

## Technical insights - Quick reference guide 5

### *Taxation of investment bonds - top slicing relief*

This guide will provide you with an understanding of top slicing relief for Onshore or Offshore investment bonds. This guide is not suitable for investment bonds held by companies.

We have a calculator which can perform the calculation described within this guide. The calculator can be found on our website: [quilter.com/cehub](https://quilter.com/cehub)

#### *Chargeable event gains are taxed as income.*

The gain is added to the gross income and taxed at the marginal rate. There is a fixed order for calculating income tax liability. Onshore bond gains are added last and taxed at the highest marginal rate. Offshore bond gains are treated as savings income which falls earlier in the order of taxation.

#### *Top slicing is a tax relief.*

It is used to reduce the liability to income tax (above 20% of the gain) when a chargeable event occurs.

#### *The chargeable gain is divided across a number of 'relevant years'.*

This gives the top sliced gain. The top sliced gain is then added on top of all other gross income to determine the tax due on the slice, referred to in this document as the 'relieved liability'. Despite the order of income mentioned above, Offshore bond gains are moved on top of other sources of income when calculating the relieved liability. The difference in tax due on the 'total liability' (the tax on the full gain) and the 'relieved liability' is the top slicing relief. This relief is then deducted from total income tax liability for the year.

#### *The number of relevant years differs according to a number of factors.*

This guide includes a flowchart to aid calculation.

#### *Top slicing does not reduce the size of the gain.*

This means the full gain must be added to a person's gross income for that tax year. Therefore the total gain is considered when calculating the tapering of personal allowance (PA) where income is over £100,000 and the availability of the personal savings allowance (PSA).

#### **The calculation changed 11 March 2020**

for all gains made on or after this date:

- When calculating the 'relieved liability' (step 3 in our examples), the top sliced gain is used to calculate whether the personal allowance will be tapered.
- To be clear, this only applies for the purpose of calculating top slicing relief. The personal allowance is still lost if adjusted net income exceeds £100,000. See example 3.
- Reliefs and allowances are to be set against other income as a priority. Only if there are allowances remaining are they to be set against the chargeable event gain(s).

#### **The calculation changed further from 2021/22**

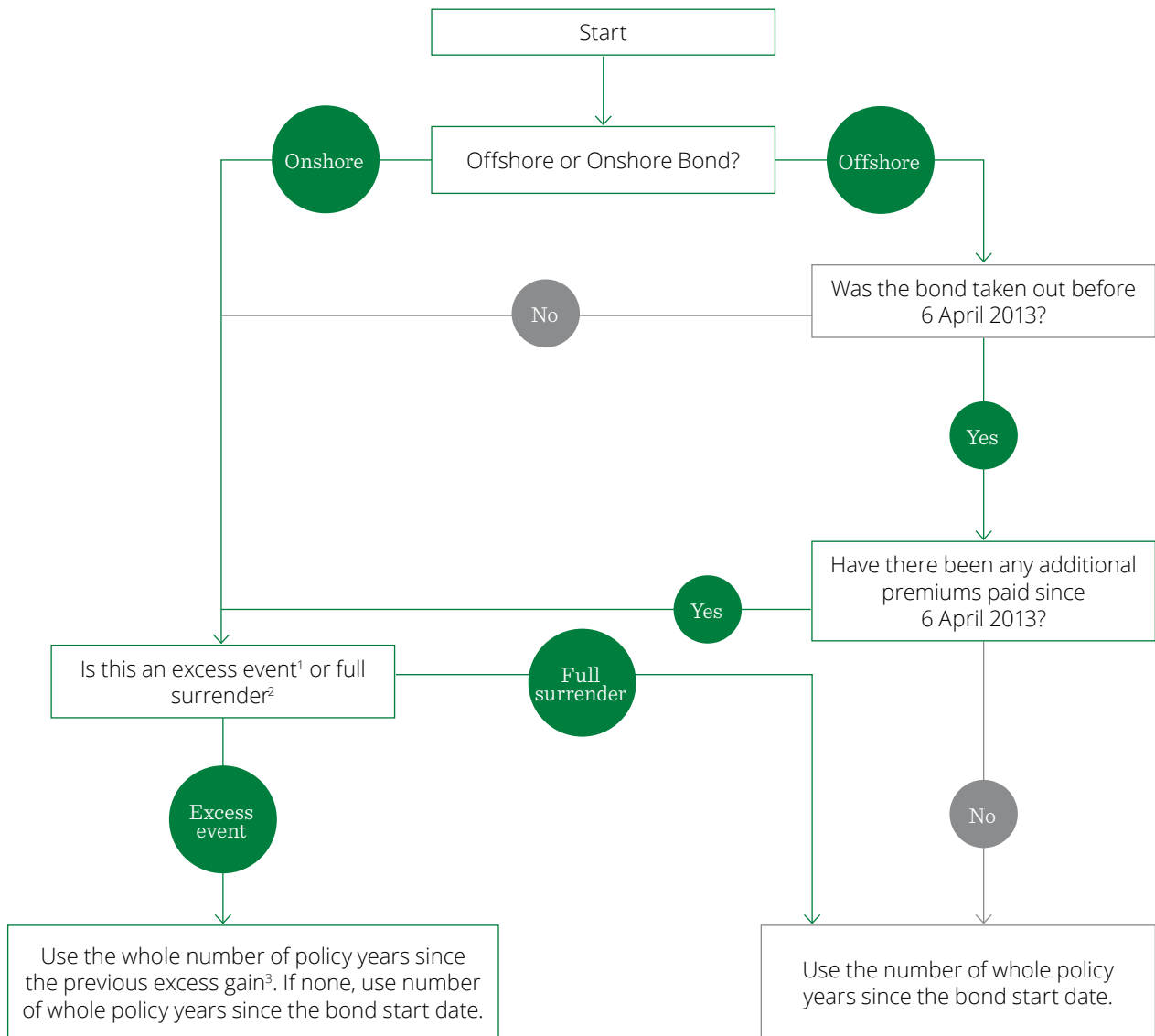
- When calculating the 'relieved liability' (step 3 in our examples), the top sliced gain is used to calculate the availability of Personal Savings Allowance and Starting Rate for Savings for the purposes of calculating top slicing relief only.

