



Bond School

Session 005 – Calculating the tax liability – Individuals and non-bare trusts



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

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Learning objectives

By the end of this session, you will be able to:

Understand the mechanics of top-slicing relief, deficiency relief, time apportionment relief and when they apply

Calculate the tax liability for individuals and non-bare trusts

The UK income tax computation (7 steps)

1 work out total income

2 deduct allowable reliefs

3 deduct personal allowances

4 tax the income at appropriate rates

5 add up the tax

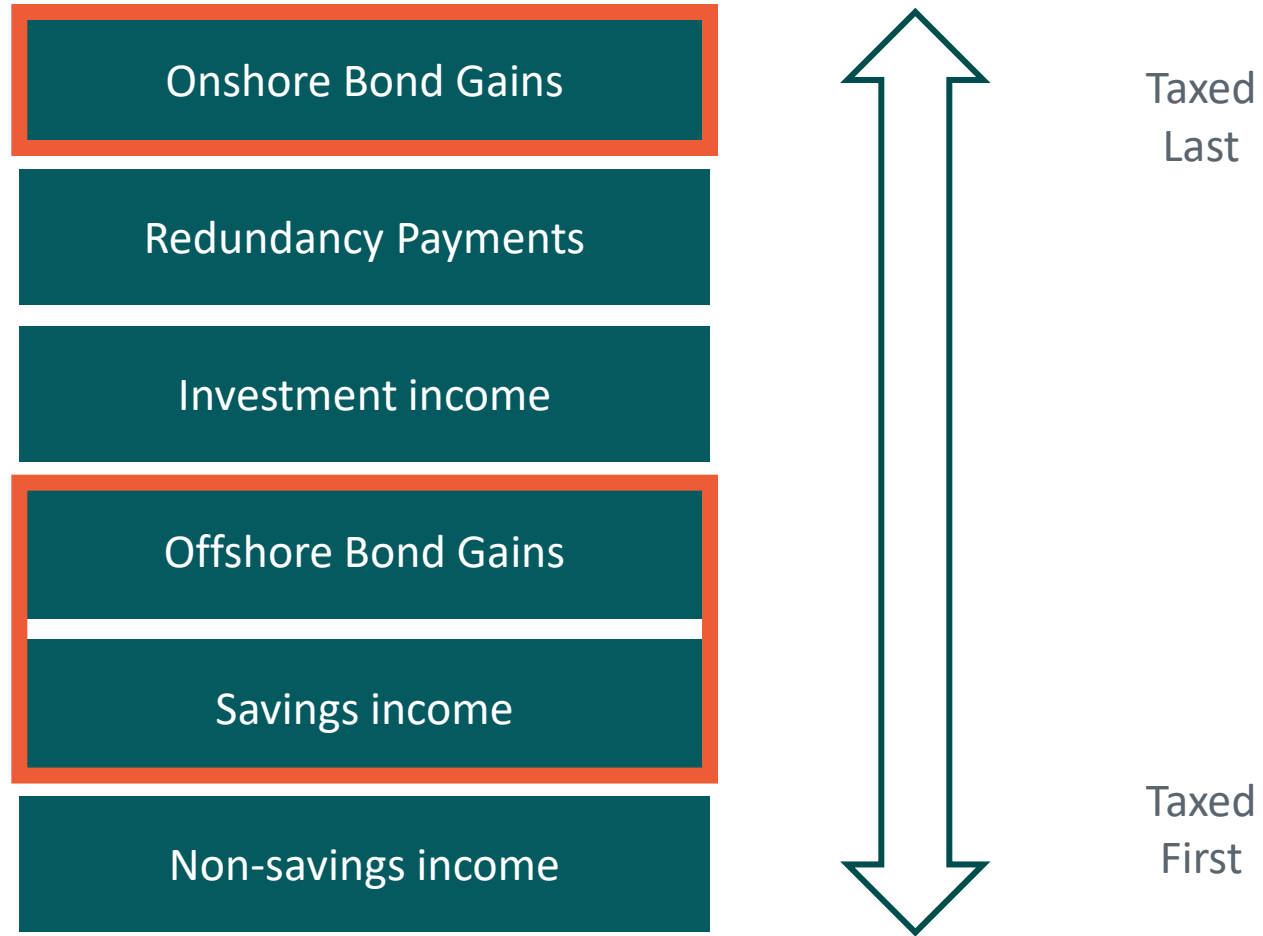
6 deduct tax reducers

7 add tax additions

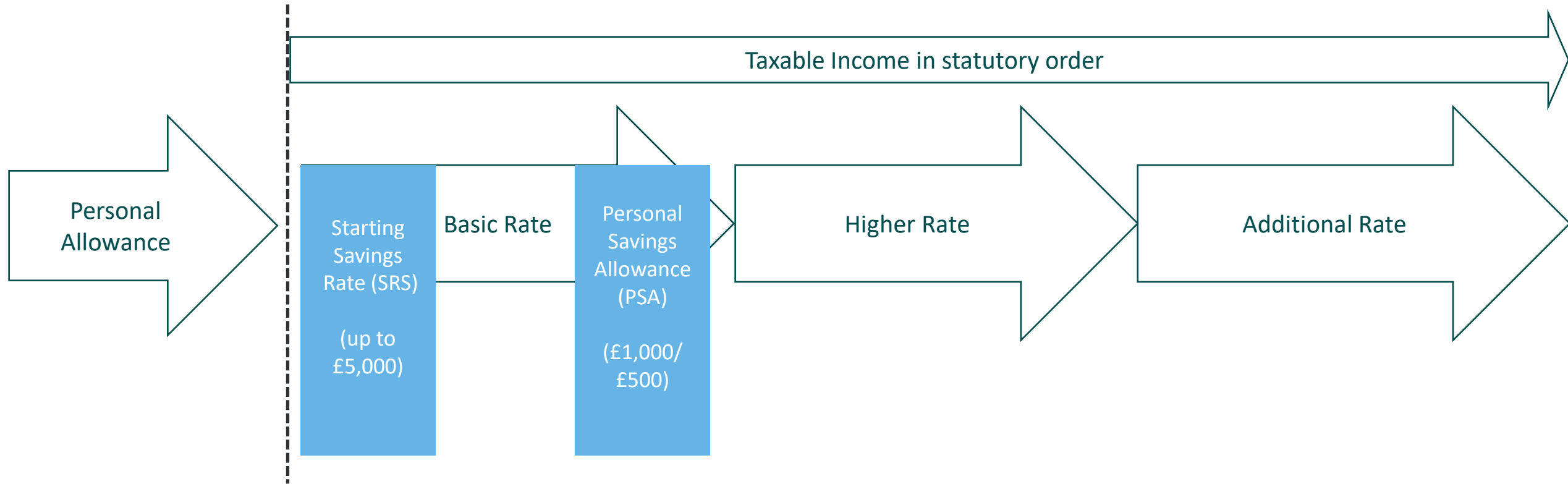


Tax liability

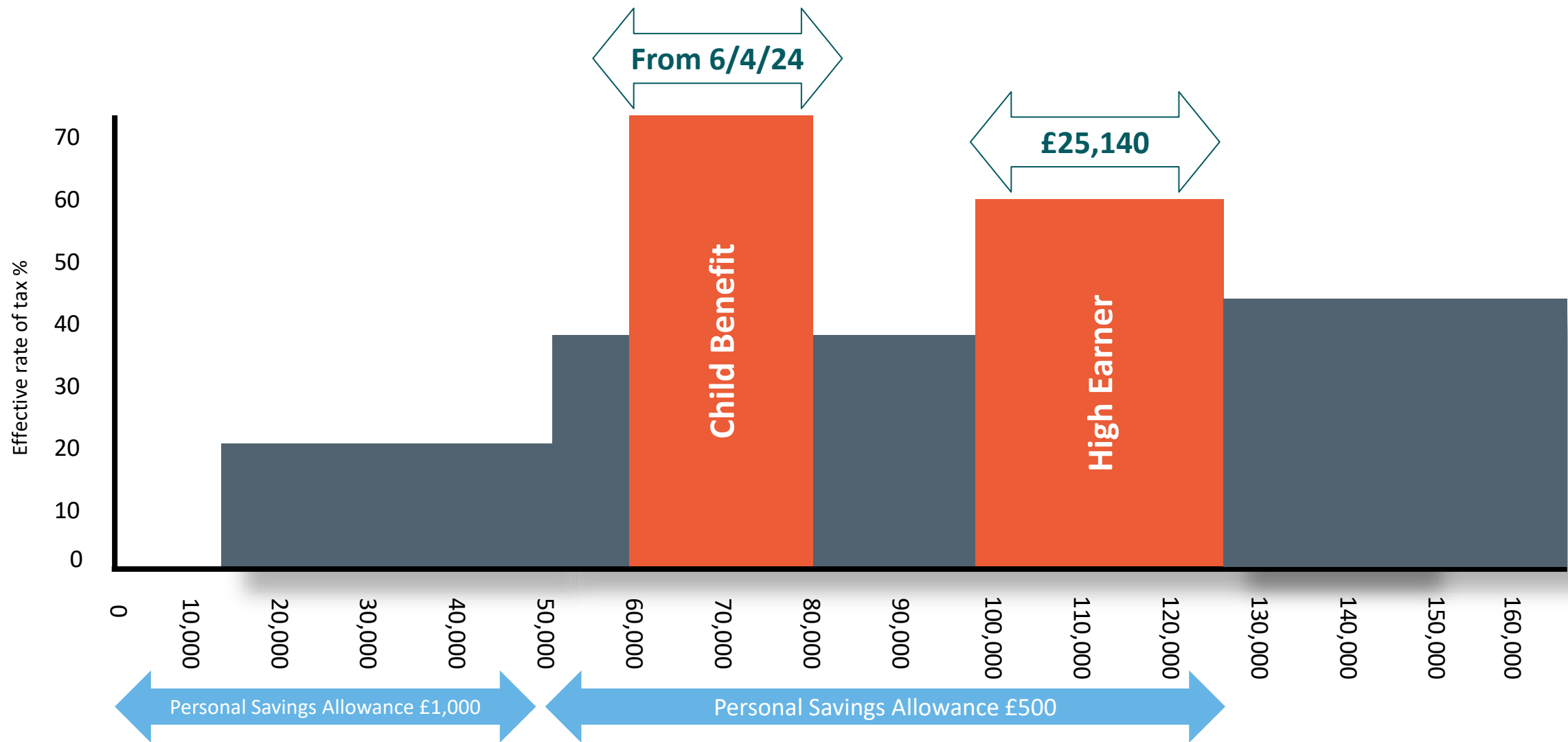
Order of Tax




Savings allowances



Tax traps: Based on clients Adjusted Net Income (ANI)



