

# A guide to tax on your investment bond

**Investment Bonds are set up as single premium life assurance policies, this means they have a different tax treatment from other types of investments.**

In this guide, we'll tell you everything you need to know about how Investment Bonds work.

## How is my investment taxed?

MetLife pays tax on income and capital gains made within its funds for onshore Bonds. The policyholder will only be subjected to tax when a "chargeable gain" arises.

Chargeable gains are subject to income tax but due to the tax paid within a UK life fund the policyholder receives a "tax credit" equivalent to the basic rate of income tax to offset their tax liability. While the tax credit can reduce your income tax liability, it cannot be reclaimed.

A liability to Income Tax above the basic rate may arise if a chargeable event occurs and a chargeable event gain or "profit", arises;

- in the event of death, or
- on certain assignments (transfer of legal ownership of all or part of your Bond) for money or money's worth, or
- on fully cashing in your Bond or any individual policy/ segment within the Bond; or
- if you withdraw more than 5% per policy year of the amount you have paid into your Bond.

This 5% withdrawal allowance is cumulative, and any unused part can be carried forward to future years.

This is subject to the total cumulative 5% allowance amount not exceeding 100% of the amount paid into your Bond.

## What happens when a chargeable event occurs?

When a chargeable event occurs, you will be sent details of any chargeable event gain arising for you to notify HMRC. We may also send details of the chargeable event gain direct to HMRC.

As Basic Rate Income Tax is treated as already paid, the rate of Income Tax that may become payable is the difference between the Higher Rate (and the Additional Rate, where applicable) of Income Tax and the Basic Rate of Income Tax.

## Tax liability on final cashing in

Any tax liability on final surrender or "cashing in" is based on the gain or "profit" (if any) the Bond has made.

This profit is defined as:

- the amount you receive when you cash in your Bond plus all previous withdrawals;

**less**

- the total amount you have paid in plus any excesses over the accumulated 5% allowances.

It's worth remembering that the annual 5% allowance is cumulative, so it can roll over to the following year if it's not used up to a maximum of 100% of your initial investment. This means you may be able to defer your withdrawals to avoid a chargeable event for that year.

If you decide to surrender individual policies (segments), the chargeable gain will broadly be the difference between what you paid into the segment and what you've received from it.

## Why are there different options?

Large withdrawals from your Bond can result in a high tax liability. This is because the excess over 5%, the "chargeable event gain", is always used for the tax calculation, irrespective of any profit or loss on the Bond.

To help counter such large gains, MetLife (like most Bond providers) issue Single Premium Bonds as a series of identical policies (segments). This allows for the full cashing in of one or more policies, rather than a large partial withdrawal spread across the whole Bond.

## What's the difference between the two options?

An example between the two different options is shown below.

<b>Investment:</b>	£100,000 (£100 per segment)
<b>Year 2 policy valuation:</b>	£110,000 (each segment is now worth £110).
<b>Partial surrender request:</b>	£44,000
<b>Value after surrender:</b>	£66,000

The following shows how the chargeable gains will differ if the surrender is:

- taken across all policy segments; or
- from surrendering individual policies

### Surrender across all segments

**£44,000** is taken equally across all 1,000 segments (£44 per segment). After the surrender, the value of each segment will reduce from £110 to £66 (1,000 x £66 = **£66,000**).

Part surrenders of up to 5% of the initial premium paid can be taken without any immediate tax charge. Withdrawals are tax deferred and not tax free.

In this example that would be £100,000 x 5% = £5,000 for each year, making a total of £10,000 for two years (if you don't take it out in one policy year, you can carry it forward).

At the end of policy year two, the part surrender of **£44,000** has exceeded the cumulative 5% allowance of **£10,000** meaning that a chargeable event gain of **£34,000** arises

*Income tax may be payable on the gain based on your individual circumstances.*

### Surrender of individual segments

To get **£44,000**, 400 segments of £110 must be surrendered (400 x £110 = £44,000)

After the surrender, this leaves 600 segments of £110 = **£66,000**.

The gain per segment would be the surrender value of £110 less the cost £100, giving a gain of £10 per segment.

This means the total gain will be 400 x £10 = **£4,000**.

## What happens when a death claim is paid?

The chargeable gain is calculated in the same way as a full surrender, with the proceeds being the surrender value at the date of death, not the death benefit that's actually paid. This is assessed in the tax year of the death of the last life assured (that has resulted in the claim being paid).

## Entitlements – what you should be aware of

Your entitlement to Basic Personal Allowances, Working Tax Credit and Child Tax Credit may be affected whenever you incur a chargeable event gain; for example, you cash in some or all policies in the Bond or take proceeds in excess of the accumulated 5% allowances.

For those with 'adjusted net income' in excess of £100,000, it should be noted that total bond gains are included within this figure meaning that entitlement to the personal allowance can be affected.

Note also that total bond gains are included when assessing entitlement to the personal savings allowance and whether there is any liability to a child benefit tax charge as, again, this is based on adjusted net income.

The amount of Child Tax Credit and/or Working Tax Credit to which you are entitled also depends on your income.

Any gain from your Bond or a withdrawal in excess of the accumulated 5% allowances will be added to your income for this purpose and could reduce or eliminate any Tax Credit that you would otherwise be entitled to. This may be mitigated using "Top Slicing" (See Important Information below).

## Adviser Charges (only applicable to bonds sold after 1 January 2013)

### Ongoing adviser charges

Ongoing adviser charges facilitated by the provider, come out of the product. They are withdrawals and form part of the 5% withdrawal allowance. Care is needed when withdrawals are taken from the product where ongoing adviser charges or ad-hoc adviser charges are also being paid from that product.

The ongoing adviser charges from the product reduce the amount you can take without exceeding the cumulative 5%. If it is exceeded, a chargeable event arises, resulting in a potential income tax liability on the excess.

## Important information

This leaflet describes the taxation treatment of UK investment bonds. Offshore bonds may be treated differently by HMRC for tax purposes.

The tax treatment described may not apply if your Bond is held in trust, depending on the nature of the trust. We suggest that you consult your legal adviser if you are concerned about this.

The information in this document is based on our understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on your circumstances.

Top slicing relief is given by comparing the amount of tax due on the full chargeable event gain to the amount of tax due on the 'sliced' annual equivalent of the gain.

Taxation of bonds is a particularly complex topic and as such, before withdrawing money, we would recommend you speak to your Tax or Financial Adviser, as once paid, it is not possible to change or reverse the withdrawal.

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