#### *Top slicing does not apply to Trustees.*

Where Trustees are taxable for a chargeable gain, they will pay a fixed rate of 45% (there is an allowance up to £1,000 where 20% will be payable). There is no option to apply top slicing relief.

*Relevant years flowchart.*

Use this flowchart to determine how many relevant years to apply to the gain.



<sup>1</sup> Excess event occurs at the end of a policy year where the 5% tax deferred allowance has been exceeded.

<sup>2</sup> A full surrender of either the whole bond OR the individual policies (segments) within the bond.

<sup>3</sup> Unless Time Apportionment Relief is claimed. In which case the policy years will be from the bond start date but reduced by any complete years spent non-UK resident.

### Example calculations.

The amount of relief available is determined by comparing the total liability with the relieved liability (when multiplied by N – being the number of years made over).

| 2023/24 Tax bands and reliefs |                                  |                                 |                                   |
|-------------------------------|----------------------------------|---------------------------------|-----------------------------------|
| Personal allowance            | £12,570                          |                                 |                                   |
| Personal savings allowance    | £1,000<br>(Basic rate taxpayers) | £500<br>(Higher rate taxpayers) | £0<br>(Additional rate taxpayers) |
| Basic rate band               | up to £37,700                    |                                 |                                   |
| Higher rate                   | £37,700 - £125,140               |                                 |                                   |
| Additional rate               | £125,140 +                       |                                 |                                   |

### Example 1 – Onshore bond gain

Earned income: £31,350  
 Other income: £0  
 Chargeable gain: £50,000  
 Tax credit (20%): £10,000  
 Number of years: 10

#### 1. Check what allowances are available

Total income is below £100,000 so full PA is available.  
 Higher rate is payable on total income so £500 PSA is available.

