

Webinar

Top-slicing relief



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Housekeeping



- **CPD certificates**
 - Issued within next two weeks
- **Questions**
 - Chat box is available for follow-up
- **Downloads – ask Tim/Richard for:**
 - Copy of slides (pdf)
 - Briefing note on chargeable events and top slicing
 - Briefing note on calculating multiple chargeable event gains
 - Briefing note on chargeable gains the starting rate and the personal savings allowance



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Learning objectives



- By the end of this session you will understand:
 - What top-slicing is and how it works
 - Why you need to use the five step calculation
 - The change that came about on the budget 11 March 2020
 - We will work through the following examples:
 - Example 1 – Client has starting rate for savings band available
 - Example 2a – Personal allowance affected by gain (pre Budget rules)
 - Example 2b – Personal allowance affected by gain (post Budget rules)
 - Example 3a – Client loses all allowances (pre Budget rules)
 - Example 3b – Client loses all allowances (post Budget rules)
 - Example 4 – Client moves into higher rate tax



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Top-slicing relief



- **Can be used where the chargeable gain takes the investor into another tax band**
 - Cannot top-slice into personal allowance
- **Spreads the gain over the number of policy years**
 - Complete years only
- **Additional investments**
- **Reduces tax payable, not the gain**
 - Full chargeable event gain may affect personal allowance if over £100,000 total adjusted net income*
 - Personal savings allowance reduced if total gain falls into a higher tax bracket (£1,000 / £500 / £0)
 - Child benefit if total gain takes you above threshold
 - Student loans if total gain takes you above thresholds

*Total adjusted net income means all income from all taxable sources – 2020/21 threshold quoted above

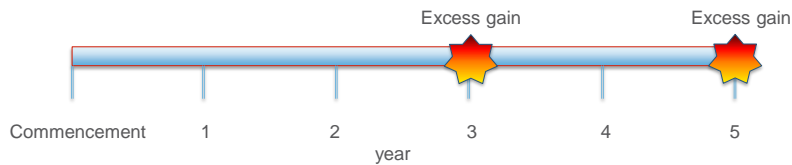


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Top-slicing relief



- The chargeable gain forms the top slice of an individual's income
- Divide the gain by the number of complete years for which the policy has run before the chargeable event ("N")
- If it is an excess gain, and there is a previous chargeable event, N used to always be the number of complete years back to inception for **international** bonds, but this changed on 6 April 2013

