



Bond School

Session 003 - Calculating bond gains on exit



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Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning objectives

By the end of this session, you will be able to:

Identify different types of chargeable event gains

Calculate the gains arising on bond withdrawals

Evaluate the tax planning pros and cons of different withdrawal methods

Chargeable event regime in 3 steps



1. Wait for a chargeable event
2. Calculate the gain arising

Today's session

3. Attribute to a chargeable person

Next 2 sessions



Identifying chargeable events

Chargeable events (often controllable)

D

No CE if
CRO/ 2nd life

A

No CE on
gift

M

Not normal

E

No CE
within 5%
TDA

S

Choose tax
year wisely



Calculating the gain

Two types of chargeable event calculation



The calculations are the same for onshore and offshore bonds

Two types of chargeable event calculation

Death of a
life assured
giving rise to
benefits

Assignment
for money
or money's
worth

Maturity -
capital
redemption

Part
surrenders
in excess of
5% limit

Full
surrender

Final
Chargeable
Event

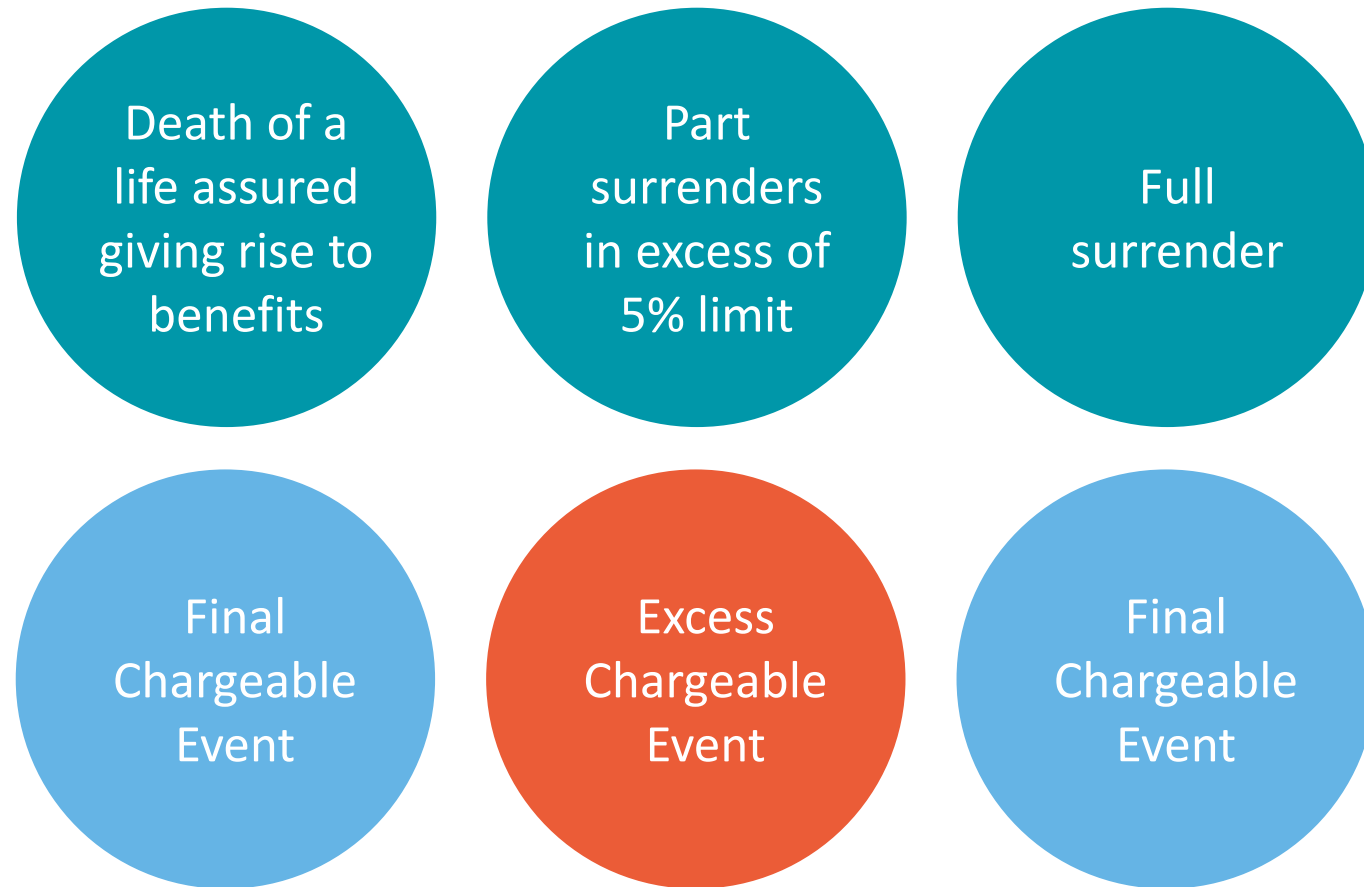
Final
Chargeable
Event

Final
Chargeable
Event

Excess
Chargeable
Event

Final
Chargeable
Event

Two types of chargeable event calculation



Final gain formula

For full surrender and surrender of segments, calculate the gain as follows:

	Surrender value	
Plus	Previous withdrawals (sum of regular & partial withdrawals)	← Includes ongoing adviser charges
Less	Investments in (sum of premiums paid)	
Less	Previous excess chargeable event gains	
Equals	Final chargeable event gain	

Final gain formula



- £100,000 invested on 23/2/20
- Set up with 100 segments
- 3.5% withdrawals from outset (no adviser charge)
- Surrender value 25/2/25 - £125,000

Full Bond	£125,000
Plus	£17,500
Less	£100,000
Less	£0
= Gain	£42,500

Segment	£1,250
Plus	£175
Less	£1,000
Less	£0
= Gain	£425

Excess gain formula

For regular withdrawals and partial withdrawals over the segments, calculate as follows:

	Amount withdrawn over the policy year
Compare to	Available 5% tax deferred allowance
