STERLING

Sterling Investment Bond tax guide

This guide aims to help you understand the tax treatment of the Sterling Investment Bond. If you are reading it without an adviser, we recommend you take financial advice.

Please consider all the tax implications when taking out, making changes to, and disposing of some or all of your investment.

We have based this guide on our understanding of current UK law and HM Revenue & Customs (HMRC) practice as at April 2025.

The amount of tax due will depend on individual circumstances. Future changes in law and tax practice, or in individual circumstances, could affect the amount of tax you may have to pay.

If you're a Scottish or Welsh Rate taxpayer, these rates of Income Tax don't apply to savings income, therefore the tax rates and bands provided in this guide will apply to you as they are the same for all taxpayers across the UK.

Non UK residents, Trustees and organisations should take separate advice, as their tax position can be more complex.

Sterling Investment Bond

The investment bond consists of a series of 1,000 separate but identical policies that allow for flexibility when making withdrawals.

The investment bond is:

- a whole of life insurance policy, meaning that it does not have a fixed term or specified end date and provides an element of life cover
- non-qualifying for UK tax purposes, meaning that tax may be due on any withdrawals or surrender (cash-in).

Any gain you make from an investment bond, for example following a withdrawal or surrender, is treated as savings income (income) and taxed at your marginal rate. You will need to include the full amount of the gain in your tax return. The amount of tax you will pay depends upon your personal circumstances. No basic rate income tax is due because an equivalent amount of tax is paid on the income and capital gains produced within the fund(s) the bond is invested in and is reflected in the unit price(s). This tax can't be reclaimed. This means that the maximum amount of tax payable on the gain will be the difference between the higher rate (or additional rate, if applicable) of income tax and the basic rate of income tax.

If you are a basic rate taxpayer, and part of the gain from a withdrawal or surrender takes your income above the higher rate tax threshold in that tax year, you may pay tax on that part of the gain.

If you are already a higher rate (40%) or additional rate (45%) taxpayer, the gain will be liable to income tax and you have to pay an extra 20% or 25% income tax respectively subject to any reliefs or allowances you may be entitled to.

If you're a Scottish or Welsh rate taxpayer, these local rates of income tax don't apply to savings income, therefore the tax rates and bands provided in this guide will apply to you as they are the same for all taxpayers across the UK.

A chargeable gain may occur whenever there is a chargeable event, as described below.

Chargeable events

Chargeable events that can cause an income tax charge are:

- regular or one-off partial surrenders including any adviser remuneration that is paid that exceed the 5% allowance (described in the 'Withdrawals' section)
- the full surrender of the investment bond (or individual policies)
- the death of the last life insured
- the assignment of the investment bond.

These are all explained in more detail in the sections that follow.

If a chargeable event happens, we will send you details of any chargeable gain. We will also inform HMRC where we are required to do so under current tax law.

The examples in this guide do not take into consideration any entitlements, allowances and tax reliefs available. For more information on entitlements, allowances and tax reliefs, see page 6.

Types of chargeable event

Withdrawals

Regular withdrawals and adviser remuneration

Under chargeable event rules, each regular withdrawal or adviser remuneration payment is considered to be a partial surrender of the investment bond. As such, for tax purposes, regular withdrawals and adviser remuneration payments are treated in the same way as partial surrenders as explained in the 'One-off withdrawals' section below.

One-off withdrawals

One-off withdrawals can be made in two ways:

Partial surrender

1. By taking a one-off withdrawal equally from all the individual policies that make up the investment bond - this is known as a partial surrender.

Each year, by which we mean 12 months from the investment bond start date and each subsequent anniversary, you can take regular withdrawals, one-off partial surrenders or make adviser remuneration payments of up to 5% of the amount invested without an immediate chargeable event gain. However, if you take out more than the 5% allowance in any year, this will be classed as a chargeable event and any amount over the 5% allowance, the chargeable gain, may be taxable.

If you don't use the 5% allowance in one year, you can carry it forward to the next. For example, if
£100,000 is invested and you don't take any partial surrenders in the first two years, you can withdraw up to £15,000 in the third year without an immediate tax gain.

If you withdraw your full 5% allowance every year, after 20 years you will have used up all your allowance. So any withdrawals you make after this will be classed as chargeable event gain and may be taxable, depending on your circumstances.

Taking a large one-off partial surrender, either on its own or when added to regular withdrawals and any adviser remuneration payments, may result in an artificially high tax liability. This is because the tax liability is calculated on the full value of the partial surrender over the 5% allowance, and takes no account of investment performance.

Any gain will be calculated in the tax year in which the last day of the investment bond year falls. The investment bond year ends on the day before the next start date anniversary.

