

Techy Tuesday Tax Tools

Tax Relief Modeller and
Bond Gain Tool

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients

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

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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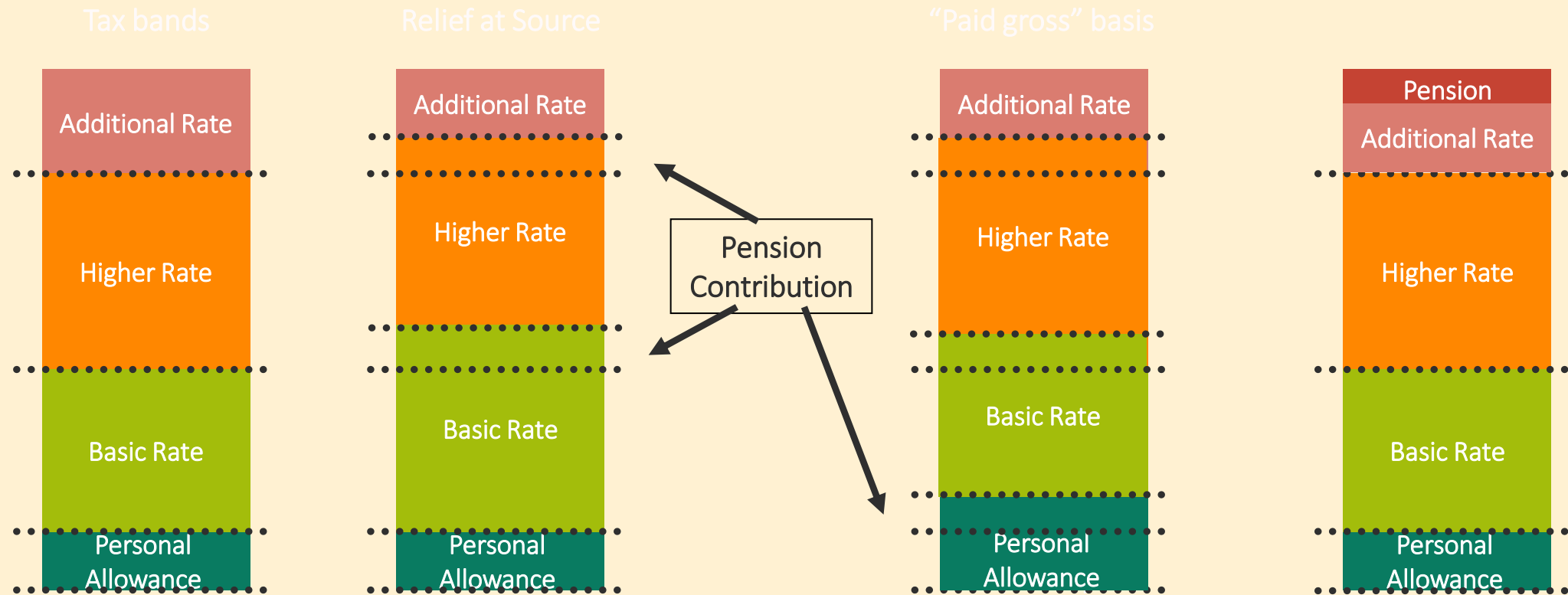
Learning Objectives

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

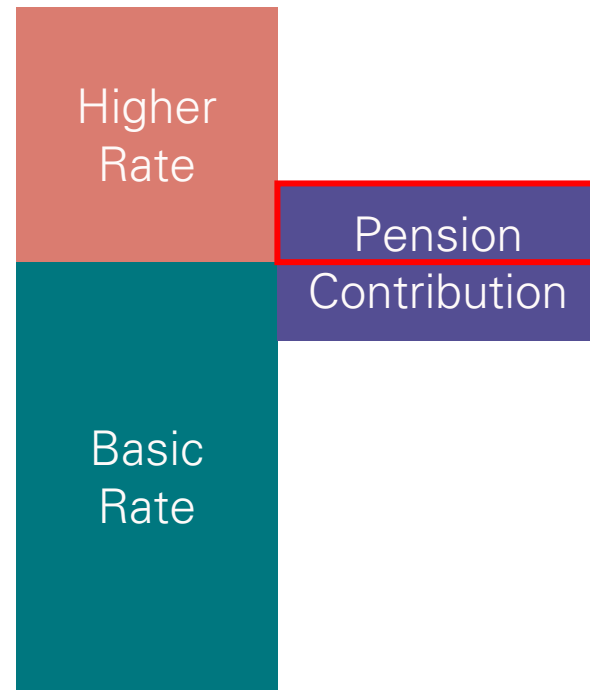
Understand the
theory for using the
Tax Relief Modeller
Bond Gain and Tax
Wrapper
Comparison Tools

