

# INVESTMENT BOND

## FACTSHEET 15

### MORE THAN ONE CHARGEABLE EVENT GAIN IN THE SAME TAX YEAR

If a policyholder has more than one chargeable event gain in the same tax year, calculations can get complex. Advisers may need to calculate the “aggregate gain”, the “aggregate slice” and the “average relevant years”. This fact sheet explains these terms and how to do the calculations.

#### What is likely to lead to more than one chargeable event in the same tax year?

- Cashing in more than one bond.
- Cashing in whole segments from more than one bond.
- Taking partial surrenders exceeding the cumulative 5% tax deferred allowances from more than one bond.
- Any combination of the above.

#### How else can this happen?

A chargeable event also occurs in the following situations.

- Maturity of non-qualifying policies.
- Some part surrenders and part assignments.
- Policy loans if the investment bond started after 26 March 1974.
- Full assignment for money or money’s worth (unless by way of security for a loan or between spouses living together).
- Fundamental change in the basis of the policy, such as adding or removing a life assured.

This means a wide range of circumstances can lead to more than one chargeable event gain in the same tax year. See Investment bond fact sheet 1: The chargeable event regime; and Investment bond fact sheet 7: Top-ups or new bonds? for more information.

#### What are the “aggregate gain”, the “aggregate slice” and the “average relevant years”?

First, calculate the chargeable event gain, the number of relevant years and the slice for each bond in the normal way. See Investment bond fact sheet 1 for more details.

The “aggregate gain” is the total of all the chargeable event gains in the same tax year.

The “aggregate slice” is the total of all the slices in the same tax year.

Calculating the average relevant years is slightly more complicated. This figure is a weighted average that takes account of the size of each gain and how long the policyholder has held each bond. Comparing the following two examples demonstrates this.

#### Example 1

| Bond | Gain                  | Relevant years                   | Slice                  |
|------|-----------------------|----------------------------------|------------------------|
| 1    | £2,800                | 10                               | £280                   |
| 2    | £7,800                | 6                                | £1,300                 |
| 3    | £4,200                | 5                                | £840                   |
|      | <b>Aggregate gain</b> | <b>Average relevant years</b>    | <b>Aggregate slice</b> |
|      | £14,800               | $\frac{£14,800}{£2,420} = 6.116$ | £2,420                 |

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**Example 2**

| Bond | Gain                  | Relevant years                | Slice                  |
|------|-----------------------|-------------------------------|------------------------|
| 1    | £35,200               | 10                            | £3,520                 |
| 2    | £7,800                | 6                             | £1,300                 |
| 3    | £4,200                | 5                             | £840                   |
|      | <b>Aggregate gain</b> | <b>Average relevant years</b> | <b>Aggregate slice</b> |
|      | £47,200               | £47,200 / £5,660 = 8.339      | £5,660                 |

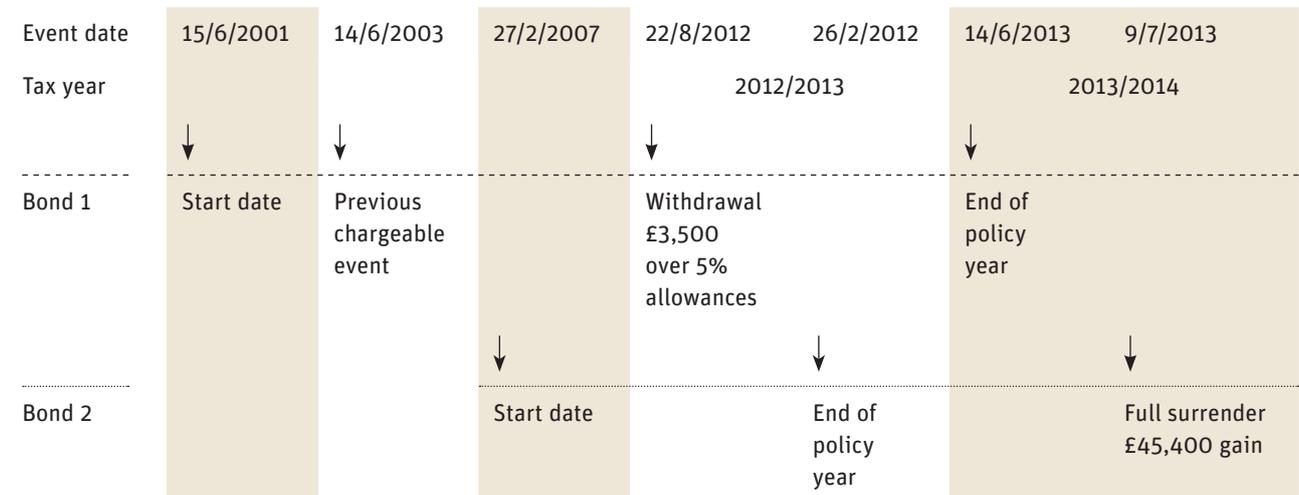
**How can a combination of different chargeable event gains arise?**

**Example 3**

Laura invested into onshore bond 1 on 15 June 2001. She has never taken regular withdrawals. She occasionally withdraws one-off lump sums. She made a partial withdrawal in excess of her available 5% tax deferred withdrawal allowances in the policy year ending 14 June 2003. At that time, she remained a basic rate taxpayer and she avoided any liability to additional tax on the chargeable event gain. More recently, on 22 August 2012, she made another one-off partial withdrawal from this bond. Her withdrawal amounted to £3,500 in excess of the 5% cumulative withdrawal allowance. Laura received the proceeds of the withdrawal in the 2012/2013 tax year.

Laura invested into onshore bond 2 on 27 February 2007. She fully surrendered the bond on 9 July 2013. Her gain was £45,400. She received the surrender proceeds in the 2013/2014 tax year.

Although Laura received the payments in different tax years, both chargeable events fall into the 2013/2014 tax year. The chargeable event in respect of the withdrawal from bond 1 fell at the end of the policy year, on 14 June 2013. The chargeable event in respect of the surrender of bond two occurred on the surrender date, 9 July 2013.



| Bond | Gain                  | Relevant years                | Slice                  |
|------|-----------------------|-------------------------------|------------------------|
| 1    | £3,500                | 10*                           | £350                   |
| 2    | £45,400               | 6                             | £7,567                 |
|      | <b>Aggregate gain</b> | <b>Average relevant years</b> | <b>Aggregate slice</b> |
|      | £48,900               | £48,900 / £7,917 = 6.177      | £7,917                 |

\* Because this is an onshore bond, the number of relevant years is the number of full years since the previous chargeable event.

### What happens if there is more than one chargeable event in a tax year, but one bond shows a loss?

Unfortunately, it is not possible to offset a loss (strictly speaking a “deficiency”) on one bond against a gain on another bond. See Investment bond fact sheet 16: Deficiency relief for more information.

### Reminder – the aggregate gain can affect personal allowances

The whole of the aggregate gain is always used to calculate whether income levels will affect income tax allowances. Top slicing relief is not available for these purposes.

All values used above are examples used to illustrate a point of tax law and are not meant to represent real or anticipated growth or rates of return. This fact sheet does not apply to company investments. Special tax rules apply to company owned investment bonds.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change.

However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given.

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