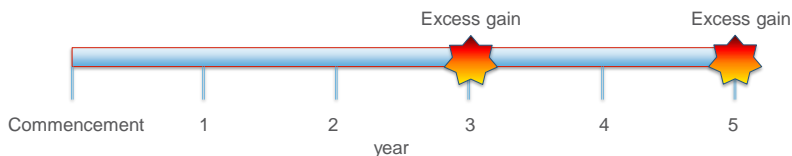


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Top-slicing relief



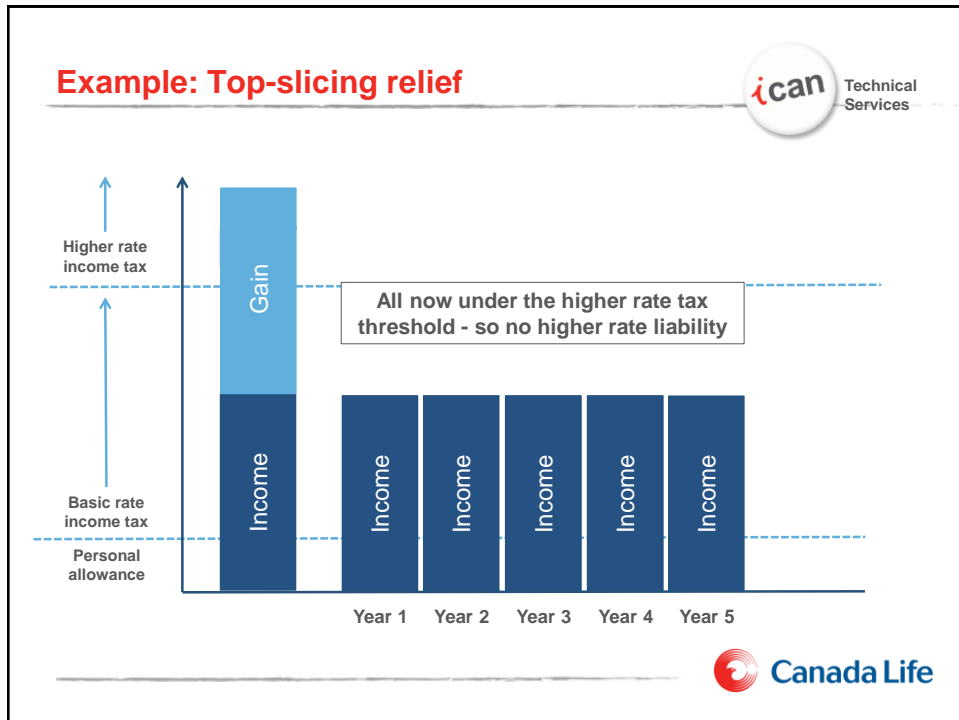
- Due to an inadvertent change in the Finance Act 2013 **international** bonds taken out on or after 6 April 2013 (or earlier bonds which are varied, assigned or used as security after 5 April 2013) will be treated the same as **UK bonds** where excess surrenders occur
- The first excess withdrawal will go back to inception
- Second or subsequent excess* withdrawals will go back to the previous excess event



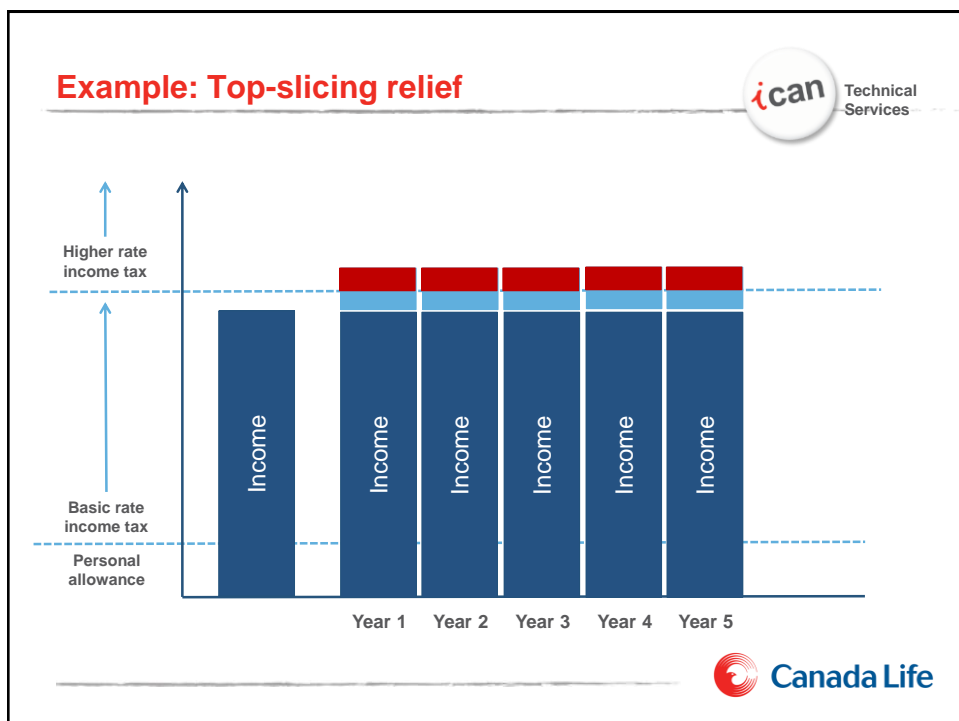
- *Note on full encashment top-slicing is always back to inception



