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These are life assurance based investment contracts that allow you to shelter your funds in a tax-efficient manner, investing usually across a range of Unit Trusts and OEIC's.

Most modern Investment Bond contracts have the flexibility to be low cost. This means that in the most cases the investment will not have any bid/offer spread and there will only be around a 1% to 1.5% Annual Management Charge. Some external fund links can make this more expensive however.

Bonds can be a useful inheritance tax planning tool whereby life companies offer trust wrappers that can often be added at a later date.

The 5% withdrawal facility for Investment Bonds has an advantage over Unit Trusts and OEIC's as it does not affect any benefits and allowance claims which helps to avoid the problems of the "age allowance trap" for over 65's. Income from Unit Trusts and OEIC's on the other hand do form part of an individual's taxable income and may well have such an impact.

Within an Investment Bond you can also switch between a wide range of funds and between different investment houses without crystallising a capital gains tax liability. Tax would be payable when switching funds using Unit Trusts and OEIC's (this could be mitigated by using the Capital Gains Tax annual allowance).

As non-income producing assets, bonds need not be included for self assessment except on encashment in excess of 5% of the original capital investment in any tax year. Under current UK tax law, you can withdraw up to 5% as a capital repayment of the original sum invested without a tax liability in the UK. This is cumulative during years when no withdrawals are taken. When withdrawals in excess of 5% are taken, then a chargeable event occurs and this would incur income tax at the investor's marginal rate of tax.