Fixed interest Savings Certificates

Fixed Interest Savings Certificates earn guaranteed rates of interest over set periods of time, called "terms". They are totally free of UK Income and Capital Gains Tax, whatever rate you normally pay. You do not even have to declare the interest on your tax return.

Savings Certificates are usually offered in a choice of two terms. You can choose which term suits you best or you can invest in both. It is possible to invest any amount from £100 to £15,000, in each issue of Fixed Interest Savings Certificates.

Any money you invest in Fixed Interest Savings Certificates is 100% secure as investments with National Savings & Investments are backed by HM Treasury.

It should be remembered that to get the maximum benefit from your Savings Certificates, you need to keep your money invested for the full length of the term chosen. You can encash them early, but you will earn a lower rate of interest and if encashment takes place within the first year you will not earn any interest at all.

Risks

I can provide you with a descriptive brochure which also provides you with details of any risks and potential disadvantages associated with this contract, however I would like to highlight the following points:

- Encashment within the first year will not earn any interest at all.
- Encashment at any other time will earn a lower rate of interest than advertised.
- Future issues may be sold which offer a higher rate of interest and therefore higher returns.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of tax relief are subject to change.

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Guaranteed Growth Bonds

Guaranteed Growth Bonds are lump sum investments that earn fixed rates of interest over a set period of time (called a 'term'). Your interest will be added to your Bond each year to build up the value of your investment.

The interest is taxable at the rate applicable to savings (currently 20%). If you pay tax at the basic rate you will have no more tax to pay but higher rate taxpayers will have a further liability to tax. Non taxpayers and those that pay tax at the lower rate can claim the excess from the Inland Revenue.

Guaranteed Growth Bonds are usually offered in a choice of terms. You can therefore choose which term suits you best or you can invest in more than one. It is possible to invest any amount from £500 to £1,000,000 either individually or jointly with someone else.

Any money you invest in Guaranteed Growth Bonds is 100% secure as investments with National Savings & Investments are backed by HM Treasury.

It should be remembered that to get the maximum benefit from your Guaranteed Growth Bonds, you need to keep your money invested for the full length of the term chosen. You can encash them early, in all or part, but a penalty equivalent to 90 days' interest will be deducted from the amount you cash in. If encashing part of your bond at least £500 must remain invested.

Risks

I can provide you with a descriptive brochure which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Early encashment will mean that you lose 90 days' interest.
- Future issues may be sold which offer a higher rate of interest and therefore higher returns.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of, and relief's from taxation are subject to change.

Guaranteed Income Bonds

Guaranteed Income Bonds are lump sum investments that earn fixed rates of interest over a set period of time (called a 'term'). Your interest will be paid monthly to your bank or building society account, on the same date you buy your Bond. For example, if you buy your Bond on 10 March, your interest payments would be on 10 April, 10 May and so on.

The interest is taxable at the rate applicable to savings (currently 20%). If you pay tax at the basic rate you will have no more tax to pay but higher rate taxpayers will have a further liability to tax. Non taxpayers and those that pay tax at the lower rate can claim the excess from the Inland Revenue.

Guaranteed Income Bonds are usually offered in a choice of terms. You can therefore choose which term suits you best or you can invest in more than one. It is possible to invest any amount from £500 to £1,000,000 either individually or jointly with someone else.

Any money you invest in Guaranteed Income Bonds is 100% secure as investments with National Savings & Investments are backed by HM Treasury.

It should be remembered that to get the maximum benefit from your Guaranteed Income Bonds, you need to keep your money invested for the full length of the term chosen. You can encash them early, in all or part, but a penalty equivalent to 90 days' interest will be deducted from the amount you cash in. If encashing part of your bond at least £500 must remain invested.

Risks

I can provide you with a descriptive brochure which also provides you with details of any risks and potential disadvantages associated with this contract, however I would like to highlight the following points:

- Early encashment will mean that you lose 90 days' interest.
- Future issues may be sold which offer a higher rate of interest and therefore higher returns.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of, and relief's from taxation are subject to change.

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Income Bonds

Income Bonds provide a regular monthly income with a competitive variable rate of interest and absolute security of capital.

Interest is earned daily and as rates are variable may change from time to time. You will however be given six weeks' notice of any change.

You may invest anything from £500 to £1,000,000, either individually or jointly and if you invest more than £25,000 higher rates of interest are available.

