



UTMOST INTERMEDIATE EXPLORATION OF INVESTMENT BONDS - EPISODE 2

Please note the case study solutions provided below should be used in conjunction with the 2019 Utmost Howwow videos only.

In addition, this information is based on our understanding of current legislation and HM Revenue and Customs practice as at 1 August 2019. It does not constitute legal or taxation advice. The companies in the Utmost group can take no responsibility for any loss which may occur as a result of reliance on this information.

Case study 1 solutions

Solution 1 - Part surrender across all segments

- Amount required £24,000
- 5% entitlements (3 x £2,500) £7,500
- Chargeable gain therefore £16,500
- Possible tax at 40% of £6,600

Solution 2 - Full segment surrender

- Need to surrender 50 segments ($£24,000 \div £480$)
- Amount realised £24,000
- Original investment ($£500 \times 50$) £25,000
- Chargeable gain NIL
- Possible tax at 40% of NIL

Case study 2 solutions

Part surrender followed by full surrender

Q. What is the Tax Position if there is a Part surrender followed by a full surrender:

1. In the same policy year

- Part surrender in June 2019 (in the second policy year)
- The £40,000 withdrawal is in excess of Sophie's cumulative 5% tax deferred withdrawal limit of £10,000 ($£100,000 \times 10\%$)
- Sophie faces a higher rate tax liability on the £30,000 excess.
- Sophie fully surrenders the policy prior to 1 August 2019.

Solution

Part surrender is ignored as a tax event and a chargeable event arises only in respect of the final, full surrender:

$$(A + B) - (C + D)$$

A = surrender proceeds

B = Previous withdrawals

C = Initial premium

D = Previous excesses

$(£110,000 + £0) - (£100,000 + £0) = £10,000$ gain

2. Different policy years – Same tax year

- Part surrender in June 2019 (in the second policy year)
- The £40,000 withdrawal is in excess of Sophie's cumulative 5% tax deferred withdrawal limit of £10,000 ($£100,000 \times 10\%$)
- Sophie faces a higher rate tax liability on the £30,000 excess.
- Sophie fully surrenders the policy on 1 September 2019 (in the 3rd policy year)

Solution

Part surrender is ignored as a tax event and a chargeable event arises only in respect of the final, full surrender:

$(A + B) - (C + D)$

A = surrender proceeds

B = Previous withdrawals

C = Initial premium

D = Previous excesses

$(£110,000 + £0) - (£100,000 + £0) = £10,000$ gain

3. Different policy years – Different tax years

- Part surrender in June 2019 (in the second policy year)
- The £40,000 withdrawal is in excess of Sophie's cumulative 5% tax deferred withdrawal limit of £10,000 ($£100,000 \times 10\%$)
- Sophie faces a higher rate tax liability on the £30,000 excess.
- Sophie fully surrenders the policy on 6 April 2020
- (In the 3rd policy year and subsequent tax year).

Solution

The full surrender is deemed to occur on the date of the surrender (6 April 2020).

A chargeable gain of £30,000 arises in respect of the tax year 2020/21:

$(A + B) - (C + D)$

A = surrender proceeds

B = Previous withdrawals

C = Initial premium

D = Previous excesses

$£70,000 + £40,000 - £100,000 + £30,000 = £20,000$ loss

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