Contacts
Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to
www.hmrc.gov.uk

Gains on UK life insurance policies

Introduction

This helpsheet will help you fill in boxes 4 to 11 in the 'Life insurance gains' section on page Ai 1 of the *Additional Information* pages of the tax return. It will help you decide which boxes you need to use and what you need to enter in those boxes. These notes are generally applicable to individuals, trustees and personal representatives of a deceased person unless the notes say otherwise.

This helpsheet deals with chargeable event gains on UK life insurance policies, life annuities and capital redemption policies. This helpsheet will help you fill in your tax return for the year ended 5 April 2011. This is because it gives information based on the law for that year. It covers the most common circumstances that you are likely to come across when dealing with the taxation of gains on life insurance contracts.

Guidance

This helpsheet cannot cover every possibility. You can find more detailed guidance in the Insurance Policyholder Taxation Manual (IPTM) at **www.hmrc.gov.uk**

What to include in boxes 4 to 11

Include gains from *life insurance policies, life annuities and capital redemption policies* taken out with a UK life insurance company or a UK friendly society.

What not to include in boxes 4 to 11

Do not include:

- *retirement annuities*, such as those from pension schemes; they go in boxes 10 and 11 on page TR 3 of the main tax return
- *gains from foreign policies*; these go on the *Foreign* pages, boxes 43 to 45.

Policy

Where this helpsheet refers to a 'policy' it means a 'life insurance policy'. This helpsheet also refers to gains from two other types of contract. The first type is a 'life annuity' including a 'purchased life annuity'. The second type is known as a 'capital redemption policy or bond'. The rules for taxing gains on these are broadly the same as the rules for taxing the gains on life insurance policies. If you believe you have one of these two types of contract, then you should read the sections headed 'Life annuities' and 'Capital redemption policies' on page 5.

Gains

In these notes 'gains' are chargeable event gains which are sometimes referred to as 'chargeable gains'. They are taxable as income and included in income for **all** purposes, including entitlement to personal allowances (including age-related allowances) and tax credits. They are **not** capital gains, so capital losses and the annual exempt amount cannot be set against them.

Tax

The way a gain is worked out depends upon the type of event – see 'Determining the amount of the gain' on page 12 and Part 5. A gain is treated as taxable income and added to your other income, but tax at the basic rate may be treated as paid on the gain and where it is, there will be no effect on your tax liability unless you are:

Contacts

Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

- taxable at the higher rate (or higher and additional rates), or
- a UK trustee, or
- a personal representative.

However, a gain on which tax is treated as paid may also have an effect on your tax liability if you would qualify for the age-related personal allowances or reliefs, or are receiving tax credits.

Asking your insurer

Please ask your insurer if you are in doubt:
- about what sort of policy you have,
- whether there has been a chargeable event gain, and
- whether tax is treated as paid.

Part 1 – Types of policy

This part will help you decide if you have a gain because you received a payment or other benefit. The type of policy you have and the type and amount of any payment or benefit you received are all things that may affect whether you have to pay any Income Tax.

Pages 16 and 17 of the Trust and Estate Tax Return guide provide similar guidance for trustees and personal representatives.

Not all payments from your insurer are taxable. For tax purposes, the most important distinction is between 'qualifying' and 'non-qualifying' policies. Qualifying policies are much less likely to give rise to a gain. Non-qualifying policies will normally give rise to a gain, but a number of factors can affect whether you have to pay any tax or not. Qualifying policies, non-qualifying policies and the different results for tax purposes, are explained below.

What sort of policy do you have?

Qualifying policies

These types of policies do not normally give rise to a chargeable event gain. But see the section headed 'Gains arising on qualifying policies' on page 6 for details of when they can arise.

This means it is important to know whether your policy is a qualifying one. There are several rules your policy has to meet if it is to be a qualifying policy and this helpsheet does not explain those rules. However, if you can answer 'Yes' to the following two basic questions then your policy was probably a qualifying policy.

1 Did you take out your policy before 15 March 1984 and receive Life Assurance Premium Relief throughout its term? If so, you can be sure that your policy was a qualifying policy and that no gain arose.

2 If you took out your policy after 14 March 1984, then you need to be able to answer 'Yes' to the questions below:

   a. did the policy have a minimum term of 10 years from the date it was made to the date it was due to end, or was it a 'whole of life' policy (that is, a policy that pays out only on death unless it is surrendered early)? and

   b. did you have to pay premiums of fairly even amounts at regular intervals, such as weekly, monthly or annually, in every year for at least 10 (or the first 10) years, so it was what is known as a regular premium policy?

Your insurer can tell you whether your policy was a qualifying policy, if you are still in any doubt, as they will know the details and history of your policy.

One example of a qualifying policy is a mortgage endowment policy. Most tax-exempt policies sold by friendly societies are also qualifying policies and only exceptionally give rise to gains – see the next section.

Further issues for qualifying policies

Changes to the policy: Your policy may start out as a qualifying policy (as shown in the policy documents) but later become a non-qualifying policy because changes have been made to it, for example, payment of premiums stopped or the premiums have increased. Your insurer should be able to tell you what changes, if any, have happened to your policy or if your policy is no longer a qualifying policy.

Loans: There are special rules about qualifying policies and interest-bearing loans made to you or, on your behalf, to someone else. If you know of such a loan, and your insurer has not already told you whether a gain has arisen, you should ask your insurer. If the policy is a qualifying policy and interest at a commercial rate is payable on the money you borrowed, then the loan is not a chargeable event. This might happen, for example, where the loan was secured by way of a mortgage related to a house purchase.

Acquired/'second-hand' policies

If you are not the original owner of a policy and you have received any money in connection with such a policy, or given the policy away or exchanged it for another asset, then see the section on ‘Policies purchased from a third party – ‘second-hand’ policies’ on page 18.

Non-qualifying policies – 'single premium' policies

A single premium life insurance policy is one where you pay an amount (a premium) to the insurer at the beginning of the policy. You may also be able to pay additional premiums. This type of policy pays out a lump sum on its maturity or if you (or another life assured) should die. You may also withdraw sums or a loan may be made by the insurer or by arrangement with it, while the policy is in force, or you may sell or assign the policy or surrender it completely before it is due to mature.

This type of policy can never be a qualifying policy and is most likely to give rise to a taxable gain.

