

GIA vs onshore bond vs offshore bond

A decision tree to help determine your starting point

AJBell

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GIA vs onshore bond vs offshore bond

For clients with significant investable wealth who have already made appropriate use of pensions and ISAs, how should you decide where additional money is invested?

Is there a sensible default starting point, based on a small number of client characteristics, which you can then test against the client's full circumstances, objectives and tax position?

The following GIA vs onshore bond vs offshore bond decision tree helps you determine your starting point and demonstrates that there's no "one size fits all" solution.

What's inside:

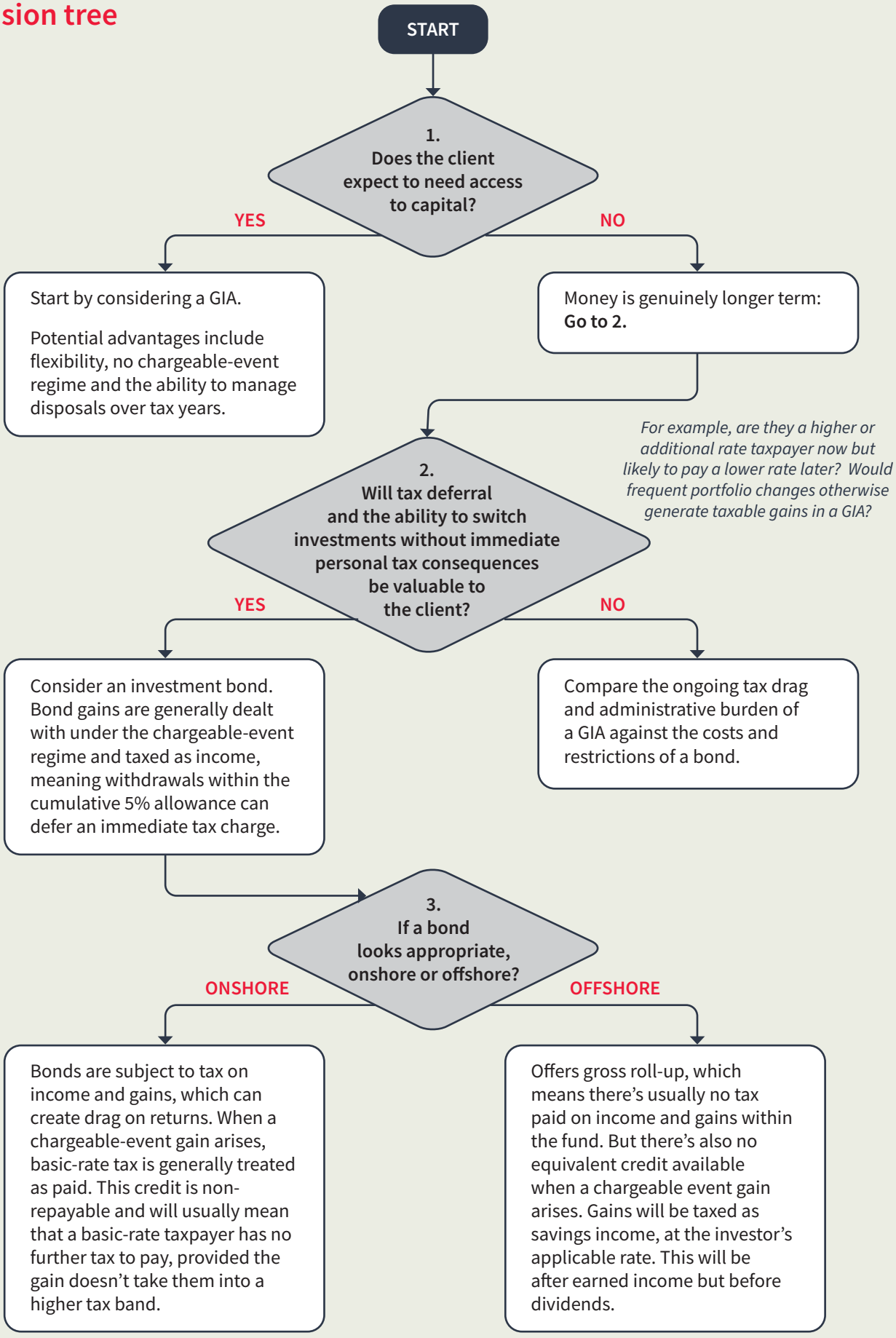
A decision tree, which asks four questions about the client. This decision tree has guidance notes alongside it which helps you challenge the output.

