tax relief on all investments up to £1,000,000 a year	Although you'll need to have paid enough income tax to warrant the relief.
Carry back	You can carry back your EIS to the previous tax year allowing you to potentially invest up to £2,000,000 in one go.
Loss relief	This is a unique feature of the EIS. It enables you to offset any loss, less any income tax relief received, against your income tax in the current or previous year, or against your capital gains. For a higher-rate taxpayer, loss relief against income tax would effectively reduce a £1 loss to just 38.5p.
Freedom from inheritance tax (IHT)	This highly valuable relief is likely to prove increasingly popular as the UK enters a boom period for IHT (charged at 40% on all assets exceeding your nil-rate band and main residence allowances). To qualify, an EIS must be held for at least two years and still be in your possession when you die.
Capital gains tax (CGT) deferral	This enables you to defer any CGT liabilities generated elsewhere until you sell your EIS holding. This could allow investors who deferred share gains from 2015/16 to pay the new 20% rate of CGT rather than the previous rate of 28%. There's no limit on the amount of gains that can be deferred.
Tax-free growth	There's no capital gains tax (CGT) to pay on EIS shares if: 1) they're held for at least three years; 2) the company remains qualifying; and 3) you've already successfully claimed income tax relief on the shares.

Venture capital trusts & enterprise investment schemes

What's the difference between an EIS and a VCT?

Apart from their very different tax reliefs, EIS shares aren't listed on the London Stock Exchange. While VCTs also have the option to release profits to their subscribers through their tax-free dividends, EIS investments are locked up until there's an exit or until gains are realised.

What are seed enterprise investment schemes (SEIS)?

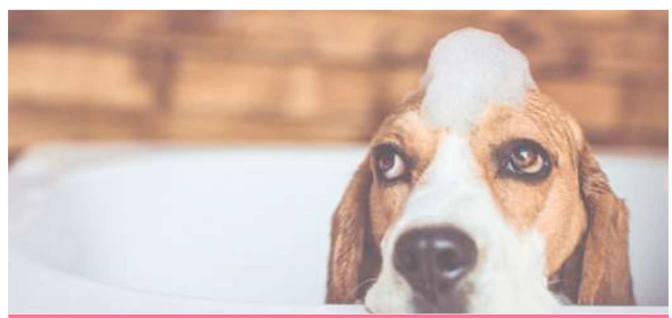
These related offerings allow you to invest seed capital in small, early-stage companies and to receive 50% tax relief. Like other EIS, there's no CGT to pay while loss and inheritance-tax relief are also available.

From our perspective, an SEIS represents too much risk for the majority of UK investors.

They remain the preserve of those who have already optimised their other investments and who may be more focused on estate planning.

Don't let the tail wag the dog

With a sophisticated investment such as a VCT or an EIS, it's worth remembering the old adage that you shouldn't invest purely on the strength of a tax break.



This is because any tax relief extended by one government can quickly be retracted by another.

Consequently, if you're uncomfortable with the risks that accompany investment into smaller UK companies or you can't afford not to access the funds for the minimum qualifying period required, you should consider other options.

Utilise your annual CGT & dividend allowances

Even if you've exhausted your annual ISA allowances, managing your annual CGT and dividend allowances wisely could still save a married couple over £32,000 in unnecessary tax in the 2017/18 tax year

The fact that HMRC allows Britons both an annual capital gains tax (CGT) allowance of £11,300 and a £5,000 a year dividend allowance (reducing to £2,000 in the 2018/19 tax year) means that significant portfolios of funds or direct investments into stocks and bonds can still be held before a tax liability arises.

Capital gains tax (CGT)

The 2016 Budget introduced an 8% cut in CGT making the UK one of the least costly countries in Europe in which to realise investment gains. Since April of 2016, higher-rate taxpayers have been charged CGT at 20%. However, the previous rate of 28% still applies to the sales of additional residential properties *.

Remember
CGT not only applies to assets held outside of a pension plan or ISA. It can also arise on the sale of items like jewellery, paintings or antiques that sell for £6,000 or more. (Yachts, cars and other 'wasting assets' whose useful life is 50 years or less, can be sold without attracting CGT).

* **Note:** Currently, any CGT due on a property sale is payable by 31 January after the end of the tax year when the sale occurred (giving rise to between a nine and 18-month window to pay). However, the 2015 Autumn Statement announced that from 2019, CGT on property sales would be payable within 30 days.

Utilise your annual CGT & dividend allowances

Property problems

Thanks to the boom in buy-to-let ownership, those most at risk of a painful CGT bill are the numerous Britons who now own additional residential properties.

