



5 reasons why you might consider a Bond instead of a Collective Investment

1 Does your client need regular payments?

A bond can provide fixed regular payments without any immediate tax liability (assuming payments are not above the 5% tax deferred limit). It is possible to take fixed regular payments from a collective, but this would involve cashing in units, and would therefore give rise to a potential Capital Gains Tax (CGT) liability. Even if no CGT applies, it would eat into their CGT allowance for that year.

For taxation purposes any tax deferred payments would be added to the final surrender value of the investment bond whenever such surrender is made.

2 Is your client considering estate planning?

Trusts are a key tool in estate planning and using either a bond or collective is likely to give a similar end result in terms of reducing or avoiding any IHT liability. However, the administration of the trust is also an important factor. A bond under trust is likely to be simpler to administer than a collective, in terms of tax liabilities. As trustees do not necessarily have the time nor the tax knowledge, unless using professional trustees, a bond may well be easier.

3 Does your client currently pay Income Tax above the basic rate?

If so, but they're likely to see their income reducing, and become a basic rate taxpayer in a few years, a bond may prove more tax efficient. Providing any withdrawals which are taken remain within the tax deferred allowance, there should not be a tax liability until the bond is finally encashed. If your client is a basic rate taxpayer (and the gain from the bond, when added to income, does not result in them paying Income Tax above the basic rate), there will be no tax liability at encashment. The fund within the bond is taxed at approximately 17%.

With a collective investment, any interest is taxed at 20% and any dividends are paid net, with a 10% tax credit. If your client pays tax above the basic rate, while the interest/dividends are being generated, then there will be an additional income tax liability. If the client is a Non Tax Payer, they are able to reclaim the 20% tax deduction made on Interest payments. This liability remains whether your client receives any interest/ dividends or whether they are re-invested. At encashment, any gain (over the CGT allowance) will be liable for CGT at 18%.

This is payable at the same rate, regardless of the rate at which your client pays Income Tax.

4 Is long term care planning a consideration?

If your client is concerned about the need for long term care and how it would be paid for, it is important to consider investments currently held and how those would be assessed in any calculation around long term care. As a Life Assurance contract, an investment bond would not normally be included within any calculations for determining assets owned when assessments for long term care are made. However, the value of a collective investment is included within the calculation.

5 Is administration simplicity important for your client?

Switching funds within a bond is relatively straightforward and will not create a tax liability. Switching in a collective investment could cause a CGT liability. In general, investing in a collective may involve an extra level of complexity, which some investors may not feel comfortable with.

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