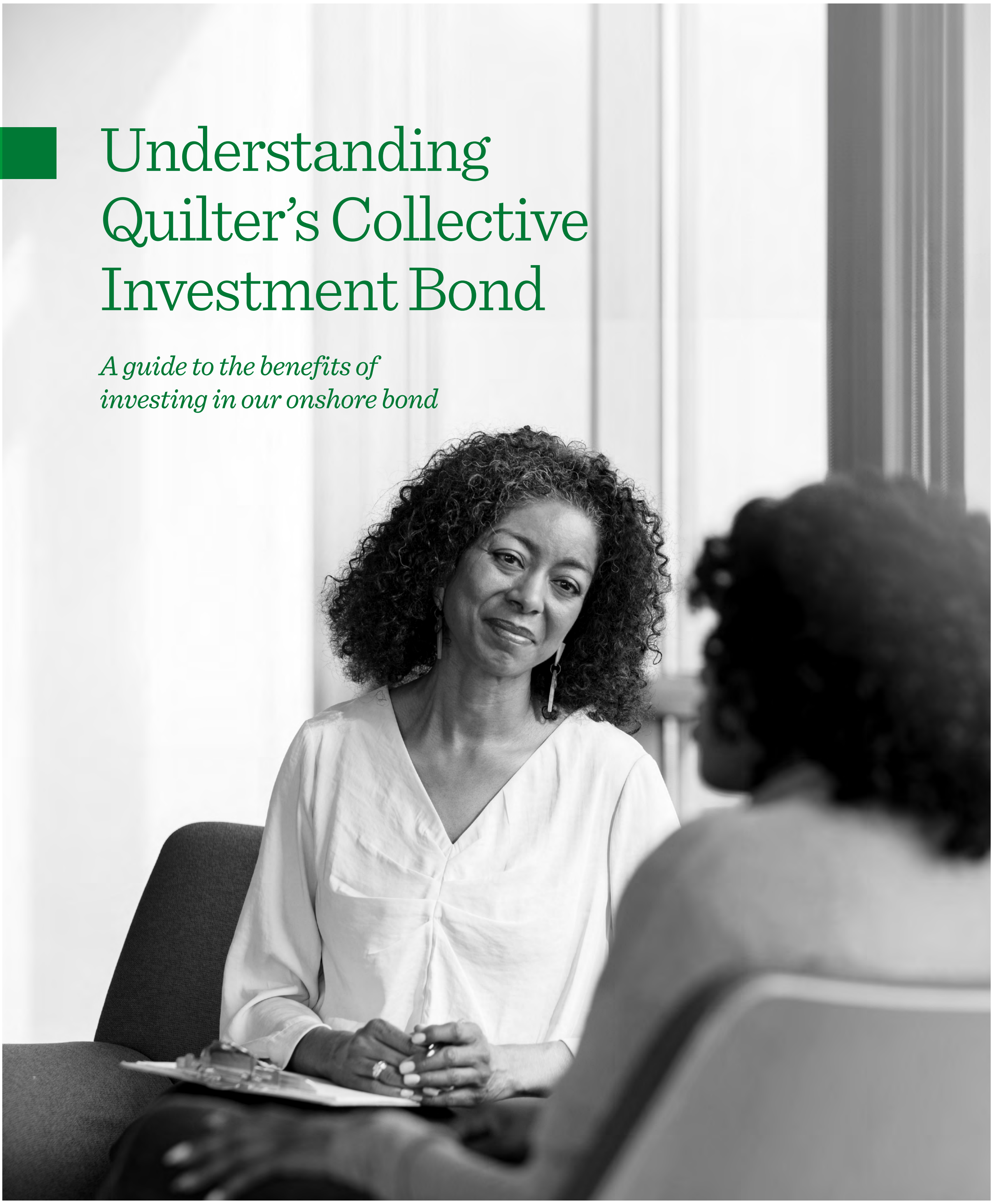
Quilter

Understanding Quilter's Collective Investment Bond

A guide to the benefits of investing in our onshore bond



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Welcome

This guide is designed to help you understand more about investing in Quilter's Collective Investment Bond, including:

- the benefits and features of our bond
- some of the reasons you might invest in a bond
- why choose Quilter's bond.