Three case studies, which model how the decision tree can be used and what it could mean for different types of clients.

Client	Type	The outcome
A	**A high earner approaching retirement**	Offshore bond is the starting point
B	**A wealthy retiree who wants flexibility**	GIA is the starting point
C	**A basic rate taxpayer investing for the long-term**	Onshore bond is the starting point

Each case study uses the decision tree to work out the starting point. They then demonstrate how you can challenge that starting point.

Decision tree



NEXT STEP: CHALLENGE AND TEST THE STARTING ASSUMPTIONS.

The rules of thumb can be split into a simple trio

GIA: start here when flexibility is king

Think GIA where access, active tax management and the ability to use annual allowances matter most.

Bond: start here when timing is king

Investigate a bond where the client does not require unrestricted access and there is significant value in controlling when taxable gains arise.

Onshore versus offshore: start with the client's tax journey

If a bond looks suitable, look beyond the client's tax rate today. Consider their tax rate now, likely rate later, investment horizon and eventual recipient of the money. Offshore bonds broadly offer gross roll-up, whereas UK bonds have tax suffered within the fund and chargeable-event gains receive corresponding basic-rate treatment for an individual.



Challenge the output

Whichever route the tree produces, you can challenge the starting point by considering the following:

1. Current versus future tax rate

Is the client an additional-rate taxpayer now but likely to become a basic-rate taxpayer after retirement? A bond could defer a taxable gain until the client's tax position is more favourable.

2. Nature of returns

A GIA potentially exposes the investor to different tax treatments on dividends, interest and capital gains. For 2026/27, the dividend allowance is just £500 and the individual CGT annual exempt amount £3,000. That also makes the investment strategy within the wrapper relevant.

3. Access

Does the client require the freedom to make substantial or unpredictable withdrawals, or the ability to sell individual investments directly?

That points towards a GIA. Conversely, predictable withdrawals and a longer investment horizon could strengthen the case for considering a bond.

4. Tax deferral

In a bond, partial withdrawals of up to 5% of accumulated premiums can be made without an immediate tax charge, with unused allowance carried forward. These withdrawals are tax deferred, not tax free and are taken into account when the bond eventually produces a chargeable-event gain.

5. Size and timeframe

A £100,000 investment for five years presents a very different proposition from £1 million intended to remain invested for 20 years. The longer the investment period, the greater the potential relevance of ongoing tax drag, tax deferral and product costs.

6. Destination of the wealth

Trust planning, gifting, assignment, estate planning and the circumstances of intended beneficiaries can materially change the analysis and require specialist advice.

Case study 1: A high earner approaching retirement

Rachel, 55

- £300,000 available to invest following the sale of some company shares
- ISA and pension planning already maximised as appropriate
- Earns £220,000 a year and has no immediate need for income
- Expects to retire at 62
- Other assets provide a substantial emergency fund
- Expects taxable income to fall considerably in retirement
- Investment timeframe: 15 to 20 years



What does the tree say?

Need unrestricted access?
No.

Is tax deferral potentially valuable?
Yes.

Could her marginal tax rate be lower when gains are realised?
Yes.

Starting point: investigate an offshore bond

Rachel's high current income means that generating additional taxable investment income today may be unattractive. Her expected retirement at 62 also creates an obvious future point at which her tax position may be different.

