Onshore 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?

Your bond is made up of several life policies, sometimes called segments, and 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.

A chargeable gain is triggered by a chargeable event, such as cashing in all or part of your bond. It's the amount by which the value of the policy exceeds the amount paid into it. You can withdraw up to 5% a year of the total amount you have invested in your bond (after any initial adviser charge has been deducted) with no immediate liability to any extra income tax (we refer to this below as a "5% tax deferred allowance"). Any potential liability is deferred until the bond comes to an end at which point a final calculation is made to see if there is a taxable gain. Any of this annual allowance that is not used can be carried forward to future years up to a maximum of 100% of the total amount invested. If you exceed the accumulated annual allowance at any point you may be liable to pay extra income tax in the tax year in which that policy year ends. Ongoing adviser charges and discretionary investment manager charges are classed as regular withdrawals and count towards the 5% tax deferred allowance.

How can a chargeable gain affect Income Tax?

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.

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 "Top slicing relief" later in this document)	✔
Higher/Additional rate taxpayer	✔

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How does a chargeable gain affect 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.

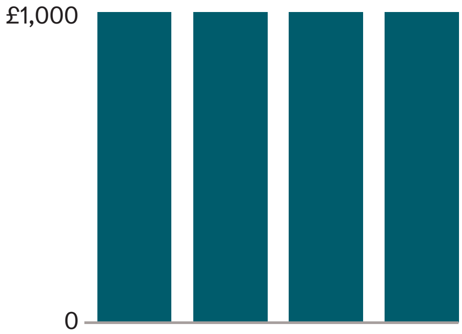
Withdrawing money from your bond

Your bond is divided into 1,000 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 partial 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

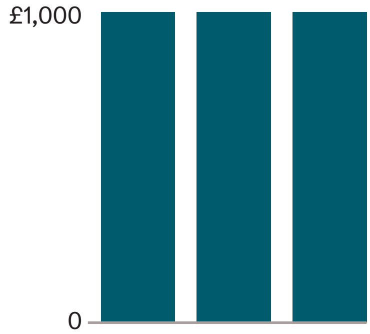
Before the surrender



4 x £1,000 = £4,000

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

After the surrender

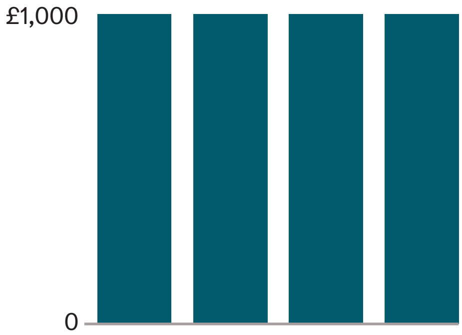


3 x £1,000 = £3,000

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. When you ask us for money from your Onshore Bond, you will need to make it clear which method of withdrawal you want us to use.

Potential chargeable events

Chargeable gains usually occur as a result of 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% tax deferred allowance described above. If the withdrawal is within the available 5% tax deferred allowance, there is no chargeable event and no chargeable gain. If the withdrawal is more than the available 5% tax deferred allowance, then the gain is the amount of the excess, known as a chargeable excess gain. 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% tax deferred allowance is not a tax free allowance, it only acts to defer any gain until the final gain calculation when the policy comes to an end.

- **Assignments - the act of transferring legal ownership to another person.**

  In most cases an assignment is made by way of gift and therefore no chargeable event occurs. There are some situations where the assignment is considered to be "for money or money's worth" which would result in a chargeable event. You should consult a legal professional if you are unsure of your scenario.

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 rate tax payer who is lifted into the additional rate tax bracket.

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

Top slicing relief works by finding the 'sliced' annual equivalent of the gain - this is found by dividing the gain by the number of full years since;

- the commencement date of the policy (for full surrenders of individual policies/segments)

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

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

Top slicing relief is given by comparing the amount of tax due on the full chargeable event gain to the amount of tax due on the 'sliced' annual equivalent of the gain.

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

Things to bear in mind:

It is advisable to carry out calculations prior to taking any action so that you fully understand the position depending on which option is chosen. It is also important to consider when the chargeable event arises, so for example, if a partial withdrawal is taken, the chargeable event will arise on the last day of the policy year (known as the policy anniversary) whereas with a full encashment of individual policies the chargeable event gain will arise immediately. This means that the tax year in which a chargeable event gain is taxed could differ depending on how the withdrawal is taken.

We would always recommend that if you are unsure of the methods of withdrawal or how any gain would affect your wider tax situation that you seek financial advice.

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