Alico® Wealth Management

Partial Withdrawal Information Sheet

When you bought your bond it was probably for a specific reason, such as planning a lump sum for a major expense in the future, or to take regular income withdrawals. This type of policy is meant to be held for the medium to long-term and should not be used as a short-term investment.

There may well be other ways of raising the money you need rather than taking a lump sum from your bond. Could you make use of any cash you already have in other Savings accounts?

Taking a partial withdrawal may have tax implications for you, the policyholder, and should not be considered lightly; for example the impact this lump sum withdrawal could have on any income related benefits you might be receiving. In this information sheet we have tried to show some of the issues surrounding a partial withdrawal. **This is not a complete list of the issues, so please speak to your Financial Adviser (FA). If you do not have an FA you can find one by logging on to www.unbiased.co.uk**.

Taking a Lump Sum withdrawal

1. You can take up to 5% of the original investment from your bond and not have any immediate liability to income tax. Any withdrawals will still be taken into account when you do finally cash in your bond. This allowance will roll over if you do not use it each year up to a maximum of 100% of your original investment. If you are currently making regular withdrawals from your investment, these will be using some, or all, of this 5% allowance. Following the lump sum withdrawal, the regular withdrawals you are receiving may result in a **chargeable event** in the future where one has not occurred previously, or a larger **chargeable event** than that previously reported to you.

2. A **chargeable gain** usually happens after a **chargeable event**, such as:

   a. death that results in a payment under the bond. The chargeable gain is calculated as the surrender value of the policies immediately before death, plus any previous withdrawals, less the amount you originally paid and any previous chargeable events under the policy

   b. full surrender of any one or more policies. The chargeable gain is calculated as the surrender value of the policies, plus any previous withdrawals, less the amount you originally paid and any previous chargeable gains under the policies.

   c. partial surrender of the individual policies. The chargeable gain is calculated as the excess of the amount withdrawn over the available 5% allowance as described earlier. If the withdrawal is within the 5% allowance, there is no chargeable event and no chargeable gain. If the withdrawal is more than the 5% allowance, then the gain is the amount of the excess. Care must be taken, as this can result in a gain for income tax purposes even when the bond is showing an actual investment loss. This 5% allowance is not completely tax free as the withdrawals will be included in the calculation of the final gain when the policy comes to an end.

   d. assignment of any policy for money, or money's worth; that is, selling your policy to someone else and receiving payment in one form or another. The gain on an assignment (the act of transferring legal ownership of property or a right (such as contract of benefits) to another person) depends on the consideration (e.g. money or value) you received.

3. Partial withdrawal, if it is more than the 5% allowance, will produce a **chargeable gain** equal to the amount above the 5% - even if the bond is actually showing an investment loss at the time. Any gain you make is potentially subject to income tax. Because ALICO – Wealth Management will have already paid corporation tax on the investment income and gains within the funds, you will have no liability to basic rate income tax. You will only pay tax on the gain if you already pay income tax at the higher or additional rate or if the gain itself takes your income into either the higher or additional rate band. You will then pay extra tax, either at the higher or additional rate on the gain, or part of the gain. The gain is also treated as income for the purposes of income related benefits, such as age allowance, and so could affect any entitlement to these that you have. Please see the table below:

Income tax bracket	Income tax liability
Non-taxpayer	X
Basic rate taxpayer	X
Basic rate taxpayer pushed into the higher or additional rate bracket by the gain	✓
Higher rate taxpayer	✓
Higher rate taxpayer pushed into the additional rate bracket by the gain	✓
Additional rate taxpayer	✓

4. When you bought your bond we divided it into a number of separate policies, typically 20 to 250. This gives you greater flexibility when withdrawing money from it. There are two methods of taking money from your bond:

   a. Block & Spread - fully surrendering one or more of the separate policies to realise the bulk of money you need, with the balance of the withdrawal being taken evenly from the remaining policies. This will leave you with less policies following the withdrawal; or

   b. Spread - taking money from each of the separate policies, which will leave the same number of policies but each will have a lower value.

5. There may be an early redemption charge if you make a withdrawal using the method described in 4(a), if you added to your investment in the last five years.

6. Each method of taking money from your bond, as described in point 4, is treated differently for income tax.

   Using method **4 (a)** any chargeable event gain is calculated by comparing the value of each segment at surrender with the value invested. There may also be a gain caused by the balance of the withdrawal being taken from the remaining policies which would be detailed in a separate chargeable event certificate, which would be issued at the end of the policy year, if this has caused you to exceed your cumulated 5% annual tax deferred allowance.