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Top-slicing relief: 5 steps



- 1. Calculate the total taxable income for the year**
 - Personal allowance
 - Starting rate for savings band
 - Personal savings allowance
- 2. Calculate the total tax due on the gain across all tax bands**
 - Deduct basic rate tax
- 3. Calculate the top-slice of the gain**
- 4. Calculate the individual's liability to tax on the top-slice**
 - Personal allowance is recalculated for gains from 11 March 2020*
 - Deduct basic rate tax
- 5. Deduct Step 4 from Step 2**

* HMRC have confirmed they will apply the new rules to ALL gains arising from the 2018/19 tax year onwards. (HMRC Agent Update no 79)



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Example 1



Client has starting rate for savings band available

- **Earned income = £16,500**
- **Chargeable gain = £60,000**
 - Held for 2 complete years

Step 1 – Calculate total taxable income

- For every £1 of earned income above the personal allowance the starting rate for savings band is reduced by a £1
 - $£16,500 - £12,500 = £4,000$ so,
 - Starting rate for savings band is $£5,000 - £4,000 = £1,000$
 - PSA is £500



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Example 1



Source	Amount	Band	Rate	Tax Due
Employment	£12,500	Personal allowance	0%	£0
	£4,000	Basic rate	20%	£800
Chargeable gain	£1,000	Starting rate for savings	0%	£0
	£500	Personal savings allowance	0%	£0
	£32,000	Basic rate	20%	£6,400
	£26,500	Higher rate	40%	£10,600
Total income tax liability				£17,800

Total income tax liability on bond gain = £17,000

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Example 1



Step 2 - Calculate the total tax due on the gain and deduct basic rate tax

- Total tax on gain - £17,000
- Deduct basic tax credit - £12,000 (£60,000 @ 20%)
- **£5,000**

Step 3 – Calculate top-slice of gain

- £60,000/2 = £30,000

Step 4 – Calculate the individual's liability to tax on the top-slice

Chargeable gain	Amount	Band	Rate	Tax due
£30,000	£1,000	SRSB	0%	£0
	£500	PSA	0%	£0
	£28,500	Basic rate	20%	£5,700
Total				£5,700

- Deduct basic tax credit - £6,000 (£30,000 @ 20%)
- Total liability on top-slice = £0 (£5,700 - £6,000)

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Example 1



Step 5 – Deduct Step 4 from Step 2

- Step 2 - **£5,000**
 - Total tax on gain - £17,000
 - Deduct basic tax credit - £12,000 (£60,000 @ 20%)
- Step 4 - **£0**
- **Top-slice relief = £5,000**

Source	Amount	Band	Rate	Tax Due
Total tax liability on bond gain				£17,000

- Total income tax to pay on international bond gain = £12,000
- For a UK bond remember to deduct the basic rate tax of £12,000
Meaning total income tax on onshore bond = £0

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Example 2a – pre Budget rules



Personal allowance affected by gain

- **Earned income = £33,600**
- **Chargeable gain = £91,000**
 - Held for 7 complete years

Step 1 – Calculate total taxable income

- Whole gain treated as income
- For every £2 of income above £100,000 the personal allowance is reduced by a £1
 - $£33,600 + £91,000 = £124,600$ so,
 - Personal allowance is $£124,600 - £100,000 = £24,600 / 2 = £12,300$

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Example 2a – pre Budget rules



Source	Amount	Band	Rate	Tax Due
Employment	£200	Personal allowance	0%	£0
	£33,400	Basic rate	20%	£6,680
Chargeable gain	£500	Personal savings allowance	0%	£0
	£3,600	Basic rate	20%	£720
	£86,900	Higher rate	40%	£34,760
Total income tax liability				£42,160

- Total income tax liability on bond gain = £35,480

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Example 2a – pre Budget rules



Step 2 - Calculate the total tax due on the gain and deduct basic rate tax

- Total tax on gain - £35,480
- Deduct basic tax credit - £18,200 (£91,000 @ 20%)
- **£17,280**

Step 3 – Calculate top-slice of gain

- £91,000/7 = £13,000

Step 4 – Calculate the individual's liability to tax on the top-slice

Chargeable gain	Amount	Band	Rate	Tax due
£13,000	£500	PSA	0%	£0
	£3,600	basic rate	20%	£720
	£8,900	higher rate	40%	£3,560
Total				£4,280

