

Investment Bonds, the Good, the Bad and the Ugly

There has been a fair bit of coverage in the financial press over the last few weeks regarding investment bonds and in particular the high levels of commissions that high street banks are making on 'selling' them. Commission seems to be the main driver of sales on the high street at the expense of good all round financial planning.

Like all things financial there are times when they are the right product and times when they are not! When used appropriately in a balanced portfolio of investments including ISA's and unit trusts they can prove to be a valid tax-planning tool.

What the articles don't mention (why let the truth get in the way of a good story) is that bonds are particularly useful in Inheritance tax planning using loan trusts and discounted gift trusts.

They are especially useful in Discretionary Trusts for minors as they are not seen as 'income producing' and can legitimately defer paying the current Trust rate of tax of 50%. They can be simple to administer and when it comes to distributing the assets bonds can be assigned to the beneficiary so that they can use their own nil rate allowances rather than the 50% rate of a trust.

Another potential benefit with Investment Bonds is that as they carry a nominal amount of life insurance they are normally ignored when Local Authorities assess the estate value of a person requiring long-term care. It should be noted that any income being taken would be taken into account for funding of care. There are of course rules

In relation to when capital is placed into a bond to ensure that funds are not diverted to artificially reduce the value of the assessed person's estate.

Some of the older style bonds did have a limited range of funds and managers available for investment but now many offer a very wide and diverse range of funds to ensure the investment can continue to meet your needs.

In the end it comes down to taking good independent advice to ensure that all your circumstances are taken into account, including attitude to risk, income needs, tax status and future goals.

At Investment Solutions we never take the full commission option preferring to work on either a fee or commission offset basis to ensure there is no perceived product or commission bias. Our aim is look after our clients needs for life (not just for a big commission cheque!) making sure with our annual reviews that we can adapt your investment strategy to meet your changing needs.