Quilter

Technical insights - Quick reference guide 6

Taxation of investment bonds - time apportionment relief

This guide will provide you with an understanding of time apportionment relief for Onshore and Offshore investment bonds. This guide is not suitable for investment bonds held by companies.

We have a calculator which can perform the calculation described within this guide (with a maximum of four bond gains in a tax year). The calculator can be found on our website: *platform.quilter.com/cehub*

Time apportionment relief reduces the chargeable gain

Time apportionment relief (TAR) can reduce the taxable chargeable event gain on investment bonds for policyholders who've been non-UK resident at some point since the bond was taken out.

Pre 2013 TAR was only available for offshore bonds

Under pre 2013 rules TAR only applied to individuals holding a life assurance or a capital redemption bond issued by an insurer outside the UK (offshore bond).

TAR is normally available to a policyholder provided they were non-UK resident for at least part of the period since the bond was taken out. It does not matter whether they owned the bond during their period of non-residence.

2013 TAR rules were amended to include onshore bonds

The Finance Bill 2013 extended TAR so that it could be used for onshore bonds. In addition changes were also introduced so that the residence test will be based on the residence history of the person liable to income tax on the gain. This is referred to as 'material interest period'. This ensures that TAR can only be used for periods when the policyholder owns the policy (unless a gift assignment between spouses living together has occurred).

2013 rules can apply to pre 2013 bonds

The current rules apply to chargeable event gains arising on or after 6th April 2013 where:

1. The bond has been varied to increase the benefits secured i.e. topped up.
2. There is an assignment of the bond in full or part to a new owner
3. There is an assignment of the bond as security for a debt of the individual or deceased

Bonds taken out prior to 6th April 2013 which have not been varied as described above can use the previous TAR calculation.

Pre 2013 TAR calculation

$$\text{Chargeable gain x } \frac{\text{(number of days of non-residence in the UK)}}{\text{(number of days investment bond in force up to date of chargeable event)}}$$

The result of this calculation is deducted from the chargeable gain.

TAR calculation from 2013

$$\text{Chargeable gain x } \frac{\text{(number of days in the material interest period of non-residence in the UK)}}{\text{(number of days in the material interest period)}}$$

The result of this calculation is deducted from the chargeable gain.

Top slicing relief is reduced

The number of relevant policy years for top-slicing relief (see quick reference guide 5) is reduced by the number of complete policy years which the policyholder was non resident in the UK during the material interest period.

For financial advisers only

Example Calculations

The following examples all show the current rules applicable from 6th April 2013

Onshore Bond & TAR – An example

Gross gain of £24,625

Number of days in material interest period	1095
Number of day's non-UK resident	425

Gross gain x (days non-resident/days in material interest period) = TAR

£24,625 x (425/1095) = £9,557 TAR

Gross gain – TAR = Gain taxable

Gain taxable is £24,625 - £9,557 = £15,068

Executors surrender bond during administration period – An example

Gross gain of £70,000

Number of days in material interest period	3650
Number of day's deceased non-UK resident	3580

Gross gain x (days non-resident/days in material interest period) = TAR

£70,000 x (3580/3650) = £68,657 TAR which the legal personal representatives can claim

Gross gain – TAR = Gain taxable

Gain taxable is £70,000 - £68,657 = £1,343

Assignment made between spouses or civil partners living together – An example

Gross Gain of £50,000

Number of days in material interest period	3200
Number of day's non-UK resident spouse 1	500
Number of day's non-UK resident spouse 2	0

Gross gain x (days non-resident/days in material interest period) = TAR

£50,000 x (500/3200) = £7,812 TAR

Gross gain – TAR = Gain taxable

Gain taxable is £50,000 - £7,812 = £42,188
Assessable on spouse 2 even though never non-resident.

Reduction in top slicing – An example

Gross Gain of £50,000

Number of days in material interest period	3100
Number of day's non-UK resident	2360

Gross gain x (days non-resident/days in material interest period) = TAR

£50,000 x (2360/3100) = £38,064 TAR

Gross gain – TAR = Gain taxable

Gain taxable is £50,000 - £38,064 = £11,936

Top slicing - The number of relevant policy years for top-slicing relief has been revised so that it is now reduced by the number of complete policy years which the policyholder was not resident in the UK during the material interest period. Assuming that the number of years for top slicing purposes would normally be 8, then as the client was non UK resident for 6 years, only 2 years can be used for top slicing purposes.

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Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

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