TOP-SLICING RELIEF

This document explains what top-slicing relief is and how it is calculated on a gain from an offshore policy.

What is top-slicing relief?

Top-slicing relief (TSR) allows a gain made on the policy to be annualised. This allows the policy owner to pay tax at a rate equivalent to the rate that would have applied if the gain had been taxable in each year it was made.

THE CALCULATION

The top-slicing relief calculation is complex and will depend on an individual's personal circumstances, and any other income that they receive.

There is generally a 5 Step process in calculating TSR.

Step 1

Calculate the taxable income for the year and identify how much of the gain falls within the relevant tax bands: (starting rate for savings, personal savings allowance (PSA), nil rate, basic, higher or additional rate bands).

Step 2

- Calculate the **total tax due** on the gain across all tax bands (based on information from step 1).
- Calculate basic tax treated as paid on the total gain (even though it is a foreign life policy).
- Deduct the amount of basic tax treated as paid from total tax due on gain to find the **individual's liability** for the tax year.

Step 3

Calculate the annual equivalent of the gain. The annual equivalent is calculated by dividing the total gain by **N** (total number of years the policy has been in force).

Excess Events:

Pre-6 April 2013 policies: The starting point for determining **N** is the commencement of the policy.

Policies issued or varied on or after 6 April 2013:

- Where the policyholder has always been UK resident, time apportionment relief (TAR) will not apply. The period for **N** is the later of commencement or the last excess event.
- Where the policyholder has a period of non-residence, TAR will apply. The period for **N** starts from commencement of the policy and is reduced by any period of residence overseas.

Final Events:

For all policies, the starting point for determining **N** is the commencement date of the policy, but where TAR applies, **N** is reduced by any period of residence overseas.

Step 4

- Add individual's other income to the annual equivalent to give a notional adjusted income.
- Calculate total tax due on the annual equivalent of the gain.

  In this step it may be possible to reinstate the personal allowance, but not the personal saving allowance.

- Calculate basic tax treated as paid on the annual equivalent (even though it is a foreign life policy).
- Deduct the amount of basic tax treated as paid from total tax due on gain annual equivalent.
- Multiply by **N**. This gives the **individual's relieved liability**.

Step 5

Deduct the **individual's relieved liability** (step 4) from **individual's liability** (step 2) to give the amount of **top slicing relief** available.

Total tax on gain = (step 2*) minus top slicing relief (step 5).

* This is total tax on gain and not individual liability also confirmed in step 2.

When top-slicing relief doesn't apply

- It doesn't reduce income below £100,000 to preserve full entitlement to the personal allowance.
- It is only available to individuals. It cannot be claimed by trustees, executors/personal representatives, or corporate entities.
- It does not apply to annual gains that arise on 'personal portfolio policy events'.

EXAMPLE

Mr Jones has non-saving income of £40,000. He has recently surrendered his offshore policy and realised a gain of £60,000. He has owned the policy for 3 years.

Step 1
Calculate the taxable income for the year and identify how much of the gain fall within the relevant tax bands.

Source	Amount	Band	Rate (%)	Tax Due
Employment	£12,570	Personal Allowance	0%	£0
	£27,430	Basic Rate	20%	£5,486
Chargeable Gain	£500	PSA	0%	£0
	£9,770	Basic Rate	20%	£1,954
	£49,730	Higher Rate	40%	£19,892

Step 2
Tax liability on the gain: £1,954 + £19,892 = £21,846

Basic tax treated as paid on the gain = £60,000 @ 20% = £12,000

Total liability = £21,846 - £12,000 = **£9,846**

Step 3
Annual equivalent of the gain = £60,000/3 years = **£20,000**

Step 4
Notional adjusted income = £40,000 + £20,000 = £60,000

Source	Amount	Band	Rate (%)	Tax Due
Chargeable Gain	£500	PSA	0%	£0
	£9,770	Basic Rate	20%	£1,954
	£9,730	Higher Rate	40%	£3,892

Tax liability on the annual equivalent of the gain = £5,846

Basic tax treated as paid on annual equivalent = £20,000 @ 20% = £4,000

Total **relieved liability** = £5,846 - £4,000 = £1,846 x 3 years = **£5,538**

Step 5
Top slice relief = £9,846 (**total liability** - step 2) – £5,538 (**relieved liability** - step 4) = **£4,308**

Tax due on offshore policy gain = £21,846 - £4,308 = **£17,538.**

IMPORTANT NOTES

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

Taxation of an offshore policy is subject to the client's residency.

Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and HM Revenue and Customs' (HMRC) practice as at April 2023.

You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.

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