Equals	Excess chargeable event gain

Includes ongoing adviser charges

Excess gain formula



- £100,000 invested on 23/2/20
- Set up with 100 segments
- 3.5% withdrawals from outset (TDA used £17,500)
- Surrender value 25/2/25 - £125,000
- Calculation early in policy year six
- Client wants a £40,000 withdrawal

Withdrawal	£40,000
Less TDA	£12,500
Gain =	£27,500



Are regular withdrawals
going to continue?

Withdrawal	£40,000
Less TDA	£9,000
Gain =	£31,000



Partial vs Segment
surrender?

Partial (across segments) vs Full Surrender case study



- £100,000 invested on 23/2/20
- Set up with 100 segments
- 3.5% withdrawals from outset (TDA used £17,500)
- Surrender value 25/2/25 - £125,000
- Calculation early in policy year six
- Client wants a £40,000 withdrawal
- Regular withdrawal instruction to be cancelled

Withdrawal	£40,000
Less TDA	£12,500
Gain =	£27,500

**Higher gain
£5k TDA retained**

Per segment	£1,250
Plus	£175
Less	£1,000
Less	£0
= Gain	£425

32 segments	£40,000
Plus	£5,600
Less	£32,000
Less	£0
= Gain	£13,600

**Lower gain
5% TDA reduced to £3,400**

Bond Gain Tool

built by M&G

Inputs

Please navigate between inputs and outputs using Tabs below

Hover over the red tags beside fields for further information.

If you need to account for segment surrenders from outset click EXPAND. Click RESET to start over

EXPAND (to include previous segment surrenders)
RESET

Policy start

23/02/2020

Policy Type (Onshore/Offshore)

Onshore Bond

Initial Segments

100

Calculation Date

25/02/2025

Current Surrender Value

£125,000.00

Segments at calculation date

100

Full Surrender Values

Segments	100	1
Surrender Value	£125,000.00	£1,250.00
Gain	£42,500.00	£425.00
"N"	5	5
Slice	£8,500.00	£85.00

Proposed Withdrawal

(NOT required for full surrender of all segments)

Amount required

£40,000.00

Full segment surrender

32

£40,000.00

Partial surrender

£0.00

Segments to get close

32

Policy year

1	23/02/2020	22/02/2021	£100,000.00	£3,500.00
2	23/02/2021	22/02/2022		£3,500.00
3	23/02/2022	22/02/2023		£3,500.00
4	23/02/2023	22/02/2024		£3,500.00
5	23/02/2024	22/02/2025		£3,500.00
6	23/02/2025	22/02/2026		

