Case Study

Plan Money

Title: Tax on Endowment Surrender

Source: Moneywise www.moneywise.co.uk/

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My husband and I have an interest-only mortgage. Due to ill health my husband wants to retire this year at the end of March. We have an investment with Sun Life Canada to help pay the mortgage that will mature next year in October. But we want to take the value of the policy and pay what we can off the mortgage now as the policy has not performed very well. If we take the funds now will we be taxed?

The surrendering of your policy is classed as a 'chargeable gain'. The potential liability to tax will depend upon whether the policy is 'qualifying' or 'non-qualifying'. Most mortgage endowment policies are 'qualifying' which means that basic rate may be treated as paid on the gain and where it is, there will be no tax liability unless you are higher rate taxpayers. However, certain events can mean that the surrendering of a 'qualifying' policy can incur a tax liability, although based upon what you have described I think this is unlikely.

Sun Life of Canada will be able to tell you whether a chargeable gain has occurred and whether tax is treated as paid.

In considering surrendering your policy you need to understand how the policy profits are applied. With Profits policies are likely to have a terminal (final) bonus paid within the last year. This bonus can be significant and may not be paid upon surrender. You should therefore check whether your policy falls into this category because if it does, despite the perceived poor performance, the returns could prove to be favourable by letting the policy run to full-term. I would suggest obtaining an illustration for the projected maturity value to contrast against the surrender value.

http://www.hmrc.gov.uk/helpsheets/hs320.pdf

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