Personal Portfolio Bonds (PPB)

These types of policies give rise to an annual charge as well as to the other charges that arise on a gain. In general, a Personal Portfolio Bond (PPB) is a life insurance policy where the benefits payable are determined by the value of certain property chosen directly or indirectly by the policyholder, rather than investment funds generally available to other policyholders.

The charge will arise if the policy is a PPB at the end of the insurance year. You are treated as having made a gain of an amount equal to 15% of premiums paid, with the premiums paid being treated as increased annually by 15%, on a compound basis. However, there is no annual charge in the year the policy ends.

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Most policies will not be PPBs but if you are unsure whether your policy is a PPB, then there is further guidance in the Insurance Policyholder Taxation Manual (IPTM). Your insurer should know and be able to tell you if you have a PPB subject to this annual charge. It may have issued a certificate to you showing your taxable gain and may also have sent a copy to us.

Life annuities

A 'life annuity' means an annuity contract for a period ending on death or at some other time related to the end of life.

Capital redemption policies

A 'capital redemption policy' is a particular type of contract that is available from an insurer. It provides that on payment of a sum, or sums, of money the insurer guarantees that a larger sum, or sums, will be payable on a specified future date or dates. There is no 'life assured' and therefore no amount becomes payable because of a death.

There are more details about life annuity contracts and capital redemption policies in Part 4 on page 18.

When will a gain arise?

What gives rise to a gain?

If during the year:

- you made withdrawals or received cash or other benefits on a full surrender, part surrender, maturity or death from a UK life insurance policy, life annuity or capital redemption policy, or
- you sold or assigned the whole or part of a UK life insurance policy, life annuity or capital redemption policy (including as part of arrangements on divorce or separation), or
- the ownership of a policy or part of a policy changed hands for money or money's worth, or
- you took out a loan in connection with a UK life insurance policy, life annuity or capital redemption policy, or
- you held a Personal Portfolio Bond (PPB) with a UK insurer in the year (even if the insurer had not paid cash or other benefits during the year in connection with that PPB), or
- any of the things listed under the previous bullets were done by
  - the trustees of a trust you created or contributed to, or
  - the trustees of a bare trust of which you are a beneficiary, or
  - anybody holding a policy in their own name as your nominee, or
  - a lender to whom your policy was previously assigned as security for a debt of yours

then you may have made a gain which you need to enter in boxes 4 to 7.

No gains arise if you have given all or part of your policy to someone else and have received nothing in return.

'Surrendering' your policy means giving up the right to receive a future benefit in exchange for something, usually cash, now. You can surrender:

- the 'whole' of the rights and your policy ends, or
- 'part' of the rights and the policy continues (but the benefits (money) paid out at the end will be reduced).

The benefits due to you may be paid out as a single sum or as a series of sums and you may have had to claim them from the insurer. (The deceased's personal representatives will usually claim benefits that are paid because of death.)

Other circumstances in which you may make a taxable gain

Loans: This is where an insurer makes you a loan, or makes a loan on your behalf to someone else, or makes an arrangement for some other person to make such a loan.

Replacement policy/related policy: This is when a policy comes to an end and all (or some) of the proceeds are kept by the insurer and used to pay a first premium under, or rolled over into, a new 'replacement' policy or some other type of insurance. You may have difficulty in recognising that your policy has ended and that a new replacement policy (or some other insurance contract such as an annuity) has taken its place. You may want to contact your insurer if you have not received a new policy document. They may have noted the change in some other way, such as endorsing the existing policy document. The circumstances in which a policy ends include:

- exercising an option to take out a new policy
- changing the life or lives assured, for example, if on marriage or forming a civil partnership the life of a spouse or civil partner is added or on divorce or ending a civil partnership the life of a former spouse or civil partner is removed from the policy
- in certain circumstances exercising other options or making changes to a policy by agreement. Changes which end a policy include some which alter the nature of the insured risk or otherwise fundamentally change the contract. It is not possible to list all changes that have this legal result.

Changes to policies: Your insurer may have told you about the effect of any change you have made to your policy. If your insurer hasn't told you, ask them for details. If your insurer is unable to help, look at the Insurance Policyholder Taxation Manual (IPTM) at **www.hmrc.gov.uk**

Gains arising on qualifying policies

A gain may have arisen on your qualifying policy if:

- you surrendered or sold the whole or any part of it, or
- you received benefits, or
- a loan was taken out, other than at a commercial rate of interest

less than 10 years from the date the policy was taken out, or there have been changes to such things as the terms under which premiums are paid or to the lives assured.

A gain may also arise if you, or a previous owner:

- stopped paying premiums so that the policy became 'paid-up' less than 10 years from the date that it was taken out, and
- at any time later, you have received money in connection with the policy, for example, when it matured, paid out on death, was surrendered or where the whole or any part of it was sold.

No gain arises when a qualifying policy matures, pays out on death, is surrendered or sold if:

- the policy has run for at least 10 years
- there have not been any changes to it, and
- all premiums have been paid when due.

Other issues for qualifying policies

Change to premiums for a policy: If you, or a previous owner, changed the policy at some time so that premiums were increased, the 10–year period restarts from the date of that change. However, if the increase was made under an option in the policy, then the 10–year period does not restart.

Contacts
Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Any change to a policy less than 10 years before it is due to mature, can mean the policy is no longer a qualifying policy. Even a change that does not affect the premium, for example, not increasing premiums when required under the policy, can change the policy from qualifying to non-qualifying.

If there was a change made and you are unsure what effect it had, ask your insurer to tell you.

Change to life assured: Changing the life or lives assured can mean that a qualifying policy ends (see 'When will a gain arise?' on page 5). If your policy ended because of a change in the life or lives assured less than 10 years after it was either taken out, or less than 10 years after a change to increase the premium (unless the premium was increased because of an option in your policy), the ending may give rise to a gain unless:
- the whole value of the policy immediately before the change of life assured was applied as premium under the post-change of life policy, and
- no one or no organisation was paid or received anything of value in connection with the change of the life assured.

Examples of payments or receipts of value in the situation above include your insurer charging a fee for making the change, or paying commission to your financial adviser because of a change of life assured. Other examples are paying or giving something of value to someone else, perhaps as part of arrangements made in a pre-nuptial agreement or on separation.

Change of life assured on divorce: If this happens because it is part of arrangements on divorce, then there is no payment or receipt of value and so no gain to include on your tax return, provided there is also a transfer of the policy under:
- an order of the court, or
- the arrangement for the transfer of property as ratified by a court.

