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Offshore Bonds: A tax-efficient route to passing on wealth

The wealth transfer strategy more families are exploring

As changes to Inheritance Tax (IHT) and Capital Gains Tax (CGT) rules take effect, many investors may be seeking alternative ways to protect their wealth and pass more of it on to future generations. With tax allowances becoming less generous and estate-planning challenges mounting, offshore bonds are attracting renewed interest among individuals seeking greater flexibility and tax efficiency.

While offshore bonds are not suitable for everyone, they can play an important role in long-term financial planning, particularly for those seeking to manage tax liabilities and transfer wealth more effectively.

WHY INVESTORS ARE TAKING A CLOSER LOOK

Many investors have traditionally relied on pensions, ISAs and direct investment portfolios to build and preserve wealth. However, changing tax rules are prompting people to explore additional options that may offer greater control over when and how tax is paid.

An offshore bond is a tax-efficient investment wrapper issued by a life assurance company based outside the UK. The underlying investments can include a range of funds and assets, enabling investors to build a diversified portfolio while benefiting from favourable tax treatment.

TAX DEFERRAL CAN CREATE OPPORTUNITIES

One of the key attractions of an offshore bond is that gains can generally roll up free of immediate UK Income Tax and Capital Gains Tax within the bond. This means investors are usually not liable for annual tax on investment growth while the funds remain invested.

Instead, taxation is typically deferred until withdrawals are made or the bond is fully surrendered. For many investors, this offers valuable planning opportunities, particularly if they expect to be in a lower tax band in the future.

The ability to control when gains are realised can make offshore bonds a useful tool for retirement and succession planning, as well as for managing overall tax exposure.

SUPPORTING WEALTH TRANSFER STRATEGIES

Offshore bonds can also form part of a wider estate-planning strategy. In some cases, bonds can be placed in trust, potentially helping to remove assets from an individual's estate for Inheritance Tax purposes, subject to the relevant rules and timescales.

This can allow wealth to be passed to children, grandchildren or other beneficiaries in a structured, tax-efficient manner. Trust planning may also provide greater control over how and when assets are distributed.

For families concerned about preserving wealth across generations, offshore bonds can offer both investment flexibility and estate-planning benefits.

NOT A ONE-SIZE-FITS-ALL SOLUTION

Although offshore bonds can offer valuable tax advantages, they are not suitable for every investor. Charges, investment risks and tax implications vary with personal circumstances and the structure used.

As with any financial planning strategy, offshore bonds should be considered as part of a broader review of your financial objectives, tax position and long-term estate plans. ■

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LOOKING FOR A SOLUTION TAILORED TO YOUR INDIVIDUAL CIRCUMSTANCES AND LONG-TERM GOALS?

With Inheritance Tax and Capital Gains Tax becoming increasingly important considerations for many families, now may be the right time to review your wealth planning.

If you would like to understand how offshore bonds could fit into your financial strategy, help manage tax liabilities or support the transfer of wealth to future generations, please contact us for further information. Professional advice will help ensure that any solution is tailored to your individual circumstances and long-term goals.

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