- Deduct basic tax credit - £2,600 (£13,000 @ 20%)
- Total liability on top-slice = £11,760 ((£4,280 - £2,600) x 7)

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Example 2a – pre Budget rules



Step 5 – Deduct Step 4 from Step 2

- Step 2 - **£17,280**
 - Total tax on gain - £35,480
 - Deduct basic tax credit - £18,200 (£91,000 @ 20%)
- Step 4 - **£11,760**
- **Top-slice relief = £5,520**

Source	Amount	Band	Rate	Tax Due
Total income tax on bond gain				£35,480

- Total income tax to pay on international bond gain = **£29,960**
- On a UK bond remember to deduct the basic rate tax of £18,200
Meaning total income tax on onshore bond = £11,760

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Example 2b – post Budget rules



Personal allowance affected by gain

- **Earned income = £33,600**
- **Chargeable gain = £91,000**
 - Held for 7 complete years

Step 1 – Calculate total taxable income

- Whole gain treated as income
- For every £2 of income above £100,000 the personal allowance is reduced by a £1
 - $£33,600 + £91,000 = £124,600$ so,
 - Personal allowance is $£124,600 - £100,000 = £24,600 / 2 = £12,300$

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Example 2b – post Budget rules



Source	Amount	Band	Rate	Tax Due
Employment	£200	Personal allowance	0%	£0
	£33,400	Basic rate	20%	£6,680
Chargeable gain	£500	Personal savings allowance	0%	£0
	£3,600	Basic rate	20%	£720
	£86,900	Higher rate	40%	£34,760
Total income tax liability				£42,160

- Total tax due on bond gain = £35,480

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Example 2b – post Budget rules



Step 2 - Calculate the total tax due on the gain and deduct basic rate tax

- Total tax on gain - £35,480
- Deduct basic tax credit - £18,200 (£91,000 @ 20%)
- **£17,280**

Step 3 – Calculate top-slice of gain

- $£91,000 / 7 = £13,000$

Step 4 – For gains arising from 11 March 2020 the personal allowance is recalculated.

- $£33,600 + £13,000 = £46,600$ therefore personal allowance is £12,500

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Example 2b – post Budget rules



Step 4 – Calculate the individual's liability to tax on the top-slice

This is where calculation changes post Budget!

Source	Amount	Band	Rate	Tax Due
Employment	£12,500	Personal allowance	0%	£0
	£21,100	Basic rate	20%	£4,220
Chargeable gain	£500	Personal savings allowance	0%	£0
	£12,500	Basic rate	20%	£2,500
Total tax on top-slice				£2,500

- Deduct basic tax credit - £2,600 (£13,000 @ 20%)
- Total liability on top-slice = (£2,500 - £2,600) x 7 = 0

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Example 2b – post Budget rules



Step 5 – Deduct Step 4 from Step 2

- Step 2 - **£17,280**
 - Total tax on gain - £35,480
 - Deduct basic tax credit - £18,200 (£91,000 @ 20%)
- Step 4 - 0
- **Top-slice relief = £17,280**

Source	Amount	Band	Rate	Tax Due
Total tax on bond gain				£35,480

- Total income tax to pay on international bond gain = £35,480 - £17,280 = **£18,200**
- On a UK bond remember to deduct the basic rate tax of £18,200 meaning total income tax on onshore bond = £0

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Example 2a and 2b compared



Example 2a – before budget

Step 2 £17,280
 Step 3 £13,000 top slice
 Step 4 £11,760
 Step 5 £5,520 top slice relief

International bond tax £29,960
 UK bond tax £11,760

Example 2b – after budget

Step 2 £17,280
 Step 3 £13,000 top slice
 Step 4 **£0**
 Step 5 **£17,280 top slice relief**

International bond tax £18,200
 UK bond tax £0

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Example 3



Client loses all allowances and moves into higher rate tax

- Earned income = £38,625
- Chargeable gain = £229,391
 - Held for 18 complete years

