TECHNICAL SALES BRIEFING

TAX PLANNING USING BONDS
ADDITIONAL INVESTMENT

The following information is based on our interpretation of current law and taxation practice in the Isle of Man and the UK as at 1 September 2025.

- This technical briefing is part of a series intended to shine a light on various areas of overseas single premium bond taxation from the point of view of a UK resident investor
- It considers additional investments, looking at the choice between setting up a new bond or topping-up an existing one

NEW BOND OR 'TOP-UP'?

Where an individual owns a bond and wishes to make an additional investment, it would normally be advantageous for tax purposes, for the funds to be added as a 'top-up' to an existing bond. A top-up increases the value of the existing segments within the bond, rather than the individual taking out a new bond.

This is because, for the purposes of top-slicing relief on final surrender, the chargeable gain (including the chargeable gain in respect of the additional investment) can be divided by the number of complete years the bond has been in force since the original investment.

In simple terms, top-slicing relief on final surrender recognises the fact that the chargeable gain has accrued over the whole period for which the bond was in force and not merely in the tax year in which tax is to be assessed on the chargeable gain.

If the additional investment is used to purchase a new overseas bond, top-slicing relief in respect of the chargeable gain on final surrender of this bond will be calculated by reference only to the number of years the new bond has been in force.

The different approaches can create different tax outcomes depending on the individual's personal tax position.

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AN EXAMPLE TO HELP

Peter invested £50,000 into an overseas bond 5 years ago. He then tops up this bond by a further £50,000 today. The bond is then encashed 5 years later.

Steve also invested £50,000 into an overseas bond (Bond A) 5 years ago. He now invests £50,000 into a new bond (Bond B). Both bonds are then fully surrendered 5 years later.

Assuming the funds grow at the rate of 5% per annum (after charges), and that no withdrawals are taken, Peter's bond is worth £145,250 and Steve's bonds are also worth £145,250 in total (£81,500 and £63,750 respectively).

TOP-SLICED GAIN TO ADD TO PETER'S INCOME

SINGLE BOND	£
Surrender value	145,250
Less: Investment £50,000 + £50,000	100,000
Chargeable gain	45,250
Top-slicing divisor	10
Top-sliced gain	4,525

A TOTAL TOP-SLICED GAIN OF £5,900 TO ADD TO STEVE’S INCOME

So Peter’s top-sliced gain is £4,250 (the gain of £42,250 divided by the full number of years since inception) and Steve’s total top-sliced gains are £5,900. It can be seen that, if Peter and Steve are both in receipt of taxable income approaching the higher rate tax threshold, Steve’s larger top-sliced gain could potentially give rise to a larger tax liability.

The following points should be noted:

- as the bonds are overseas bonds, there is potential for basic rate tax liability on the whole gain:
- but Peter or Steve’s personal allowance, starting rate band for savings income and personal savings allowance may be available to reduce the amount of the gain chargeable to tax.
- the overseas bond gain (or the sum of the gains) is added in full (i.e not top-sliced) to income in order to determine eligibility for the personal allowance (tapered where income exceeds £100,000) and the personal savings allowance (of £1,000 for a basic rate taxpayer, £500 for a higher rate taxpayer and not available to an additional rate taxpayer).
- When calculating top-slicing relief, when two or more policies are surrendered in the same tax year (which have been taken out at different times) the top-slicing divisor is then calculated on an average basis. The final table on the right-hand side shows how the calculation would work if we assume Steve surrenders both bonds in the same tax year. Here you will note Steve’s top-slicing divisor is 7.67 years and he is therefore not getting the full benefit of the 10 year holding period under Bond A.
- Steve may also be charged additional product charges when compared with Peter, based on the fact he has taken out two bonds unlike Peter who has simply topped up his original bond (charging structures may vary so you would need to check the details with any provider)

TOP-SLICED GAIN TO ADD TO STEVE’S INCOME

BOND A	£
Surrender value	81,500
Less: Investment	50,000
Chargeable gain	31,500
Top-slicing divisor	10
Top-sliced gain	3,150

BOND B	£
Encashment	63,750
Less: Investment £50,000	50,000
Chargeable gain	13,750
Top-slicing divisor	5
Top-sliced gain	2,750

AGGREGATE SLICE

AGGREGATE RELEVANT YEARS FOR TOP SLICING	
Aggregate gain	Aggregate slice
£45,250	£5,900
Aggregate relevant years for top slicing = Aggregated gain / Aggregate slice = 7.67 years	

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CONCLUSION

As can be seen in the example above, by 'topping-up' an existing bond, a smaller top-sliced gain can be achieved on final surrender. The larger the 'top-up' the more this effect is magnified, owing to the higher number of years the gain under the 'top-up' can be divided by.

The same principle applies where the time between the 'top-up' and final surrender is relatively short yet the initial investment occurred many years past.

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