Adjusted Net Income (ANI)

Adjusted Net Income	
Net Income (after step 2)	 Full bond gain
<u>Less</u> Relief at Source pension (gross)	
<u>Less</u> Gift Aid (gross)	
<u>Add</u> Tax relief for certain trade union / police organisations	

Devolved taxation

Belfast

No income tax powers

Edinburgh

Non savings, Non-Dividend only

London

Non savings, Non-Dividend(Eng & NI)

Savings

Dividends

Allowances (tax traps)

National Insurance

Capital Gains Tax

Corporation Tax

Cardiff


Non savings, Non-Dividend only





Top-Slicing Relief (TSR)

Top-slicing relief: When does it apply?



Final or Excess
chargeable event
gain occurs

Individual liable
is UK tax resident

N/A for trustees,
personal reps or
corporates

Bond has been in
force for at least
two complete
policy years

N/A for non-
taxpayer moving
into basic rate

Top-slicing Relief: Calculating the slice (“N”) for a single event

	Onshore	Offshore
Full surrender	Always back to commencement	Always back to commencement
Excess Event (since FA13)	<ul style="list-style-type: none">• Back to commencement for 1st and back to last excess event for subsequent excess events (if TAR doesn't apply)• If TAR does apply, then back to commencement for all excess events	<ul style="list-style-type: none">• Back to commencement for 1st and back to last excess event for subsequent excess events (if TAR doesn't apply)• If TAR does apply, then back to commencement for all excess events
	Bond provider will assume TAR doesn't apply	Bond provider can assume TAR applies unless advised TAR will not be claimed

Top-slicing Relief: Calculating “N” (two or more chargeable events gains)

Example:

£12,000 gain on Bond A arisen over four years. Annual equivalent = £3,000

£30,000 gain on Bond B arisen over six years. Annual equivalent = £5,000

Answer:

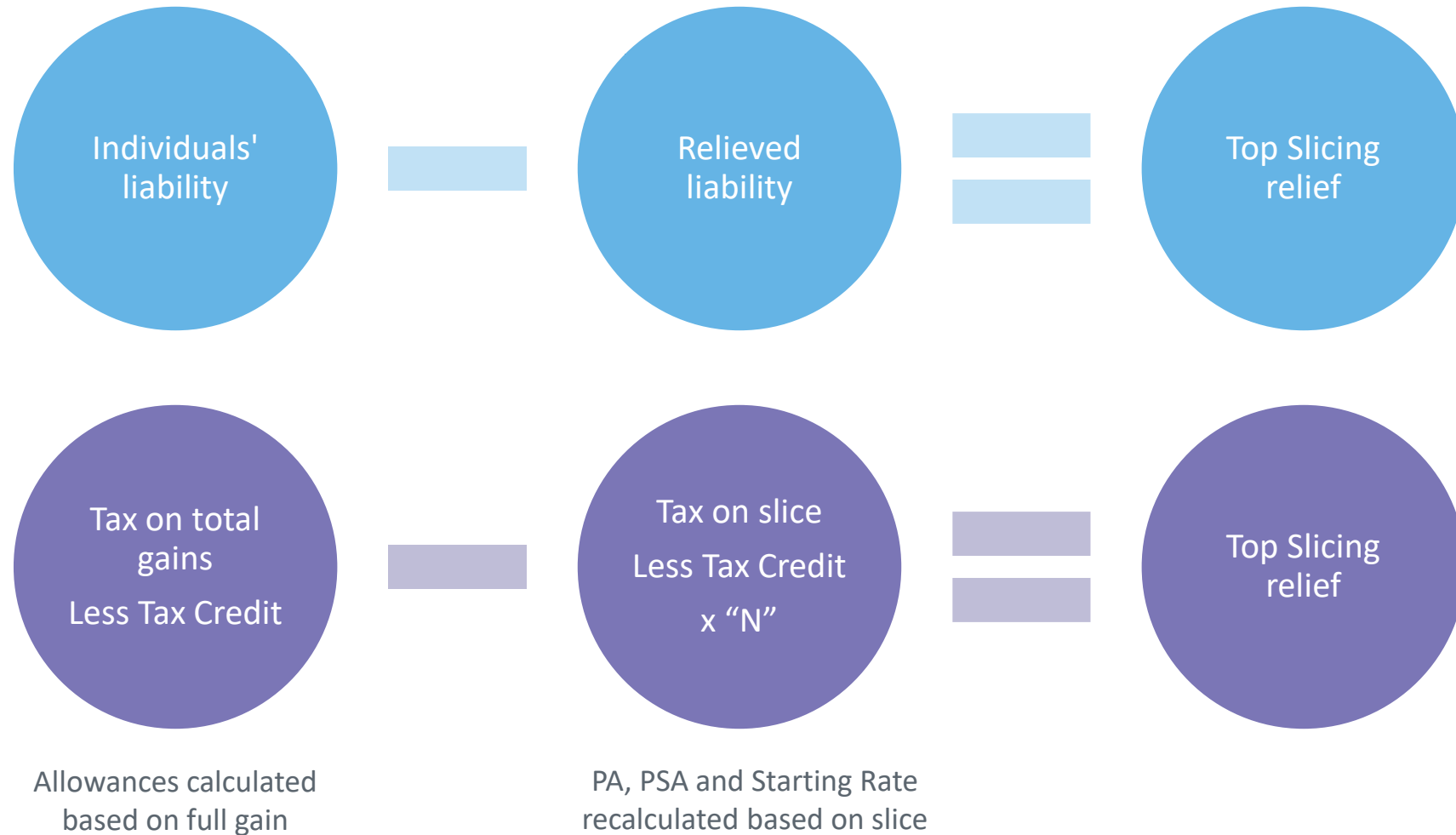
Total gains = £12,000 + £30,000 = £42,000

Total annual equivalent = £3,000 + £5,000 = £8,000

Top slicing factor (N) = £42,000/£8,000 = **5.25 years**

Sum of gains divided by sum of slices

Top-slicing relief: 3 easy steps (applies for Onshore & Offshore)



Top-slicing relief calculation: Key points

Key Point

No basic rate credit for gain or slice within personal allowance

Key Point

Redundancy payments ignored

Key Point

Gift aid doesn't extend bands

Key Point

Order of tax changes - onshore and offshore gains are highest part of income

Key Point

Special rules for calculating "N" when TAR applies

Key Point

TSR is a tax reducer at step 6 of income tax computation



Individuals – calculating the liability

Tax Relief Modeller on Tech Matters site

Tax Relief Modeller Tool

Tax Year 2024/25

ABOUT YOUR CLIENT

What is the client's age?

Under 75

Scottish Tax Payer?

No

Number of Children

Gift Aid (Gross amt)

CHARGEABLE EVENTS - BOND GAINS

Onshore Gain 1

110,000

Onshore Gain 2

Onshore Gain 3

Onshore Gain 4

Offshore Gain 1

Offshore Gain 2

Offshore Gain 3

Offshore Gain 4

Years Gain 1 (N)

5

Years Gain 2 (N)

Years Gain 3 (N)

Years Gain 4 (N)

Years Gain 1 (N)

Years Gain 2 (N)

Years Gain 3 (N)

Years Gain 4 (N)

Slice 1

22,000

Slice 2

Slice 3

Slice 4

Slice 1

Slice 2

Slice 3

Slice 4

INCOME SOURCES

Employment Income

25,000

Benefits in Kind

Taxable Self Employed Profits

UFPLS (taxable element)

Drawdown / Annuity Income

State Pension Income

Purchased Life Annuity Income

Gross Savings Interest

Dividends

Non Residential Capital Gains - Pre 30/10/24

Non Residential Capital Gains - Post 30/10/24

Taxable Redundancy Payment

Rental Income - Relevant

Rental Income - Not relevant

EXISTING PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

Contributions paid gross

NEW PENSION CONTRIBUTIONS

Relief at Source (Net Amount)