Demonstrate the
inputs required for
using the Tax
Relief Modeller
Bond Gain and Tax
Wrapper
Comparison Tools

How pension tax relief works



Higher Rate relief



Non Tax Payers – The “Net Pay Anomaly”

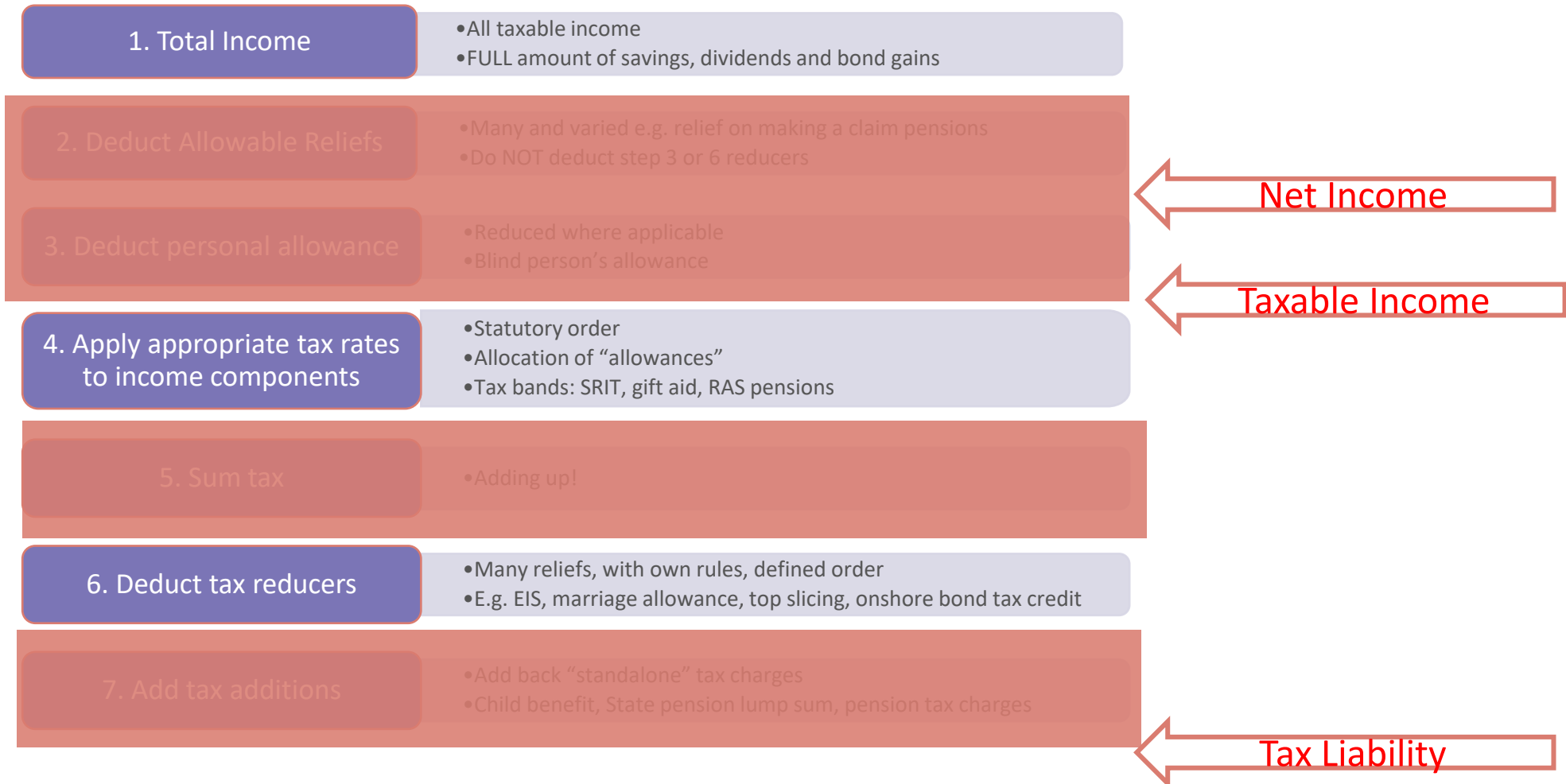


Remember an employer contribution or defined benefit pension membership may be more valuable than any tax relief "lost"

