Investment bonds explained

Onshore and offshore life-policy wrappers: the tax rules behind the withdrawals.

A wrapper, not a fixed-interest savings bond

An investment bond is usually a single-premium, non-qualifying life insurance policy or capital redemption contract holding investments. Its value can fall. It is different from a deposit account, a corporate bond or a gilt. Internal fund changes do not normally create a personal CGT bill, but policy events can create an **Income Tax chargeable event gain**. This sheet concerns UK-resident individuals; trustees, companies, non-residents and unusual policy histories need separate calculations. [1-4]

Feature	Onshore bond	Offshore bond
Typical insurer tax position	UK life fund bears tax under its own rules; not simply a flat tax on your personal return	Often described as gross roll-up, but foreign withholding taxes and policy costs may still reduce returns
UK chargeable gain	Normally carries non-refundable basic-rate tax treated as paid	Normally no UK basic-rate credit
Rates on a gain in 2026/27	UK savings-income framework; additional personal tax may arise	UK savings-income framework; basic, higher or additional-rate tax may arise
5% withdrawal facility	Tax deferral, subject to policy history	Tax deferral, subject to policy history
Top slicing relief	May reduce additional personal tax	May reduce higher/additional tax; does not normally eliminate basic-rate tax

Offshore does not mean outside UK tax

A UK-resident owner can owe UK Income Tax on an offshore bond gain. Location affects the insurer's taxation and available credits, not your right to ignore the gain. Likewise, a UK bond's tax credit cannot normally be repaid to a non-taxpayer. Ask the insurer to confirm the policy's status and credit. [1,2]

What can trigger a gain?

Full surrender, maturity, death ending the policy, certain partial withdrawals and an assignment for money or money's worth can trigger a calculation. A personal portfolio bond can produce annual deemed gains even without cash being paid out. Ordinary policy fund choice does not automatically make a policy a personal portfolio bond: the permitted-investment rules matter. [1,2,8]

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Working out the gain

Full surrender and the 5% facility use different methods.

Full surrender: the basic formula

Gain = surrender proceeds + previous withdrawals/benefits - premiums paid - previous chargeable gains. The insurer's full policy history is essential. Special rules apply to death, policy sales, related policies and other events. A chargeable event certificate should normally provide the gain and relevant years. A gain is income: the CGT exemption and capital losses cannot be used against it. [1-4]

Example 1: full surrender	Calculation
Original single premium	£100,000
Earlier withdrawals	£20,000; no previous chargeable gains
Final surrender value	£115,000
Chargeable event gain	£115,000 + £20,000 - £100,000 = £35,000

The 5% allowance is tax-deferred, not tax-free

For partial surrenders, an allowance of 5% of each premium is generally available for each insurance year, up to 100% of that premium over time. Unused allowance can accumulate. It is based on premiums, not current fund value; top-ups have their own history. Taking 5% for 20 years normally uses the facility, not the tax liability. Withdrawals feed into the final gain calculation. Fees paid by withdrawals may also consume allowance or create an event: check how they are deducted. [1,2]

Example 2: unused allowance and an excess withdrawal

A £100,000 premium has completed four insurance years with no withdrawals. In the fifth year, cumulative allowance is 5 × £5,000 = **£25,000**. A £30,000 part surrender gives a **£5,000 excess gain**, assuming no other transactions or complications. It is normally tested at the end of the insurance year. The gain is not simply the investment profit in the cash withdrawn. [2,3]

Policy years are not tax years

A policy anniversary can put a partial-surrender gain into a later tax year than the cash payment. A final surrender in the same insurance year may change or replace a previous calculation. Do not decide a withdrawal date from the tax year alone; ask the insurer for event dates, year-end calculations and any replacement certificate. [3,8]

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Choose the withdrawal method

Taking the same cash can produce very different taxable gains.

Part surrender across all policies versus whole segments

Many bonds are clusters of individual policy segments. Taking cash proportionately across every segment usually uses the partial-surrender rules. Fully surrendering selected segments normally uses the full-surrender gain on those segments. The two methods can produce very different results. Do not assume the insurer will choose the most tax-efficient method automatically. [7,8]

Example 3: £30,000 needed in policy year 1	Part surrender	Whole segments
Bond structure	100 segments; £100,000 premium; value now £120,000	Same bond and values
Withdrawal	£30,000 across the bond	Surrender 25 segments at £1,200 each
Premium/allowance used	5% annual allowance = £5,000	Premium on 25 segments = £25,000
Gain, assuming no prior events	£30,000 - £5,000 = £25,000	£30,000 - £25,000 = £5,000

A tax gain can be larger than the actual investment profit

In this example the whole bond has grown by £20,000, yet a £30,000 part surrender creates a £25,000 statutory gain. That does not make the certificate automatically wrong. A wholly disproportionate partial-surrender gain may qualify for a just-and-reasonable recalculation on application to HMRC. Relief is not automatic and should not replace pre-withdrawal advice. [9]

Assignments: change of ownership needs advice

A genuine assignment as a gift, with no money or money's worth, is normally not itself a chargeable event. A sale or assignment for value can be. The recipient usually inherits policy history and may be taxed on a later event. Gifts can create IHT consequences, and retained benefits, trusts, children and anti-avoidance rules need checking. Assignment after surrender is too late to change who owned the policy at the event. [1,2,7]

Negative final results are not ordinary capital losses

A final calculation can show a deficiency after earlier gains. Limited deficiency relief may reduce tax at specified higher rates if the same individual was taxed on relevant earlier gains. It is not a general loss to set against all income, not a CGT loss, and not an automatic repayment of every earlier tax bill. [10]

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Top slicing relief and tax due

A tax reduction calculation, not permission to report only one year's slice.