Although the interest is taxable, it is paid without tax deducted, so if you are a non tax payer you don't have to fill in an Inland Revenue form to receive your interest gross. Taxpayers will, however, need to declare any interest to the Inland Revenue.

Any money you invest in Income Bonds is 100% secure as investments with National Savings & Investments are backed by HM Treasury.

Risks

I can provide you with a descriptive brochure which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- As the rate of interest is variable it is subject to change at any time in the future

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of tax relief are subject to change.

Children's Bonus Bonds

Children's Bonus Bonds earn guaranteed rates of interest over a period of five years and then on the fifth anniversary a bonus, which is fixed and guaranteed at outset, will be added. The bonds are held in the name of the child and are totally free of UK Income and Capital Gains Tax, for both child and parent.

At the end of each term, the bond can be left invested, earning a new tax free rate of interest for a further five years, **(up to a maximum age of 21)**, when a final bonus is added. If your child starts work and becomes a taxpayer before cashing their bond, it makes no difference, the interest and bonuses remain tax free.

You can invest from £25 to £3000 in each issue of Children's Bonus Bonds, in units of £25, and each time there is a new issue you can invest up to its maximum limit.

Any money you invest in Children's Bonus Bonds is 100% secure as investments with National Savings & Investments are backed by HM Treasury.

It should be remembered that to qualify for bonuses bonds have to be held until a five year anniversary or until your child is 21. You can encash them early, but you will earn a lower rate of interest and if encashed within the first year you will not earn any interest at all.

Risks

I can provide you with a descriptive brochure which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Encashment within the first year will not earn any interest at all.
- Encashment at any other time will earn a lower rate of interest than advertised.
- Future issues may be sold which offer a higher rate of interest and therefore higher returns.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of tax relief are subject to change.

Index Linked Savings Certificates

Index-Linked Savings Certificates are linked to movements in the Retail Price Index, a commonly used measure of inflation. They also earn extra interest at rates which increase every year over set periods of time, called "terms". They are totally free of any UK Income and Capital Gains Tax. You don't even have to declare the interest on your tax return.

Savings Certificates are usually offered in a choice of two terms. You can choose which term suits you best or you can invest in both. It is possible to invest any amount from £100 to £15,000, in each issue of Index-Linked Savings Certificates.

Any money you invest in Fixed Interest Savings Certificates is 100% secure as investments with National Savings & Investments are backed by HM Treasury.

It should be remembered that to get the maximum benefit from your Savings Certificates, you need to keep your money invested for the full length of the term chosen. You can encash them early, but you will earn a lower rate of interest and if encashment takes place within the first year you will not earn any interest or index linking at all.

Risks

I can provide you with a descriptive brochure which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Encashment within the first year will not earn any interest or index linking at all.
- Encashment at any other time will earn a lower rate of interest than advertised.
- Future issues may be sold which offer a higher rate of interest and therefore higher returns.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of tax relief are subject to change.

The Child Trust Fund

The Child Trust Fund is a savings and investment account set up by the Government, and is for all children living in the UK born on or after 1st September 2002. The Government will start the account with a gift of £250 and then when the child is seven, the Government will make a further contribution of £250. It is a long-term savings account and your child will not be able to access the money until they reach the age of 18.

Eligible children receive their first voucher shortly after Child Benefit has been claimed and awarded for them.

As well as the CTF voucher, children in families with low incomes will get an additional payment from the Government (at birth and age seven). This will be paid directly into the accounts of children who live in families receiving Child Tax Credit.

In addition to contributions from the Government it will also be possible for you and your family and friends to invest up to £1,200 a year (in total), tax-free, for your child.

Who can open the account?

The CTF voucher will be sent to the person who is receiving Child Benefit for the child. Deciding who will open the account is an important decision as that person will be responsible for managing the account until the child is 16. This doesn't have to be the person who receives the voucher.

Only one person can manage the CTF account and once that person has opened the account they are called the 'registered contact'. The ‘registered contact’ will be sent the annual statements, and can move the account to another provider or change the type of account.

If no one with parental responsibility has opened an account by the time the voucher expires (12 months from the date it was issued), the Revenue will open a stakeholder CTF account for the child.

Types of account

There are three main types of CTF account:

- Savings accounts (usually bank or building society accounts)
- Accounts that invest in shares
- Stakeholder accounts

Stakeholder Accounts

These are a specific type of CTF, which meet Government guidelines covering cost, access and terms.

