Calculating multiple chargeable gains

Briefing Note

If a client is investing a substantial sum in an investment bond, it is often the case that the investment is split between more than one life assurance company.

So it is not unexpected that a client may generate more than one chargeable gain in a tax year, for example if they surrender all of their investments across all companies.

In addition, you cannot assume that those companies will be UK life assurance companies as investment bonds can also be issued by non-UK companies, such as those based on the Isle of Man and in Ireland.

It is important, therefore, to be conversant with the chargeable event rules where a client has more than one chargeable gain in any tax year. These can be found in HMRC's Insurance Policyholder Taxation Manual available here:

https://www.gov.uk/hmrc-internal-manuals/insurance-policyholder-taxation-manual/iptm3840

The steps involved when top-slicing relief applies are:

1. Calculate the total taxable income for the year

Identify how much of the gain falls within the starting rate for savings band, personal savings allowance, basic, higher or additional rate bands as appropriate.

2. Calculate the total tax due on the gains across all tax bands

Include the starting rate for savings band and personal savings allowance as appropriate. Deduct basic rate tax treated as paid to find the individual's liability for the tax year, even for a gain from an offshore bond.

3. Calculate the 'annual equivalent' for each gain

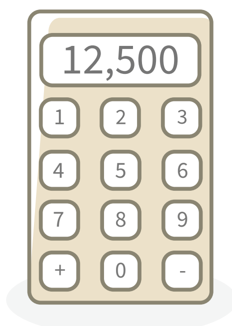
For each surrendered bond, divide its gain by the complete number of years it has been inforce. Then add together all the top-sliced gains from the different bonds.

4. Calculate the total liability to tax on the total annual equivalent

Include the starting rate for savings band and personal savings allowance as appropriate.
Deduct basic rate tax treated as paid on the total annual equivalent, even for a gain from an offshore bond.

5. Multiply the result at step 4 by the total gains chargeable to tax in the year, then divide the result by the total annual equivalent at step 3. The result is the total relieved liability.

6. Deduct the total relieved liability at step 5 from the individual's liability at step 2 to give the amount of top-slicing relief due.



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Example 1

Alexander is surrendering two investment bonds and his earnings for the current tax year are £2,000 below the higher rate tax band. There are no other gains during the tax year.

	Bond A	Bond B
Type of bond	Onshore	Onshore
Original investment	£100,000	£70,000
Withdrawals	None	None
Surrender value	£120,000	£80,000
Gain	£20,000	£10,000
Years held	5	10

1. **Calculate total taxable income**

   Alexander is a higher rate taxpayer so entitled to £500 personal savings allowance.

2. **Calculate the total tax due on the gains**
   - £500 x 0% = £0
   - £1,500 x 20% = £300
   - £28,000 x 40% = £11,200
   - Total = £11,500
   - less basic rate treated as paid £30,000 x 20% = £6,000
   - **Total tax due on the gains = £5,500**

3. **Calculate the annual equivalent of the gain and add together**
   - Bond A = £20,000 ÷ 5 = £4,000.
   - Bond B = £10,000 ÷ 10 = £1,000
   - **Total = £4,000 + £1,000 = £5,000**

4. **Calculate the total liability to tax on the total annual equivalent and deduct basic rate tax treated as paid**
   - £500 x 0% = £0
   - £1,500 x 20% = £300
   - £3,000 x 40% = £1,200
   - Total = £1,500
   - less basic rate treated as paid £5,000 x 20% = £1,000
   - **Total tax liability = £500**

5. **Multiply the result at 4 by the total gains, then divide by the total annual equivalent at 3**
   - **(£500 x £30,000) / £5,000 = £3,000**

6. **Deduct total relieved liability at 5 from the individual's liability at 2 to give top-slicing relief due**
   - **£5,500 - £3,000 = £2,500**

Calculating multiple chargeable gains

Example 2

Ben is surrendering three investment bonds and his earnings for the current tax year are also £2,000 below the higher rate tax band. There are no other gains during the tax year.

	Bond A	Bond B	Bond C
Type of bond	Onshore	Onshore	Offshore
Original investment	£100,000	£70,000	£250,000
Withdrawals taken as 5% each year	None	£15,000	None
Surrender value	£110,000	£75,000	£270,000
Gain	£10,000	£20,000	£20,000
Years held	5 years	10 years	4 years

1. **Calculate total taxable income**

   Ben is a higher rate taxpayer so entitled to £500 personal savings allowance.

2. **Calculate the total tax due on the gains**
   - £500 x 0% = £0
   - £1,500 x 20% = £300
   - £48,000 x 40% = £19,200
   - less basic rate tax treated as paid £50,000 x 20% = £10,000
   - **Total tax on gains = £9,500**

3. **Calculate the annual equivalent of the gain and add them together**
   - Bond A has a top-sliced gain of £10,000 ÷ 5 = £2,000.
   - Bond B has a top-sliced gain of £20,000 ÷ 10 = £2,000.
   - Bond C has a top-sliced gain of £20,000 ÷ 4 = £5,000.
   - **Total of all gains £2,000 + £2,000 + £5,000 = £9,000**

4. **Calculate the total liability to tax on the total annual equivalent and deduct basic rate tax treated as paid**
   - £500 x 0% = £0
   - £1,500 x 20% = £300
   - £7,000 x 40% = £2,800
   - less basic rate tax treated as paid £9,000 x 20% = £1,800
   - **Total liability = £1,300**

5. **Multiply the result at 4 by the total gains then divide by the total annual equivalent at 3**

   (£1,300 x £50,000) / £9,000 = £7,222

6. **Deduct total relieved liability at 5 from the individual's liability at 2 to give top-slicing relief due**

   £9,500 - £7,222 = £2,278

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at September 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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