

Chargeable gains, the starting rate band and the personal savings allowance

Briefing Note

For the tax year 2020/21, there is a 0% personal savings allowance of up to £1,000 in addition to the £12,500 personal allowance and the £5,000 starting rate band.

When looking at an individual's tax position, non-savings income such as income from employment, rental income and pension income, is taxed first. Therefore, the personal allowance is set against non-savings income first, followed by savings and dividend income applied in the most beneficial way for the taxpayer. Chargeable gains from both international and UK bonds are treated as "savings income". However, chargeable gains from a UK bond carry a 20% tax credit.

How will the personal allowance, starting rate band and personal savings allowance affect the taxation of chargeable event gains on both international and UK bonds? The following examples all assume that the policyholder has no other savings income and no dividend income.

2020/21

Personal Allowance £12,500*	taxed at 0%
up to £37,500	taxed at 20%
£37,500 to £150,000	taxed at 40%

Income over £150,000	taxed at 45%
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Starting rate band for savings income £5,000 – taxed at 0% if an individual's non-savings income does not exceed £17,500.

Personal Savings Allowance**

£1,000	(basic rate taxpayer)
£500	(higher rate taxpayer)
£0	(additional taxpayer)

* for every £2 of income over £100,000 the personal allowance is reduced by £1. Within the top-slicing calculation personal allowance entitlement is calculated by reference to the top-sliced gain.

** When calculating entitlement to personal savings allowance it is the total chargeable gain and not the top-sliced gain that is used.

(1)	UK	International
No non-savings income Chargeable gain = £17,500	Chargeable gain £12,500 @ 0% = 0 £5,000 @ 0% = 0 No tax to pay and tax credit cannot be reclaimed	Chargeable gain £12,500 @ 0% = 0 £5,000 @ 0% = 0 No tax to pay
(2)	UK	International
Non-savings income £15,000 Chargeable gain = £30,000	Non-savings income £12,500 @ 0% = 0 £2,500 @ 20% = £500 Chargeable gain £2,500 ¹ @ 0% = 0 £1,000 ² @ 0% = 0 £26,500 @ 20% = £5,300 Total tax on gain = £5,300 Less tax credit £6,000 (£30,000 @ 20%) Restricted to actual tax payable ³ £5,300 Total tax payable = £500	Non-savings income £12,500 @ 0% = 0 £2,500 @ 20% = £500 Chargeable gain £2,500 ¹ @ 0% = 0 £1,000 ² @ 0% = 0 £26,500 @ 20% = £5,300 Total tax payable = £5,800

¹ As the non-savings income is £15,000 the starting rate band is restricted to £2,500

² personal savings allowance

³ The tax credit is deducted from the total tax liability; however it is restricted to the amount of tax actually payable

(3)	UK	International
Non-savings income £20,000* Chargeable gain £30,000	Non-savings income $£12,500 @ 0\% = 0$ $£7,500 @ 20\% = £1,500$ Chargeable gain $£1,000 @ 0\% = 0$ $£29,000 @ 20\% = £5,800$ Total tax on gain = £5,800 Less tax credit £6,000 (£30,000 @ 20%) Restricted to actual tax payable £5,800 Total tax payable = £1,500	Non-savings income $£12,500 @ 0\% = 0$ $£7,500 @ 20\% = £1,500$ Chargeable gain $£1,000 @ 0\% = 0$ $£29,000 @ 20\% = £5,800$ Total tax payable = £7,300

* As the non-savings income exceeds the personal allowance plus the starting rate band, the starting rate band is unavailable

(4)	UK	International
Non-savings income £30,000 Chargeable gain £30,000 Bond held over 3 years	Non-savings income $£12,500 @ 0\% = 0$ $£17,500 @ 20\% = £3,500$ Chargeable gain $£500^* @ 0\% = 0$ $£19,500 @ 20\% = £3,900$ $£10,000 @ 40\% = £4,000$ Total tax on gain = £7,900 Less tax credit £6,000 (£30,000 @ 20%) Total tax on gain = £1,900 Total tax payable = $£3,500 + £1,900 = £5,400$	Non-savings income $£12,500 @ 0\% = 0$ $£17,500 @ 20\% = £3,500$ Chargeable gain $£500^* @ 0\% = 0$ $£19,500 @ 20\% = £3,900$ $£10,000 @ 40\% = £4,000$ Total tax on gain = £7,900 Total tax payable = $£3,500 + £7,900 = £11,400$
<p style="text-align: center;">Top slicing relief</p> <p style="text-align: center;">Tax due on gain = £7,900 Less tax credit £6,000 (£30,000 @ 20%) Total tax on gain = £1,900</p> <p style="text-align: center;">Top sliced gain = £30,000/3 = £10,000 $£500^* @ 0\% = £0$ $£9,500 @ 20\% = £1,900$ Less tax credit £2,000 (£10,000 @ 20%) Restricted to actual tax payable £1,900 = £0</p> <p style="text-align: center;">$£0 \times 3 \text{ years} = £0$</p> <p style="text-align: center;">Top slicing relief $£1,900 - £0 = £1,900$</p>		
Total tax payable after top slicing = $£5,400 - £1,900 = £3,500$		Total tax payable after top slicing = $£11,400 - £1,900 = £9,500$

* As the total income is in the higher rate tax bracket the personal savings allowance is reduced to £500



(5)	UK	International
Non-savings income £40,000 Chargeable gain £60,000 Bond held over 3 years	Non-savings income $£12,500 @ 0\% = 0$ $£27,500 @ 20\% = £5,500$ Chargeable gain $£500 @ 0\% = 0$ $£9,500 @ 20\% = £1,900$ $£50,000 @ 40\% = £20,000$ $£21,900$ Less tax credit $£12,000$ ($£60,000 @ 20\%$) Total tax on gain = £9,900 Total tax payable = $£5,500 + £9,900 = £15,400$	Non-savings income $£12,500 @ 0\% = 0$ $£27,500 @ 20\% = £5,500$ Chargeable gain $£500 @ 0\% = 0$ $£9,500 @ 20\% = £1,900$ $£50,000 @ 40\% = £20,000$ $£21,900$ Total tax on gain = £21,900 Total tax payable = $£21,900 + £5,500 = £27,400$
<p style="text-align: center;">Top slicing relief Tax due on gain = £21,900 Less tax credit $£12,000$ ($£60,000 @ 20\%$) Total tax on gain = £9,900 Top sliced gain = £60,000/3 = £20,000 $£500 @ 0\% = £0$ $£9,500 @ 20\% = £1,900$ $£10,000 @ 40\% = £4,000$ Less tax credit $£4,000$ ($£20,000 @ 20\%$) = $£1,900$ $£1,900 \times 3 \text{ years} = £5,700$ Top slicing relief $£9,900 - £5,700 = £4,200$</p>		
Total tax payable after top slicing = $£15,400 - £4,200 = £11,200$		Total tax payable after top slicing = $£27,400 - £4,200 = £23,200$

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Customs practice, as at March 2020 and could be subject to change in the future. It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.

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