



# Chargeable Gains on an Investment Bond

## 1. Tax is only payable when a gain is calculated on a chargeable event. The following are chargeable events:

- Death giving rise to benefits
- Assignment of all rights under the policy for money or money's worth
- Maturity (if appropriate)
- Certain part surrenders and part assignments
- Policy loans
- Surrender of all rights under the policy
- Classification of the policy as a personal portfolio bond

## 2. Taxation

Chargeable event gains on UK bonds are not liable to basic rate tax. The individual or trustee who is liable for tax under the chargeable event regime is treated as having paid tax at the basic rate on the amount of the gain. This reflects the fact that the funds underlying a UK policy are subject to UK life fund taxation.

No Capital Gains Tax – Investment bonds are not subject to Capital Gains Tax, only income tax

## Differences between onshore and offshore bonds

	Onshore	Offshore
Underlying fund	Deemed to have been paid at 20%	No tax on the underlying fund
Non Taxpayer	Unable to reclaim any tax overpaid	Able to use personal allowance for income tax to offset some gain
Basic rate taxpayer	No further liability	20% tax due on gain
Higher rate taxpayer	Further 20% tax due	40% tax due
Additional rate tax payer	Further 25% tax due	45% tax due
Trustee	Further 25% tax due	45% tax due

## 3. 5% rule

- Withdrawals of up to 5% of the original investment amount can be withdrawn each policy year, tax deferred
- If unused, can be rolled up to the following year

## 4. Top Slicing relief

- Spread the gain over the number of years policy is held
- Changes in Budget 11 March 2020 – personal allowance loss over £100,000
- Individual's tax liability on the full gain across all tax bands – individual liability
- Calculate the 'top slice' / annual equivalent
- Deduct notional tax paid from the top slice to give the relieved liability
- Deduct the relieved liability from the individual liability to give the top slice relief

## 5. Reporting to HMRC - Within tax return

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01904 623888

[contactus@yorwealth.co.uk](mailto:contactus@yorwealth.co.uk)