While such investors can offset some expenses such as stamp duty, there's no way to avoid paying CGT on any gains in the property's value.

Swap income tax for CGT

A quirk of the UK tax regime is that higher and additional-rate taxpayers who might be drawing an income from their investments and paying income tax at 40%, can swap to drawing lump sums and effectively half their tax bill to 20% by opting to pay CGT instead (after they deduct their annual allowance).

Likewise, the recent reduction in CGT could also make it more efficient for some investors to refocus their portfolios to more growth-orientated areas (perhaps by sheltering income-generating investments in their ISAs or pensions while their growth investments remain outside).

Using your annual allowances

Taking full advantage of your annual CGT allowance means being organised enough to regularly sell part of your portfolio in order to realise any gains and claim your annual allowance.

You can always reinvest once you've created a 'trigger' event like a disposal.

Such sales should be part of a regular programme to dispose of assets and so claim your annual allowances before repurchasing them within an ISA (known as 'bed & ISA') or a SIPP each year.

Married couples who hold assets in joint names benefit from a combined annual CGT allowance. This means that a joint portfolio could realise gains of £22,600 a year without attracting CGT.

In cases where a higher or additional-rate taxpayer is married to a lower-rate or non-taxpayer it may also be worth transferring ownership of certain assets to them. This is because they'll attract less income tax (so long as the proceeds don't push them up into the next tax bracket).

There's no CGT liability on asset transfers between spouses or civil partners.

Don't try this alone…
Talking to an expert adviser will put these allowances into context for your unique circumstances. Call us on 0208 432 7333.

Investing offshore

For those who've amassed significant portfolios of assets, offshore bonds can often be the last piece of the puzzle thanks to the long-term tax planning opportunities they offer

Talk to a Drewberry Wealth adviser today on 0208 432 7333

An offshore investment bond is simply an investment wrapper like a pension or ISA that's been set up by a life insurance company in an offshore tax regime, such as the Isle of Man or Dublin.

As a result, they offer largely tax-free investment growth through what's known as 'gross roll-up'. They can be used to invest in a galaxy of professionally managed funds as well as cash deposits.

They have a particular appeal for UK expats because when profits are taken from offshore bonds, they're taxed as income at the prevailing rate applied by the country in which they reside.

Non-domiciles can also use offshore bonds to protect their UK-based assets from inheritance tax. Those that reside outside of the UK can also claim additional 'time apportionment relief' on any gains made while they were outside the country.

The limitations for onshore investors

Offshore bonds are less useful for UK residents as any gains from encashing them are chargeable to income tax at your highest marginal rate (which means you can't use your CGT allowance on any gains made). However, top-slicing relief is available.

There are also other tax issues such as the death of the last life assured being a chargeable event.

Even so, they can still be useful as they enable investors to time the surrender of the bond and so control what tax they pay and when they pay it.

Investing offshore

Taking control

The big attraction of using an offshore bond is that you can draw a 5% 'deferred allowance' each year from the original value of the bond without attracting any immediate income tax. This allowance is cumulative, so it can be carried over from one year to the next.

If you stay within your 5% allowance, you don't have to declare details of the bond on your tax return. Similarly, you can switch funds within a bond without creating any CGT or income tax liability or the need to declare such adjustments.

Segmenting your portfolio

Offshore bonds can also be segmented so investors can choose to fully encash certain segments rather than taking a withdrawal across the whole policy (depending on which might suit their circumstances best).

They can also be structured with multiple lives assured which prevents a chargeable event arising on the death of a bondholder.

Importantly, because income tax is only payable on any chargeable gains if the gain takes the investor into the starting rate tax threshold, non-taxpayers pay nothing on the first £17,500*.

Consequently, offshore bonds offer an attractive route for higher and additional-rate taxpayers to pass assets to their grandchildren or other non-taxpaying relations.

They also present a means to defer the taxation of any gains you might enjoy until you cease work and, possibly, become a lower-rate taxpayer.

A little off the top…

Additionally, investors can also claim 'top slicing' relief when an encashment exceeds the 5% a year allowance or when they make additional investments into the bond.

Top slicing allows any gains to be proportioned over the number of complete years the bond has been in force (and always dates back to inception, irrespective of any previous chargeable events).

Because offshore bonds can be written in trust they also offer those with significant estates to manage a useful way in which to mitigate any future inheritance tax liabilities that might arise.

* **Note:** Gains from offshore bonds are treated as 'savings income' so non-taxpayers can offset their personal allowance, £11,500 for 2017/18 tax year, the 'starting rate for savings' which is the 0% rate applied to the next £5,000 and the personal savings allowance that's worth up to £1,000.

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