20,000

Contributions paid gross

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BEFORE NEW CONTRIBUTIONS		AFTER NEW CONTRIBUTIONS		DIFFERENCE	PENSION SUMMARY
"Total Income"	£135,000	"Total Income"	£135,000	£0	Relevant Earnings £25,000
Adjusted Net Income	£135,000	Adjusted Net Income	£110,000	£-25,000	Contributions: Existing £0
Personal Allowance	£0	Personal Allowance	£7,570	£7,570	New £25,000
Personal Savings Allowance	£0	Personal Savings Allowance	£500	£500	Total £25,000
Child Benefit Charge	£0	Child Benefit Charge	£0	£0	
Capital Gains Tax	£0	Capital Gains Tax	£0	£0	
Tax Liability	£5,000	Tax Liability	£3,486	£-1,514	Effective Rate of Tax Relief 26.06%
Bond Gains Summary		Bond Gains Summary			(on new contributions)
Tax on gains	£41,953	Tax on gains	£34,846	£7,107	
Onshore Tax Credit	£22,000	Onshore Tax Credit	£22,000	£0	
Top slicing relief	£19,953	Top slicing relief	£12,846	£-7,107	
Liability	£0	Liability	£0	£0	
"Bank Balance"	£130,000	"Bank Balance"	£111,514	£-18,486	Please navigate between workings and inputs using the tabs at the bottom of the sheet.

Non-taxpayer: Onshore gain



Gill retired early after receiving an inheritance

She has no income sources in 2024/25

She needs a withdrawal from her onshore bond which will trigger a £10,000 gain

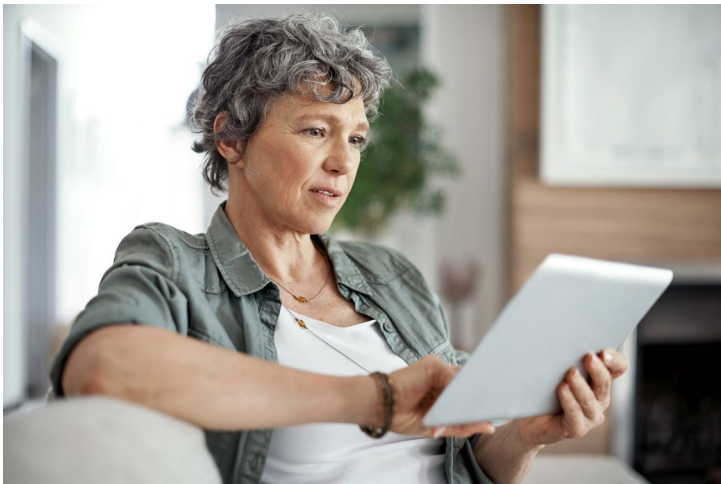
How do we calculate her tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
Step 4	Bond Gain	£5,000	Starting rate	0%	£0
		£1,000	PSA	0%	£0
		£4,000	PA	0%	£0
Step 5			Total Tax		£0
Step 6			Less BR credit		£1,200
			Tax liability		£0

Key points

- No BR credit for gain within PA
- BR credit “wasted”
- Top-slicing relief not relevant

Non-taxpayer: Offshore gain



Gill retired early after receiving an inheritance

She has no income sources in 2024/25

She needs a withdrawal from her offshore bond which will trigger a **£12,500** gain

How do we calculate her tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
Step 4	Bond Gain	£5,000	Starting rate	0%	£0
		£1,000	PSA	0%	£0
		£6,500	PA	0%	£0
Step 5			Total Tax		£0
			Tax liability		£0

Key points

- No tax as gain with SRS, PSA & PA
- Top-slicing relief not relevant

Basic rate taxpayer: Onshore gain



Jim is semi retired with a gross salary of £25,000

He surrenders an onshore bond held for 5 complete years and triggers a £20,000 gain

How do we calculate his tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£12,570	PA	0%	£0
		£12,430	BR	20%	£2,486
Step 4	Bond Gain	£1,000	PSA	0%	£0
		£19,000	BR	20%	£3,800
Step 5			Total tax		£6,286
Step 6			Less BR credit		£4,000
			Tax liability		£2,286

Key points

- Top-slicing relief not relevant
- No further tax to pay
- Self-assess for gains of £10,000+
- Tax credit within SRS/PSA can offset other income tax liability (self-assess)

Basic rate taxpayer: Offshore gain



Jim is semi retired with a gross salary of £25,000

He surrenders an offshore bond held for 5 complete years and triggers a **£23,500** gain

How do we calculate his tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£12,570	PA	0%	£0
		£12,430	BR	20%	£2,486
Step 4	Bond Gain	£1,000	PSA	0%	£0
		£22,500	BR	20%	£4,500
Step 5			Total tax		£6,986
			Tax liability		£6,986

