Investment Bonds

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 understand the tax when you're making a withdrawal.

What is a chargeable event gain?

A chargeable event gain is the amount of money which you may be liable to pay tax on. Tax is charged on the growth of a bond only and is based on income tax rates. A chargeable event gain is triggered by a chargeable event, such as the full surrender of the policy, after a segment surrender, or if a spread method surrender exceeds your tax deferred allowance.

Chargeable event gains and tax deferred allowance

Any profit you make on your bond is potentially subject to income tax. You're currently allowed to take up to 5% of your initial investment from your policy each policy year, as a tax deferred allowance. Anything over this 5% allowance may require additional tax to be paid, depending on your current tax position. Any unused allowance rolls over into the next policy year, and is added to that year's available 5%, up to a maximum of 100% of the initial investment after 20 years. As Aviva pay corporation tax on investment income and gains within the funds, there is no liability to basic rate income tax. You only have to pay tax if you already pay income tax at more than the basic rate, or if the gain itself takes your income into a higher rate tax band.

Here's a guide to help you:

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 in which case top-slicing relief may be available to reduce any tax payable (see overleaf)	✔
Higher/Additional rate taxpayer	✔

Top-slicing relief

Top-slicing relief works by effectively spreading the gain over either:

- the number of full years since the commencement date of the policy, or
- the number of years since the last chargeable event gain created by a spread withdrawal (if spread withdrawal has no gain then go back to the start of policy). We can't comment if top-slicing is available to you, you will need to discuss this with your financial adviser.

Further information about top-slicing relief and how it works can be found in HMRC's Insurance Policyholder Taxation Manual **IPTM3820** to **IPTM3850** at **gov.uk**.

As the gain is treated as income, it may affect any income-related benefits (such as child benefit) that you may receive.

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The effect of a chargeable event 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 don't have a financial adviser, one can be found at **unbiased.co.uk**. An adviser may charge for their services.

Chargeable event gains usually occur after a chargeable event.

Here are some examples:

- **Death that results in a payment under the bond**, such as the death of the sole life insured or both lives insured under a last survivor bond. The chargeable event 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 event gains under the policies.
- **Full surrender of any one or more individual policies.** The chargeable event gain is calculated as the surrender value of the policies, plus any previous withdrawals, less the amount you originally paid and any previous chargeable event gains under the policies.
- **Partial surrender of the individual policies.** The chargeable event gain is calculated as the excess of the amount withdrawn over the available 5% allowance. If the withdrawal is within the available 5% allowance, there is no chargeable event and no chargeable event gain. If the withdrawal is more than the available 5% allowance, then the gain is the amount of the excess. 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.
- **An assignment of any policy for consideration.** The act of transferring legal ownership of property or a right (such as contract benefits) to another person for money or an asset of equal value.

Withdrawing money from your bond

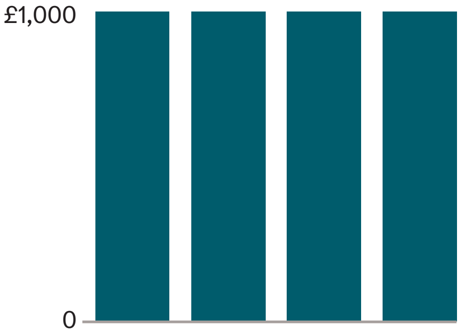
Your bond is divided up into between 20 and 250 individual policies, known as segments. We do this so you have greater flexibility when you want to withdraw money.

You can choose to either fully surrender segments, withdraw a small amount from each of the segments, or a combination of the two, this is known as a part-surrender. Fully surrendering segments will leave you with fewer segments in your bond. Withdrawing money equally from every segment will leave you with the same number of segments, 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

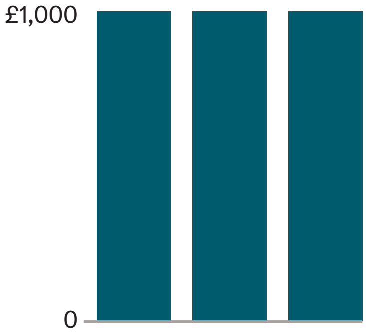
Before the surrender



4 x £1,000 = £4,000

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

After the surrender

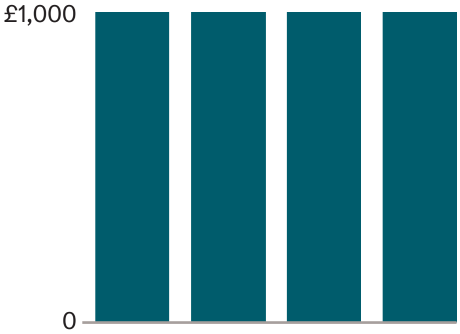


3 x £1,000 = £3,000

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, each of these methods could have different potential tax implications. 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 this choice cannot be changed once the withdrawal has been made.

When you ask us for money from your bond, you should make it perfectly clear how you want us to withdraw the money, we can't decide this for you.

Get in touch

If you have any questions, you can:

Call us on 0800 096 8859

at the following times: **Monday to Friday between 9am and 5pm**.

- We may record calls to improve our service.
- Calls may be charged and these charges will vary, please speak to your network provider.

Email us at contactus@aviva.com

Write to us at **Aviva, PO Box 520, Norwich NR1 3WG, United Kingdom**

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