Stakeholder accounts invest your child's money in shares in companies when the account is opened and once your child is 13, money in the account starts to be moved to lower risk investments or assets (this is known as "lifestyling"). This means that once lifestyling commences, although your child's money may not benefit if the stock market is performing well, it is protected from stock market losses as they approach their 18th birthday. However, it is possible to choose not to have lifestyling.

All providers must accept a minimum contribution of £10 into a stakeholder account but they can accept less if they wish.

The charge on the stakeholder account is limited to no more than 1.5 per cent a year. Charges on all other types of CTF account are not limited in this way.

The stakeholder account is the default option the Revenue will open if you don't use the CTF voucher before it expires.

Taxation

Returns on CTF accounts are exempt from income tax and capital gains tax and your entitlement to other benefits and tax credits aren't affected.

Term

One of the conditions of holding a CTF is that funds must remain invested until your child reaches the age of 18 and they can only be accessed by the child.

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The Government has confirmed that it will be possible, when a CTF matures, for the proceeds to be moved into an Individual Savings Account (ISA) in order for the funds to remain within a tax free environment.

Risks

I can provide you with a Key Features Document which also provides you with details of any risks and potential disadvantages associated with this contract however; I would like to highlight the following points:

- Past performance is no guarantee of future returns.
- The price of units and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on realisation the CTF owner may not get back the full amount invested.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Revenue practice. Levels and bases of tax relief are subject to change.

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Investment Trusts

Investment trusts are a type of collective investment. They are structured as companies and exist purely to invest in a portfolio of shares and securities in other companies to make money for their own shareholders. They pool investors' money and employ a professional fund manager to invest in the shares of a wider range of companies than most people could practically invest in themselves. This way even people with small amounts of money can gain exposure to a diversified and professionally run portfolio of shares, spreading the risk of stock market investment.

Closed ended

Investment trusts are what is known as closed ended funds. This means that the amount of money which the trust raises to invest is fixed at the start by issuing a set number of shares to investing shareholders. Every selling shareholder must first be matched to a potential buyer via the stock market before a transaction can take place. Having a fixed pool of money enables the fund manager to plan ahead.

Specialising in particular sectors

Trusts often specialise in particular sectors and types of company. Some might specialise, for example, in communications companies, or alternative energy producers. Others specialise in companies from different parts of the world.

Trusts also specialise in what they aim to give their shareholders. Some try and maximise income. Others aim exclusively for capital growth over the long term. Some trusts aim to provide a combination of income and capital growth.

All trusts have investment objectives that will be clearly stated in their literature.

Gearing

Investment trusts can borrow to purchase additional investments. This is called ‘financial gearing’. It allows investment trusts to take advantage of a favorable situation or a particularly attractive stock without having to sell existing investments.

The idea is to make enough of a return on the investment to be able to pay the interest on the loan, repay it and then make a profit on top of that. Obviously, the more a trust borrows, the higher risk it's taking - but the greater the potential returns.

Financial gearing works by magnifying the investment trust's performance. If a trust 'gears up' and then markets rise and the returns outstrip the costs of borrowing, the return to the investor will be even greater. But there is a downside to gearing too. If markets fall and performance of the assets in the portfolio is poor, then losses suffered by the investor will be increased due to the costs of borrowing.

Although the term 'gearing' when applied to investment trusts usually describes the effect on the asset value, it also affects a trust's revenue and dividend potential.

When investment trusts gear up, they can usually borrow at much lower rates of interest than individuals or other kinds of companies. This is because the borrowings are secured on the trust's portfolio, making the trust a good credit risk.

Not all investment trusts use financial gearing and many of those that do, use it to very modest levels. Whether or not to use gearing is a decision taken by the fund manager and the board of directors.

Different share classes

Certain types of investment trust can issue different classes of shares to meet different investors' needs.

Some shares aim to pay regular dividends for investors who want an income. Others aim to pay out only a capital amount at the end of the trust's life. The different share class priorities and entitlements can provide a type of gearing with varying risk levels called 'structural gearing'.

Investment trusts that issue different kinds of shares are called split capital investment trusts. The different classes of share have varying risk levels.

Buying at a discount

The price of shares in an investment trust is established by the stock market. Sometimes demand for a trust's shares is low and as a result the price can fall. When the price of the shares is such that the value of the share is less than the value of the trust's assets attributable to that share, this is called 'trading at a discount'.

This may represent a good buying opportunity. If the discount narrows, there is the potential for enhanced returns.