Surrender before 10 years: The 10–year minimum period is reduced to three-quarters of the intended term if that gives a lower number than 10. For example, no gain will arise from a policy with an intended 10–year term if it is surrendered or sold after seven-and-a-half years. Similarly, where a policy is due to run for 12 years after a change that increases the premium (not by way of an option) no gain will arise if it is surrendered nine years or more after the change.

Non-qualifying policies – when gains don't arise

You will not have made a gain if:
- the calculations show there is no gain (see 'Determining the amount of the gain' on page 12), or
- the event is the transfer of the beneficial ownership of the whole or part of a policy to a spouse or civil partner who you are living with at some time in the tax year in which the transfer took place, or
- the beneficial ownership was transferred as security for a debt, or
- the beneficial ownership was transferred for no money or money's worth. This includes gifts. Transfers on divorce may include money or money's worth even though no money changes hands. But where the transfer takes place under a court order, or under an agreement ratified by a court, there is no money or money's worth.

If you have received a benefit or one of the other events listed in 'What gives rise to a gain?' on page 5 has occurred, and you do not fall into one of the categories above, you have probably made a gain. If this describes your situation, see 'Determining the amount of the gain' on page 12.

5% withdrawals

You may also have made a gain that is only taxable when your policy ends. This is because in each insurance year you can withdraw up to 5% of the premium paid into a single premium policy without a gain happening in that year. The 5% includes regular pay-outs or withdrawals. If, for example, you do not make **any** withdrawals in an insurance year, the full amount of the 5% 'annual allowance' is carried forward. This means that in the second insurance year, if you have not made a withdrawal in the first insurance year, you can withdraw **up to** 10% of the premium paid without a gain happening in that second insurance year.

An 'insurance year' (sometimes called a 'policy year') begins on the anniversary of the date your policy was taken out and ends on the day before the anniversary in the next year. For example, if your policy was taken out on 1 January 2008, then the policy years will be 1 January 2008 to 31 December 2008, 1 January 2009 to 31 December 2009, 1 January 2010 to 31 December 2010 and so on. The full surrender of your policy ends the final insurance year and this means that the final insurance year may be longer or shorter than 12 months. For example, if you take out your policy on 1 January 2007 and fully surrender it on 6 March 2011, the final insurance year will be the period 1 January 2010 to 6 March 2011 because 31 December 2010 and 6 March 2011 are in the same tax year.

You do not need to include in your tax return details of payments from your insurance policies that are at or below the 5% annual limit unless your policy has ended – see 'Part 5 – How to calculate a gain'.

If payments or withdrawals in an insurance year are higher than the 5% annual limit or the total of the 5% annual limit and any unused amounts brought forward, then you only need to include the excess over the 5% annual limit or over the total of the 5% annual limit and any brought forward amounts.

The 5% annual limit is **not** a tax-free amount. All amounts paid from or withdrawn from a policy have to be added into the gain calculation made when your policy ends. There are examples in Part 5 which show how the 5% annual limit works.

Other circumstances where there is no gain

Critical illness/disability: There will be no gain if you have received a lump sum because of a claim to a 'critical illness benefit' or a 'disability benefit' due under the policy. Benefits of this kind are never included in the calculation of any gain; for example, if you are paid another benefit under the same policy later on. If you are unsure whether a benefit is a critical illness or disability benefit, ask your insurer.

Pre-March 1968 policies: Policies made before 20 March 1968 (and not changed after that date) will not give rise to gains. If you are unsure about the effect of any change, ask your insurer or see the Insurance Policyholder Taxation Manual (IPTM).

Pre-June 1982 policies: Some policies made and assigned before 26 June 1982 do not give rise to gains. However, these may give rise to a Capital Gains Tax charge as explained in 'Policies purchased from a third party – 'second-hand' policies' on page 18.

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Death: Some other types of policies do not usually give rise to gains. Examples of these types of policies are term assurance policies or similar policies that only pay a benefit if death occurs during the term of the policy and do not have a surrender value, or a surrender value no greater than the premiums paid. The only time this type of policy can give rise to a gain is if it is sold. A sale may occur, for example, because the life assured is suffering from a terminal illness.

Mis-sold policies: You may have received compensation from the insurer because you were mis-sold a mortgage endowment policy. If the compensation is based on the comparison between your endowment mortgage and an equivalent repayment mortgage and it is not a requirement of the compensation that you surrender the policy, then this does not give rise to a gain. This is the most common form of compensation but the tax treatment of other forms of compensation may be different. The insurer will be able to advise what form your compensation took.

Chargeable event gain certificates

Gain made – chargeable event certificate received

UK insurers are required by law to issue a certificate if they know a gain has been made on a life insurance policy, life annuity or capital redemption policy. In most cases, therefore, if you have made a gain you will have received a certificate reporting the gain, either directly from the insurer or indirectly via trustees or a lender.

No chargeable event certificate received – but gain made

If you have not received a certificate, in most cases this will be because you did not make a gain. This could be because of your type of policy, or what you did. Or it may be because the type or amount of benefit you received does not give rise to a gain.

But if any of the following **four** circumstances apply to you, you may have made a gain even though you have not received a certificate from the insurer.

1 The insurer has sent the certificate to someone else but you are liable for any tax that is due, for example, where the policy is held by:
   - the trustees of a trust you set up or contributed property to, or
   - the trustees of a bare trust of which you are a beneficiary, or
   - anybody holding a policy in their own name as your nominee, or
   - a lender to whom your policy was previously assigned as security for a debt of yours.

   If you believe this may have happened, you should check with the trustees, nominee or lender to find out whether the insurer has sent them a certificate and if so, ask them for a copy.

2 The insurer has sent the certificate to the wrong address because, for example, you have moved home without telling your insurer. If this may have happened, you should contact the insurer to ask whether it issued a certificate to your old address and, if so, to request a copy.

3 The insurer does not know about the event giving rise to the gain or fails to recognise that a chargeable event has taken place. For example:
   - you have sold or assigned all or part of a policy for consideration, or took out a loan in connection with the policy, but have not told your insurer, or

- the person whose life the policy insured has died but the insurer has not yet been told.

If this has happened, you should contact the insurer to inform them of the event that has happened and you should also ask them for a chargeable event certificate.

