



Practical
Financial
Exams

Investment Bond Masterclass

February 2025

1


About Your Presenter






Michaela Pashley FPFS PoFP®

MANAGING DIRECTOR
Practical Financial Exams Limited


 07447 892422

 contact@practicalfinancialexams.co.uk

13/02/2025
2


2

Course Objective



The Income Tax changes announced by the UK government in 2022 and 2024 have huge implications for the future of UK investment bonds, particularly their tax-efficiency relative to other wrappers.

With this in mind, we have created this course to highlight these and bring them into the forefront of the financial planning process.



13/02/2025
3

3

Learning Outcomes



By the end of this workshop, you will be able to:

1. Explain the features, benefits, and disadvantages of investment bonds, including their legal structure, segmentation, insurable interest, and taxation.
2. Evaluate the suitability of investment bonds for retail financial planning clients, including reasons why and disadvantages that might be present in a suitability report.
3. Complete moderately-complex top-slicing relief calculations.



Designed to meet the FCA's requirements for six (6) hours of structured CPD with comprehensive Learning Outcomes confirmed.
For further information, check [Professional standards: advisers | FCA](#)

13/02/2025

4

4

Introduction



Investment wrappers legally structured as life assurance policies.



Taxed **differently** to collective investment schemes.



Access a **wide range** of underlying investments.



They produce no income – they are **growth only** assets.

13/02/2025

5

5

Life Assurance



Own Life

Joint Life

Life of Another

Capital Redemption




Insurable Interest must be present at the time the bond is taken out.

13/02/2025

6

6




Practical
Financial
Exams

Income Tax

Investment Bond Masterclass

7

Income Tax Brackets



Bracket	Rate %	2024/25
Basic	20%	£0 to £37,700
Higher	40%	£37,701 to £125,140
Additional	45%	£125,141 and over

These thresholds have been frozen until 2028/29.

Most UK taxpayers have a personal allowance for Income Tax. This is an amount of otherwise taxable income they can receive without being subject to Income Tax. This amount in 2024/25 is £12,570, and the government has frozen this until 2028/29.


In real terms, this is a tax increase, because of inflation.

13/02/2025

8

8

Savings Allowances



Savings Allowances

Personal Savings Allowance (PSA)

Starting Savings Rate (SSR)

Bracket	PSA Available	Non-Savings Income	SSR Available
Basic	£1,000	Up to £12,570	£5,000
Higher	£500	£12,571 - £17,569	Tapered £1 for £1
Additional	£0	£17,570+	£0

13/02/2025

9

9

Dividends

Dividend Allowance		
2023/24	2023/24	2024/25
£2,000	£1,000	£500

Bracket	Rate %	2024/25
Basic	8.75%	£0 to £37,700
Higher	33.75%	£37,701 to £125,140
Additional	39.35%	£125,141 and over

Order of Taxation

Non-Savings Income

Savings Income

Offshore Bond Chargeable Gains

Dividends

UK Bond Chargeable Gains

13/02/2025

10

10

Chargeable Gains

Type of Surrender	Chargeable Gain
Full segment	The actual investment gain on the segment(s).
Partial (across the top of all segments) in excess of the 5% cumulative annual withdrawal limit	The full amount of the excess over the 5% cumulative annual withdrawal limit, which may mean that the client needs to pay tax on their original capital.

Investment bonds are **only** subject to Income Tax when a "chargeable event" occurs.

There are several, with the most common being upon full encashment of segments, or partial encashment in excess of the 5% cumulative annual withdrawal limit.

PFE

13/02/2025

11

11

Segmentation

Provides additional flexibility for tax planning.

No tangible disadvantages.

Number of segments should be divisible by the number of relevant people ("beneficiaries").

