Bond

Making withdrawals less taxing

Like many other investments, your bond could be subject to tax if you make a gain on a withdrawal.

We want to make sure you get the most from your bond. We've put this guide together to help you save tax when you're making a withdrawal.

What is a chargeable gain?

A chargeable gain is triggered by a chargeable event, such as cashing in your bond. It's the amount by which the value of the policy exceeds the amount paid into it. You will also have a chargeable gain if you withdraw more than the 5% yearly allowance from your bond. Because your bond is made up of several life policies, there could be a chargeable gain in some circumstances. This could happen if you cash in completely and make a profit or even if you partially cash in. A chargeable gain relating to a life policy may be subject to income tax. Life policies are exempt from capital gains tax unless the policy is sold to someone else.

Chargeable gains

Any gain you make on your bond is potentially subject to income tax. Because we pay corporation tax on investment income and gains within its funds, you have no liability to basic rate income tax. You will only pay tax on the gain if you already pay income tax at more than the basic rate or if the gain itself takes your income into the higher rate band. You will then pay extra tax, currently at 20% (or 25% if you are an additional rate tax payer), on the gain or on part of the gain. The gain is also treated as income, so it may affect any income-related benefits (such as child benefit) that you may receive.

The effect of a chargeable gain on state allowances and benefits

Taking money from your bond can have an impact on allowances and certain benefits, such as child benefit and other means-tested benefits. If you receive any income-related benefits or allowances, you should discuss your situation with your financial adviser before taking money from your bond.

If you do not have a financial adviser, one can be found at **unbiased.co.uk**. An adviser may charge for their services.

Important note: The information in this leaflet is based on our understanding of current legislation and HM Revenue & Customs' practice. Both of these are likely to change in the future. Tax treatment will depend on your personal circumstances. Before withdrawing money from your bond, you should discuss the potential consequences with your own professional advisers.

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Withdrawing money from your bond

Your bond is divided up into between 20 and 250 individual policies. We do this so you have greater flexibility when you want to withdraw money.

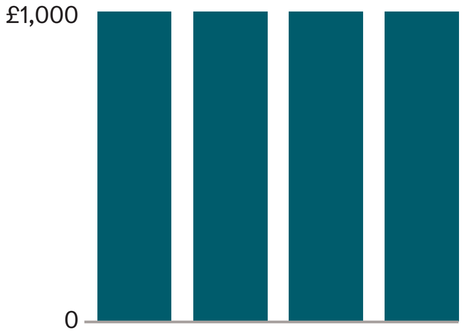
You can choose to either fully surrender individual policies or withdraw a small amount from each of the individual policies, which is known as a part-surrender.

Fully surrendering an individual policy will leave you with fewer individual policies in your bond. Withdrawing money equally from every policy will leave you with the same number of policies, but the value of each will be reduced because of the withdrawal you've made.

The diagrams below show you how the two methods work.

Full surrender of individual policies

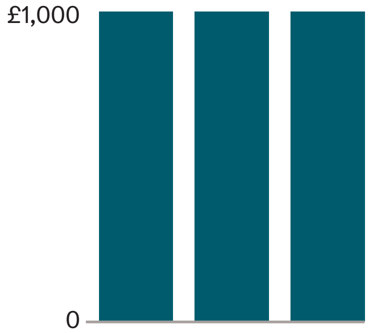
Before the surrender



4 x £1,000 = £4,000

One bond with four individual policies with a total value of £4,000.

After the surrender

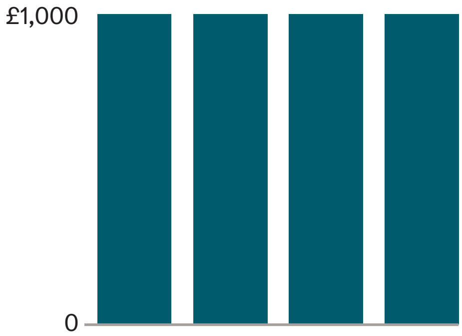


3 x £1,000 = £3,000

Withdrawal of £1,000 (25%) was taken from one individual policy. This leaves three individual policies with a total value of £3,000.

Part-surrender across all of the individual policies

Before the surrender



4 x £1,000 = £4,000

One bond with four individual policies with a total value of £4,000.

After the surrender

4 x £750 = £3,000

Withdrawal of £1,000 (25%), spread across the four individual policies. This leaves four individual policies with a total value of £3,000.

Deciding which method to choose

When it comes to income tax, these methods of withdrawal are treated very differently. Before you decide which one to use, you should talk to your financial adviser to be sure that you choose the method which best suits your personal tax circumstances. It's important that you do this as choosing the wrong option can have unfavourable tax consequences and once the withdrawal has been made this choice cannot be changed afterwards. It's also important to consider any product charges that may apply, such as early exit penalties, as whilst one method may give a better tax result, it may result in more charges.

When you ask us for money from your bond, you should make it perfectly clear how you want us to withdraw the money. We will write to tell you which method we have used after we've processed your withdrawal.

Income tax bracket	Income tax liability
Non-taxpayer	✘
Basic rate taxpayer	✘
Non-taxpayer and basic rate taxpayer pushed into the higher rate tax bracket by the top slice of the gain (see overleaf)	✔
Higher/Additional rate taxpayer	✔

Chargeable gains usually occur after a chargeable event. Here are some examples:

- **Death that results in a payment under the bond**, that is the death of the sole life insured or both lives insured under a last survivor bond.

  The chargeable gain is calculated as the surrender value of the policies immediately before death, plus any previous withdrawals, less the amount you originally paid and any previous chargeable gains under the policies.

- **Full surrender of any one or more individual policies.**

  The chargeable gain is calculated as the surrender value of the policies, plus any previous withdrawals, less the amount you originally paid and any previous chargeable gains under the policies.

- **Partial surrender of the individual policies.**

  The chargeable gain is calculated as the excess of the amount withdrawn over the available 5% allowance described above. If the withdrawal is within the 5% allowance, there is no chargeable event and no chargeable gain. If the withdrawal is more than the 5% allowance, then the gain is the amount of the excess. You must be careful here, as this can result in a gain for income tax purposes even when the bond is showing an actual investment loss. This 5% allowance is not completely tax free as the withdrawals will be included in the calculation of the final gain when the policy comes to an end.

  If your part-surrender exceeds the 5% allowance, it will produce a chargeable gain equal to the amount above 5% - even if the bond is actually showing an investment loss at the time.

- **An assignment of any policy for consideration.**

Assignment, what does it mean?

The act of transferring legal ownership of property or a right (such as contract benefits) to another person.

Top-slicing relief

This can reduce the tax payable if you are a basic rate tax payer who is lifted into the higher rate tax bracket when the chargeable gain is added to your other income or a higher tax payer who is lifted into the additional rate tax bracket.

It can also reduce your liability to tax if you are already higher rate tax payer and have some or all of your personal savings allowance available.

Top slicing relief works by effectively spreading the gain over number of full years since;

- the commencement date of the policy (for full surrenders of individual policies)
- the later of the commencement date of the policy and the last chargeable excess event (for partial surrenders across all of the individual policies).

This 'annual equivalent gain' (also known as the top sliced gain) is then added to your other income to determine the extent of any liability to higher or additional rate tax on the gain.

Further information can be found in HMRC's Insurance Policyholder Taxation Manual **IPTM3820** at **gov.uk**.

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