About you

Our bond could be right for you if you wish to either build wealth, make tax-efficient withdrawals from your investment, or pass money onto your loved ones.

In many cases, financial advisers recommend a bond to their clients because they have exhausted their tax allowances on other financial products.

For example, you may already have:

- a pension (either through your employer or a private pension)
- an ISA
- a general investment or share account

Quilter's Collective Investment Bond gives your adviser an additional lever to pull on to adjust your plan when you're building up wealth or taking an income.

Because they're quite complex in nature, bonds are often overlooked by DIY investors, but are regularly recommended by professional financial advisers to their clients due to their tax advantages compared to other investment accounts.

What is the Collective Investment Bond and how can it help me?

The Collective Investment Bond is a single premium life policy (made up of 1,000 policy segments) whereby money you invest is linked to the performance of a range of investments, chosen by you and your adviser. These investments could be the same investments you currently hold in your other products, such as in your pension or ISA.

The bond has several features which you won't find in other products, making it an attractive addition to the products you may already hold.

These features include:

1. Ability to pass your wealth to your loved ones

You have the ability to assign policy segments to loved ones tax-efficiently during your lifetime, helping you to pass your wealth on without losing money unnecessarily to the taxman.

Find out more about helping your family on page 5

2. Ability to place the policy in trust in the future

You can assign the policy into trust at any point in the future – providing you with inheritance tax efficiency and control over who inherits your money on your death.

Find out more about trust planning on page 6

3. Access to a 5% withdrawal allowance

You can withdraw 5% of your initial premium each year for twenty years without any immediate tax liability. The withdrawal allowance can be used or accrued to future years. This could be useful if you want access to withdrawals in a tax-efficient way – such as in retirement.

Find out more about planning for retirement on page 8

4. Unique tax structure - potentially nothing to declare on your tax return

The bond's unique tax structure means income and gains on the funds are not taxable on you – you are only taxed on certain 'chargeable events', which are discussed later in this guide. This means changing funds within the bond will not trigger a personal tax liability and you will have no tax to pay and nothing to declare on a tax return – which keeps things simple.

Find out more about the tax structure on page 10

How can my Collective Investment Bond help my family?

Financial advisers often recommend a Collective Investment Bond to clients, like you, who want to grow and pass on wealth for the benefit of their families.

Why more families want to help their children or grandchildren:

£291,268

Average price paid for a typical home in 2024.

In July 2024, Halifax data revealed that the average house price is now £291,268. This represents an annual increase of 2.3% - even with the backdrop of high interest rates.

With the average first time buyer deposit and cost of going to university reaching unprecedented levels, it's easy to see why a growing number of parents (and grandparents) feel the need to save to help the next generation.

You might be one of many people who want to save for your children and grandchildren but want a solution which keeps you in control without compromising on tax efficiency. Remember, a Junior ISA automatically becomes the child's when they reach age 18 so the parent will no longer have control over how the money is spent.

You can own a Collective Investment Bond in your name and, when the time comes to transfer wealth, you can transfer part or all of its value without triggering a personal tax liability. Assigning segments of your bond as a gift to a loved one is a very tax-efficient way of transferring wealth during your lifetime, with nothing to declare on your tax return.

Let's look at a case study to illustrate how using an onshore bond can help parents pass wealth on to their children

"Hi, I'm John, and this is my daughter Eve. I'm a higher rate taxpayer and have used all my allowances. I'd like to invest £60,000 for Eve's future."