4 The policy is a 'foreign policy' – see 'Is the policy a 'foreign policy'?' below.

After you have obtained a copy of the certificate and determined that the gain is part of your income, complete boxes 4 to 7 following the instructions in Part 3 on page 12.

Exceptionally, you may have made a gain on a full surrender, maturity or sale of a policy but not received a certificate if:

- on, or after 21 March 2007, you paid premiums totalling over £100,000 into your policy or policies in the same tax year, and
- your adviser passed on commission in respect of the premiums to you, or reinvested commission as additional premium into your policy.

If so, you must follow the guidance in Part 5 on page 19 to calculate whether a gain has arisen.

Is the policy a 'foreign policy'?

You may not have received a certificate because your policy is a 'foreign policy' taken out before 6 April 2000. A foreign policy is usually one issued by an insurer from outside the UK and is treated as including a policy taken out with the UK branch of an overseas insurer. If you are in doubt as to whether your policy is of this type, you should ask the insurer. Gains on foreign policies go on the *Foreign* pages which you can get from the SA Orderline number on **0845 9000 404** or from our website at **www.hmrc.gov.uk** (see the notes on boxes 43 to 45 of the *Foreign* pages and Helpsheet 321 *Gains on foreign life insurance polices*).

A UK insurer may also issue a foreign policy as part of its 'Overseas Life Assurance Business'. This is a type of policy sold by a UK insurer to a person who, at the time it was taken out, was residing outside the UK. Gains from this type of policy go on the *Foreign* pages if the policy was taken out on or after 17 March 1998. However, gains from Overseas Life Assurance Business policies which were taken out before 17 March 1998 are not treated as arising from foreign policies and you should enter details of such gains in boxes 4 to 7 according to the guidance in Part 3 on page 12. If you think you might have made a gain on an Overseas Life Assurance Business policy taken out before 17 March 1998 but have not received a certificate, contact your insurer.

Part 2 – Whose gain is it?

Individuals

A gain will be treated as part of your income if you are:

- the 'beneficial' owner of the rights under the policy. You are likely to be the beneficial owner if you paid the premium(s) and you (or your estate after your death) are entitled to any benefits under the policy. You may be regarded as the beneficial owner in other circumstances, usually because you are absolutely entitled to benefit from a policy. For example, you may be the beneficiary of what is known as a 'bare' trust or a 'resulting' trust, or

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

- the owner of rights under a policy which is held as security for a debt of yours, such as a mortgage, or
- the person who either created or added property to a trust that holds the policy. The gain is treated as your income whether or not you are entitled to benefit under the terms of the trust (unless the trust is a bare trust or a resulting trust – see above). You are entitled to recover from the trustees any tax that you pay on the gain, or
- the UK beneficiary of an overseas trust or entity. An overseas entity is a company or other institution resident or domiciled outside the UK. A gain may be treated as 'unexpended income' of the trust or entity and the benefit you received may be treated as your income.

Benefits from overseas trusts and entities

A chargeable event gain on a UK or foreign life insurance policy, life annuity or capital redemption policy is treated as income for this purpose if the rights under the policy or life annuity are held:

- by a non-resident trust and the person who created the trust is not charged UK tax on the gain. (If the rights under a policy or life annuity are held on trust, any gain is usually treated as income of the person who created the trust. But this is not the case if the trust was created by an individual who is non-resident or deceased. Nor is this the case if the trust was created by a company or other entity if the company or other entity is non-resident or has been dissolved, wound up or otherwise come to an end), or
- as security for a debt owed by a non-resident trust, or
- by an overseas entity, or
- as security for a debt owed by an overseas entity.

A gain is not counted as a benefit received from an overseas trust or other entity if the first or second bullet above would apply but:

- the policy or life annuity was made before 17 March 1998, and
- the policy or life annuity has not been 'enhanced' on or after 17 March 1998 by paying further non-contractual premiums or in any other way, and
- the trusts were created by an individual who died before 17 March 1998, or if created by more than one person, at least one of those persons was an individual who died before that date.

If you received your payment or other 'benefit' from a UK trust which has been either:

- non-resident, or
- which has received assets from a trust which either is or has been non-resident,

only count unexpended income that arose while the relevant trust has been abroad. Chargeable event gains count if the trust was non-resident immediately before the chargeable event. If you are not sure whether this applies to your circumstances ask the trustees or your tax adviser. For more information see the *Foreign notes* about completing boxes 41, 42 and 46 in the *Foreign* pages, and Helpsheet 262 *Income and benefits from transfers of assets abroad and income from non-resident trusts*.

'Unexpended income' means income that has not otherwise been spent by the trust or other entity. Income which arose before 10 March 1981 is not counted for this purpose. A gain on a policy or life annuity is not counted as unexpended income if the chargeable event was before 6 April 2000.

UK resident trustees

A gain will be treated as income of trustees of a trust if:

- the trust was created by an individual who, when the event that gives rise to the gain occurs, is not resident in the UK or is dead, unless the gain arises in the same tax year in which that individual died, or
- the trust was created by a company or some other entity that is not resident in the UK or that has been dissolved, wound up or otherwise come to an end, or
- the rights under a policy are held as security for a debt owed by the trustees, or
- the trust was created by a person or body other than a company or individual, for example, another trust, and the policy was taken out on or after 9 April 2003.

There is further guidance for trustees in the *Trust and Estate Tax Return guide*.

Personal representatives

A gain may be treated as income of personal representatives where it arises on a policy and it is:

- not treated as income of a deceased individual and
- not treated as having been taxed at the basic rate.

This may be the case for example, where a policy of life insurance owned by the deceased but taken out on the life of somebody else, is surrendered by the personal representatives, or matures while it is still an asset of the estate.

Gains should be included in box 9.29 of the Trust and Estate Tax Return and the *Trust and Estate Tax Return guide* has more information.

Co-ownership etc.

A policy is treated as if it is in co-ownership if:

- more than one individual is beneficially entitled to the benefits payable under the policy, or
- the rights under the policy are held in trusts created by more than one person (including where property was added to an existing trust), or
- the rights under the policy are held as security for a debt owed by more than one person, or
- the rights under the policy are held in more than one capacity (for example, part of the rights are held as beneficial owner and part as trustee).

In each case, any gain has to be divided among the co-owners in accordance with special rules. See 'Dividing gains – joint owners' on page 15.

