REFRESHER GUIDE

Onshore vs Offshore Bonds

Bonds are commonly used to combine long-term investment growth, tax deferral and, where appropriate, estate and succession planning.

While onshore and offshore bonds share many core features, their tax treatment differs and can influence suitability depending on individual circumstances.

	Onshore Bonds	Offshore Bonds
Investment	Gives exposure to a pooled, professionally managed investment portfolio.	Gives exposure to a pooled, professionally managed investment portfolio which may offer a wider choice of investments.
Insurance	Includes a life insurance element.	Includes a life insurance element. Capital redemption bonds are non-life assured contract with a typical fixed term of 99 years.
Tax-efficient withdrawals	Part surrenders of up to 5% of accumulated premiums can be taken without any immediate tax charge. Withdrawals are tax deferred, not tax free.	
Internal taxation	Subject to UK life fund taxation, with corporation tax applying to interest, rental income and gains within the fund (but not dividends).	Issued outside the UK so returns can roll up gross of tax within the fund (except any withholding tax at source, which is unreclaimable), and so could grow faster. Withholding tax may be deducted at source and cannot be reclaimed.
Tax on chargeable event gains	Gains are treated as having basic-rate tax paid within the fund. Further income tax may be payable where the policyholder is a higher- or additional-rate taxpayer.	Gains are taxed as income at the policyholder's marginal rate, with top-slicing relief potentially available to reduce the rate of tax charged.

Key tax considerations

Capital gains All realised returns taxed as income not gains, and so cannot be set against the holder's annual exempt amount for capital gains tax

Top-slicing relief On full surrender, top-slicing divides the gain by the number of complete years the bond has been held to determine the "annual equivalent" gain, which is then included in the holder's top slicing relief calculation. This can be used where a client would be liable to tax at a lower rate were it not for the inclusion of a chargeable event gain in their income for that year.

Impact on allowances Realised gains may affect the holder's eligibility for certain tax credits and they could lose some or all of their entitlement to the Personal Allowance.

Who onshore and offshore bonds may be suitable for

Onshore Bonds

- Clients who live in the UK and have no plans to move or retire abroad
- Clients who are likely to be taxpayers when gains are realised
- Clients who want investments that are located in the UK
- Clients who wish to be treated as having already paid basic-rate tax on any gain

Offshore Bonds

- Clients who live or plan to live abroad and will not be UK taxpayers (consider any overseas tax issues)
- Clients who are likely to be non-taxpayers when gains are realised
- Clients not using their personal savings allowance or starting rate for savings against other savings income

Planning considerations

The choice between onshore and offshore bonds will depend on tax position, withdrawal timing, ownership and wider planning objectives.

In practice, bonds are often used alongside strategies such as assignment and trusts, with tax considered alongside investment risk, product features, charges and suitability.

- Is the client likely to move/ retire abroad?
- When gains are eventually realised, what will be the likely tax status of the person taxable on the gain?
- Is the wider choice of investments offered by offshore bonds of value to the client?
- Is the client using their personal savings allowance or starting rate for savings against other savings income?

M&G Platform

The M&G Platform is provided by Investment Funds Direct Limited, registered in England and Wales No.1610781. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Authorised and regulated by the Financial Conduct Authority No. 114432.

Investment Funds Direct Limited is a subsidiary of M&G plc, incorporated and registered in England and Wales. Registered office: 10 Fenchurch Avenue, London EC3M 5AG. Registered number 11444019. M&G plc is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.

April 2026

For UK financial professionals only, not for use with clients.