John's financial adviser recommends a Collective Investment Bond to help John build a nest egg for Eve

- While Eve is still a child, the money is invested and has time to benefit from investment growth.
- When it's time for Eve to go to university, John passes money to Eve by way of a gift assignment*, which Eve subsequently surrenders.
- As John has not surrendered the policy, he has nothing to declare on his tax return.
- Provided the gain on the policies she has surrendered does not push her into the higher rate tax bracket, Eve will have no further tax to pay.

** Money assigned to Eve will still be included in John's estate for inheritance tax purposes until seven years has passed – this is known as a 'potentially exempt transfer'.*

How can my Collective Investment Bond help me with trust planning?

Once you open a Collective Investment Bond, you will have the flexibility to assign some or all of the bond into trust at any point in the future.

A bond is the perfect underlying solution to help your trust run efficiently and can deliver more advantages than many other products held inside a trust – here's why:

- they are simple for your trustees to administer as there is no ongoing tax to pay (unless there is a chargeable event), so less administration.
- the trustees can take tax-efficient withdrawals, either by using the 5% allowance or assigning segments to the trust beneficiaries.

Why you may want to consider trust planning

There are lots of reasons why families choose to incorporate trusts into their financial plans. Many want to try and reduce their liability to inheritance tax on their estate when they die, but many also want to ensure they control and protect their wealth, so their legacy goes to the right people, at the right time, on their death.

1. Inheritance tax

Inheritance tax is sometimes referred to as a **voluntary tax** because it can be mitigated through careful planning. A Collective Investment Bond held in trust is a good example of this planning.

Data from HMRC for the tax year 2023/24 shows the amount collected through inheritance tax stands at £7.5bn.

The inheritance tax nil rate band of £325,000 has been frozen since 2009 and hasn't risen in line with inflation. This means even more families are likely to be impacted by inheritance tax in the coming years – which is set at a staggering 40%.

How a trust can help:

If you place money in a Trust where you are not a beneficiary, the value is counted as a gift for inheritance tax purposes and a seven-year clock begins. Any growth from the date of the gift is outside of your estate for inheritance tax purposes, and, as long as you survive seven years, the gift will also be outside of your estate when you die – and therefore not subject to inheritance tax. Depending on the type of trust and amount gifted, there can be ongoing IHT levied on the trustees.

2. Control your legacy

A real concern for many families is wanting to protect their wealth for their loved ones. With so many marriages ending in divorce and complex family structures becoming the new norm, there are many factors for families to consider.

If this is a concern for you, setting up a trust can be a great way to ensure the money you want to pass to your loved ones does so on your death, giving you control over your legacy. You will usually complete a letter of wishes when you set up the trust which will give the trustees clear instructions on how and when the money should be paid to your loved ones ('beneficiaries'). Whilst this is not legally binding it does provide the trustees an insight into your wishes.

Let's look at a case study to illustrate the importance of putting a trust in place to ensure money is passed as intended to loved ones.

Case study

"Hi, I'm Annie, and this is my husband Steve and children William and Mia.

I've recently received a £200,000 inheritance which I want to invest for my children's future."

Here's what happened with no trust planning in place:

- Annie invests £200,000 but does not place it in a trust.
- Annie passes with no Will in place.
- The £200,000 is included in her estate and passes to Steve.
- Steve eventually remarries.
- Steve fails to put a will or a trust in place, so on his future death his estate passes to his new wife, and not to his children.
- The money Annie wanted to pass to her children is now with the new wife and not her children.

Here's what happened with trust planning in place:

- Annie invests £200,000 into a bond and places it in trust for her children.
- Annie passes unexpectedly.
- In her letter of wishes to the trustees, Annie expressed how and when the money should be passed to her children.
- This ensures all the money eventually passes to her children.

