Technical

Guide to offshore bonds update

For financial advisers only

Personal Savings Allowance amendment

An announcement was made in the 2015 UK Budget that for the tax year 2016/17 UK resident taxpayers will not have to pay tax on the first £1,000 (or £500 for higher rate taxpayers) of interest earned, this is the Personal Savings Allowance. The Personal Savings Allowance can also be used in respect of gains on offshore bonds. This means that taxpayers will not have to pay tax on the first £1,000 gain if their taxable income is less that £16,800.

To be eligible for this £1,000 tax-free Personal Savings Allowance a client's taxable income needs to be less than £42,700 a year. To be eligible for the £500 tax-free Personal Savings Allowance a client's taxable income needs to be between £42,701 and £150,000 a year.

Example 1

Your client earns £25,000 income in a year plus a £300 gain on their offshore bond. From April 2016 your client will not have to pay tax on the gain as it is within their £1,000 Personal Savings Allowance.

On the other hand if your client earns £25,000 income a year plus a £1200 gain. They will not need to pay any tax up to £1,000, but will still need to pay tax on the £200 gain they have earned over their Personal Savings Allowance.

Example 2

If your client is a higher rate tax payer and earns £70,000 a year plus a £200 gain on their offshore bond. They will not have to pay tax on the gain as it is within their £500 Personal Savings Allowance.

Conversely, your client earns £70,000 a year plus a £900 gain. As a higher rate tax payer they won't have to pay tax on the gain up to £500, but will still need to pay tax on the £400 gain they have earned over their Personal Savings Allowance.

Important notes

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