Full surrender of one or more whole policies

2. By fully surrendering one or more whole policies that make up the investment bond.

If you fully surrender whole policies, your gain will depend on how much the value of each policy has increased, in the same way as a full surrender of the investment bond, as described in the 'Full surrender' section.

Any gain is treated as income for the tax year in which the surrender happens.

Example 1 – withdrawal taken equally from all policies

You pay £100,000 into an investment bond. In the second year its value has increased to £120,000 and you withdraw £40,000. You have not taken any previous withdrawals. The cumulative (total) 5% allowance is £10,000 (£100,000 x 5% x 2). The gain over the 5% allowance is £30,000 (£40,000 – £10,000).

If you are a higher rate taxpayer*, the maximum tax due is £6,000 (20% of the gain for tax year 2025/26).

If you are an additional rate taxpayer, the maximum tax due is £7,500 (25% of the gain for tax year 2025/26).

Example 2 – surrendering whole policies

As there are 1,000 policies, each individual policy is worth £120 in the second year. This represents a gain of £20 for each policy.
You could surrender 334 policies and receive £40,080, resulting in a gain of £6,680 (£20 x 334).
If you are a higher rate taxpayer*, the maximum tax due is £1,336 (20% of the gain for tax year 2025/26).
If you are an additional rate taxpayer, the maximum tax due is £1,670 (25% of the gain for tax year 2025/26).

* and the gain doesn't take your income into the additional rate tax band.

Each policy has its own 5% allowance, so when you surrender a whole policy, any accumulated 5% allowances on that policy are lost. This means the 5% allowance will then be based on the remaining policies. For the example above, in future the 5% allowance will be based on the amount you have invested in the 666 remaining policies.

Important things to consider

We are not permitted to give you tax advice. If you are in any doubt about which method to choose, we recommend that you seek independent advice.

The surrender method you choose may result in significantly different tax liabilities.

Under HMRC rules once a one-off withdrawal has been completed, it cannot be changed or reversed.

Full surrender of the investment bond

When fully surrendering the investment bond, the chargeable event is treated as having happened on the day it is surrendered. Any tax liability is calculated based on the overall gain made on the investment bond.

The overall gain is calculated by adding the surrender value you receive to the value of all previous withdrawals you have taken, then deducting the total value of payments you have made to the investment bond and any previous gains over the 5% allowance.

For example

You invest £100,000 and later surrender it for £120,000. You have previously taken a withdrawal of £10,000 of which £5,000 was treated as a gain over the 5% allowance.

The chargeable event gain would be calculated as:

£120,000 (surrender value) + £10,000 (previous withdrawal) = £130,000

less £100,000 (original investment) + £5,000 (previous gain over 5% allowance) = £105,000

equals a gain of £25,000 (£130,000 – £105,000).

If you are a higher rate taxpayer*, the maximum tax due is £5,000 (20% of the gain for tax year 2025/26).

If you are an additional rate taxpayer, the maximum tax due is £6,250 (25% of the gain for tax year 2025/26).

* and the gain doesn't take your income into the additional rate tax band.

The surrender method you choose may result in significantly different chargeable event gains and therefore tax liabilities

Important things to consider

We are not permitted to give you tax advice. If you are in any doubt about any tax liabilities that may arise, we recommend that you seek independent advice.

Under HMRC rules once a full surrender has been completed, it cannot be changed or reversed.

Death

The chargeable event is treated as happening on the day immediately before the death of the last life insured.

The chargeable gain is calculated on the surrender value of the investment bond immediately before death.

On death, if the investment bond is not written in trust, depending on the overall value of the investor's estate, inheritance tax may be due on some or all of the proceeds from the investment bond.

If the investment bond is written in trust, depending on the type of trust, an inheritance tax liability may be reduced. However, most trusts can't be changed
so you should seek professional advice before writing your investment bond in trust.

Assignment

Assignment means changing the ownership of an investment bond. Assigning your investment bond to someone else may cause a chargeable event and a possible tax liability.

If an investment bond is assigned in return for money or something of equivalent value, a chargeable event will occur and there may be a tax liability. If it is assigned as a gift then it will not create a chargeable event.

If the ownership of an investment bond is transferred to someone else, we need to be informed by an appropriate 'Notice of assignment'. This protects the legal position of the person to whom it is transferred. Notices of assignment must be given in writing and must state the date and purpose of the assignment.

Entitlements, allowances and tax reliefs

Gains are included in your income and therefore may affect your entitlement to the Personal Allowance, Personal Savings Allowance and certain benefits such as Tax Credits. Gains will also be included when assessing whether you have any liability to a child benefit tax charge.

Gains can be used, in some circumstances, against any unused:

- Personal Allowance.
- Personal Savings Allowance.
- Starting rate for savings band of up to £5,000 depending on other income.