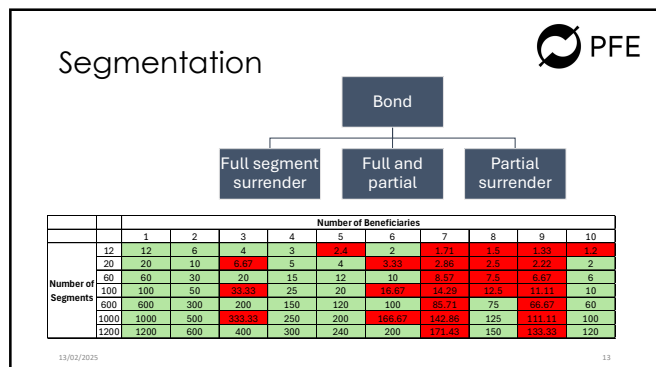
Bond Segments

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

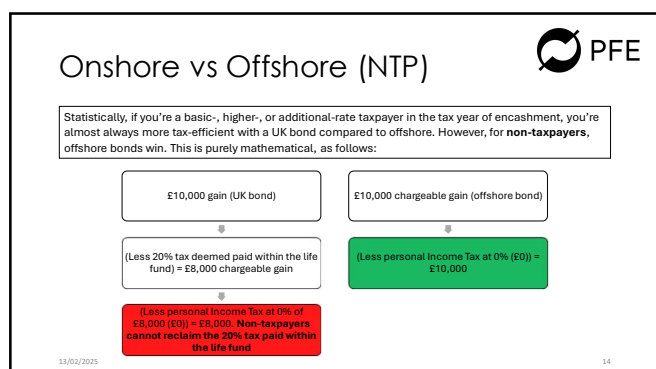
13/02/2025

12

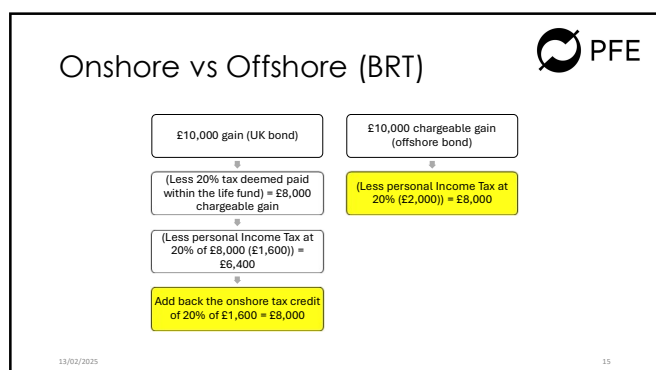
12



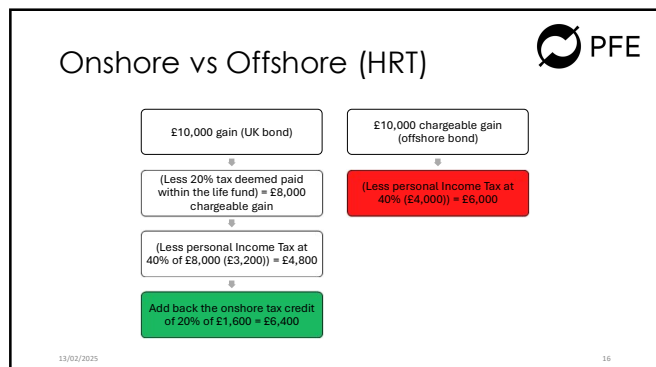
13



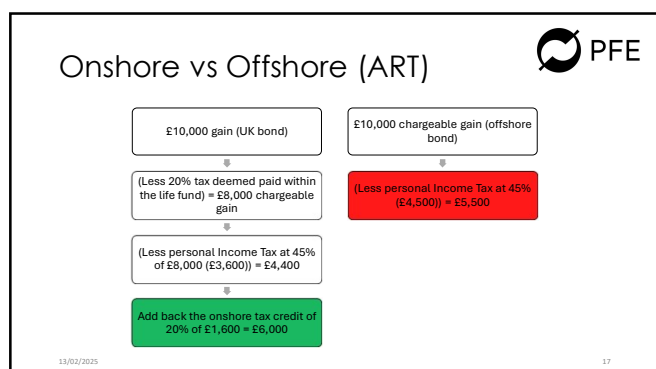
14



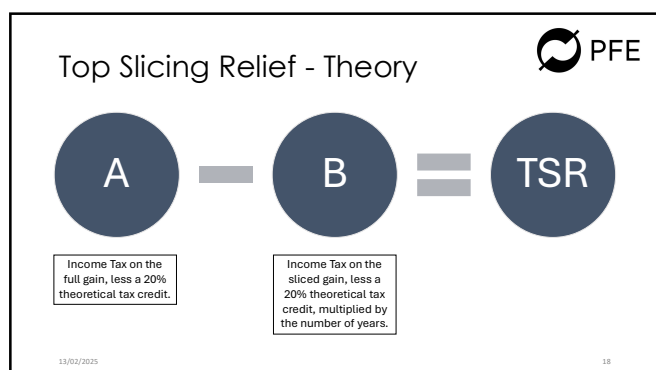
15



16



17



18

Top Slicing Relief – Practice



MS Excel Demonstration

13/02/2025

19

19



Inheritance Tax

Investment Bond Masterclass

20

Inheritance Tax



Bond can be assigned to other people or into trust with **no CGT**.



