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BLACKFINCH

Helping Clients to Surrender an Investment Bond Tax-Efficiently

Please note:

Benefits of tax-efficient investments are subject to change and personal circumstances.

Business Relief rules are changing in April 2026. See the Guide to Business Relief for more information.

Scenario

An investment bond is a single-premium life insurance policy often used to hold investments in a tax-efficient manner. Clients may want to surrender an investment bond, but are concerned about the tax implications. In this scenario, Pauline and John are a married couple in their late sixties, retired, with children.

The couple have assets including cash, property and an investment bond with a current value of £250,000. The value of their assets is well over the combined nil-rate band for Inheritance Tax (IHT) of £650,000 and residence nil-rate band of £350,000, due to the value of their property.

For Pauline and John, estate planning is a priority. They want to lessen their IHT liability and pass on more of their wealth to their children. So, they've decided to surrender the bond. However, their financial adviser has confirmed that encashing all of the investment bond is a chargeable event, which means they will face a significant Income Tax bill on the £30,000 gain from the bond.

Solution

Pauline and John's adviser suggests they consider using some of the proceeds to invest in a portfolio of companies that qualify for the Enterprise Investment Scheme (EIS). An EIS-qualifying investment offers several tax incentives including 30% Income Tax relief on the amount invested.

Pauline and John also discuss with their adviser how they can invest some of the proceeds into investments that use Business Relief as a swifter route to IHT exemption, thereby reducing the amount of their estate that may be liable for IHT. Provided shares in the IHT solution are held for a minimum of two years – and still held at the time of the client's death – the shares are free from IHT.

Steps

1. **Surrender the investment bond:** Pauline and John surrender the bond, making a gain which immediately gives rise to an Income Tax liability.

1. **Invest part of gain in an EIS-qualifying investment:** They invest some of the gain in a diversified portfolio of EIS-qualifying companies that is managed by an established EIS investment manager and recommended by their adviser.

1. **Claim 30% Income Tax relief:** Pauline and John claim 30% Income Tax relief on their EIS investment. This can be used to offset the Income Tax liability on the bond.

1. **Use other sale proceeds for IHT mitigation:** Pauline and John invest the rest of the bond proceeds in established investment service that invests in BR-qualifying companies, maintaining their focus on estate planning and reducing their IHT liability.

IMPORTANT INFORMATION

Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).