

Nucleus Onshore Bond tax account: an explanation

Adviser guide

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Overview

Overview of tax on the Nucleus Onshore Bond account

The Nucleus Onshore Bond is an investment-linked whole of life assurance policy, issued by Sanlam Life & Pensions UK Limited ("SLP"). In common with other life assurance companies, SLP is subject to corporation tax on the return on the underlying investments in policyholders' onshore bond accounts. A corporation tax rate of 20% is applicable. This is the same as the basic rate of income tax.

Traditionally, life assurance companies allow for this tax by making an adjustment, normally a reduction, in the unit price of funds held within the bond and as such the bond owner does not usually see the impact of the tax. However, consistent with the transparent principles of Nucleus, the onshore bond account makes an explicit deduction. Both methods of allowing for tax will result in a basic rate taxpayer having no further tax liability.

Nucleus Onshore Bond tax account

Instead of making an implicit adjustment to the unit price, each account has an 'onshore bond tax account' associated with it.

The Nucleus Onshore Bond account has two parts to it:

- An investment account that holds the assets (e.g. equities, collectives, cash); and
- An onshore bond tax account that holds the tax liability accruing since the last tax payment by the bond.

The onshore bond tax account will be negative when tax has accrued against the assets held in the bond and positive to reflect the value of any tax-relievable losses, expenses or debits that have not been utilised by the bond.

Where the onshore bond tax account is negative, the value of the tax accrued will be deducted from available cash in the bond's investment account for value at each quarter end (i.e. 31 March, 30 June, 30 September and 31 December).

If the onshore bond tax account balance is positive at 31 December and there have been tax cash deductions from the bond during the tax year for the bond (which is the twelve months ending December 31), then some or all of the balance will be cleared by a refund of cash. The maximum cash that can be added to the bond is the tax that has already been deducted from the bond in the tax year.

For example, if the onshore bond tax account as at 31 December reflects a positive amount of £100 and £60 has been deducted during the year then a maximum of £60 will be added to the account and the onshore bond tax account would be a positive £40. Otherwise, any positive balance on the Onshore Bond tax account will be carried forward to offset against any future tax charges where possible.

How is the Nucleus Onshore Bond tax account calculated?

The tax charged to the onshore bond account generally arises from the investment returns on the assets held in the bond.

The starting point is to look at the change in value of the bond since the last time the tax account was calculated. This change in value is broken down into its various income and capital components.

Income distributions are taxable only to the extent that they are not exempt dividends.

Capital gains or losses are calculated based on the movement in capital values of most collective investments on a 'deemed disposal' basis. Capital gains or losses are calculated on other assets on a 'realised' basis. Indexation allowance will reduce gains on assets acquired before it was frozen from January 2018. Losses are offset against gains.

The 20% tax rate will be applied to the taxable income and capital figures to arrive at the tax account value. This value may be negative or positive depending on the direction of change in investment values since the last tax deduction.

How can I check the value of the onshore bond tax account?

Both the value of the investments in the Nucleus Onshore Bond account and its associated onshore bond tax account are displayed on the platform. Additionally, quarterly client statements reflect both parts of the Nucleus Onshore Bond account.

Important information

Key points

The key points to know about the Nucleus onshore bond tax account are:

- Each Nucleus Onshore Bond account has an onshore bond tax account.
- The value of each asset before the effect of tax is displayed on the platform. The tax account balance is shown separately.
- A deduction for tax shall be made following the end of each calendar quarter.
- The amount of tax relating to each account will be clear.

Important Information

Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Investment returns can go up as well as down and are not guaranteed. All references to taxation within this document are based on Nucleus' and Sanlam Life & Pensions UK Limited's understanding of UK tax law and practice which may change in the future.

Sanlam Life & Pensions UK Limited reserves the right to change the basis of the calculation of the onshore bond tax account.



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