Premiums

Partial Withdrawals (include applicable adviser charges)

Bond Gain Tool on Tech Matters site

Calculation date 25/02/2025

Before Proposed Withdrawal

If bond were to be fully surrendered on calculation date		
Number of segments	100	1
Surrender Value	£125,000.00	1250
plus		
Total partial withdrawals	£17,500.00	£175.00
less		
Total Premiums	£100,000.00	£1,000.00
less		
Previous Excess Events	£0.00	£0.00
Gain	£42,500.00	£425.00
Slice	£8,500.00	£85.00

Tax deferred position at policy anniversary based on calculation date info		
Withdrawals	£	-
Tax Deferred Allowance Remaining		£12,500.00
Segments		100
Tax Deferred Allowance Remaining per segment		£125.00
In year xs event		£0

Including proposed withdrawal

Full segment surrender		
Number of segments		32
Surrender Value	£40,000.00	
plus		
Total partial withdrawals	£5,600.00	
less		
Premium (s)	£32,000.00	
less		
Previous Excess Events	£0.00	
Gain	£13,600	
"N"	5	
Slice	£2,720	
Tax Year Gain is assessed	24-25	

Surrender across segments (partial withdrawal)		
Segments remaining after full segment surrender		68
Final Year withdrawals proportioned over remaining segments	£	-
Further Withdrawal amount		£0.00
Total over remaining segments		£0.00
less		
Available allowance		£8,500.00
Allowance remaining		£8,500.00
Gain		£0.00
"N"	6	
Slice	£0.00	
Policy Anniversary	22/02/2026	
Tax Year excess gain is assessed	25-26	

Partial (across segments) vs Full Surrender case study

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2022 -10/5/2023	£100,000	£5,000	£0	£5,000	£0
11/5/2023 -10/5/2024		£5,000	£0	£10,000	£0
11/5/2024 -10/5/2025		£5,000	£80,000	£0	£65,000

Escape route? Excess event gain ignored if bond surrendered before end of tax year of excess event

Full Bond	£35,000
Plus	£80,000
Less	£100,000
Less	£0
= Gain	£15,000

Key point

Excess events occurs at end of policy year

Key point

Full surrender event occurs in tax year of surrender

Key Point

Make sure chargeable event occurs in appropriate tax year

Alternative escape route: HMRC recalculate the gain

HMRC internal manual

Insurance Policyholder Taxation Manual

From: [HM Revenue & Customs](#)

Published 19 March 2016

Updated: 9 December 2024 - [See all updates](#)

IPTM3596 - Calculating gains - recalculating a wholly disproportionate gain under ITTOIA05/S507A and S512A

Key points

- Interested person needs to apply
- 4 years from end of tax year gain arose time limit
- No guarantee HMRC will calculate a lower gain
- Bond provider not involved
- Manual calculations required
- Client must keep records

	Value of part surrender
Less	Premium related to that part surrender
Equals	Underlying economic gain on part surrender

$\text{Premium} \times \text{Value of part surrender} / \text{Value of whole policy}$