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The prices of OEICs and unit trusts (which are alternative types of collective investments) are calculated depending on the value of their assets, so you can never buy them at a discount.

Income (the yield, or dividend) from Investment Trusts can be distributed or accumulated within the fund and is paid net of a rate equivalent to basic rate tax (which for dividends is 10%). Higher rate taxpayers will have to declare this income on their tax return and pay the difference between the tax deducted and 32.5% (which is the higher rate of tax for dividend income). Non taxpayers can no longer reclaim the tax which has been deducted at source.

When the holding is sold, if there is a gain, this is subject to capital gains tax. However, each individual has the benefit of an annual allowance and as long as the gain together with any other gains you may have in the same tax year is less than the allowance, there is no tax to pay. Any gain in excess of the annual allowance will be taxed at a single rate of 18%.

Risks

I can provide you with a Key Features Document which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Past performance is no guarantee of future returns.
- The price of shares and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount invested.
- If upon realisation your total gains (from all sources) are greater than your annual Capital Gains Tax allowance, there will be tax to pay at a single rate of 18%.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

OEICs/Unit Trusts

OEICs/Unit Trusts are forms of collective investment, which allow individuals to participate in a large portfolio of quoted securities by pooling their money together with other investors. This gives the individual access to a much wider spread of holdings than can normally be achieved with smaller sums of money, which in turn reduces the risk. The fund is divided into units or shares, which are valued on a daily basis and reflect the underlying value of the fund. This value will fluctuate on a daily basis with market conditions.

Basically, OEICs and Unit Trusts are a flexible and relatively cheap way to invest in the stock market. They are run and regulated in a similar way, and you can hold them within an ISA. There are differences (an OEIC is set up as a company whereas a unit trust is a trust) and you will usually find that unit trusts have two prices - the 'bid' price which is the lower price you receive when you sell, and the higher 'offer' price you pay to invest. The difference between the two prices is commonly known as the bid/offer spread. With an OEIC there is usually a single price to buy and sell shares, so it's easier to see the actual effect of charges. However, unit trusts are expected to become 'single-priced' eventually, with some already so. It is therefore important that you understand the way your investment charges are made - the Key Features document explains this.

It can cost fund managers less to run an OEIC than a Unit Trust, so some companies reduced their initial charges when they converted their unit trusts to OEICs, although annual charges remain much the same.

Another advantage of OEICs is that it may be cheaper to switch between a manager's different funds than between unit trusts because of the OEIC's structure. Each may be made up of various sub-funds, and when you buy shares in an OEIC you actually invest in one or more of the sub-funds. Changing between sub-funds e.g. UK for European or vice versa, is easier than switching between completely separate unit trusts. Several OEIC managers have therefore cut switching charges or even offer free switches.

Income (the yield, dividend or interest) from these funds can be distributed or accumulated within the fund and is paid net of basic rate tax. Higher rate taxpayers will have to declare this income on their tax return and pay the difference between the tax deducted and either higher rate tax, in the case of interest, or 32.5% in the case of dividend income. Non taxpayers can no longer reclaim the tax which has been deducted at source from dividend income but they can reclaim tax deducted from income that is classed as interest, eg. such as that payable from a fixed interest

fund or a fund holding a substantial proportion of interest-bearing assets such as corporate bonds.

When the holding is surrendered, if there is a gain, this is subject to capital gains tax. However, each individual has the benefit of an annual allowance and as long as the gain together with any other gains you may have in the same tax year is less than the allowance, there is no tax to pay. Any gain in excess of the annual allowance will be taxed at a single rate of 18%.

Risks

I can provide you with a Key Features Document which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Past performance is no guarantee of future returns.
- The price of units and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount invested.
- If upon realisation your total gains (from all sources) are greater than your annual Capital Gains Tax allowance, there will be tax to pay at a single rate of 18%.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of, and reliefs from taxation are subject to change.

What is an ISA?

Any individual, who is an income tax payer and has some money to save or invest, should know about Individual Savings Accounts (ISAs). Available since April 1999, ISAs offer an attractive tax-free shelter to anyone aged 18 or over (16 or over for cash ISAs).

With standard bank and building society savings accounts taxpayers normally have to pay tax on any interest earned on their money. The tax is deducted from the interest before it is paid out, reducing the amount received. Similarly, tax must be paid on the income and profits made from investments in the stock market like company shares or unit trusts.

