

Onshore Bond Guide

For the Tax Year 2025/26

Investing in an onshore bond combines tax efficiency with investment flexibility for your medium to long-term goals. These UK-based products allow your money to grow while offering unique tax advantages and withdrawal options not available with other investments. Whether you're building wealth, planning for retirement, or transferring assets to future generations, an onshore bond could enhance your financial strategy.

What is an Onshore Bond?

An onshore bond is a UK-based investment product offered by life insurance companies. It allows you to invest a lump sum in various funds with the aim of achieving growth over the medium to long term (typically 5+ years). Unlike many other investments, onshore bonds offer special tax treatment and flexibility in managing your money.

How does an Onshore Bond work?

Onshore bonds are typically issued as a series of identical segments (often 20-100 mini-policies within one bond).

This segmentation enables flexible withdrawals and more precise tax planning. They come in two main types:

- **Life Assurance Bond** – Linked to one or more lives assured and pays out on death; frequently used in estate planning
- **Capital Redemption Bond** – Not dependent on a life assured; offers a fixed term (commonly 99 years) and is particularly useful for trust planning or long-term investment

Who Is Eligible?

Onshore bonds are widely accessible and suitable for a variety of investors and ownership structures.

Onshore bonds are accessible to a wide range of investors:

- UK residents (subject to local tax rules)
- Non-UK residents (depending on jurisdiction and provider)
- Individuals aged 18 or over
- Trustees acting for various trust structures
- Corporate entities and charities
- Joint applicants (typically up to 4 individuals)

If you lack capacity, an attorney or deputy can manage the bond on your behalf with appropriate documentation and permissions.

Onshore bonds are primarily designed for UK residents. While technically available to some non-UK residents, this depends on the provider's terms and UK tax considerations, so specialist advice is essential in such cases.

Who can open and manage an Onshore Bond?

Multiple parties may be involved in setting up and administering an onshore bond, depending on the ownership structure and financial objectives.

Understanding the roles and responsibilities is essential for effective management.

- **Policyholder** – The individual, trustee, or corporate entity who owns the bond. The policyholder has legal control over the bond, including decisions about investments, withdrawals, and assignments. Where joint ownership is permitted, all parties share control.
- **Lives Assured** – In life assurance bonds, one or more lives assured must be named. The bond continues until the death of the last life assured, making this an important consideration in estate and succession planning. In capital redemption bonds, no lives assured are required.
- **Trustees** – When an onshore bond is placed in trust, the trustees become the legal owners of the bond and manage it in accordance with the terms of the trust deed. They are responsible for decisions on withdrawals, assignments, and distributions to beneficiaries.
- **Investment Advisers** – Policyholders and trustees can appoint professional financial advisers to assist with fund selection, risk management, and portfolio oversight. Advisers also provide guidance on tax-efficient withdrawal strategies.

- **Discretionary Fund Managers (DFMs)** – Some onshore bonds offer open-architecture platforms that allow a DFM to be appointed. The DFM manages the portfolio in line with an agreed mandate, helping to ensure alignment with the bond's goals and risk profile.

Properly managing an onshore bond requires ongoing attention to investment performance, tax efficiency, and any changes to personal or legal circumstances. Professional support is often essential - especially when the bond is part of a trust or estate planning arrangement.

Are there minimum amounts that can be invested?

Onshore bonds typically require higher minimum investments and additional investment minimums than other investment wrappers, reflecting the sophisticated nature of onshore bonds and their suitability for investors with substantial assets.

Paying Money into an Onshore Bond

Onshore bonds are designed to accommodate a range of contribution styles depending on your financial goals:

- **Lump Sum Investments** – Onshore bonds are typically established with a single lump sum, with minimum investment amounts depending on the provider.
- **Additional Premiums** – Many providers allow you to make top-up contributions, though these may be treated as new investments for tax purposes.
- **Regular Contributions** – Some onshore bonds support regular contribution plans, making them suitable for phased investing over time.
- **In-Specie Transfers** – As with offshore bonds, in-specie transfers (moving assets directly into the bond) are generally not allowed. Contributions must be made in cash.

Gifting money into another person's onshore bond may have Inheritance Tax (IHT) consequences and could be treated as a potentially exempt transfer or a chargeable lifetime transfer depending on the ownership and trust structure.

Can I Transfer Existing Investments into an Onshore Bond?