Choosing a trust:

Combining a Collective Investment Bond with a Quilter trust can help you reduce or mitigate any inheritance tax problems for your family and provide you with control over who your money passes to on your death. We have a range of solutions which provide various levels of:

- **Access** – depending on whether you still need to access some of your wealth.
- **Inheritance tax efficiency** – how much of your wealth is removed from your estate.
- **Flexibility** – how flexible the trust is at providing for your different family members and friends.

Your financial adviser will be able to advise you on the right trust option for you.

How can my Collective Investment Bond help with retirement?

Many clients use a Collective Investment Bond to save for retirement and to supplement their retirement income, because of its tax efficiency and flexibility.

A really useful feature of your bond is the ability to withdraw 5% of the bond premium (the money you've paid into the bond) by partial surrender, each year for 20 policy years with no immediate tax liability. Any unused allowance can be carried forward and used in future years.

This means you can invest today but defer taking withdrawals until a later date. These deferred 5% allowances can be taken in the future as a lump sum by partial surrender or taken as regular withdrawals to supplement your income.

Let's look at a case study to illustrate how this works.

Case study

"Hi, I'm Fred. I'm 50, and I plan to retire in 10 years.

Because I'm a high earner, I've been impacted by a reduction in the amount I can pay into my pension before I pay tax (called the annual allowance).

I have used my pension annual allowance, ISA allowance, and all other capital gains and income tax allowances.

I have a surplus income of £20,000 each year to invest. I'm looking to save for my retirement and see what options there are to do this"

Fred's financial adviser recommends a Collective Investment Bond to help Fred build a nest egg for retirement

- Unlike his pension and ISA, there are no limits to how much Fred can put into his Collective Investment Bond.
- Fred can defer his 5% withdrawal allowance each year until he reaches retirement. At retirement he can decide how to access these deferred withdrawal allowances. For example, he can access a lump sum or start taking regular withdrawals, such as 5% a year for 20 years or 4% a year for 25 years and so on.
- If his circumstances change, Fred can access his money immediately, and doesn't need to wait until he retires.
- If Fred decides that he doesn't need to take money out of his Collective Investment Bond in retirement, he has the flexibility to put it into trust for his children, so the money will be protected against inheritance tax.
- Because Fred has some other Quilter investments and the bond is managed on the same system, it's quick for his adviser to make changes or move money around if needed.

How does my Quilter Collective Investment Bond work?

The Collective Investment Bond is:

- **A single premium product –** you only need to invest one lump sum (which must be a minimum of £10,000) to open your bond, although you can add other lump sums to it later if you want to.
- **Unit linked –** you and your adviser choose one or more funds which the value of your bond is linked to. As they rise or fall so does the value of your bond. As you do not legally or beneficially own the funds, when you and your adviser change the funds to which your bond is linked there is no personal tax liability unlike if you held the funds directly. These investment funds are 'linked' rather than being held by you within the bond, which makes it more tax efficient. You and your adviser can choose from over 2,100 investments funds.
- **A life assurance policy –** on your death (or the second bond owner's death, if it's a joint policy), the bond pays out a death benefit of 100.1%* of the value of the bond less any accrued charges.

Boost your life assurance with our Capital Protected Death Benefit option

This option can be selected to give you reassurance that the value of any death benefit from your bond is protected when you die (or when the second bond owner dies, if the policy is joint).

It means that if a death coincides with a drop in the value of your bond, the death benefit payable is guaranteed to be the higher of:

- 100.1%* of the value of the bond, or
- the total premiums paid, minus any withdrawals taken.

If the Capital Protected Death Benefit is not selected, the standard death benefit will apply, which is 100.1%* of the value of the bond.

- **A medium- to long-term investment –** the Collective Investment Bond is designed to be held for at least five years or longer.
- **Suitable to be used to complement income –** you can take withdrawals of up to 5% from your bond, for up to 20 years, potentially without creating an immediate tax liability. You can take your money as:
  - regular tax-efficient withdrawals, which you can choose to receive on any day from 1 to 28 of the month
  - a lump sum or series of lump sums, which your adviser can action quickly and easily online (up to a maximum of £75,000).
- **Constructed of 1,000 life policies for effective tax management –** you can encash or assign part or all of your bond.