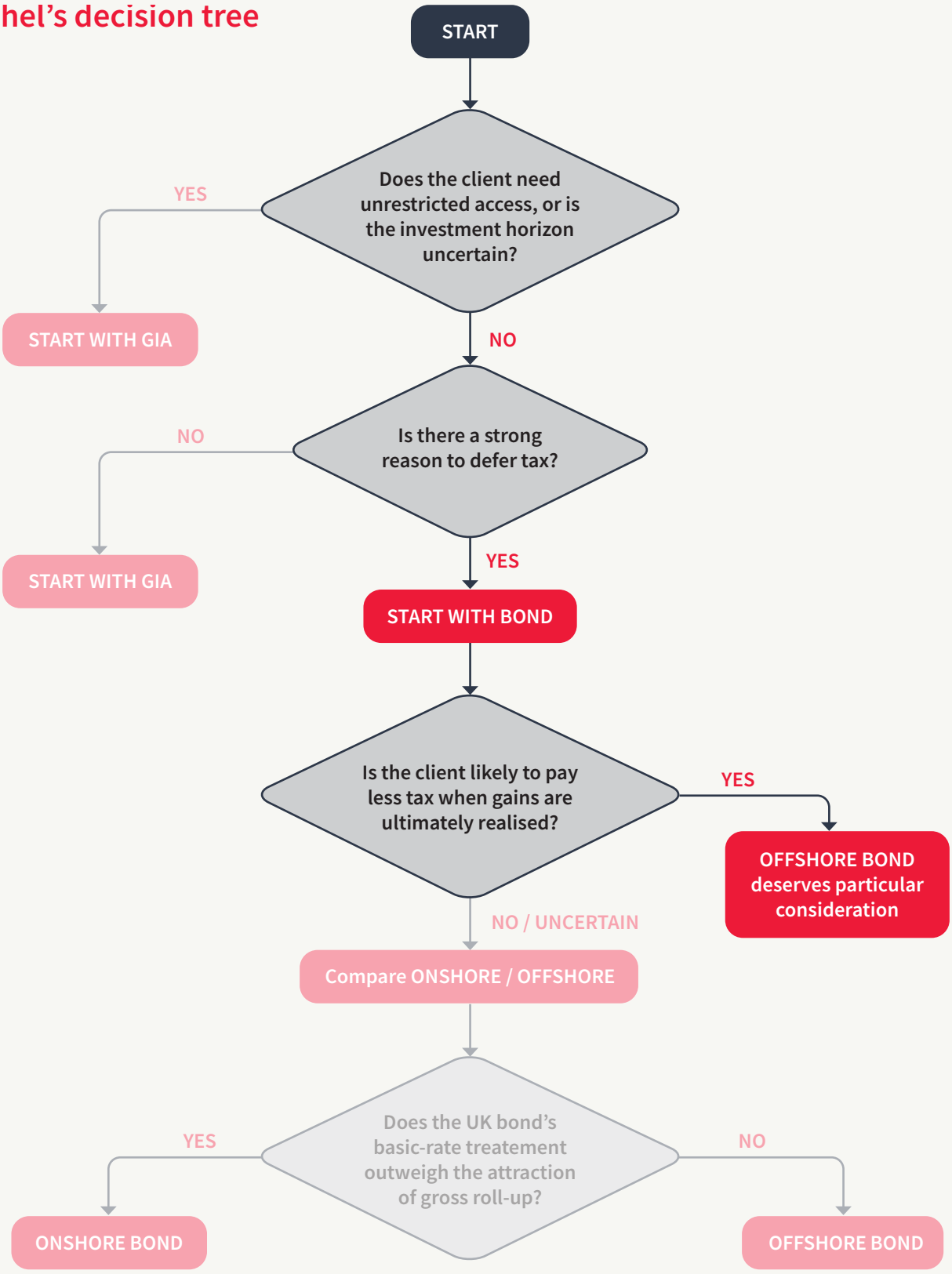
An offshore bond therefore deserves investigation because the underlying investments can benefit from gross roll-up, and Rachel's timeframe for this investment is 15 to 20 years. There may also be opportunities to manage how and when Rachel's retirement lifestyle is funded from 62, including how she accesses her pensions and other assets alongside any chargeable events. Top slicing relief when a chargeable-event gain ultimately arises could also help manage Rachel's tax position.