Because they **don't produce income**, they are ideal investments for trusts.



There exist a range of **off-the-shelf trust deeds** from life offices.

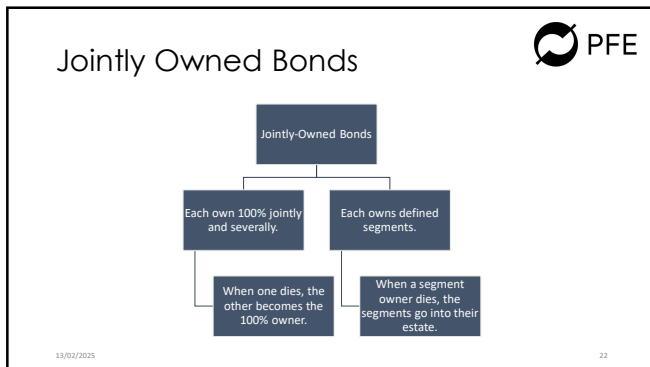


Segments can be assigned to beneficiaries **free of CGT** to be encashed at the beneficiaries' marginal rates of Income Tax.

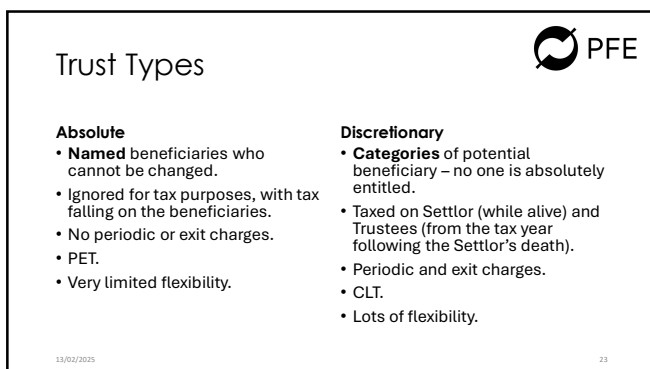
13/02/2025

21

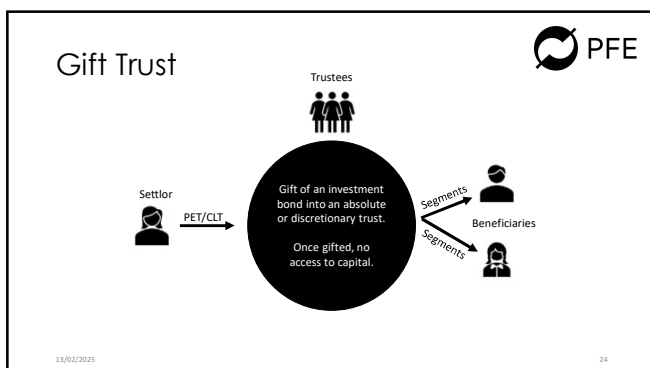
21



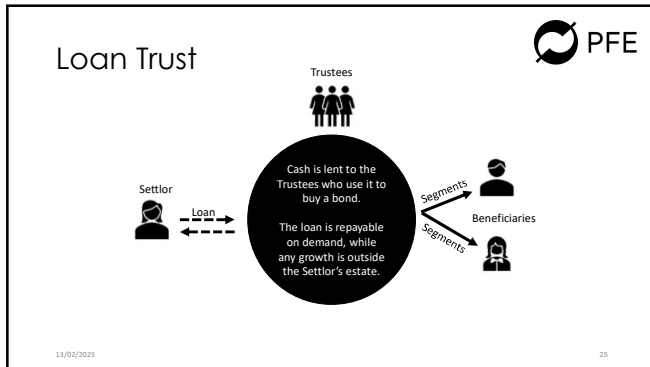
22



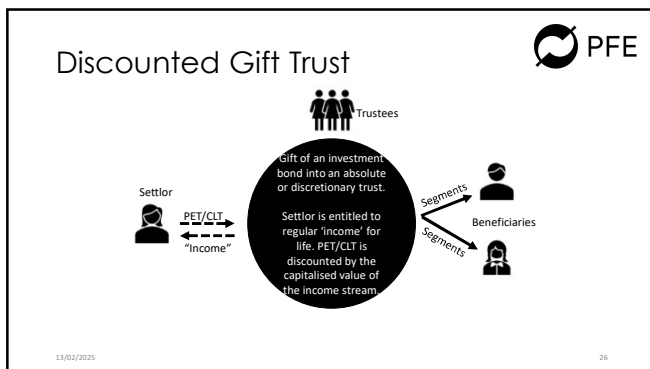
23



24



25



26
