Chargeable events – Q & A

For financial advisers only

This document provides assistance when calculating a chargeable event only. Should you require further information on the taxation of offshore bonds, please see our *Guide to offshore bonds* – www.rl360adviser.com/generic/downloads/tech001.pdf

What is a policy year?

A 'policy year' is the 12 month period between the anniversaries of the policy. For example, if the policy commenced on the 21st January 2010 then the first policy year would end on 20th January 2011; the next policy year would start on 21st January 2011.

What is the 5% tax deferred allowance?

5% of the total premiums paid can be withdrawn each policy year without incurring an immediate tax charge.

If 5% isn't withdrawn within one policy year, it will rollover into the next policy year.

If more than 5% is taken, the allowance will reset to 5% the following policy year.

External management charges, such as an investment advisor fee or a discretionary fund manager charge, count towards the 5% allowance.

Where regular premiums or top ups are applied to a policy during a policy year, the total premiums as at the end of that policy year will determine the 5% allowance on the anniversary date.

For more information on regular premium bonds, please go to www.rl360adviser.com/generic/downloads/tru042.pdf.

How do I work out the 5% allowance?

Total premium(s) paid x 5%

Example

Sam's invested £100,000 therefore his 5% tax deferred allowance is £5,000 each policy year.

£100,000 x 5% = £5,000

How do I calculate the gain if withdrawals exceed the 5% allowance?

Total withdrawals taken within a policy year minus 5% allowance (+ any rollover) = GAIN

Example

In policy year 2, Sam took a withdrawal for £20,000. As 5% rolled over from policy year 1, Sam's allowance is £10,000. The gain that Sam created by taking a £20,000 withdrawal is £10,000.

£20,000 – £10,000 = £10,000.

How do I calculate the gain if the policy is surrendered in full?

(Surrender value + total withdrawals)
– (total premiums paid + chargeable excesses)
= Gain or Loss

Example

George decided to surrender his policy in full. His original premium was £110,000 and the surrender value paid out was £120,000. He had held the policy for a total of 10 full policy years and took 3 withdrawals worth £60,000.

(£120,000 + £60,000) – (£110,000 + 0)

£180,000 – £110,000 = George's GAIN was £70,000

RL 360 SERVICES

How do I calculate the gain if one or more segments are surrendered?

(Surrender value of one segment + withdrawals taken in proportion to one segment) – (total premiums paid for one segment + chargeable excesses in proportion to one segment) = GAIN/LOSS for one segment.

GAIN x the number of segments surrendered
= Final GAIN amount.

Example 1

Katie invested £230,000 with 80 segments. Each segment had a premium value of £2,875.

In policy year 14, 15 segments were surrendered. The surrender value was equal to £54,750 meaning that each segment was now worth £3,650 (£54,750/15 = £3,650).

As a result, Katie had made a GAIN of £11,625.

(£3,650 + 0) - (£230,000/80 + 0)

£3,650 - 2875 = £775 per segment

£775 x 15 = total GAIN of £11,625

Example 2

Julia invested £100,000 with 100 segments. Each segment therefore had a premium value of £1,000.

In policy year 10, 20 segments were surrendered. The surrender value was equal to £30,000 meaning that each segment was worth £1,500 (£30,000/20 = £1,500).

Taking into account a £20,000 withdrawal which happened in policy year 3 and a chargeable excess of £5,000, the calculations are as follows:

(£1,500 + £20,000/100) – (£100,000/100 + £5,000/100)

(£1,500 + £200) - (£1,000 + £50)

£1,700 – £1,050 = GAIN of £650 per segment

£650 x 20 = total GAIN of £13,000

This calculation can also be used for full surrender/maturity/death claim if segmentation had happened previously.

Where there is a Death claim, the policy value on the date before death must be used rather than the surrender/maturity value.

For more information please read *Taxation of offshore bonds* at www.rl360adviser.com/generic/downloads/tech023.pdf.

Where there have been previous segment slices and/or top ups on the policy which resulted in complicated calculations, please email rl360servicesiomtech@rl360.com.

Important notes

For financial advisers only. Not to be distributed to, nor relied on by retail clients.

Finally, please note that every care has been taken to ensure that the information provided is correct and in accordance with our understanding the UK law and Her Majesty's Revenue and Customs' (HMRC) practice as at July 2016. You should note however, that we cannot take upon 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.

RL 360 SERVICES