The sequence matters

First establish the full gain, policy years and any tax treated as paid. Add the gain to the owner's income in the event year and calculate the liability using the relevant income ordering, rates and allowances. For top slicing relief (TSR), compare the additional liability with a calculation using the annual equivalent of the gain and the statutory number of years. The full gain is still reported in that year; it is not spread into past tax returns. [5,6]

Example 4: a straightforward illustration

Assume a £40,000 gain with 10 relevant years, £30,000 other taxable income for rate-band purposes, a full Personal Allowance, no other gains, no band extensions, and all savings nil-rate amounts already used. Other-income tax is outside this simplified calculation. Unused basic band: £37,700 - £30,000 = **£7,700**. The annual slice is £40,000 / 10 = **£4,000**, wholly within the basic band. [5,6]

Tax on the gain: 2026/27	Onshore	Offshore
Before credit / TSR	£7,700 × 20% + £32,300 × 40% = £14,460	£14,460
Actual basic-rate credit	£40,000 × 20% = £8,000	None
Liability before TSR	£6,460	£14,460
Illustrative TSR	£6,460	£6,460
Personal tax on gain after TSR	£0	£8,000

Why the offshore result is not zero

A basic-rate amount is allowed in the statutory TSR calculation even for a gain without an actual tax credit. That does not give the offshore owner a repayable £8,000 credit: after relief in this illustration, basic-rate tax of £8,000 remains. The onshore credit is non-refundable and the fund has already borne its own tax. These are equal-gain tax examples, not a comparison of net product returns. [1,2,5,6]

The full gain can still affect other thresholds

The full gain can affect ANI, Personal Allowance, Child Benefit and savings-allowance status. TSR reduces a tax liability; it does not remove the gain from those income tests. Personal Allowance can be recalculated within the TSR methodology using the slice, but the actual full-gain ANI remains relevant outside that relief calculation. Multiple gains, residency changes and earlier withdrawals alter the method. [5,6,11,12]

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Before you withdraw or assign

The policy certificate, your other income and the proposed transaction must agree.

A practical tax-calculation checklist

1. Confirm owner, beneficial ownership, insurer location, policy type and tax-credit status.
2. Gather premiums, top-ups, withdrawals, assignments, earlier certificates and residence history.
3. Ask for illustrations of part surrender and whole-segment surrender before instructing either.
4. Confirm the insurance-year end, event date, full gain and relevant TSR years.
5. Calculate total income, allowance taper, savings nil-rate amounts, other gains and available reliefs.
6. Compare timing and genuinely available alternatives, including ISA withdrawals and staged encashment.
7. Retain the certificate and report the full gain through the correct route. UK and offshore gains use different Self Assessment sections. [1,2,5,7]

When specialist advice is particularly important

Trusts, estates, joint ownership, gifts to children, non-UK residence periods, returning residents, foreign tax, personal portfolio bonds, pre-2013 policies and historic assignments can all change the answer. Time-apportioned reductions may apply in some residency cases, but are not simply a choice to tax a percentage of the gain. Do not assume an insurer's certificate calculates your final personal liability or claims your relief. [1,2,6]

Connect bond withdrawals to the wider plan

Bond tax deferral can support planned withdrawals, but the bond remains exposed to investment risk and charges. A 5% withdrawal is not a guaranteed return or automatically sustainable. For IHT gifts out of income, the withdrawal may be capital despite its Income Tax treatment. Review access needs, future tax rates, ownership and alternatives rather than choosing a wrapper from the tax relief alone. [13]

About the examples

All people and figures are illustrative. Calculations concern non-qualifying policies and UK-resident individual owners, using 2026/27 rates. Examples exclude charges and foreign tax unless stated, assume the supplied policy history is complete and do not compare investment performance. An onshore/offshore recommendation requires product-specific cost, risk and tax analysis.

Primary sources | Checked 24 November 2026

1 UK policy gains HS320
2 Foreign policy gains HS321
3 General gain calculation IPTM3500
4 Tax charge IPTM3110
5 Top slicing method IPTM3840
6 Top slicing calculation IPTM3830
7 Cluster policies IPTM7330
8 Surrender transactions IPTM7325
9 Disproportionate gains IPTM3596
10 Deficiency relief IPTM7540
11 Adjusted net income
12 Income Tax on savings
13 Income for IHT gifts

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