However, ISAs serve as a kind of 'wrapper' to protect savings from tax, allowing individuals to invest monies up to maximum limits (by way of regular or single amounts) each tax year in a range of savings and investments and pay no personal tax at all on the income and/or profits received.

ISA Maximum Contribution Limits

As from 6 October 2009 the ISA maximum contribution limits will be amended and will initially depend upon your age. These contribution limits are detailed in the table below:

Timeline		Aged 50 & Over	Aged Under 50
Post 06/04/09 but prior to 06/10/09	Overall Maximum	£7,200	£7,200
	Maximum in cash	£3,600	£3,600
Post 06/10/09 but pre- 06/04/2010	Overall Maximum	£10,200	£7,200
	Maximum in cash	£5,100	£3,600
Post 06/04/2010	Overall Maximum	£10,200	£10,200
	Maximum in cash	£5,100	£5,100

Please note, if age 50 is attained between 6 October 2009 and 5 April 2010, the new limit will apply from that date (i.e. 50th birthday) and not 6 October 2009.

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The main ISA benefits are:

- No personal tax (income or capital gains) on any investments in an ISA.
- Income and gains from ISAs do not need to be included in tax returns.
- Money can be withdrawn from an ISA at any time without losing the tax breaks.

The basics of how ISAs work

There are two types of ISA:

- **stocks and shares, in the form of either** individual shares or bonds, or pooled investments such as open-ended investment funds, investment trusts or life assurance investments.
- **cash, usually containing a bank or building society savings account.**

All of your allowance can be invested in stocks and shares, or you can split it by investing in cash (the maximum permitted) and the remainder in stocks and shares with either the same or a different provider.

You will also be able to transfer money saved in previous years' cash ISA holdings to stocks and shares ISAs without affecting your current year's allowance. It should be noted that it will not be possible to transfer in the opposite direction i.e. stocks and shares ISA to a cash ISA.

Existing ISA/TOISA and PEP arrangements

Mini cash ISAs; TESSA-only ISAs (TOISAs); and the cash component of a maxi ISA will automatically become cash ISAs.

Mini stocks and shares ISAs and the stocks and shares component of a maxi ISA will automatically become stocks and shares ISAs.

All Personal Equity Plans (PEPs) will automatically become stocks and shares ISAs.

Qualifying Investors

To be eligible to invest in an ISA, an investor must be an individual (i.e. not a company or trustee) who is 18 years of age or over (except that 16 and 17 year olds are able to invest up to £3,600 in a cash ISA) which will increase to £5,100 as from 06/04/2010 and who is resident and ordinarily resident in the UK (or is a Crown servant serving overseas or the spouse of such an individual who accompanies their spouse abroad).

When an individual ceases to be eligible to invest in an ISA, any existing ISAs will continue to be exempt from UK tax, but future contributions to regular investment ISAs must be terminated and no further single contributions may be made.

Each individual may effect a stocks and shares or cash ISA each tax year. A husband and wife are treated as separate individuals so that although joint ownership of an ISA is prohibited each may fully subscribe to one in their own name.

Stakeholder Standard ISAs

Stakeholder standard ISAs are those which meet Government guidelines regarding cost, access and terms. Both types of ISA component can qualify for a Stakeholder standard. The cost limit varies with each investment type and the access and terms criteria specify that investors must be able to get their money back at any time without penalty and with no other restrictions. The ISA must also offer low minimum investment limits and can only invest a maximum of 60% in equities and property, with the remaining 40% in less volatile assets such as bonds and cash.

Because of these limits, Stakeholder standard Stocks and Shares ISAs are designed to meet the needs of a wide range of investors. For this reason, they may be less appealing to experienced investors who want to maximise their long-term growth potential and are therefore more likely to seek specialist funds.

The presence or absence of a Stakeholder standard cannot predict whether an ISA will prove to be a good or bad investment. A Stakeholder standard ISA has not received Government approval of any kind, nor is your money or investment return guaranteed by the Government in any way.

BANK HOUSE
INVESTMENT MANAGEMENT

Transfer regulations

ISA managers have to allow transfers, although there is no corresponding requirement for managers to accept transfers. The following requirements apply:

- if the transfer is for the current year's ISA subscription, all of the current year's subscription must be transferred in its entirety.
- where subscriptions have been made in previous years, all or part of previous years' subscriptions can be transferred to another ISA manager at any time.
- there are no restrictions on the number of managers or the number of transfers that can be made in respect of previous years' subscriptions.
- if the ISA manager does not record the value of each year's subscription separately, a partial transfer in respect of previous years' subscriptions must not exceed the current value of the ISA, less any subscriptions made in the current year.

