

Bonds

Withdrawals and your tax position for UK bonds

Aviva want to make sure that you get the most from your bond and that you understand any information which either we or His Majesty's Revenue & Customs (HMRC) may send you in connection with your investment.

You've withdrawn some money from your bond and we enclose a chargeable event certificate. This guide provides you with information about the certificate, why you've been sent it, and any income tax liability which may arise from your withdrawal.

Why have I received this chargeable event certificate?

The enclosed certificate has been issued as you have taken some money out of your bond.

We're obliged to issue this certificate after a full or partial surrender which results in a chargeable gain. For further information please read "What is a chargeable event" on the next page.

Some investors won't have to do anything with the information in the certificate. Other investors will be required to include some of the information from the certificate in their self assessment tax return form. Please read the following questions and answers for further information.

Do I need to do anything?

You need to report the chargeable gain to HMRC if you're liable to pay income tax on it and you may need to include some information from your certificate on your self-assessment tax return form:

- Amount of chargeable gain.
- Number of years the policy has been held or since the last chargeable gain.
- Whether or not tax is treated as paid on the chargeable gain.

Those Who Don't Pay Higher Rate Tax

If you're a basic rate tax payer or a non tax payer you may not need to do anything. However, if the withdrawal has caused you to move from a basic rate tax payer to a higher rate tax payer, i.e., once you add the chargeable gain shown on the certificate to your other income, you'll need to include the following information from your certificate on your self assessment tax form:

- Amount of chargeable gain.
- Number of years the policy has been held or since the last chargeable gain.
- Whether or not tax is treated as paid on the chargeable gain.

As the chargeable gain is treated as additional income you'll also need to declare the chargeable gain to HMRC if it affects any entitlement you have to means-tested allowances or benefits.

Those Who Already Pay Higher Rate Tax

If you're already a higher rate taxpayer you'll need to include the information listed above on your self assessment tax return.

If you're unsure about your tax position, your financial adviser or accountant will be able to help. If you don't have an adviser you can find one in your area at unbiased.co.uk. An adviser will charge for their services. Alternatively, you can look at HMRC's own website, hmrc.gov.uk and enter 'Help Sheet HS320' in the search box.

What is a chargeable event?

A chargeable event can happen when money is paid from the bond. For example:

- Death that results in a payment under the bond, i.e. the death of the sole insured life or both insured lives under a last survivor bond.
- Full surrender of one or more individual policies within the bond.
- Partial surrender of the individual policies if this exceeds the 5% allowance.
- An assignment of any policy for consideration, e.g. if you sell your bond to someone else.

What is a chargeable gain?

Most bonds are written into a number of individual policies. If you take a withdrawal from your bond across all individual policies and the total withdrawal requested exceeds the annual 5% allowance, it will produce a chargeable gain equal to the excess – even if the bond is showing an investment loss at the time. It's well worth remembering that the annual 5% allowance is cumulative, so it can roll over the following year if it is not used up to the total maximum allowance allowed of 100% of your original investment. This means you can take up to 10% in the next policy year without producing a chargeable gain – and so on.

If you surrender individual policies, the chargeable gain is broadly the difference between what you paid into the segment and what you have received from it.

The chargeable gain on death or full surrender is calculated as the surrender value of the policies, plus any previous partial surrender withdrawals, less the amount you originally invested and any previous partial surrender chargeable gains under the policies.

What is top slicing relief?

This can reduce the tax payable by basic rate tax payers who are lifted into the higher rate tax bracket because of the chargeable gain or higher rate taxpayers who are lifted into the additional rate tax bracket.

For income tax purposes, top slicing relief allows you to effectively spread the chargeable gain over the number of full years the policy has been in force. For instance, on a full surrender of a bond it works like this:

$$\frac{\text{Total chargeable gain}}{\text{Number of full years the policy has been in force}} = \text{Slice of the gain}$$

It's this 'slice of the chargeable gain' that's added to your income when deciding if the chargeable gain takes it into a higher rate tax bracket. Because of the way this relief works, it will only be of help to people who are only taken into a higher rate bracket because of the chargeable gain from their policy. For partial withdrawals top slicing can also apply, but only since the later of the commencement of the policy or the last chargeable event. It has to be claimed by completing the relevant section of the self assessment tax return.

What is 'tax treated as paid'?

The 'tax treated as paid' shown on your certificate refers to tax paid by Aviva on income and chargeable gains on its investment funds. Any tax paid by us is taken into account and reflected in the unit prices. It is treated as a basic rate (20%) tax 'credit' for policyholders.

This means that if you're a basic rate tax payer the income tax at 20% is treated as having been paid, so you'll only need to pay more income tax on the chargeable gain if the gain means you have moved into a higher rate tax bracket. If you're a higher rate tax payer you'll just need to pay a further 20% on the chargeable

gain, as your income tax rate is 40%. If you're an additional rate tax payer you'll need to pay a further 25% on the chargeable gain as your income tax rate is 45%.

Income related benefits and tax credits, like Child Benefit for example, can be affected by a chargeable gain.

Tax benefits are subject to change and depend on your circumstances. Your tax relief depends on your main place of residence as advised by HMRC for the current tax year.


Important Note:

The information contained in this leaflet is based on Aviva's understanding of the current legislation and HM Revenue and Customs' practice. Both of these are likely to change in the future. Before withdrawing money from your bond you should discuss the potential consequences with your own financial adviser as, once paid, it is not possible to reverse or change the withdrawal.


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Please get in touch if you'd prefer this leaflet (IN13136) in large print, braille, or as audio.

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Registered in England No 3253947. Aviva, Wellington Row, York, YO90 1WR.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Firm Reference Number 185896.