Key points

- Top-slicing relief not relevant
- Self-assessment required

Basic rate taxpayer: Onshore gain and Top-Slicing Relief



Jim is semi retired with taxable salary of £25,000

He surrenders an onshore bond held for 5 complete years and triggers a **£50,000** gain

How do we calculate his tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£12,570	PA	0%	£0
		£12,430	BR	20%	£2,486
Step 4	Bond Gain	£500	PSA	0%	£0
		£24,770	BR	20%	£4,954
		£24,730	HR	40%	£9,892
Step 5			Total tax		£17,332
Step 6			Less BR credit		£10,000

Basic rate taxpayer: Onshore gain breaching higher rate band

Taxation of full gain		50,000	
		Tax	
Step 1	Personal Allowance	0 @ 0%	0
	Starting Rate	0 @ 0%	0
	Personal Savings Allowance	500 @ 0%	0
	Basic Rate	24,770 @ 20%	4,954
	Higher Rate	24,730 @ 40%	9,892
	Additional Rate	0 @ 45%	0
	Total Liability		14,846
Step 2	Tax Credit		10,000
	Relieved liability on gain		£4,846
Total tax on gain less 20% tax			
Step 3 Taxation of slice		10,000	
		Tax	
Step 4	Personal Allowance	0 @ 0%	0
	Starting Rate	0 @ 0%	0
	Personal Savings Allowance	1,000 @ 0%	0
	Basic Rate	9,000 @ 20%	1,800
	Higher Rate	0 @ 40%	0
	Additional Rate	0 @ 45%	0
	Total Liability		1,800
	Tax Credit		2,000
	Relieved Liability on Slice		£0
	Derived years (N)		5.00
	Relieved Liability on Slice x N		£0
Total tax on slice Less 20% tax x "N"			
Top Slicing Relief			
Step 5	Relieved liability on full gain	4846	a
	Relieved Liability on Slice x N	0	b
	Top Slice Relief (a-b)	£4,846	
		Top Slicing relief	

Basic rate taxpayer: Onshore gain and Top-Slicing Relief



Jim is semi retired with taxable salary of £25,000

He surrenders an onshore bond held for 5 complete years and triggers a **£50,000** gain

How do we calculate his tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£12,570	PA	0%	£0
		£12,430	BR	20%	£2,486
Step 4	Bond Gain	£500	PSA	0%	£0
		£24,770	BR	20%	£4,954
		£24,730	HR	40%	£9,892
Step 5			Total tax		£17,332
Step 6			Less BR credit		£10,000
			Less TSR		£4,846
			Tax liability		£2,486

Key points

- TSR mitigates HR tax
- No further tax to pay
- Self-assess for gains of £10,000+

Higher rate taxpayer: They can get top-slicing relief!



2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£37,700	BR	20%	£7,540
		£19,730	HR	40%	£7,892
Step 4	Bond Gain	£500	PSA	20%	£0
		£19,500	HR	40%	£7,800
Step 5			Total tax		£23,232
Step 6			Less BR credit		£4,000

Maya has taxable salary of £57,430

She surrenders an onshore bond held for 5 complete years and triggers a £20,000 gain

How do we calculate her tax liability?

Higher rate taxpayer: They can get top-slicing relief!

Taxation of full gain	20,000
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Tax				
Step 1	Personal Allowance	0	@ 0%	0
	Starting Rate	0	@ 0%	0
	Personal Savings Allowance	500	@ 0%	0
	Basic Rate	0	@ 20%	0
	Higher Rate	19,500	@ 40%	7,800
	Additional Rate	0	@ 45%	0
	Total Liability			7,800
Step 2	Tax Credit			4,000
	Relieved liability on gain			£3,800

Total tax on gain
less 20% tax

Step 3	Taxation of slice	4,000
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Tax				
Step 4	Personal Allowance	0	@ 0%	0
	Starting Rate	0	@ 0%	0
	Personal Savings Allowance	500	@ 0%	0
	Basic Rate	0	@ 20%	0
	Higher Rate	3,500	@ 40%	1,400
	Additional Rate	0	@ 45%	0
	Total Liability			1,400
	Tax Credit			800
	Relieved Liability on Slice			£600
	Derived years (N)			5.00
	Relieved Liability on Slice x N			£3,000

Total tax on slice
Less 20% tax x "N"

Top Slicing Relief

Step 5	Relieved liability on full gain	3800	a
	Relieved Liability on Slice x N	3000	b
	Top Slice Relief (a-b)	£800	

Top Slicing relief

Higher rate taxpayer: They can get top-slicing relief!



