

# Tax Planning With Income Withdrawal – Bond Encashment

**MetLife**



**By allowing lump sums to be taken without income and allowing income to be reduced to zero at any time (up to age 75), income withdrawal can be a useful tool in tax planning.**

If you have a bond and are facing a chargeable gain, it may be possible to use your income withdrawal arrangement to reduce the tax payable - income can be reduced to zero or to a level sufficient for top slicing relief to apply before the bond is encashed.

<b>Client:</b>	George, 60, taking £15,000 a year from his income withdrawal arrangement. Other income is fixed (State pension and a pension from his employer’s scheme) and his total income is £4,000 below the higher rate tax threshold. Has £52,000 in ISAs and a UK investment bond with a value of £200,000.
<b>Objectives:</b>	Needs to access capital of at least £80,000 for his wife’s long-term care needs.
<b>Options:</b>	No further lump sums are available from his pension. ISAs will not generate enough capital. Needs to cash-in investment bond – if he fully surrenders there will be a chargeable gain of £54,000 but top-slicing relief will apply (the top-slice is £9,000 as he has held it for five complete years).
<b>Recommendation:</b>	The top-slice is added to George’s income to determine whether there is a tax liability. As things stand he would have a tax liability on the gain of £5,000: $£4000 \times 0\% = £0$ (basic rate covered by tax on the fund) $£5000 \times 20\% = £1,000 \times 5 = £5,000$ In order to avoid this liability recommend that George reduces the income he is taking from the income withdrawal arrangement. George reduces his income by £5,500 so is £9,500 away from any higher rate tax liability. Then he cashes-in his bond. When the top-slice is added to his income he is still within the basic rate band. There would be no further tax to pay on the gain.

## Want to find out more?

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