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Chargeable Event Certificates

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What is a chargeable event certificate?

A chargeable event certificate is issued on the occurrence of a chargeable event.

A chargeable event is an event (as specified in section 484 of the Income Tax (Trading and Other Income) Act 2005)* which gives rise to a charge to income tax in relation to **any gain arising from certain life policies, life annuities and capital redemption policies.**

Where income tax is deemed to arise on a policy benefit, it is commonly referred to on accompanying documentation as a 'chargeable gain' and, for this reason, the term is frequently misunderstood as referring to an event with capital gains tax consequences

What are examples of chargeable events?

Chargeable event certificates most commonly arise where a potential liability for UK Income Tax in respect of life policies is triggered. Common chargeable events in respect of **life policies** include:-

- taking withdrawals from the policy that exceed the 5% tax-deferred allowance.
- full or partial cashing in of the policy.
- maturity of the policy.
- assignment of a policy for money or money's worth.
- assignment of a share in the rights of a policy, where the amount involved (together with partial withdrawals) exceeds the 5% per annum allowance.
- **the death of the last life assured under the policy.** This is the most usual event, following which a chargeable event certificate would be issued during the administration of an estate.

What information is included in the chargeable event certificate?

Details on the certificate include:-

- the name and address of the policy holder
- the policy details
- the amount of the gain; **no tax advisor or policyholder should ever need to do a calculation of the gain as these figures are given on the chargeable event certificate.**
- the number of years over which the gain has accrued
- the date the event took place
- the number of years for top slicing
- whether income tax is treated as paid
- a statement advising that the certificate **should be sent to the tax office to establish if a higher rate tax liability exists**

Why is a certificate issued?

A certificate is issued because there may be a liability to income tax in excess of the basic rate as a result of the chargeable event. The certificate is used to calculate whether any tax in excess of the basic rate is due to be paid. The information is therefore relevant in completing the deceased's tax return for the tax year in which he died. However, if tax is payable this can be regarded as being a liability as at the date of death, for Inheritance Tax purposes.

How should the chargeable event certificate be dealt with?

1. The deceased was a basic rate tax payer/non-taxpayer

Basic rate tax has been paid on the chargeable gain and therefore, if an individual was a basic rate taxpayer or did not pay tax, no further action is required when a chargeable event certificate is received. If an individual did not pay tax however, there is no refund available.

2. The deceased was a higher rate taxpayer

If the deceased was a higher rate taxpayer, with income (including the gain arising on the chargeable event), over the required threshold **including** the event, it will be necessary to ensure that the event is declared when completing

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the deceased's income tax return. The estate of the higher rate tax payer is liable to pay the additional tax on the whole of the chargeable gain.

The information on the chargeable event certificate can be declared in the 'additional information' section of the deceased's tax return under the section headed 'life insurance gains'.

3. The deceased was a basic rate tax payer, but the gain reported in the chargeable event certificate has resulted in a charge to higher rate tax

If the deceased was a basic rate tax payer, and the gain made them a higher rate taxpayer, 'top slicing' may reduce or even eliminate any potential tax liability as a result of a chargeable gain. 'Top slicing' is HMRC's way of recognising that a chargeable gain may have arisen as a result of money being invested over a number of years. The only time that a chargeable events certificate will involve additional work and calculations is where this 'top slicing' relief is available. It may then be appropriate to refer the matter to a solicitor or accountant.

*** Section 484 Income Tax (Trading and Other Income) Act 2005 states:**

"When chargeable events occur:

(1) The following are chargeable events —

(a) in the case of any kind of policy or contract —

(i) the surrender of all rights under the policy or contract,
(ii) the assignment of all those rights for money or money's worth,
(iii) the falling due of a sum payable as a result of a right under a policy or contract to participate in profits, if there are no remaining rights under it,
(iv) a chargeable event treated as occurring under section 509(1) (chargeable events in certain cases where periodic calculations show gains),
(v) a surrender or assignment treated as a chargeable event under section 514(1) (chargeable events where transaction-related calculations show gains), and
(vi) a chargeable event treated as occurring under section 525(2) (chargeable events where annual personal portfolio bond calculations show gains)

(b) in the case of a policy of life insurance, a death giving rise to benefits under it,
(c) in the case of a policy of life insurance or a capital redemption policy, its maturity,
(d) in the case of a contract for a life annuity which provides for the payment of a capital sum on death, the death, and
(e) in the case of a contract for a life annuity which provides for a capital sum to be taken as a complete alternative to the annuity payments (or any further annuity payments), taking the capital sum.

(2) Subsection (1) is subject to—

- section 485 (disregard of certain events in relation to qualifying policies),
- section 486 (exclusion of maturity of capital redemption policies in certain circumstances),
- section 487 (disregard of certain assignments), and
- section 488 (disregard of certain events following alterations of life insurance policy terms).

(3) See also section 490 (last payment under guaranteed income bonds etc. treated as total surrender)."

Should you require any additional information, please contact Jane Robinson, who is an Associate (non Solicitor) in the Charity Legacy Administration team at Henmans LLP in Oxford. Email address: jane.robinson@henmansllp.co.uk or 01865 781102.