



## Investment Bond Briefing Note 13

### Briefing Note

#### Segmenting the future

The facility to segment an international investment bond into a number of individual policies is an attractive feature that can provide added flexibility and tax efficiency for your clients. Our Premiere Account, available through the Isle of Man and both our Premiere Europe Account and our International Portfolio Bond, available through Ireland, offer the opportunity to have up to 99,999 policies, which can be particularly appealing from a tax planning perspective.

##### Introduction

In setting up and managing a client's portfolio, it is usual to look at making the most of ISA allowances and capital gains tax exemptions. But income tax allowances should equally be used to best effect and

an international bond, with its segmentation facility, can help with this. The more segments it has, the more opportunities there are to increase returns, by minimising the tax payable or by assigning policies to someone with a lower tax rate. However, some international bonds restrict these opportunities by having a maximum of, say, 100 policies. What this means in practice is shown in the following examples.

##### Example 1

Jack, who currently earns £42,000 (2017/18 tax year), invested 15 years ago into an international investment bond with 100 segments. He has made no previous withdrawals. He now wants to cash in as many segments as possible, while limiting the top-sliced gain to £3,000 and thereby avoiding any higher rate tax charge.

Initial Premium	Current Value for each Segment	Gain for each Segment	Top-sliced Gain for each Segment	Segments needed to be Encashed	Total Top-sliced Gain
£100,000	£2,079	£1,079	£72	41	£2,952
£300,000	£6,237	£3,237	£216	13	£2,808
£1,000,000	£20,789	£10,789	£719	4	£2,876

It is clear that the limited number of segments has a detrimental effect on the total amount that can be encashed, particularly for the larger investments.

The table below shows the benefit of having a far greater number of segments, based on a bond with 99,999 segments.

Initial Premium	Current Value for each Segment	Gain for each Segment	Top-sliced Gain for each Segment	Segments needed to be Encashed	Total Top-sliced Gain
£100,000	£2.08	£1.08	£0.07	42,857	£3,000
£300,000	£6.24	£3.24	£0.21	14,285	£3,000
£1,000,000	£20.79	£10.79	£0.71	4,225	£3,000



### Example 2

Mike and Jane invested £300,000 15 years ago into an international investment bond with 100 segments. Their intention was to benefit their future grandchildren, including the funding of their university education. They now want to assign some segments to their first grandchild for her to cash them in. The number of segments assigned should mean the chargeable gain is limited to their grandchild's available personal allowance of £11,500, plus the personal savings allowance of £1,000 and the savings starting rate band of £5,000 (tax year 2017/18), so as to avoid any tax charge.

Compare the values when 99,999 segments are available.

Initial Premium	Number of segments	Current value for each segment	Gain for each Segment	Segments Encashed	Total Gain
£300,000	100	£6,237	£3,237	5	£16,185
£300,000	99,999	£6.24	£3.24	5,401	£17,499

### Example 3

Christine invested £100,000 15 years ago into an international investment bond with 100 segments. She has an annual income of £85,000 and now wants to cash in as many segments as possible without losing any of her personal allowance. This means the chargeable gain should be limited to £15,000, giving her a total income of £100,000 (tax year 2017/18).

Again, the benefit of having 99,999 segments is clear.

Initial Premium	Number of Segments	Current value for each segment	Gain for each Segment	Segments Encashed	Total Gain
£100,000	100	£2,079	£1,079	13	£14,027
£100,000	99,999	£2.08	£1.08	13,888	£14,999

### All three international investment bonds

- Offer access to a wide choice of funds and additional investment opportunities to enable you and your clients to construct a portfolio to match any risk profile.
- They can be set up as a series of up to 99,999 identical policies or segments providing flexibility and greater tax efficiency.
- The policyholder is able to take money out of the bond without incurring any immediate tax liability provided they stay within the cumulative 5% tax-deferred allowance.
- Allows up to six lives to be assured.
- Gives advisers a choice of tax-efficient strategies to determine who should pay any tax due and when.

All growth within each segment is generally tax-free until a chargeable event occurs, either through partial surrenders or full encashment of a segment.

The above examples are for illustrative purposes only. They assume a growth rate of 5% each year and do not take into account actual product or investment charges. All figures are rounded to the nearest pound. Please note that the value of an investment bond can fall as well as rise and your clients could get back less than they invest.

### Further information

For more information regarding this, please speak to your account manager in the first instance or use the following contact options for both Canada Life International and Canada Life International Assurance (Ireland).

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This briefing note has been prepared for professional advisers use only.

The information regarding taxation is based on our understanding of current legislation, law and HM Revenue & Customs practice as at September 2017. We recommend that advisers and investors take their own professional tax advice.

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