For information about charges, please ask your adviser for a copy of our 'Making the cost of investment clear' guide.

**101% prior to 25 November 2024*

Simplicity from a tax reporting perspective

Recent cuts in the annual dividend allowance and Capital Gains Tax allowance will mean more people will now need to pay tax on their investment income and gains.

This means more people will need to submit a self-assessment tax return – with many expected to be impacted for the first time.

Investing in a bond can simplify any tax reporting:

- the investments you link your Collective Investment Bond to, and the income and gains associated with them, are not owned by you, so there is no personal liability for changing the funds within the bond. Therefore, you do not need to keep track of any gains or income received within the bond or report on an ongoing basis.
- you are only assessed for tax when certain events happen (mainly when money is withdrawn above a certain limit*) giving you more control.

You don't need to declare the details of your Collective Investment Bond (or the investment returns achieved within it) on your annual tax return, provided your withdrawals stay within specified limits.

How is my Collective Investment Bond taxed?

Gains you make on your Collective Investment Bond are potentially liable to income tax rather than capital gains tax

Income tax is payable on any gains at your highest marginal rate. You will be assessed for income tax if you do any of the following (known as **'chargeable events'**):

- if you withdraw more than your withdrawal allowance – which is 5% of the bond premium (the money you've paid into the bond) each year for 20 policy years. Any unused allowance can be carried forward and used in future years.
- if you withdraw all your money or close your Collective Investment Bond.
- if you fully close one or more individual policy segments (there are 1,000 at the start of the bond).
- on your death (or the death of the second bond owner, if the policy is joint) which brings the bond to an end.

Some tax on your Collective Investment Bond is treated as if it's already been paid

If you make a gain on your bond, we will provide you with a **chargeable event certificate** confirming the amount of the **chargeable gain** along with the amount of **tax treated as paid** so that you can include it within your tax return.

Why is some tax treated as if it's already been paid?

Quilter Life & Pensions Limited (the provider of the bond) is liable to corporation tax on the income and capital gains arising on the investments you choose to link the performance of your Collective Investment Bond to. We make a charge to your bond to pay for this.

To reflect this, when you make a gain on your Collective Investment Bond, it carries a credit equivalent to 20% of the amount of the gain to cover any personal liability to basic rate income tax.

This means if you are a basic rate taxpayer you will have no further tax to pay. If you are a higher or additional rate taxpayer you will have a further tax liability to pay through your tax return.

There are different tax implications depending on the method of withdrawal you choose. The examples on the next page look at different methods and how they are taxed.

We strongly recommend that you consult your financial adviser before making a decision to close or withdraw money from your bond.

Let's look at an example

- Ian invested £100,000 into a Collective Investment Bond six years ago.
- He can withdraw 5% of this amount (£5,000) a year without being assessable for income tax. This allowance rolls over to the next year if Ian doesn't make any withdrawals.
- Ian pays his financial adviser an ongoing advice fee for managing his bond. To keep the tax simple, these fees are treated as a withdrawal, meaning they are deducted from Ian's 5% withdrawal allowance and paid to his adviser straight out of his bond.
- Six years later, the bond is now worth £140,000. Ian has been a basic rate taxpayer since it started.

Scenario 1 – withdrawing some money

Ian decides he wants to take some money out of his bond. He hasn't taken any money out in the previous six years. How much can he withdraw without being assessable for income tax?

