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Adviser factsheet

nucleus

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UK taxation of single premium investment bonds

Non-qualifying policies

For tax purposes, a single premium investment bond is a non-qualifying life assurance policy. Investment bonds are subject to the chargeable event tax regime and crystalised gains are subject to income tax. Capital Gains Tax does not apply, in most circumstances, to investment bond gains.

Circumstances where a chargeable event and potential tax liability may arise

For non-qualifying policies, a chargeable event will occur on:

1. Death giving rise to a benefit. For example, death of the life assured, or last life assured in the case of last survivor policies.
2. The maturity of the policy.
3. Full surrender of individual policies or the bond policy in full.
4. The assignment of the policy in exchange for money or equivalent.
5. Any excesses on partial surrenders arising in any policy year.
6. A personalised bond, a gain will arise on the final day of the policy year.
7. A fundamental reconstruction of the policy (i.e. adding or removing a life assured).

Calculation of the gain

When all the benefits are taken from a bond by way of maturity, full surrender, death or assignment for money, the amount chargeable to tax is calculated using the following formula:

surrender value plus all previous withdrawals

less

total premiums paid plus all previous chargeable excesses

Where the chargeable event is as a result of the death of the life assured (or last life assured) the taxable gain (if any) is calculated following notification of death and will not include any additional life cover.

Example 1

Gain = [a + b] – [c + d]

Where

a = surrender value
b = all previous withdrawals
c = total premiums paid
d = all previous chargeable excesses

i) Initial premium £45,000

Surrender value after 10 years = £89,000

Gain = [£89,000 + £0] – [£45,000 + £0]

Gain = £44,000

ii) Initial premium £45,000

5% withdrawal each year for 10 years
i.e. £45,000 x 5% x 10 = £22,500

Surrender value after 10 years = £66,500

Gain = [£66,500 + £22,500] – [£45,000 + £0]

Gain = £44,000

iii) Initial premium £45,000

6% withdrawal each year for 10 years
i.e. £45,000 x 6% x 10 = £27,000

Surrender value after 10 years = £62,000

Chargeable excess = 6% (£2,700) – 5% (£2,250) x 10 = £4,500

Gain = [£62,000 + £27,000] – [£45,000 + £4,500]

Gain = £39,500

Partial surrenders

For each premium paid into an investment bond, an amount equal to 5% of that premium can be withdrawn each policy year for 20 years without an immediate liability to income tax.

If this 5% tax deferred allowance is not fully used up in any year, the unused allowance will be carried forward to the next policy year and so on, on a cumulative basis. The total allowance is limited to 100% (5% x 20 years) of each premium paid.

Where a partial surrender is made, the total amount withdrawn in that policy year will be compared with the cumulative total of unused 5% allowances at the end of that policy year and any excess will be the chargeable gain which may be liable to tax. It should be noted that where a partial surrender is taken the chargeable event (if applicable) occurs on the last day of that policy year.

Example 2: partial surrender

£45,000 premium

Partial surrender of £10,000 is taken at the end of year 3

Cumulative allowance = £45,000 x 5% x 3 = £6,750

Therefore the taxable excess = £10,000 – £6,750 = **£3,250**

Policy segmentation

Most investment bonds are issued as multiple individual and identical policies. This gives the investment bond greater flexibility especially when it comes to tax and estate planning. In example 2, it may be in the investor's interest to make a withdrawal by way of full surrender of individual segments rather than by partial surrender. Please note, surrendering a segment will reduce the number of original policies on which to calculate the 5% per annum allowance the following policy year.

Example 3: full surrender of segments

£45,000 premium (100 segments)

Current value £50,000 (i.e. £500 per segment)

Year 3 £10,000 is taken by surrendering 20 policy segments

£10,000 (20 x £500) - £9,000 (20 x £450) = **£1,000 chargeable gain**

Personal portfolio bonds (PPB)

In simple terms, a PPB is a life assurance or capital redemption policy which gives investors the freedom to invest in a wide range of assets beyond those described within the PPB legislation.

For example, where a UK resident policyholder invests in equities through their policy, the PPB legislation imposes a yearly tax charge on the PPB deemed gain. The PPB deemed gain is not based on actual gains. It assumes a gain of 15% of the premium and the cumulative gains for each year the policy has been in force. The tax charge on the PPB deemed gain will be at the highest rate of tax paid by the investor without top slicing relief.

Top slicing relief

Top slicing relief (TSR) is generally available where the taxpayer would be liable to tax at a lower rate or they've had their personal allowance (PA), personal savings allowance (PSA), or the starting rate band for savings (SRSB) income reduced if it were not for the inclusion of the chargeable event gain in their income for the year.

For further information on top slicing relief and how this applies, please see our top slicing factsheet in the investment bond section here: Technical Factsheets | Nucleus Financial.

Time apportionment relief (TAR)

If the bondholder has been non-UK resident whilst owning the bond and subsequently becomes UK resident, the gain is reduced by a fraction relating to the number of years the bondholder has been non-UK resident and the number of years the bond has been held. The calculation for the TAR is:

Chargeable gain x A ÷ B

A = the number of days on which the policyholder was not UK resident in the policy period.

B = the number of days in that material interest period.

The periods in question are calculated from the policy commencement date to the date on which the chargeable event occurs.

Corresponding deficiency relief

It is not possible to offset the loss on one offshore bond against the loss on another offshore bond, but it is possible to offset it against other income which falls into the higher rate tax bracket.

This relief is called 'corresponding deficiency relief'.

However, there is a limit on the amount of income subject to higher rate tax against which the loss on an offshore bond can be offset. This is determined by the amount of any previous chargeable gains. The amount used to offset against higher rate tax cannot be any more than the total amount of the previous chargeable gains.

Important notes

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the law and Her Majesty's Revenue and Customs (HMRC) practice as at April 2025.

You should note, however, that we cannot take upon ourselves the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change. Legislation varies from country to country and the policyholder's country of residence may impact on any of the above.

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