Onshore bonds typically do not allow the direct transfer of existing investments. Instead, investments need to be liquidated and reinvested within the bond:

- **Cash Transfer** – The standard approach involves selling your current investments, transferring the

proceeds into the onshore bond, and then choosing new investments from the available fund range.

- **Existing Bond Transfers** – If you already hold an onshore bond with one provider, it may be possible to assign it to another provider or platform, although this process must be carefully managed to avoid triggering a chargeable event.
- **Segmentation Review** – If transferring an existing bond, you may also want to review how it is segmented to optimise tax planning through future withdrawals.

Transfers must comply with certain rules and may take several weeks, especially where provider-specific paperwork are required.

Can You Make Withdrawals from an Onshore Bond?

Onshore bonds provide flexible options for accessing capital in a tax-efficient manner:

- **5% Tax-Deferred Allowance** – You can withdraw up to 5% of your original investment per policy year without immediate tax consequences. This allowance is cumulative and can be carried forward for up to 20 years.
- **Regular Withdrawals** – Many providers support scheduled withdrawals (monthly, quarterly, annually).
- **Partial Surrenders** – You may withdraw more than the cumulative 5% allowance, but this will trigger a chargeable event and may result in a tax liability.
- **Full Surrenders** – You can fully cash in your bond at any time, though doing so will also trigger a chargeable event.
- **Segment Surrenders** – Onshore bonds are usually issued in segments. Fully surrendering individual segments is often more tax-efficient than partial withdrawals across all segments.
- **Assignments** – You can assign ownership of the bond (or individual segments) to another person, such as a spouse or child. If no money changes hands, this does not normally trigger a tax charge and may support wider tax planning strategies.

Chargeable events may result in additional income tax depending on your personal tax position at the time of withdrawal or surrender.

Why choose an Onshore Bond?

Onshore bonds can be particularly beneficial for certain investors. Understanding if you fit these profiles can help determine if an onshore bond is right for you.

Onshore bonds can be suitable for:

- Individuals seeking tax-efficient investment growth
- Those who have utilised their ISA and pension allowances
- Investors aiming for medium to long-term growth (5+ years)
- Higher or additional rate taxpayers who expect to be basic rate taxpayers when they cash in the bond
- Individuals planning to assign the bond to a lower-rate taxpayer in the future
- Those looking for tax-efficient ways to generate regular withdrawals
- Investors who want flexibility in their investment choices

However, they may not be suitable for those needing short-term access to funds or with a low risk tolerance.

What are the tax implications of an Onshore Bond?

Internal Taxation

The life insurance company pays corporation tax (currently approximately 20%) on income and gains within the bond. As an investor, you're deemed to have paid basic rate tax, so basic rate taxpayers usually have no further tax to pay.

Chargeable Events

Chargeable events are specific moments when tax calculations take place. A chargeable event occurs when:

- The bond is fully surrendered
- The bond is partially surrendered, and the withdrawal exceeds the available 5% allowances
- A policy segment is surrendered
- The death of the last life assured occurs where benefits are payable
- The bond is assigned (transferred) for money or money's worth
- The bond reaches maturity (if applicable)

When a chargeable event occurs, any gain is calculated and potentially subject to income tax.

Top-Slicing Relief

If you're a basic rate taxpayer but a gain would push you into the higher rate tax band, top-slicing relief may reduce your tax liability. This works by dividing the gain by the number of complete years the bond has been held to calculate an average annual gain (the "slice"). If this slice plus your other income stays within the basic rate tax band, no higher rate tax is payable on the gain.

Recent changes to top-slicing relief (from March 2020) include:

- Allowances and reliefs must be set against other income before the gain
- The personal allowance is reinstated within the calculation where it has been reduced due to the gain
- The personal savings allowance and starting rate band for savings are assessed using the slice rather than the full gain

Why might an Onshore Bond not be suitable?

Onshore bonds offer valuable tax deferral and estate planning opportunities, but they aren't the right fit for everyone. Here are key reasons why an onshore bond may not align with your personal circumstances:

- **Tax on Gains** – While tax is deferred, eventual gains from onshore bonds are subject to Income Tax, not Capital Gains Tax. For investors with access to CGT allowances or lower CGT rates, this could be less efficient.
- **Product Charges** – Onshore bonds may carry higher internal charges than ISAs or direct fund investments, which can reduce overall returns over the long term.
- **Complex Tax Rules** – Understanding chargeable events, cumulative 5% allowances, and the impact of assignments can be complicated without professional advice.
- **Basic Rate Tax Paid Within the Bond** – The life company pays basic rate tax (currently 20%) on income and gains. While this satisfies tax liability for basic rate taxpayers, higher or additional rate taxpayers may owe more on withdrawal.
- **Limited Investment Flexibility** – Onshore bonds may not support direct equity investments or offshore funds, unlike some other wrappers or offshore bond options.
- **Medium to Long-Term Horizon Needed** – Onshore bonds are most effective when held for five years or longer. Early withdrawals may result in reduced tax efficiency or financial loss.