#### 2. Calculate the 'total liability' above the basic rate tax credit

| Income                   | Band               | Rate | Tax            |
|--------------------------|--------------------|------|----------------|
| Earned income £12,570    | Personal allowance | 0%   | £0             |
| Earned income £18,780    | Basic rate         | 20%  | £3,756         |
| Bond gain £500           | PSA                | 0%   | £0             |
| Bond gain £18,420        | Basic rate         | 20%  | £3,684         |
| Bond gain £31,080        | Higher rate        | 40%  | £12,432        |
| <b>Total pre reliefs</b> |                    |      | <b>£19,872</b> |

**Total liability** for top slicing purposes on bond gain = (£3,684 + £12,432) £16,116 minus tax credit of £10,000: **£6,116.**

#### 3. Calculate the relieved liability

The slice is £50,000/10=£5,000  
 £1,000 PSA is now available for top slicing relief purposes only as the slice remains within basic rate.

| Income                | Band               | Rate | Tax           |
|-----------------------|--------------------|------|---------------|
| Earned income £12,570 | Personal allowance | 0%   | £0            |
| Earned income £18,780 | Basic rate         | 20%  | £3,756        |
| Bond gain £1,000      | PSA                | 0%   | £0            |
| Bond gain £4,000      | Basic rate         | 20%  | £800          |
| <b>Total</b>          |                    |      | <b>£4,556</b> |

**Relieved liability** for top slicing purposes on sliced gain = £800 minus tax credit of £1,000 (£10,000/10):

£0 x 10 years = **£0.**

#### 4. Calculate the relief

**Total liability** (£6,116) minus **relieved liability** (£0) = **£6,116.**

#### 5. Calculate the tax after relief

| Income                    | Band               | Rate | Tax            |
|---------------------------|--------------------|------|----------------|
| Earned income £12,570     | Personal allowance | 0%   | £0             |
| Earned income £18,780     | Basic rate         | 20%  | £3,756         |
| Bond gain £500            | PSA                | 0%   | £0             |
| Bond gain £18,420         | Basic rate         | 20%  | £3,684         |
| Bond gain £31,080         | Higher rate        | 40%  | £12,432        |
| <b>Total pre reliefs</b>  |                    |      | <b>£19,872</b> |
| <b>Basic rate credit</b>  |                    |      | <b>£10,000</b> |
| <b>Top slicing relief</b> |                    |      | <b>£6,116</b>  |

**No tax due on bond gain, £3,756 tax on earned income.**

## Example 2 – Onshore bond gain

|                   |         |
|-------------------|---------|
| Earned income:    | £47,000 |
| Other income:     | £0      |
| Chargeable gain:  | £50,000 |
| Tax credit (20%): | £10,000 |
| Number of years:  | 10      |

### 1. Check what allowances are available

Total income is below £100,000 so full PA is available.  
Higher rate is payable on total income so £500 PSA is available.

### 2. Calculate the 'total liability' above the basic rate tax credit

| Income                   | Band               | Rate | Tax            |
|--------------------------|--------------------|------|----------------|
| Earned income £12,570    | Personal allowance | 0%   | £0             |
| Earned income £34,430    | Basic rate         | 20%  | £6,886         |
| Bond gain £500           | PSA                | 0%   | £0             |
| Bond gain £2,770         | Basic rate         | 20%  | £554           |
| Bond gain £46,730        | Higher rate        | 40%  | £18,692        |
| <b>Total pre reliefs</b> |                    |      | <b>£26,132</b> |

**Total liability** for top slicing purposes on bond gain = (£554 + £18,692) £19,246 minus tax credit of £10,000: **£9,246.**

### 3. Calculate the relieved liability

The slice is £50,000/10 = £5,000

As the slice falls within higher rate, PSA remains the same, £500.

| Income                | Band               | Rate | Tax           |
|-----------------------|--------------------|------|---------------|
| Earned income £12,570 | Personal allowance | 0%   | £0            |
| Earned income £34,430 | Basic rate         | 20%  | £6,886        |
| Bond gain £500        | PSA                | 0%   | £0            |
| Bond gain £2,770      | Basic rate         | 20%  | £554          |
| Bond gain £1,730      | Higher rate        | 40%  | £692          |
| <b>Total</b>          |                    |      | <b>£8,132</b> |

**Relieved liability** for top slicing purposes on sliced gain = (£554 + £692) £1,246 minus tax credit of £1,000 (£10,000/10): £246 x 10 years = **£2,460.**