If a gain is to be treated as part of your income, the guidance in the following pages will help you to calculate it.

Part 3 – Entries on the tax return

Determining the amount of the gain

This part of the helpsheet tells you how to work out whether you have made a gain from your policy, the amount of that gain and how to complete your tax return.

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

In most cases, the gain that has arisen will be shown on a certificate provided by the insurer. If the certificate shows that there is:

- tax to be treated as paid on the gain, complete boxes 4 and 5 (unless the policy was held in a voided ISA – see the section headed 'Gains on life insurance policies in Individual Savings Accounts (ISAs) that have been made void (boxes 8 to 10)' on page 19)
- no tax to be treated as paid on the gain, complete boxes 6 and 7.

The certificate will show the number of complete years that you need to include in box 5 or 7, as appropriate.

However, if you:

- have sold your policy, or
- think that you may have made a gain but have not received a certificate

you should refer to Part 5 on page 19 which explains how to calculate the gain. If the result given by the calculation is zero or a negative amount, go to the section 'Loss, or no gain, on the policy' on page 17.

Sale or assignment: If the gain arose because of a sale or assignment of the policy, the certificate will show the same information as for other events apart from:

- the amount of the gain, and
- how much tax is treated as paid on the gain.

The certificate will tell you:

- whether (but not how much) tax is treated as paid on the gain
- the total previous gains, if any
- the premiums or consideration paid
- the amount of previous capital payments (or relevant capital payments), if any, and
- the value of parts previously assigned, if any.

You can use this information, and the value you received for disposing of the policy, to calculate the gain and tax treated as paid and enter the amount of the gain in box 4 or 6, as appropriate. Example 3 on page 22 will help you with this calculation.

An assignment which is not for money or money's worth will not give rise to a gain. If you have received a certificate reporting a sale or assignment, your insurer may be able to advise you whether the assignment was for money or money's worth.

The transfer of a policy as part of arrangements made on divorce or separation is not treated as taking place for money or money's worth, provided the transfer of the policy took place under a court order or was part of an arrangement ratified by the court (see the 'Gain arising on qualifying policies' and the 'Non-qualifying policies – when gains don't arise' sections on pages 6 and 7 respectively).

Multiple or 'clustered' policies

Many insurance packages are made up of a number of policies taken out at the same time with the same insurer, and are often referred to as a 'cluster'. At the outset, all of these policies will be identical. They may also have identical numbers apart from a sub-designation (for example, policies numbered AB1234567/1–10, where numbers 1–10 identify the individual policies). You may also only have one policy document for all the clustered contracts.

A reference in this helpsheet to a policy means one policy: in a cluster this would be, for example, policy AB1234567/7. You should do any calculation of a gain on each individual policy even if you have twenty identical policies and have received an identical lump sum from each one.

However, if you have made gains from more than one policy, and following the calculations set out in Part 5 on page 19 all of the gains from all of the policies are identical, then you can add the individual gains together and include the total gains and total tax treated as paid in boxes 4 to 11, as appropriate.

If you have made gains from more than one policy and they were not identical or were not taken out at the same time with the same insurer, you will need to enter details in the 'Additional information' box on page Ai 4 of the *Additional information* pages. Describe each policy, life annuity or cluster of identical policies. For each policy enter the name and reference number of the policy, the insurer, the amount of the gains, the number of complete years and the amount of any tax treated as paid. Then add together all the gains and tax treated as paid and put the totals on page Ai 1 in box 4 or 6, as appropriate. Do not make any entry for the number of years in box 5 or 7.

Commission

Commission may have been rebated to you or reinvested as additional premium in your policy. If, on or after 21 March 2007, you:

- paid premiums totalling over £100,000 into your policy or policies in the same tax year, and
- your adviser passed on commission in respect of the premiums to you, or reinvested commission as additional premium into your policy,

then you must add the amount of commission passed on or reinvested to the gain on a full surrender or maturity that is shown on the certificate and enter the total in box 4 or 6 as appropriate.

In which year is a gain taxable?

First make sure the gain is taxable in 2010–11. The certificate may show one date or two dates relating to the event giving rise to the gain.

If the certificate only shows one date then this is the date of the event. If this falls in the period 6 April 2010 to 5 April 2011 then it is the tax year ended 5 April 2011 and the gain must be entered in this year's tax return.

If the certificate shows two dates relating to the event, then only enter the gain on this year's tax return if the later of these dates is in the tax year ended 5 April 2011. This later date is the final day of the 'insurance year' in which the event occurred. An insurance year (which may also be referred to as a 'policy year') is usually a 12-month period beginning on the anniversary of the date on which you took out the policy.

In some cases the insurer may have sent you more than one certificate relating to a particular gain, with the later certificate showing a revised figure of benefits paid or amount of chargeable gain. In this case, you should enter the details shown on that later certificate.

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Part surrender/sale: If the event is the sale or surrender of part of a policy, including the making of a loan, it is the date on which the policy was taken out that determines the tax year in which any gain is taxed. The notes in the previous paragraph and in Part 1, on page 8, explaining 'insurance year' and the Example below, will help you work out the correct tax year.

Example

A policy you took out on 1 July 1997 for example, would have an insurance year ending on each 30 June following until your policy finally ends. If using this example, you made a part surrender on 31 January 2010, the end of the insurance year would be 30 June 2010. 30 June 2010 falls into the 2010–11 tax year so you would enter the gain on this year's tax return.

End of policy: If the event is a death or the maturity, sale or surrender of the whole of a policy, the gain is treated as income of the tax year in which the death, maturity, sale or surrender occurs.

Dividing gains – joint owners

It is not possible to elect to share any gain on a policy of life insurance, life annuity or on a capital redemption policy. Any gain is allocated to the person who actually owns the rights (or owned them immediately prior to the chargeable event) under the insurance policy or contract, or created the trusts under which the rights are held.

Proportion of rights: If you have a share in the rights under a policy, your share of any gain that arises is the same as your share of the rights. Joint owners are treated as having equal shares: if you own the policy jointly with your spouse or civil partner, you should each enter on your own tax return half the amount of the gain reported on the certificate and also half the tax treated as payable.