- **Tax Planning Constraints** – While beneficial for some, onshore bonds may offer fewer tax planning options than offshore alternatives, particularly for those planning to move abroad or assign assets to non-UK taxpayers.

Before investing, it's important to consider whether an onshore bond fits your personal tax position, time horizon, income needs, and estate planning objectives. Professional advice is recommended to ensure suitability.

Managing Tax Liabilities Within an Onshore Bond

Onshore bonds offer useful tax planning features, particularly for UK basic rate taxpayers or those looking to defer tax.

With careful structuring, you can optimise the bond's tax efficiency over time.

- **5% Tax-Deferred Withdrawals** – You can withdraw up to 5% of your original investment each policy year without an immediate tax charge. This allowance is cumulative and can be carried forward up to 20 years (maximum 100% of the original investment).
- **Top Slicing Relief** – When a chargeable event (such as full surrender) results in a large gain, top slicing relief can help reduce the effective tax rate by spreading the gain over the number of policy years. This may help avoid or reduce higher rate tax.
- **Assigning to a Lower-Rate Taxpayer** – You can assign ownership of the bond (or individual segments) to a spouse or civil partner in a lower tax band. Provided the assignment is a genuine gift and no money changes hands, it won't trigger a chargeable event.
- **Segment Surrender Strategy** – When taking withdrawals, fully surrendering individual segments may be more tax-efficient than making partial withdrawals across all segments. This can help control when and how gains are realised.
- **Trust Planning** – Onshore bonds can be placed in trusts to remove the investment from your estate for Inheritance Tax purposes. Trustees can also manage withdrawals in a tax-efficient way based on the trust's tax status and beneficiary needs.
- **Timing Withdrawals** – If you're nearing retirement or a lower income period, deferring large withdrawals until you fall into a lower tax band can help reduce your tax bill on gains.
- **Avoiding Trigger Events** – Understanding what constitutes a chargeable event - such as full surrenders, partial withdrawals above the cumulative

5% limit, or death of a life assured, is crucial to managing tax exposure.

Onshore bonds are not tax-free, but they offer strategic tools to help you defer, reduce, or manage liability in line with your wider financial objectives.

As with all tax planning, it's important to seek professional advice tailored to your personal situation.

Can an Onshore Bond be used for Estate Planning?

Onshore bonds can be a highly effective tool for estate planning, especially when combined with trust arrangements.

They allow you to pass on wealth in a controlled and potentially tax-efficient way.

- **Trust Compatibility** – Onshore bonds can be assigned into a wide range of UK-recognised trust structures, including discretionary, bare, and interest in possession trusts.
- **Inheritance Tax Mitigation** – By placing an onshore bond into trust during your lifetime, the value of the bond may be removed from your estate for Inheritance Tax (IHT) purposes.
- **Assignment Without Tax Trigger** – Assigning an onshore bond into trust (or to another individual) does not usually result in a chargeable event, provided it is a genuine gift and no money changes hands. This enables tax-efficient transfers of wealth without an immediate tax liability.
- **Bond Continuity** – The structure of an onshore bond allows for it to continue after the original policyholder's death (subject to how it's held and whether there is a surviving life assured), which can simplify probate and support ongoing investment for the next generation.
- **Regular Withdrawals for Beneficiaries** – Trustees can use the 5% tax-deferred withdrawal facility to provide beneficiaries with a regular income stream, while deferring tax liability over time.
- **Simplified Administration** – When held in trust, the onshore bond typically does not need to pass through probate, potentially speeding up access for beneficiaries and reducing administrative complexity.

As with all estate planning strategies, the effectiveness of using an onshore bond depends on the structure, ownership, and tax treatment of the bond within your broader financial plan.

Trust Registration Service (TRS)

If an investment bond is written under trust, it will need to be registered on the Trust Registration Service (TRS).

The Trust Registration Service is a legal requirement. It ensures transparency in trust arrangements for anti-money laundering purposes.