Challenge this starting point

A GIA could give Rachel greater flexibility and allow her to make use of annual tax allowances. However, those allowances are now modest, with just £3,000 available as the annual exempt amount to set against gains, and just £500 for dividend income.

Rather than one wrapper, you might investigate holding sufficient assets in a GIA to provide flexibility and facilitate future ISA subscriptions, while comparing a bond for the genuinely long-term portion.

Rachel's decision tree



Case study 2: A wealthy retiree who wants flexibility

Starting position

David, 68

- Retired
- £300,000 available after downsizing
- Pension and other retirement income of £32,000 a year
- Wants to supplement income occasionally or make irregular withdrawals for holidays, cars and helping his adult children over the long term
- Investment timeframe: long term, but would like ad hoc access when required



What does the tree say?

Need unrestricted access?
Yes.

Starting point: investigate a GIA

David's case illustrates a different problem. His priority is flexibility rather than a need to defer tax until he moves from a period of very high income to one of substantially lower income.

David's income is lower than Rachel's, so his personal tax profile is different. He's likely to remain a basic rate taxpayer before allowance for investment income and gains, giving him a personal savings allowance of up to £1,000 and the £500 dividend allowance. Managing the portfolio around David's overall income and gains therefore deserves consideration. A GIA could help manage disposals in and between tax years, alongside the annual exemption of £3,000, and also be used to help fund ISA subscriptions if required.

Outside ISAs, David could benefit from the 18% rate of CGT for taxable gains that fall within the available basic-rate band, with 24% above it.