Settlors of a trust: If the rights under a policy are held in a trust or trusts that you created, or if you added property to an existing trust, your share of the overall gain is the same as the share of the property held in trusts that originates from you at the time the gain arises. (For example, say you settled £2,500 on a trust and this was used to buy assets that had become worth £3,000 by the time the gain on a life policy in the trust arose. If the total assets of the trust were worth £4,500 at that time, then you would be taxable on $^{3000}/_{4500}$ or $^{2}/_{3}$ of the gain. The person who donated the other property held in the trust would be taxable on the other $^{1}/_{3}$ of the gain.)

Security for debt: If the rights under a policy are held as security for a debt owed by you and others, your share of any gain that arises is the same as your share of the debt.

Other: Similar rules apply in more complex situations such as in apportioning gains to trustees, personal representatives and as unexpended income of an overseas trust or entity. If you need more information, see the Insurance Policyholder Taxation Manual (IPTM), available at **www.hmrc.gov.uk**

Top-slicing relief

You should ignore this section if you are a trustee or a personal representative of a deceased person who is taxable on a gain. This is because in these circumstances, you are not entitled to top-slicing relief.

Top-slicing relief is a relief that is available when you:

- do not pay higher rate tax on your other income (excluding the gain) but when the gain is added to your other income, you have to pay higher rate tax, or
- do not pay additional rate tax on your other income (excluding the gain) but when the gain is added to your other income, you have to pay additional rate tax.

You need to know the number of complete years to enter in box 5 or 7 (whichever is relevant) on page Ai 1 of the *Additional information* pages. Your insurer is required to include this information on the chargeable event certificate.

You should enter '1' in box 5 or 7 if:

- partial withdrawals etc. giving rise to gains are made each year, or
- the period from when the policy was made to when it ended is less than a complete year, or
- a gain arises each year on a PPB.

Do not leave the box blank or enter 'zero' unless you have multiple policies that have resulted in gains. In these circumstances, as explained in the 'Multiple or 'clustered' policies' section on page 13, you should include details in the 'Additional information' box, page Ai 4 of your *Additional information* pages.

First event/end of policy: If the policy came to an end as a result of the event (surrender, maturity or death), or is the first sale or surrender of a part of the policy or contract, the number of years is the number of complete periods of 12 months since the policy or contract was made. So, if you took out your policy or contract on 1 February 1998 and surrendered it on 30 June 2010, it has run for 12 complete years and that is the number you put in either box 5 or 7.

Subsequent event: However, where the gain arises on a second or subsequent sale or surrender of part of a policy or two or more loans have been made, the number of years is the number of complete periods of 12 months since the last preceding gain arose. For this purpose the date on which each gain is treated as arising is the end of the insurance year in which the event occurred – see 'In which year is a gain taxable?' on page 14.

Calculation: If you are due any top-slicing relief, it will be automatically calculated using the information given in box 5 or 7 and given in the calculation of your overall tax due. If you do not make any entries in box 5 or 7 we will use the information in the 'Additional information' box on page Ai 4 of your *Additional information* pages, to work out the amount of relief. Further information and guidance, including the implications for individuals liable to additional rate tax, is available in the Insurance Policyholder Taxation Manual (IPTM) at **www.hmrc.gov.uk**

The calculation of top-slicing relief can be complicated and it is not possible to give full details in this helpsheet. However, there are two common scenarios which arise:

- if you are liable to higher rate tax but not additional rate tax on your other income (not including the gain) then no top-slicing relief is due
- if you would not be liable to higher rate tax on your other income plus the 'sliced gain', which is the gain divided by the number of years, then there is no higher rate tax to pay on the gain.

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Personal allowances/age allowance/tax credits: The whole amount of the gain, rather than the 'sliced gain', must be added to your other income to see if your personal allowances (including age-related allowances) or tax credits are affected.

Loss, or no gain, on the policy

The result of the calculation when a chargeable event arises may not be a positive amount. You have not made a gain and should not make any entries in box 4 to 10 on your tax return, if:

- the result of the calculation, or
- the calculation on an assignment, or
- the result of a part surrender type of calculation (see Example 4 on page 23)

is zero or gives a negative result.

If the result of a full surrender, death or maturity calculation is negative and you made no gains on the policy in earlier years (so that the number represented by A in Examples 1 to 3 in Part 5 is zero), you have made a loss on the policy. There is no relief for that loss and you should not make any entries on your tax return.

If the result of a full surrender, death or maturity calculation is negative but you made gains on the policy in earlier years, the section below about 'Deficiency relief' may be relevant.

A loss on one policy cannot be set off against a gain on another policy.

Deficiency relief

If the event is death, full surrender or maturity of the policy **and** the calculation includes any amount for gains made on earlier events, the result of the calculation of the gain may be a negative amount. If so, you may be entitled to a relief known as 'deficiency relief' which reduces the amount of income tax due on other income liable to higher rate tax. This relief is not available to trustees, personal representatives and beneficiaries of an overseas trust, company or other entity.

If you are entitled to the relief, it can be up to the maximum of the amount of the gains made on earlier chargeable events from the same policy and to the extent that such gains were treated as forming part of your income. Earlier chargeable events may have arisen, for example, when during the term of the policy, you made withdrawals from your policy or part assignments of value higher than 5% of the premium in a year. Details on how to calculate the amount of the relief can be found in the Insurance Policyholder Taxation Manual (IPTM), in IPTM3860 to 3880, available at **www.hmrc.gov.uk**

You will not get any reduction in your tax due unless you have made gains from your policy in a year before 2010–11 and you have to pay tax at the higher rate in 2010–11. If you have made gains in a year before 2010–11, your policy has ended in 2010–11 and you pay higher rate tax in 2010-11, then this relief will mean a reduction in your tax due. Deficiency relief will not reduce the amount of tax due on income liable to additional rate tax.

If you are due any deficiency relief, you will need to complete box 11 on page Ai 1 of your *Additional information* pages. Any relief due will be automatically calculated using that information.

Part 4 – Other cases

Examples of other cases

This part describes a number of other cases which may apply to you.

Other Income Tax charges take priority

If any other charge to Income Tax arises on money obtained from, or in connection with, a policy or a change of ownership or a policy coming to an end that charge will take priority over the charge described in this helpsheet. For example, a benefit under a policy may be taxable as a receipt of your trade, profession or employment. If you think this applies to you and you need more help, see 'More help needed?' on page 24.