Step 1 – Calculate total taxable income

- Whole gain treated as income
 - £38,625 + £229,391 = £266,016 so,
 - Personal allowance is lost
 - Earnings of £38,625 so no starting rate for savings band available
 - Personal savings allowance is lost

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Example 3



Source	Amount	Band	Rate	Tax Due
Employment	£37,500	Basic rate	20%	£7,500
	£1,125	Higher rate	40%	£450
Chargeable gain	£111,375	Higher rate	40%	£44,550
	£118,016	Additional rate	45%	£53,107
Total tax liability				£105,607

- Total tax liability on bond gain = £97,657

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Example 3a – pre Budget rules



Step 2 - Calculate the total tax due on the gain and deduct basic rate tax

- Total tax on gain - £97,657
- Deduct basic tax credit - £45,878 (£229,391 @ 20%)
- **£51,779**

Step 3 – Calculate top-slice of gain

- $£229,391/18 = £12,744$

Step 4 – Calculate the individual's liability to tax on the top-slice

Chargeable gain	Amount	Band	Rate	Tax due
£12,744	£12,744	Higher rate	40%	£5,098
Total				£5,098

- Deduct basic tax credit - £2,549 (£12,744 @ 20%)
- Total liability on top-slice = £45,882 ((£5,098 - £2,549) x 18)

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Example 3a – pre Budget rules



Step 5 – Deduct Step 4 from Step 2

- Step 2 - **£51,779**
 - Total tax on gain - £97,657
 - Deduct basic tax credit - £45,878 (£229,391 @ 20%)
- Step 4 - **£45,882**
- **Top-slice relief = £5,897**

Source	Amount	Band	Rate	Tax Due
Total income tax liability on bond				£97,657

- Total income tax to pay on international bond gain = £91,760
- On a UK bond remember to deduct the basic rate tax of £45,878
Meaning total income tax on onshore bond = £45,882

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Example 3b – post Budget rules



Step 2 - Calculate the total tax due on the gain and deduct basic rate tax

- Total tax on gain - £97,657
- Deduct basic tax credit - £45,878 (£229,391 @ 20%)
- **£51,779**

Step 3 – Calculate top-slice of gain

- $£229,391/18 = £12,744$

Step 4 – Calculate the individual's liability to tax on the top-slice

Chargeable gain	Amount	Band	Rate	Tax due
£12,744	£11,375	Basic rate	20%	£2,275
	£1,369	Higher rate	40%	£ 547
Total tax on top slice				£2,822

- Total liability on top-slice = £4,914 $((£2,822 - £2,549) \times 18)$

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Example 3b – post Budget rules



Step 5 – Deduct Step 4 from Step 2

- Step 2 - **£51,779**
 - Total tax on gain - £97,657
 - Deduct basic tax credit - £45,878 (£229,391 @ 20%)
- Step 4 - **£4,914**
- **Top-slice relief = £46,865**

Source	Amount	Band	Rate	Tax Due
Total income tax liability on bond				£97,657

- Total income tax to pay on international bond gain = £50,792
- On a UK bond remember to deduct the basic rate tax of £45,878
Meaning total income tax on onshore bond = £4,914

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Example 3a and 3b compared



Example 3a – before budget

Step 2 £51,779
 Step 3 £12,744 top slice
 Step 4 £45,882
 Step 5 £5,897 top slice relief

International bond tax £91,760
 UK bond tax £45,882

Example 3b – after budget

Step 2 £51,779
 Step 3 £12,744 top slice
 Step 4 **£4,914**
 Step 5 **£46,865 top slice relief**

International bond tax **£50,792**
 UK bond tax **£4,914**

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Points to remember



- As a result of the Silver v HMRC case, HMRC have changed the rules from 11 March 2020*. The personal allowance is reinstated and adjusted by reference to the client's income and **top-sliced gain**. However, other allowances and reliefs are not recalculated for the purposes of the hypothetical top-slicing relief calculation.
- Gains made under investment bonds, whether UK or international, are classed as savings income.
- Top-slicing is not available to trustees or personal representatives. Where trustees are assessed for a chargeable gain, they will have an allowance of up to £1,000 at 20% and 45% on the balance.
- HMRC have confirmed that they will apply the new rules to all gains arising from the 2018/19 tax year onwards.
- See: HMRC Agent Update No 79).