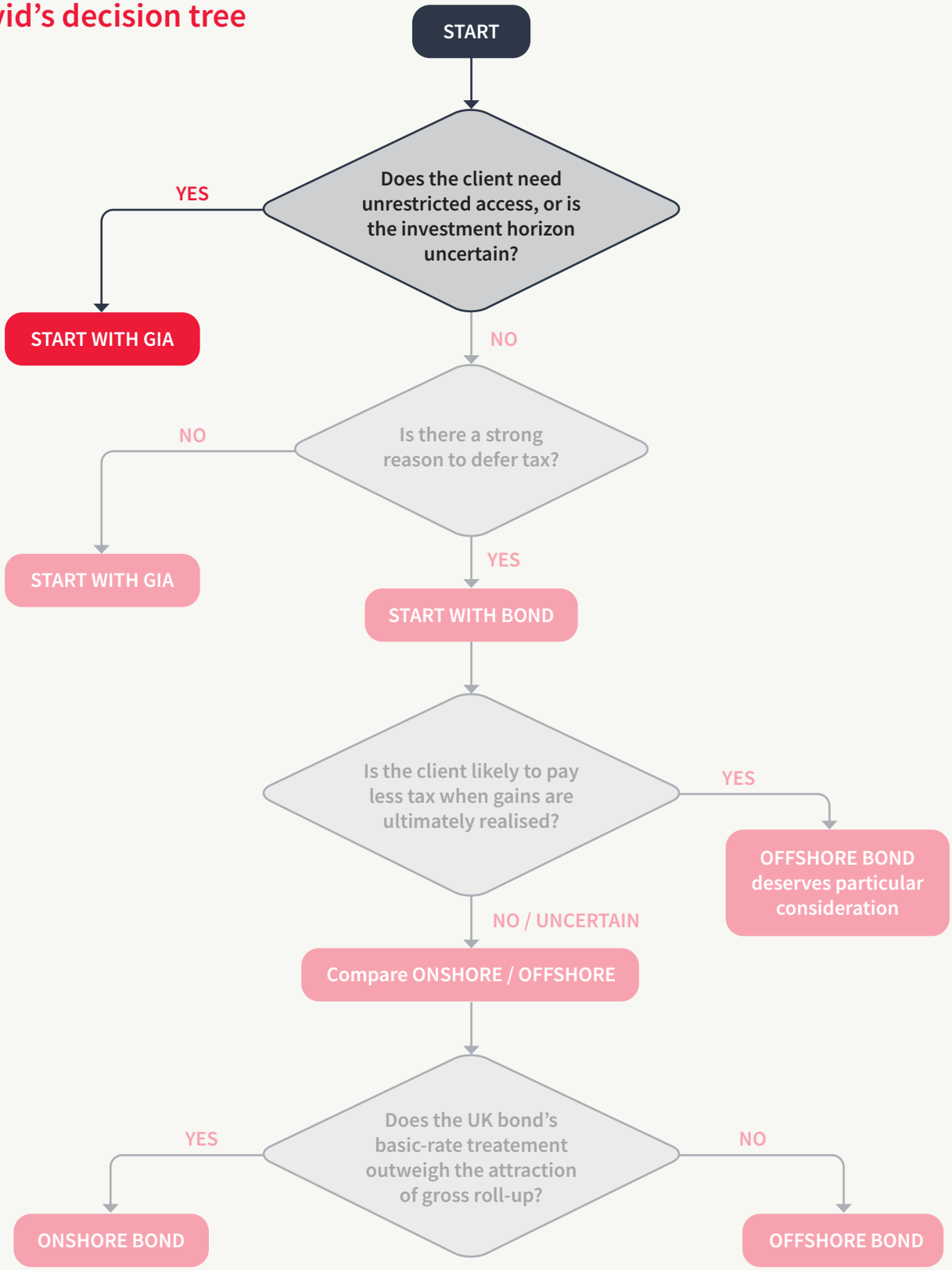
Challenge the starting point

David specifically wants flexibility. While the 5% annual withdrawal allowance from a bond could defer an immediate tax liability it isn't a tax-free allowance, nor does it eliminate tax altogether.

A bond would also be worth exploring for any genuinely long-term portion, particularly where tax deferral, investment switching or planned gifts to children and grandchildren are relevant.

Depending on any potential trust, gifting and estate-planning considerations, the answer might pivot towards a GIA and a bond, rather than simply a GIA versus bond.

David's decision tree



Case study 3: A basic-rate taxpayer investing for the long term

Starting position

Sally, 64

- Recently retired, with £400,000 to invest after selling a second property
- Secure pension income of £30,000 a year
- Expects to remain a basic-rate taxpayer
- Has other accessible assets between her and her husband with no need for significant withdrawals
- Investment timeframe: at least 10 years



What does the tree say?

Need unrestricted access?
No.

Is tax deferral and internal portfolio switching potentially valuable?
Yes.

Could her marginal tax rate be lower when gains are realised?
No.

Does basic rate treatment outweigh gross roll up?
Yes.

Starting point: onshore bond

Sally is already retired, expects her tax position to remain stable and has no immediate need for the capital.

The underlying life fund suffers corporation tax on interest and gains, which can create drag on net returns. The individual policyholder receives a non-repayable credit for basic rate tax when a chargeable-event gain arises. If Sally remains a basic-rate taxpayer, that credit should cover her personal tax liability, provided the gain does not push her into a higher rate.