Maya has taxable salary of £57,430

She surrenders an onshore bond held for 5 complete years and triggers a £20,000 gain

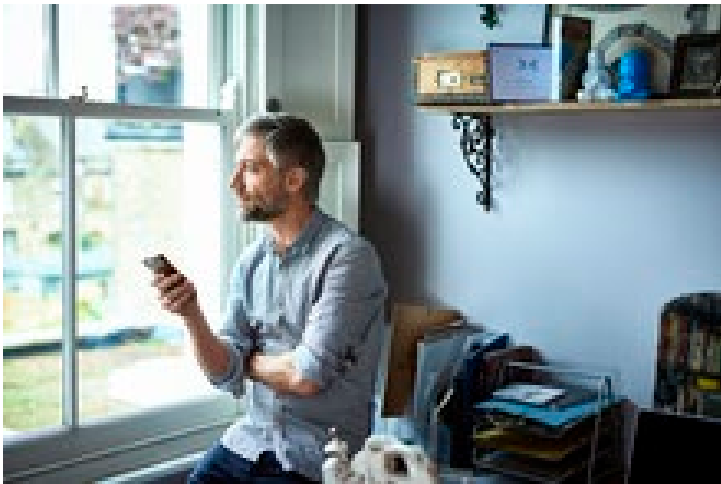
How do we calculate her tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£37,700	BR	20%	£7,540
		£19,730	HR	40%	£7,892
Step 4	Bond Gain	£500	PSA	20%	£0
		£19,500	HR	40%	£7,800
Step 5			Total tax		£23,232
Step 6			Less BR credit		£4,000
			Less TSR		£800
			Tax liability		£18,432

Key point

- Don't ignore deposit interest as it will impact the availability of TSR

Personal allowance trap: Full bond gain used for adjusted net income calc



2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£12,570	PA	0%	£0
		£12,430	BR	20%	£2,486

Jim is semi retired with gross salary of £25,000

Personal allowance trap: Full gain used for adjusted net income (ANI) calc



2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£25,000	BR	20%	£5,000
Step 4	Bond Gain	£12,700	BR	0%	£2,540
		£87,400	HR	40%	£34,976
		£9,860	AR	45%	£4,437
Step 5			Total tax		£46,953
Step 6			Less BR credit		£22,000

Jim is semi retired with gross salary of £25,000

He surrenders an onshore bond held for 5 complete years and triggers a **£110,000** gain

How do we calculate his tax liability?

Personal allowance trap: Full bond gain used for adjusted net income calc

Taxation of full gain		110,000	
		Tax	
Step 1	Personal Allowance	0 @ 0%	0
	Starting Rate	0 @ 0%	0
	Personal Savings Allowance	0 @ 0%	0
	Basic Rate	12,700 @ 20%	2,540
	Higher Rate	87,440 @ 40%	34,976
	Additional Rate	9,860 @ 45%	4,437
Total Liability			41,953
Step 2	Tax Credit		22,000
	Relieved liability on gain		£19,953
		No PSA as AR taxpayer	
		Total tax on gain less 20% tax	
		-	
Step 3 Taxation of slice		22,000	
		Tax	
Step 4	Personal Allowance	0 @ 0%	0
	Starting Rate	0 @ 0%	0
	Personal Savings Allowance	1,000 @ 0%	0
	Basic Rate	21,000 @ 20%	4,200
	Higher Rate	0 @ 40%	0
	Additional Rate	0 @ 45%	0
Total Liability			4,200
Tax Credit			4,400
Relieved Liability on Slice			£0
Derived years (N)			5.00
Relieved Liability on Slice x N			£0
		PSA reinstated	
		Total tax on slice Less 20% tax x "N"	
		=	
		Top Slicing relief	
		=	
Top Slicing Relief			
Step 5	Relieved liability on full gain	19953	a
	Relieved Liability on Slice x N	0	b
	Top Slice Relief (a-b)	£19,953	
		Top Slicing relief	

Personal allowance trap: Full gain used for adjusted net income (ANI) calc



Jim is semi retired with gross salary of £25,000

He surrenders an onshore bond held for 5 complete years and triggers a £110,000 gain

How do we calculate his tax liability?

2024/25	Source	Amount	Band	Rate %	Tax due
	Salary	£25,000	BR	20%	£5,000
Step 4	Bond Gain	£12,700	BR	0%	£2,540
		£87,400	HR	40%	£34,976
		£9,860	AR	45%	£4,437
Step 5			Total tax		£46,953
Step 6			Less BR credit		£22,000
			Less TSR		£19,953
			Tax liability		£5,000

Key points

- Full bond gain used to calculate ANI
- PA lost as ANI above £125,140
- TSR mitigates higher rate liability
- Segment surrender and/or pension contribution to avoid tax trap?



Non-bare trusts – calculating the liability

When bond gains are taxed are assessed at the trust rate

Trustees of a non-bare trust are liable for an onshore bond gain of £100,000.