These should be used against other income in preference to the gain, any excess however can be used against the gain.

Personal Savings Allowance

Depending on your income (including any gain) you may be able to receive some savings income tax-free, this is known as the Personal Savings Allowance. If you are a basic rate taxpayer (including the gain) you can receive up to £1,000 in savings income tax-free or £500 if you are a higher rate taxpayer. There is no Personal Savings Allowance for additional rate taxpayers.

Depending on the total amount of savings income you receive from all sources and the level of your Personal Savings Allowance, the amount of your gain that is taxable may be reduced.

Starting rate for savings

The starting rate for savings is available if your non savings income is less than your Personal Allowance plus £5,000 (£17,570 for 2025/26). The starting rate for savings is currently 0%.

Time apportionment reduction

If you are only resident in the UK for part of the time your bond is in force and the plan meets certain conditions, it may be possible for gains to be reduced to allow for this. If you believe this may apply to you please speak to your tax adviser.

Top-slicing relief

Top-slicing relief may reduce the tax payable on a gain. It allows chargeable gains to be divided by the number of complete years the bond has been in force to recognise the fact that the chargeable gain has accrued over the whole period for which the bond was in force and not just in the tax year in which the chargeable event gain arose.

It most commonly applies when the addition of the gain to your taxable income would result in you paying a higher level of tax than you would without the gain. However, there may be some top-slicing relief in other circumstances due to the interaction of other allowances. The relief is the amount that your tax liability is reduced by and several steps are involved in the calculation.

1. Identify your total taxable income for the year and how much of the gain falls within the Personal Allowance, the starting rate for savings, Personal Savings Allowance nil rate, basic, higher or additional rate bands as appropriate.
2. Calculate total tax due on the gain across all tax bands and then deduct basic rate tax treated as paid, to find your liability for the tax year. Remember, your Personal Allowance and Personal Savings Allowance may be reduced.
3. Work out the annual equivalent of the gain – calculated by dividing the gain by N (N is the number of years the policy has been held or, in the case of a partial surrender, since the last chargeable event). This may be different if you have not always been a UK resident
   – if this applies to you please speak to a tax adviser.
4. Work out your liability to tax on the annual equivalent*. Deduct basic rate tax treated as paid on the annual equivalent and multiply the result by N. This gives your relieved liability.
5. Deduct your relieved liability at 4 from your total liability at 2 to give the amount of top-slicing relief due.

*Remember – when calculating your liability to tax on the annual equivalent:

- For gains prior to 11th March 2020* where the Personal Allowance has been reduced, it is this reduced figure that forms part of the top-slicing calculation.
- If the gain arose after 11th March 2020* your Personal Allowance can be recalculated based upon the annual equivalent for the purposes of the top-slicing relief calculation only.
- For gains prior to 6 April 2021, neither the starting rate for savings nor the Personal Savings Allowance are recalculated in the top-slicing relief calculation. In other words, the full gain is added to total income to determine their availability.
- If the gain arose from 6 April 2021 onwards, the starting rate for savings and your Personal Savings Allowance can be recalculated based upon the annual equivalent gain. In other words, the top-sliced gain is added to total income to determine their availability.

*In practice HMRC will allow reduced Personal Allowances to be recalculated, where relevant, for all gains arising in tax years 2018-2019 onwards.

This can be complex and we are not permitted to give you tax advice. If you are in any doubt we recommend you seek independent advice. HMRC guidance and examples can be found at **gov.uk/hmrc-internal-manuals/insurance-policyholder-taxation-manual/iptm3820**

Deficiency relief

There is no relief available if you lose money on an investment bond. However, deficiency relief may be available if the chargeable event calculation on death or full surrender shows a negative amount (a loss) and you had gains over the 5% allowance from earlier tax years (because of earlier partial surrenders from the investment bond). Relief is limited to the lower of the previous chargeable gain or the final loss.

For example

As a higher rate taxpayer you invest £200,000 in May 2015.
In the same tax year you take a one-off partial surrender of £50,000 resulting in a gain over the 5% allowance of £40,000.
Three years later the investment bond is fully surrendered for £170,000.

The gain is calculated as:
(£170,000 + £50,000) –
(£200,000 + £40,000) = – £20,000.

The deficiency relief is limited to the lower of the previous chargeable gain (£40,000) or the final loss (£20,000).

The relief will only benefit you if your total taxable income, before any gains are added, would be charged at a higher, upper or advanced rate of tax*. If you think you may benefit from this, please speak to your adviser. HMRC guidance (* including details of tax rates) and examples can be found at **gov.uk/hmrc-internal-manuals/insurance-policyholder-taxation-manual/iptm3860**

Please let us know if you would like a copy of this in large print or braille, or on audio.

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