The deadline for registration is 90 days from trust creation. The trustees can designate a 'lead trustee' to register the trust or an 'agent' (typically an accounting service provider).

Assigning an Onshore Bond

Transferring ownership of an onshore bond can be a useful strategy, allowing you to pass investments to others without immediate tax consequences.

You can assign ownership of your bond to another person, such as a spouse or child, without triggering a tax charge, provided no money changes hands. This can be a useful strategy for tax planning, especially if the assignee is in a lower tax bracket.

Will I be charged a fee?

If you are an existing client, your Onshore Bond will be managed under your existing service agreement and fee structure, alongside your main investment portfolio.

Where Are Onshore Bonds Issued?

Onshore bonds are issued within the UK and are subject to UK tax and regulatory rules.

They are designed specifically for UK residents and are governed by the Financial Conduct Authority (FCA).

The key features of a UK jurisdiction are:

- **UK Regulation** – Onshore bonds are issued by life insurance companies based in the UK and regulated by the FCA, ensuring a high level of consumer protection and transparency.
- **Policyholder Protection** – UK-issued onshore bonds are protected under the Financial Services Compensation Scheme (FSCS), which may provide compensation of up to 100% of the bond's value if the insurer fails.
- **Taxation** – Onshore bonds are subject to UK tax rules. The insurer pays basic rate tax (currently 20%) on income and gains within the bond, which is treated as having been paid by the investor. This structure can be particularly efficient for basic rate taxpayers.
- **Familiar Legal Framework** – UK jurisdiction provides a well-established legal system for contract enforcement, trust compatibility, and assignment flexibility.

- **Trust Compatibility** – Onshore bonds integrate seamlessly with UK trust arrangements, offering estate planning and IHT mitigation opportunities for UK-based families.

Will I be charged a fee by the onshore bond provider?

Fee structures vary significantly between providers. onshore bonds may involve several layers of charges:

- **Initial Charges** – May include product setup fees and initial allocation rates that reduce the amount invested.
- **Annual Administration Fees** – Ongoing charges for the bond wrapper, typically between 0.15% and 1% annually.
- **Dealing Charges** – Fees for buying and selling underlying investments, which vary by provider and investment type.
- **Early Surrender Charges** – Some bonds impose penalties for withdrawals within an initial period (typically 5-8 years).
- **Additional Service Fees** – Charges for services such as fund switches, valuations, or specialised investment options.

Where are your Onshore Bond assets held?

Where the provider permits assets to be held with an external custodian, we have strategically chosen to partner with AJ Bell Securities Ltd, a specialist Custodian, to administer the regulatory and operational aspects of our investment offering.

This deliberate separation of responsibilities offers several distinct advantages:

- **Enhanced Security** - Your assets benefit from the robust safeguarding protocols of a dedicated custodian, with assets held separately from our firm's balance sheet.
- **Specialised Expertise** - Our custodian brings focused regulatory expertise in settlement and administration, ensuring continuous compliance with evolving tax legislation.
- **Investment Focus** - This partnership allows our investment professionals to concentrate exclusively on portfolio management.

AJ Bell Securities Limited are one of the largest providers of investment platforms and stockbroker services in the UK, is a member of the London Stock Exchange and regulated by the Financial Conduct Authority.

This guide is not personal advice. If you're at all unsure of the suitability of an investment for your circumstances, please ask your usual Tacit contact for advice.

Important things to remember

All the solutions we offer involve some form of investment risk and you should be aware that the value of investments in your onshore bond can fall in value, so you could get back less than the original capital you invested.

Tax rules and allowances may change in the future and the benefits of onshore bonds depend on your individual circumstances.

Onshore bonds are complex products that require careful consideration of their benefits and limitations in the context of your overall financial plan.

The costs associated with onshore bonds can be higher than other investment options, potentially impacting returns over time.

Whilst the rules we refer to are those that currently apply, they can change over time and their value and how you are taxed will depend on your personal circumstances, and tax rules at the time.

You have sole responsibility for the management of your tax and legal affairs including all applicable tax filings and payments and for complying with the applicable laws and regulations.

We may provide guidance on using tax-efficient structures such as making use of tax allowances. We are not specialist tax advisers and will not provide you with tax or legal advice and recommend that you obtain your own independent tax and legal advice, tailored to your individual circumstances.

Contact us

If you are considering establishing a trust or need support with existing trust investments, our specialist team can help.

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