Using method **4 (b)** the gain is calculated by reference to the bondholder's annual tax-deferred allowance, which is 5% of the initial sum invested.

Here is an example of how each method works using example figures for clarity and these are not intended to reflect past or future performance of any ALICO- Wealth Management product.

A Bond is invested in 20 segments. The initial investment was £20,000. Each segment is therefore worth £1,000 at the outset

Method 4a – Block & Spread

Policy value after 6 months	Segment value before withdrawal	Amount of withdrawal	Remaining policy value	Segment value after withdrawal	No. of segments fully surrendered	Value taken from surrendered segments	Amount taken from each remaining segments
£24,000	£1,200 (Policy value divided by 20 segments)	£5,000	£19,000 (remaining policy value after withdrawal amount taken)	£1,187.50 (Remaining policy value divided by remaining 16 segments)	4	£4,800 (segment value times the 4 segments fully surrendered)	£12.50 (remaining value required of £200 divided by 16 remaining segments)

Any chargeable event gain is calculated by comparing the value of each segment at surrender with the value invested.

Assuming this is the only withdrawal in the first policy year, the chargeable event gain is as follows:-

Original segment value at start of policy	New segment value after 6 months	Gain in value of each segment (Block element)	5% allowance amount (Spread element)	Total chargeable gain
£1,000 (original policy value divided by 20 segments)	£1,200 (new policy value divided by 20 segments)	£200 (difference in the value of each segment after 6 months)	£50* each segment (original policy value times 5% divided by 20 segments giving the value of the 5% allowance in year 1 for each segment)	£800 (gain in value of each segment times the 4 segments fully surrendered)

*Spread withdrawal £12.50 each segment which is less than the 5% allowance on each segment means this is not taken into account for this calculation of chargeable gain.

Method 4b - Spread

Policy value after 6 months	Amount of withdrawal	Remaining policy value	Segment value before withdrawal	Segment value after withdrawal	Value taken equally from each segment
£24,000	£5,000	£19,000 (remaining policy value after withdrawal	£1,200 (Policy value divided by 20 segments)	£950 (remaining value divided by 20 remaining	£250 (segment value taken from each of the remaining

		amount taken)		segments)	20 segments)

The gain is calculated by reference to the bondholder's annual tax-deferred allowance, which is 5% of the initial sum invested.

Method 4b – Spread (continued)

Assuming this is the only withdrawal in the first policy year, the chargeable event gains are as follows:-

Policy value	Amount of withdrawal	Value taken from each segment	5% allowance amount	Total chargeable gain
£24,000	£5,000	£250 (Amount of withdrawal divided by 20 remaining segments)	£50 each segment (5% of original premium paid divided by 20 segments)	£4,000 (Value taken from each segment minus the 5% allowance times 20 segments)

7. Any tax payable by basic rate tax payers who are lifted into the higher or additional rate tax bracket by the chargeable gain can be reduced by a process called **Top slicing relief**. This allows you to effectively spread the gain over the number of full years the policy has been in force. It works like this: Total gain ÷ number of full years the policy has been in force = Slice of the gain. It is this 'slice of the gain' that is added to your income when deciding if the gain takes it into higher or additional rate tax Because of the way this relief works, it will only be of help to people who are only taken into the higher or additional rate bracket because of the gain from their policy. You have to claim this relief from HM Revenue & Customs. It is not granted automatically.

8. Taking a partial withdrawal from your bond may have implications if you are receiving certain state benefits such as Age Allowance, Children's Tax Credit, Working Families Tax Credit, Disabled Person Tax Credit, and so could affect your entitlement to these or other benefits.

As you can see there is a great deal to consider when taking a partial withdrawal and this is not an exhaustive list. So, before deciding on how you want us to act on your partial withdrawal, please discuss your circumstances with your Financial or Tax Adviser.

You must also tell us on the withdrawal form which method of withdrawal you want us to take. Remember this is your decision and it should be based on the advice you have received from your Tax/Financial Adviser.

Please note the information detailed above is based on ALICO – Wealth Management's understanding of current legislation and HM Revenue & Customs' practice. Both of these are likely to change in the future. Before withdrawing money from your bond you should discuss the potential consequences with your own professional advisers.