Subject to the terms and conditions of both managers, the transfer of investments may be in specie and/or cash. If it is not, a withdrawal will be deemed to have taken place.

You can also transfer money saved in previous years' cash ISA holdings to stocks and shares ISAs without affecting your current year's allowance. It should be noted that it will not be possible to transfer in the opposite direction i.e. stocks and shares ISA to a cash ISA.

Transferred ISAs do not give rise to a new subscription and tax benefits are preserved on the transfer.

Risks

I can provide you with a Key Features Document which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Past performance is no guarantee of future returns.
- The price of units and the income from them can fall as well as rise.
- The value of this investment is not guaranteed and on encashment you may not get back the full amount invested.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

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MIPs

MIPs are flexible unit linked endowment policies with a term of 10 years and many options on maturity. They are designed to take optimum advantage of the tax treatment of qualifying policies. These are policies which must contain a certain level of life cover in order that the benefits remain free of tax at the end of the term.

The funds in which the plan invests are subject to tax on their income and capital gains, **however, at maturity the proceeds can be taken free of personal taxation**. It is also possible to take a tax free "income" after 10 years provided that the policy is maintained by continuing premium payments at a level no lower than 50% of the original premium.

The plan offers links to a wide choice of funds investing both nationally and internationally. Switches can be made between internal funds at little or no cost and with no tax liability.

If the plan is surrendered after seven and a half years, apart from any surrender penalty applying, the proceeds will be free of all taxes.

I can provide you with a Key Features Document which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- Past performance is no guarantee of future returns
- The price of units and the income from them can fall as well as rise.
- The value of a unit-linked investment is not guaranteed and on encashment you may not get back the full amount invested.
- There is a potential charge to higher rate income tax on early surrender
- The cost of providing the level of life cover under this plan does reduce the potential for growth.
- Bonuses come from profits to be earned and are not guaranteed.'

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and Inland Revenue practice. Levels and bases of, and reliefs from taxation are subject to change.

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Bonds

OEICS and unit trusts are very similar investments to the Investment Bond.

The main reason for considering an OEIC or unit trust in preference to a bond is its tax treatment, particularly when taking the benefits from the investment.

OEICS and unit trusts are subject to the capital gains tax (CGT) regime in respect of growth in the investor's hands while Bonds fall within the income tax regime (see below for detail of the calculation of this tax).

So, under current rules, the profit made on the sale of shares / units of an OEIC / unit trust would be eligible for the annual CGT allowance, any excess gain would be taxed at 18%.

A bond would be determined as more appropriate if:

- **You required an investment which had no initial charges**
- **You wanted to be able to make future fund switches without tax complications**
- **You already have sufficient assets subject to the CGT regime**
- **You anticipate being liable only to basic rate tax at the time you expect to encash your investments**
- **The 5% tax deferred 'income' facility under the Bond provides a regular, simple, means of meeting your requirements**
- **Holding the full range of funds required to meet the agreed asset allocation mix within one product offers greater simplicity, especially for future rebalancing**

An investment bond is technically a single premium life assurance contract although the life cover aspect is only nominal. Bonds are collective investments in which the investments of many individual investors are pooled. This pooling enables relatively small investors to benefit from the economies of scale made available to institutional fund managers.

A wide choice of discretionary, managed, general and specialist funds are available offering investment opportunities in equity, property and fixed interest securities. Bonds enjoy the facility to switch between these internal insurance company funds at a reasonable cost if desired. Although classed as single premium investments, 'top up' facilities are offered, allowing further amounts to be invested either on a regular or ad hoc basis.

Bank House Investment Management Ltd, Bank House, 8 High Street, Prestbury, Cheltenham, Glos GL52 3AS
Telephone: 01242 520074 Fax: 08721 158252
Registered in England No. 5710191

Taxation

Onshore

The underlying funds of onshore Investment Bonds are subject to tax within the fund on income and gains (after indexation). Any 'income' you need is achieved by selling units.

Investment bonds are sometimes, incorrectly, described as a tax-free investment when they should really be described as tax-paid. Basic-rate tax is deemed to have already been deducted at source, and as such a basic-rate taxpayer will have no further liability to either income or capital gains tax. Higher-rate taxpayers may also benefit from the '5% rule' which allows them to withdraw up to 5% of the initial premium for up to 20 years and defer any tax liability.