### 4. Calculate the relief

**Total liability** (£9,246) minus **relieved liability** (£2,460) = **£6,786.**

### 5. Calculate the tax after relief

| Income                    | Band               | Rate | Tax           |
|---------------------------|--------------------|------|---------------|
| Earned income £12,570     | Personal allowance | 0%   | £0            |
| Earned income £34,430     | Basic rate         | 20%  | £6,886        |
| Bond gain £500            | PSA                | 0%   | £0            |
| Bond gain £2,770          | Basic rate         | 20%  | £554          |
| Bond gain £47,730         | Higher rate        | 40%  | £18,692       |
| Total pre reliefs         |                    |      | £26,132       |
| Basic rate credit         |                    |      | £10,000       |
| <b>Top slicing relief</b> |                    |      | <b>£6,786</b> |

**£2,460 tax due on bond gain** plus £6,886 tax on earned income.

### Example 3 – Offshore bond gain

|                  |          |
|------------------|----------|
| Earned income:   | £100,000 |
| Other income:    | £0       |
| Chargeable gain: | £100,000 |
| Number of years: | 10       |

#### 1. Check what allowances are available

As the total income is above £100,000, personal allowance is tapered at a rate of £1 for every £2 over £100,000. In this example, the allowance is lost. However, for the purpose of calculating the relieved liability (step 3), the total income plus top sliced gain is £110,000. This means only £5,000 of the allowance is lost, leaving £7,570 available for step 3.

Remember, this only applies to the top slicing relief calculation. The personal allowance is still lost the purpose of calculating the individual's tax liability - see step 5.

Additional rate is payable on total income so no PSA is available.

However, for the purpose of calculating the relieved liability (step 3), the total income plus top sliced gain is £110,000. This means £500 PSA is available for step 3.

#### 2. Calculate the 'total liability' above the basic rate tax credit income

| Income                  | Band            | Rate | Tax     |
|-------------------------|-----------------|------|---------|
| Earned income - £37,700 | Basic rate      | 20%  | £7,540  |
| Earned income - £62,300 | Higher rate     | 40%  | £24,920 |
| Bond gain - £25,140     | Higher rate     | 40%  | £10,056 |
| Bond gain - £74,860     | Additional rate | 45%  | £33,687 |

**Total liability** for top slicing purposes on bond gain = (£10,056 + £33,687) £43,743 minus tax credit\* of £20,000\*\*: **£23,743**.

\* Although no tax credit is available for an Offshore bond gain, it is included within the top slicing relief calculation (s531 ITTOIA 2005) to ensure relief is limited to higher and additional rates of tax only.

\*\* 20% of £100,000 bond gain.

#### 3. Calculate the relieved liability

The slice is £100,000/10 = £10,000

| Income                  | Band               | Rate | Tax     |
|-------------------------|--------------------|------|---------|
| Earned income - £7,570* | Personal allowance | 0%   | £0      |
| Earned income - £37,700 | Basic rate         | 20%  | £7,540  |
| Earned income - £54,730 | Higher rate        | 40%  | £21,892 |
| Bond gain - £500        | PSA                | 0%   | £0      |
| Bond gain - £9,500      | Higher rate        | 40%  | £ 3,800 |

**Relieved liability** liability for top slicing purposes on sliced gain = £3,800 minus tax credit of £2,000 (£20,000/10): £1,800 x 10 years = **£18,000**.

\* For gains after 11 March 2020 only; tapering of the personal allowance is calculated using the top sliced gain. This applies to this step only.

#### 4. Calculate the relief

**Total liability** (23,743) minus **relieved liability** (£18,000) = **£5,743**.

#### 5. Calculate the tax after relief

| Income                    | Band            | Rate | Tax            |
|---------------------------|-----------------|------|----------------|
| Earned income - £37,700   | Basic rate      | 20%  | £7,540         |
| Earned income - £62,300   | Higher rate     | 40%  | £25,000        |
| Bond gain -£25,140        | Higher rate     | 40%  | £10,056        |
| Bond gain - £74,860       | Additional rate | 45%  | £33,687        |
| <b>Total pre reliefs</b>  |                 |      | <b>£76,283</b> |
| <b>Top slicing relief</b> |                 |      | <b>£5,743</b>  |

**£38,000 tax due on bond gain** plus £32,460 tax on earned income.

The value of your client's investments may fall as well as rise and they may not get back what they put in.

**The information provided in this article is not intended to offer advice.**

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