Lloyd's underwriters

You may hold life insurance policies, life annuities and capital redemption policies as part of funds at Lloyd's. The tax treatment of any gain on these policies or life annuities depends on how they are used to underpin or support your underwriting. If the insurer has provided a guarantee to Lloyd's secured on your policy or life annuity, you should enter the gains in the tax return, as appropriate, following the guidance in this helpsheet. If, however, the trust deed governing your Lloyd's Deposit includes the policy or life annuity itself, any chargeable event gain is part of Lloyd's trading income. If you are an individual, include it in box 25 of the *Lloyd's underwriters* pages of the tax return (see page LUN 8 of the *Lloyd's underwriters notes*). If you are a personal representative, include it in box 1L.58 of the *Lloyd's underwriters* pages of the Trust and Estate Tax Return. In these circumstances, the gain is treated as not having been taxed at the basic rate and you should enter the total sum received with no allowance for basic rate tax treated as paid.

Policies purchased from a third party – 'second-hand' policies

If you have purchased a qualifying policy from a third party for money or something else of value, or own a policy made and originally assigned before 26 June 1982, there may be a Capital Gains Tax (CGT) charge (or loss) when you dispose of it, exchange it for another asset, or otherwise receive money in connection with it. The maturity or surrender of a policy counts as a disposal for the purposes of CGT.

Policies purchased from a third party are often qualifying policies. This sort of policy is sometimes called a 'Traded Endowment Policy' or 'TEP'. A disposal of a 'second-hand' qualifying policy does not generally give rise to a gain chargeable to Income Tax – see 'Qualifying policies' on page 3. However, if the disposal of the policy does not give rise to a gain chargeable to Income Tax, there may be a charge to CGT.

You should return any capital gains or claim any capital losses you make during the tax year on policies purchased from third parties on the *Capital gains summary* pages of your tax return. You will find basic information about how to work out capital gains in the *Capital gains summary notes* and relevant helpsheets referred to in those notes.

Life annuities

Enter details of the total yearly or monthly annuity payments received in box 1 on page TR 3 of the tax return. They must be distinguished from retirement annuities or payments from a personal pension scheme that are taxed as pensions as explained in the Tax Return Guide.

Contacts

Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Life annuity payments may commence immediately or be deferred. (These contracts are sometimes known as purchased life annuities.) Your insurer should be able to tell you if you have a life annuity on which a gain has arisen. It is rare for a life annuity to give rise to a gain and one will normally only arise if you have received a lump sum in return for giving up the right to receive some or all of the future annuity payments. If you need further information, see the Insurance Policyholder Taxation Manual (IPTM) at **www.hmrc.gov.uk**

Capital redemption policies

Capital redemption policies are relatively rare but you may make a gain in the same circumstances (apart from death) as with a life insurance policy, that is:
- when money (or something of value) is obtained from or in connection with a policy, or
- if the insurer makes you a loan, makes a loan on your behalf to someone else or makes an arrangement for some other person to make such a loan, or
- when ownership of a policy or part of a policy changes hands, or
- when a policy comes to an end, or
- when the policy is a PPB.

There is more detail about these circumstances in 'When will a gain arise?' on page 5.

Gains on life insurance policies in Individual Savings Accounts (ISAs) that have been made void (boxes 8 to 10)

You do not usually have to pay any tax on gains made on policies of life insurance held within the insurance component of an ISA. However, the ISA may be made void if, for instance, it is found that the application to subscribe was invalid. Then, the policy within the ISA will be terminated and this may give rise to a gain.

Where an ISA including a life policy has been made void, your ISA manager should already have notified you of this in writing and told you how much tax has been deducted from any gain. If there is a gain arising, the ISA manager (or the life insurance company if different from the ISA manager) will have provided you with a chargeable event certificate which you should use to complete your tax return. Include the amount of the gain in box 8 and the number of years in box 9 on page Ai 1 of the *Additional information* pages. Enter in box 10 the amount of tax your ISA manager or insurer told you was deducted from the gain. It will be 20% of the gain entered in box 8.

Part 5 – How to calculate a gain

There are different rules for calculating a gain on:
- a full surrender or maturity
- death
- a sale or assignment
- a part surrender giving rise to a partial withdrawal of benefits or a payment of a cash bonus or an insurer making a loan or on the sale of part of a policy, and
- a part assignment other than by way of a gift.

Your copy of a chargeable event certificate should tell you the gain or contain all the information (possibly apart from the sale price) that you need to calculate your gain. (Different rules apply to life annuities. If you need to know about these rules, see the Insurance Policyholder Taxation Manual (IPTM).)

On maturity or full surrender

A gain on maturity or full surrender may be shown on the certificate provided by the insurer, together with the amount of Income Tax treated as paid. If not, it is calculated as follows:

Gain = (X + Y) minus **(Z + A)**, where:

'X' is the single lump sum benefit receivable as a result of the maturity or full surrender. (If you do not receive a cash payment on maturity or surrender because the full value of the amount of the benefits payable under the policy is transferred to a new policy, amount **X** is equal to the value transferred to the new policy. If, instead of a single lump sum, you are to receive a series of sums as a result of maturity or full surrender (including if you opt to receive an annuity), **X** equals the value of the right to receive those sums at the time when the right to them arises. Ask your insurer about the valuation if you do not have a chargeable event certificate or if the certificate does not tell you what the value is.)

'Y' is all benefits (money or anything of value) received at any time previously under this or any 'related policy' (see below) with the exception of critical illness benefits or disability benefits – see 'Critical illness/disability' on page 8. Benefits also include loans made by your insurer, or under an arrangement made by your insurer, to you or on your behalf, to someone else. Gifts costing your insurer no more than £30 are left out of account.

'Z' is all amounts paid as premium under this or any related policy. Where on or after 21 March 2007 you paid premiums totalling over £100,000 into your policy or policies in the same tax year and your adviser passed on commission in respect of the premiums to you, or reinvested commission as premium into your policy, then you must reduce **Z** by the amount of commission passed on or reinvested.

'A' is all gains which arose on part surrenders or part sales in a tax year before that in which your policy matured or was fully surrendered. This includes gifts made before 6 April 2001 or on your insurer previously making a loan.

All of the amounts above, possibly apart from **A**, should be available from your insurer if you want to check the calculation. If you are unable to work out the amounts of previous gains your insurer again may be able to help you.