You may need to make withdrawals in excess of the 5% entitlement in order to achieve the necessary 'income' level in the future. Any such excess would be added to taxable income in the year and only if income then exceeds the basic rate threshold would a tax liability arise. The fund is deemed to have suffered 20% on its own income and capital gains. The maximum liability on the excess for an investor will thus be 20% (higher rate tax of 40% less tax deemed paid of 20%).

The final 'sweeping up' chargeable gain on full encashment is calculated by adding the amount paid on surrender to the total of all previous withdrawals and deducting from that the total of all previous chargeable excesses and the single premium paid.

The gain is then top sliced over the total number of years that the policy has been in force and the 'slice' added to income to establish the tax rate applicable.

Offshore Bonds

Gross roll-up

Unlike onshore bonds, which suffer corporation tax on most of their income and capital gains at the rate of 20%, the income and gains of an offshore bond fund will normally be free of tax in the relevant jurisdiction. Hence they are often referred to as benefiting from "gross roll-up".

Whilst there will normally be no tax in the particular tax haven that the insurer is based, the fund is likely to suffer some withholding taxes on its underlying investments. There may be scope to reclaim some of the tax under double taxation agreements but it is unlikely that an offshore fund with equity content will ever be truly gross.

Top-slicing relief is available on offshore bonds but can only be used to reduce (or eliminate) higher rate tax liability – it cannot be used to reduce basic rate liability. The number of years used for top-slicing is reduced by the number of complete years for which the policyholder was non-resident. A further difference for offshore bonds is that the number of relevant years used in the top-slicing calculation is always based on the years from commencement. This contrasts with onshore bonds where, for partial surrenders, the number of years is only counted from the previous chargeable event if the part surrender is a second or subsequent chargeable event.

In most other respects the taxation of onshore and offshore bonds is no different. The same events are chargeable events. The ability to defer tax applies to both as does the 5% annual allowance on part surrender.

The ability to defer tax should have a greater effect under an offshore bond than an onshore bond as the longer it is held the greater the compounding effect of the tax deferment due to gross (or near gross) roll up. All things being equal an offshore fund will create a greater return than an onshore one over the longer term. However, the greater the level of withholding tax and management expenses (an offshore fund has no tax from which it is able to deduct management expenses) the less an individual will benefit from gross roll up.

Guaranteed Income Bond

Guaranteed Income Bonds are simple contracts guaranteeing a fixed regular income payment for the duration of the bond's term. Income is treated as having been paid net of basic rate tax, though non-taxpayers are unable to reclaim the tax deducted at source.

Up to 5% of the initial investment can be taken each year from plans such as this without immediate liability to Income Tax but higher rate taxpayers will pay tax on any income in excess of this 5% (as will basic rate taxpayers if the excess takes their income over the higher rate threshold). Payments exceeding the 5% allowance are counted as an addition to income and may result in a reduction in age allowance for those entitled to it. The original amount invested is returned at maturity and again, higher rate taxpayers (or basic rate taxpayers whose income is taken over the higher rate threshold by the addition of the top-sliced gain) may have a tax liability on final repayment since 'income' payments within the 5% limit would be added to the capital return to calculate the actual profit made. Payments in excess of the 5% threshold are ignored for this purpose.

Risks

I can provide you with a Key Features Document which also provides you with details of any risks and potential disadvantages associated with this contract however, I would like to highlight the following points:

- You will receive less than your original investment if you surrender the Bond prior to its maturity date.
- No immediate liability to Income Tax arises on the first 5% of each year's income but higher rate taxpayers (and basic rate taxpayers whose income exceeds the higher rate threshold after addition of the bond 'income') will pay tax on some or all of the income in excess of 5%.
- Payments exceeding the 5% allowance are counted as an addition to income and may result in a reduction in age allowance for those entitled to it.
- The original amount invested is normally returned at maturity and again, higher rate taxpayers and those whose income is taken over the higher rate threshold by the addition of the top-sliced gain may have a tax liability on final repayment.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice.

Levels and bases of tax relief are subject to change.

Early Surrender Penalties

All Investment Bonds are to be considered longer-term investments and as such most companies have a sliding scale of penalties should you decide to withdraw during the first five years. These charges should not be a problem to serious longer-term investors and in fact are there to protect them.

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