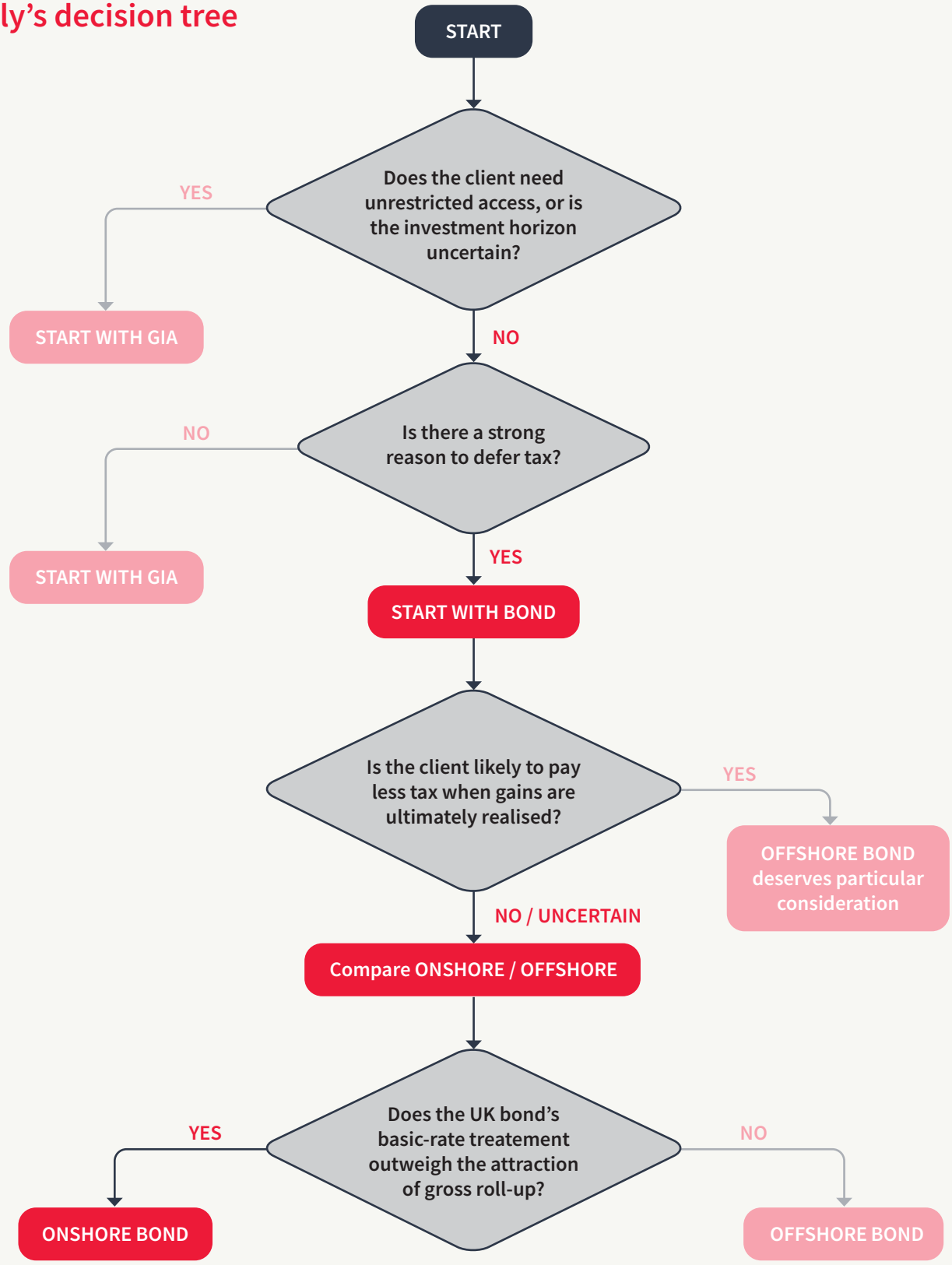
An offshore bond offers gross roll-up but no equivalent credit, so the benefit must be weighed against the personal income tax liability when a gain is realised.

Challenge the assumption

A GIA would provide unrestricted access and allow Sally to use annual dividend and CGT allowances. However, she already has accessible assets and income to support her ongoing retirement lifestyle. Sally isn't expecting to need to make withdrawals from this money, but the ability to use the 5% tax deferred allowance, or carry forward unused allowance from previous years will help her to retain some flexibility, and the bond wrapper will allow investment switches that wouldn't normally create an immediate personal tax charge.

Changes to Sally's personal circumstances or objectives could also challenge the starting point, particularly if Sally expects her tax position in retirement to change significantly or she anticipates she'll need greater access to the funds.

Sally's decision tree





Tax treatment depends on individual circumstances and rules can change.
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