	Bond Gain £	Tax Due £
Received	100,000	
Trustee Rate	100,000 @ 45%	45,000
		45,000



Onshore bond gains come with a 20% tax credit. Further 25% tax to pay



No 45% tax credit for the beneficiary. The tax paid is not reclaimable.

Non-bare trusts and bond gains: Key points

Key Point

Trustees cannot top-slice

Key Point

No 45% tax credit for beneficiaries

Key Point

No standard rate band since 6 April 2024

Key Point

Vulnerable Persons Election? Trustees entitled to a deduction on tax

Key Point

Trustees should consider assigning to beneficiaries (or appointing onto bare trust) to avoid trust rate

Key Point

Trust rate doesn't apply if trust is non-UK resident



“Niche” reliefs applicable to bond gains

Time apportionment relief (TAR): When does it apply?

UK resident policyholder
triggers a gain

Policyholder had a period
of non-UK residence prior
to the gain being triggered

Policyholder liable to tax
on the gain

Always applied to offshore
and applies to onshore set
up after 5/6/13

Can apply to pre 6/4/13
onshore bonds
incremented or assigned
on or after 6 April 2013

Calculating TAR: Post 5/4/13 rules

Gain is reduced by formula A/B

A = Number of days that are foreign days in the material interest period for which the individual is not UK resident and any days in a split year in which the individual is taxed as if not UK resident (the overseas part)

B = number of days in the material interest period



- Clare is UK resident but had spent time abroad
- Triggers a £100,000 offshore bond gain
- She's owned the bond for 2,000 days
- Policy period and material interest is 2,000 days
- She was non-UK resident for 1,250 days
- UK resident for 750 days

TAR calculation: $£100,000 \times (1,250/2,000) = £62,500$

Clare's gain subject to UK tax is £37,500 (£100,000 - £62,500)

Time Apportionment Relief (TAR): Key points

Key Point

Pre-6/4/13 TAR rules cannot apply to onshore bonds

Key Point

Be aware of the impact of assignments and increments where applicable

Key Point

Reduced gain figure used for Adjusted Net Income calculations

Key Point

Claiming TAR reduces the amount of top-slicing relief

Key Point

TAR reduces the gain (it's not a step 6 tax reducer in step 6)

Key Point

Be aware of temporary non-residence rules

Deficiency relief: When does it apply?

Final chargeable event
gain calculation shows a
negative amount

One or more gains on
“excess events” in
earlier tax years on
which the same
individual was liable

The individual is the
chargeable person (had
there been a gain on
death, maturity or full
surrender)

Relief restricted to
lower of previous excess
gain and final loss

Deficiency relief: Example of no restriction on relief



- £20,000 invested on 5 October 2020
- £8,000 partial across segments on 27 September 2022
- 5% TDA available is £2,000
- £6,000 excess gain triggered in 2022/23 tax year
- Bond surrendered on 14 November 2024
- Surrender value was £13,000

	Surrender value	£13,000
Plus	Previous withdrawals	£8,000
Less	Premiums paid	£20,000
Less	Previous excess gains	£6,000
Equals	Gain	- £5,000

Key point

- Deficiency relief is £5,000
- No restriction on relief as it's lower than previous gain
- Does client have £5,000 of taxable income at higher rate?
- Unused relief cannot be carried forward or back to other tax years

Deficiency relief: Key points

Key Point

Deficiency relief only applies to individuals and when a bond comes to an end

Key Point

The individual must have income liable to higher rate or dividend upper rate to benefit

Key Point

Restrictions can apply to the amount of deficiency relief

Key Point

Scottish & Welsh income tax rates are relevant

Key Point

It's a step 6 tax reducer

Learning objectives recap

By the end of this session, you will be able to:

Understand the mechanics of top-slicing relief, deficiency relief, time apportionment relief and when they apply

Calculate the tax liability for individuals and non-bare trusts



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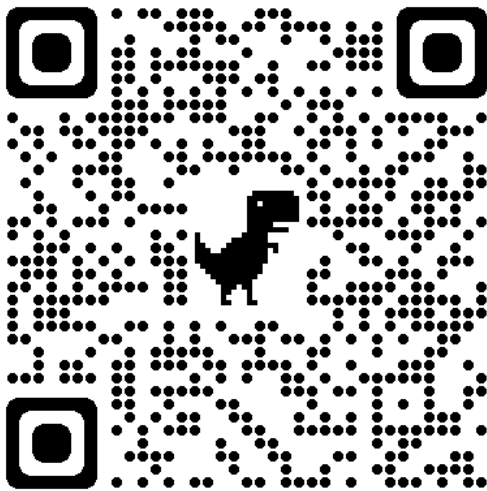
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