(A 'related policy' is any policy which ended previously, see 'Replacement policy/related policy' on page 6, and which was replaced by the policy on which a gain is being calculated. An earlier policy in a chain of policies is also a 'related policy'. This applies whether or not the new policy arose as a result of the exercise of a maturity option. Your insurer should be able to tell you if there were any policies 'related' to the policy giving rise to the gain.)

On death

Calculate the gain on death using the same (X+Y) minus (Z+A) formula but in this case amount **X** is the surrender value of the policy immediately before death rather than the lump sum benefit receivable as a result of death. Ask

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

your insurer to tell you the value if they have not already done so.

On sale

You also calculate a gain on the sale of all of a policy using the same formula as for maturity or full surrender, except that in this case amount **X** is normally the sale price of the policy (or the value of any other consideration if the policy is not transferred for cash). But the transfer of ownership of a policy between a husband and wife or civil partners who are living together, does not give rise to a gain – see 'Non-qualifying policies – when gains don't arise' on page 7. Note that amount **X** is the market value of the rights sold, not the sale price, if the person to whom you sold the policy is your wife or husband or civil partner (with whom you are not living and ceased to live with before 6 April 2010), a brother, sister, child or another 'connected person'. If you are not sure whether the person is connected with you for tax purposes, your usual HM Revenue & Customs office can help you.

Y is the same as on maturity or full surrender as set out in the previous paragraph plus the aggregate value of any previous sales, or gifts before 6 April 2001, of part of the policy.

On part surrenders/part assignments (sales)

A gain on a part surrender etc. which results in a receipt of benefits or a payment of a cash bonus or on your insurer making a loan or on a sale of part of policy rights, is calculated for a year at a time. See 'In which year is a gain taxable?' on page 14. The gain is taxable in the tax year in which the insurance year ends. Although a gift of part of the rights under a policy after 5 April 2001 does not give rise to a chargeable event, there may have been earlier **part assignments by gift**. Gifts of part of the rights that took place on or before that date may have given rise to chargeable event gains. If so, the gains from earlier years will be included in **A** and the value of the gifts giving rise to such gains will be included in **Y**.

The gain for an insurance year when there has been a part surrender is calculated as follows:

Gain = (B + C) minus **(D + E + F)**, where:

'B' is the value of all parts surrendered plus all cash bonuses, plus the value of all parts that you have sold, plus the amount of all loans in the year

'C' is the value of all parts surrendered and all cash bonuses and the value of parts sold, or gifted before 6 April 2001, and the amounts of all loans in previous years, unless those amounts have already been taken into account in calculating a gain in a previous year

'D' is $^{1}/_{20}$th (5%) of premiums paid in the year

'E' is $^{1}/_{20}$th (5%) of premiums paid in any previous years

'F' is $^{1}/_{20}$th (5%) of each premium paid in any previous year for each year since the premium was paid (excluding the current year), unless those amounts have already been set off in calculating a gain in a previous year.

(The maximum deduction is 100% of the premium paid, which is 20 years at 5%.)

Examples of calculations

Examples of the calculation of the gain on maturity or full surrender using the formula (X + Y) minus **(Z + A)**

See page 20 for details of what X, Y, Z and A represent.

Example 1

On **maturity** a benefit of £10,000 arises (X).

The premiums paid total £4,000 (Z).

[In this example, both Y and A = 0]

The gain is (£10,000 minus £4,000) = £6,000.

Example 2

As a result of the **death** of the person to whom the tax return relates, a benefit of £10,000 arises and the surrender value immediately before death is £8,000 (X).

The premiums paid total £4,000 (Z).

[Again, both Y and A = 0]

The gain is (£8,000 minus £4,000) = £4,000, and the gain is treated as income of the deceased for the year of death.

Example 3

Policy is sold for £10,000 (X).

There was an earlier related policy.

On **maturity** of that earlier related policy, a benefit of £5,000 arose (Y).
The premiums (Z) paid on the first policy totalled £2,000 and on the second policy were equal to the maturity value transferred to the replacement policy £5,000 = £7,000.
[Here A = 0]

The gain is £10,000 (X) + £5,000 (Y) minus £7,000 (Z) = £8,000.

Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

Examples of the calculation of a gain on part surrender etc. using the formula (B + C) minus (D + E + F)

See page 21 for details of what B, C, D, E and F represent.

Example 4

Part surrenders are made in the year to 24 May 2010 of £250 and £250 = £500 (B).
The insurance was made and the only premium of £10,000 was paid on 25 May 2009.

D = 500, E = 0, F = 0

In this case C = 0

The calculation is: (£500 (B) minus (£500 (D) + 0 (F)) = £0

So there is no gain.

Example 5

Part surrenders are made in the year to 31 October 2010 of £1,500 (B).
There were no part surrenders etc. in previous years.

The insurance was made and the only premium of £10,000 was paid on 1 November 2007.

D = 0, E = £500, F = £1,000 (£500 x 2 years)

In this case C = 0

The calculation is: £1,500 (B) minus (0 (D) + £500 (E) + £1,000 (F)) = £0

So there is no gain.

Example 6

A part surrender is made in the year to 30 November 2010 of £7,500 (B).
There were no part surrenders etc. in previous years.

The insurance was made and the only premium of £10,000 was paid on 1 December 2007.

D = 0, E = £500, F = £1,000 (£500 x 2 years)

In this case C = 0

The calculation is: (£7,500 (B) minus (0 (D) + £500 (E) + £1,000 (F)) = £6,000

So there is a gain of £6,000.

Example 7

An insurance was made and the only premium of £10,000 was paid on 1 January 2004.
A part surrender is made in the year to 31 December 2010 of £5,000. There were part surrenders of £500 in this year and each of the previous insurance years.

D = 0, E = £500, F = £3,000 (£500 x 6 years)

In this case:
B = £5,000 + £500
C = £3,000 (£500 x 6 years)

The calculation is: ((£5,500 (B) + £3,000 (C)) minus (0 (D) + £500 (E) + £3,000 (F)) = £5,000

So there is a gain of £5,000.

More help needed?

If you need more help in filling in your tax return you can ask your insurer, your financial or tax adviser or your usual HM Revenue & Customs office.

You can find out more about taxation charges and reliefs relating to contracts with insurance companies and the issues covered in this helpsheet in the Insurance Policyholder Taxation Manual (IPTM) available at **www.hmrc.gov.uk**

These notes are for guidance only and reflect the position at the time of writing, They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at **www.hmrc.gov.uk**