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Example 4



Gain moves client into higher rate tax

- **Earned income = £42,000**
- **Chargeable gain = £55,000**
 - Held for 11 complete years

Step 1 – Calculate total taxable income

- Whole gain treated as income
 - $£42,000 + £55,000 = £97,000$ so,
 - Personal allowance is not affected
 - Earnings of £42,000 so no starting rate for savings band available
 - Personal savings allowance reduced to £500



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Example 4



Source	Amount	Band	Rate	Tax Due
Employment	£12,500	Personal allowance	0%	£0
	£29,500	Basic rate	20%	£5,900
Chargeable gain	£500	Personal savings allowance	0%	£0
	£7,500	Basic rate	20%	£1,500
	£47,000	Higher rate	40%	£18,800
Total income tax liability				£26,200

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Example 4



Step 2 - Calculate the total tax due on the gain and deduct basic rate tax

- Total tax on gain - £20,300
- Deduct basic tax credit - £11,000 (£55,000 @ 20%)
- **£9,300**

Step 3 – Calculate top-slice of gain

- $£55,000/11 = £5,000$

Step 4 – Calculate the individual's liability to tax on the top-slice

Chargeable gain	Amount	Band	Rate	Tax due
£5,000	£500	PSA	0%	£0
	£4,500	basic rate	20%	£900
Total				£900

- Deduct basic tax credit - £1,000 (£5,000 @ 20%)
- Total liability on top-slice = £0 ((£900 - £1,000) x 11)

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Example 4



Step 5 – Deduct Step 4 from Step 2

- Step 2 - **£9,300**
 - Total tax on gain - £20,300
 - Deduct basic tax credit - £11,000 (£55,000 @ 20%)
- Step 4 - **£0**
- **Top-slice relief = £9,300**

Source	Amount	Band	Rate	Tax Due
Total income tax liability				£26,200

- Total income tax to pay on income & international bond gain = £16,900
- On a UK bond remember to deduct the basic rate tax of £11,000
Meaning total income tax = £5,900

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Top-slicing relief: 5 steps



- 1. Calculate the total taxable income for the year**
 - Personal allowance
 - Starting rate for savings band
 - Personal savings allowance
- 2. Calculate the total tax due on the gain across all tax bands**
 - Deduct basic rate tax
- 3. Calculate the top-slice of the gain**
- 4. Calculate the individual's liability to tax on the top-slice**
 - Personal allowance is recalculated for gains from 11 March 2020*
 - Deduct basic rate tax
- 5. Deduct Step 4 from Step 2**

* HMRC have confirmed they will apply the new rules to ALL gains arising from the 2018/19 tax year.
(HMRC Agent Update no 79)

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Support for advisers



Range of support material

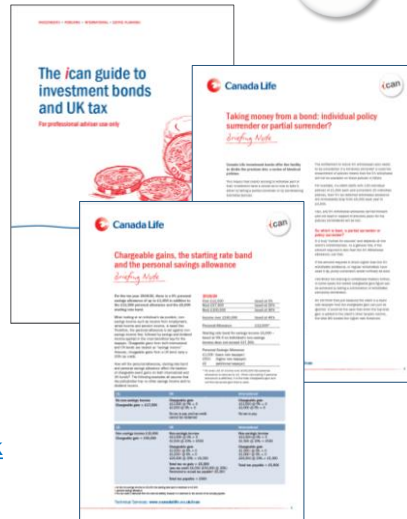
- Brochures
- Newsletters
- Technical Eye
- Briefing notes
- Budget summary
- Tech-casts

Account manager

- Field-based
- Centrally-based

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- email: ican@canadalife.co.uk



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Questions



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Important information



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