	Amount of money Ian can take* (5% of his investment of £100,000)	Plus any allowance rolled over from last year (column 4 for the previous year)	Minus Ian's financial adviser fee	Total amount of withdrawals Ian can take*
Year 1	£5,000	N/A – there is no allowance to roll over as the bond is only in year one.	-£750	=£4,250
Year 2	£5,000	+£4,250	-£795	=£8,455
Year 3	£5,000	+£8,455	-£835	=£12,620
Year 4	£5,000	+£12,620	-£880	=£16,740
Year 5	£5,000	+£16,740	-£940	=£20,800
Year 6	£5,000	+£20,800	-£800	=£25,000

**Without being assessable for income tax.*

As you can see, in year six, Ian can take £25,000 out of his bond without being assessable to income tax. But he needs £30,000 to put towards a motorhome. What happens if he withdraws £30,000?

- The difference between the amount of Ian's withdrawal allowance (£25,000) and the amount Ian needs to withdraw (£30,000) is £5,000. This is called the **chargeable gain or 'excess' gain.**
- Quilter sends Ian a chargeable event certificate. On the certificate, it shows that £1,000 of tax (20% of the value of the gain) is treated as if it's already been paid.
- Because Ian is a basic rate taxpayer and the excess amount he's withdrawn doesn't push him into a higher income tax bracket, he has no further tax to pay.
- If Ian was a higher rate taxpayer, he would pay a further 20% (£1,000) of tax on top of what Quilter has already paid. If he was an additional rate taxpayer, it would be an extra 25% (£1,250).

Ian can withdraw the £30,000 he needs with no further tax to pay.

Scenario 2 – withdrawing all the money

A couple of years later, Ian needs all the money in his bond and decides to fully encash it. Let's assume the bond is now worth £135,000. How much tax will he pay?

To work this out, HMRC will look at the gain Ian has made over and above his original investment of £100,000.

The calculation looks like this:

Value of the bond when it's encashed	+	Any previous withdrawals	–	Total amount of premiums paid	+	Any previous excess gains
£135,000		£35,800 This includes: – £5,800 in fees to Ian's adviser over the life of the bond. – The £30,000 Ian withdrew in year six (see scenario 1).		£100,000		£5,000 This comes from the previous withdrawal Ian made (see scenario 1).

(£135,000 + £35,800) – (£100,000 + £5,000) = £65,800, which will be treated as a chargeable gain when working out Ian's income tax liability.

The amount of income tax Ian will pay on the gain will depend on what income tax bracket he falls into when taking into account all his income for the year.

Remember, 20% tax on the gain (in this case, £13,160) will be treated as if it's already been paid so Ian can offset this against his tax bill.

Please speak to your financial adviser for more information on how your Collective Investment Bond is taxed.

The examples in this guide are for illustrative purposes only and only cover some of the basic tax rules and reliefs. This is a complex area, and we strongly recommend you seek professional financial advice before withdrawing any money.

Why choose Quilter's bond?

Since 1979, we've been helping customers achieve their financial goals and live more prosperous lives.

That's why over 490,000 people have chosen to invest more than £82.5bn* with us and why we've consistently won awards for our gold star service.

We pride ourselves on giving you:

- A safe and secure home for your investments
- The best value for your investments
- Quicker and easier access to your money

**Platform assets under management as at 30 September 2024.*

Great value for your investments

We make sure your financial adviser has access to everything they need so that you can enjoy great value on your investments.

- We offer a suite of tax-efficient products so that your financial adviser can choose a strategy that will help you meet your financial goals.
- We have negotiated preferential rates with many fund managers. This means that we offer the best available price in the market for the most popular (or majority of) funds available.
- We are pleased to provide you and members of your family with our best-in-class family discount, so that you can enjoy better value together.

A name you trust

Trustpilot
Reviews 8,291 • Excellent
4.4
VERIFIED COMPANY

As at September 2024

AKG B+
FINANCIAL STRENGTH RATED
PROVIDER SECTOR VERY STRONG
QUILTER LIFE & PENSIONS LTD

defaqto
2024
EXPERT RATED

Platform, Personal Pension, Drawdown Pension and Onshore Bond

Trusts and inheritance tax planning are not regulated by the Financial Conduct Authority.

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