	£80,000
Less	£69,565
Equals	£10,435

$£100,000 \times £80,000 / £115,000$

Position after HMRC recalculate the gain

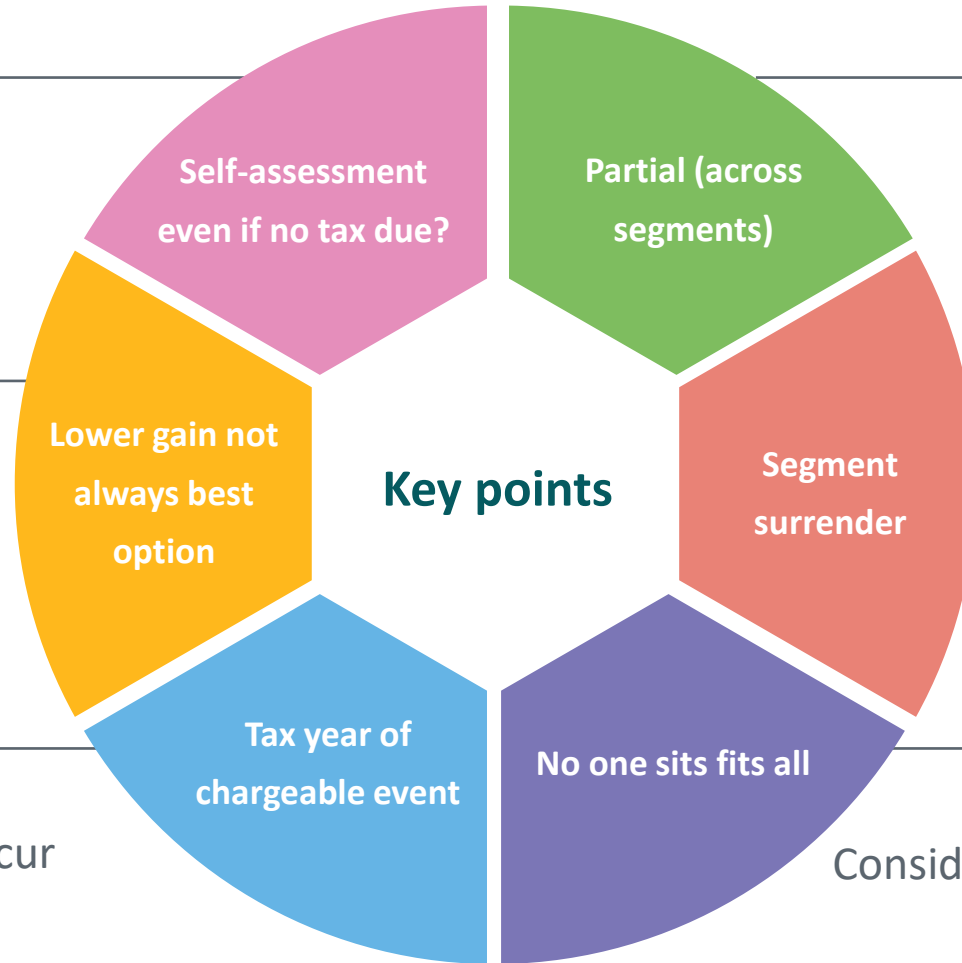
Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/2022 -10/5/2023	£100,000	£5,000	£0	£5,000	£0
11/5/2023 -10/5/2024		£5,000	£0	£10,000	£0
11/5/2024 -10/5/2025		£5,000	£80,000	£0	£65,000
11/5/2025 - 10/5/2026		£5,000	£6,000	£0	£1,000

Bond fully surrendered on 1 June 2028 for £32,000

Policy Year	Insurer's record	Actual
Total proceeds from policy	£118,000	£118,000
Less – Premiums	£100,000	£100,000
Net	£18,000	£18,000
Previous Gains	£65,000	£10,435
-	£1,000	£1,000
Gain chargeable to income tax	Nil	£6,565

Client needs to report actual gain

Partial (across segments) vs Full Surrender considerations



Key Point

Individuals with £10k or more of savings income must self-assess

Key Point

Tax impact and tax management is key

Key Point

Will full gain and/or excess gain occur in the appropriate tax year(s)

Key Points

Tax deferred, not tax free
Consider tax management

Key Point

Reduces 5% TDA accrual on remaining segments

Key Point

Consider fund full and partial combinations

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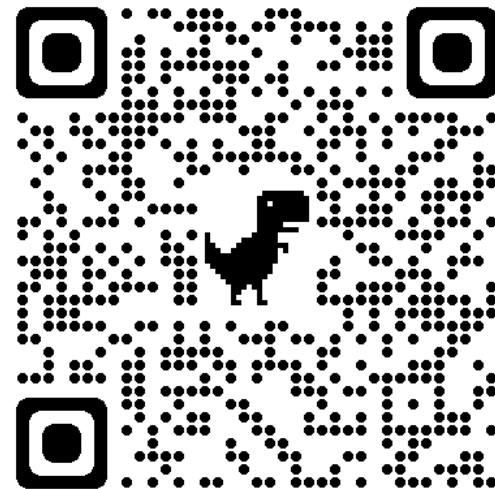
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