The background features a teal gradient. On the left, a large circle is split vertically: the left half is a reddish-orange color, and the right half is a light cream color. Below the circle, there are two dark grey triangles pointing upwards, meeting at a central point. The text 'The 7 Steps of Income Tax' is centered over the right triangle.

The 7 Steps of Income Tax

The 7 steps of a UK income tax computation

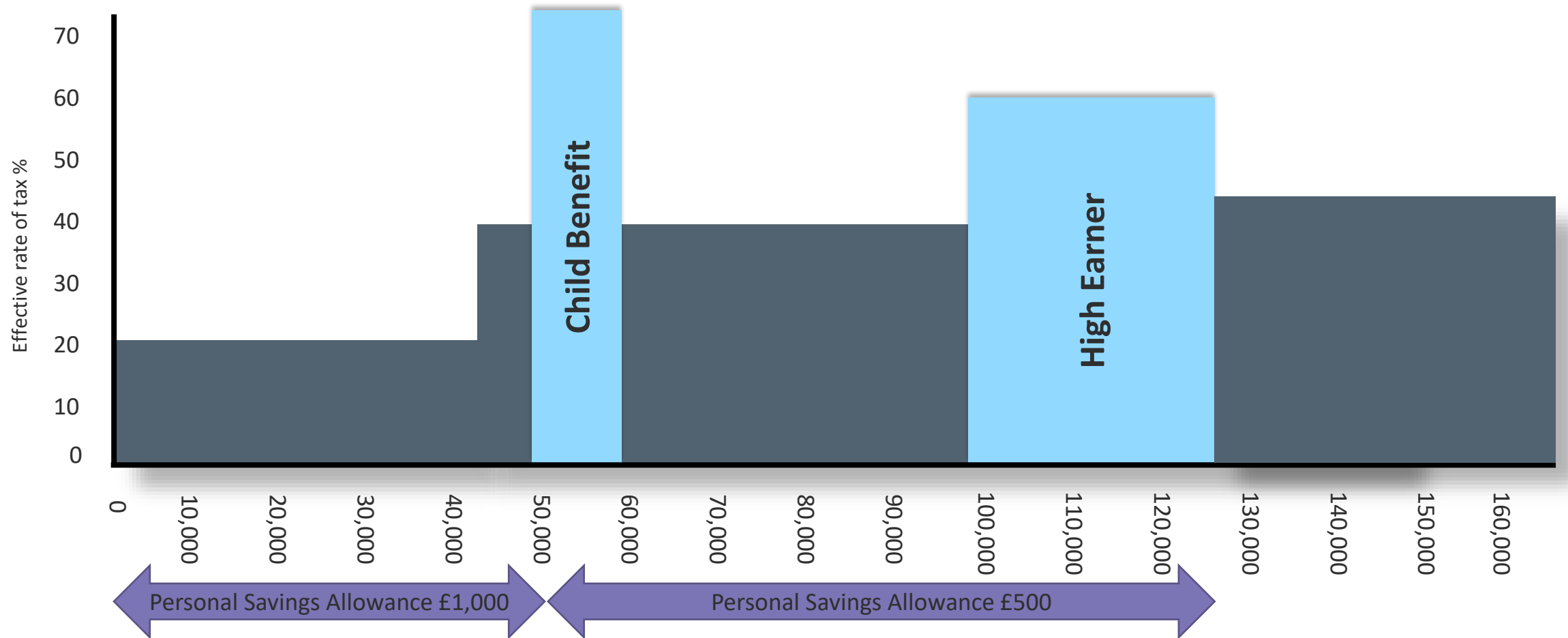


“Step 2.5” Adjusted Net Income

Personal Allowance

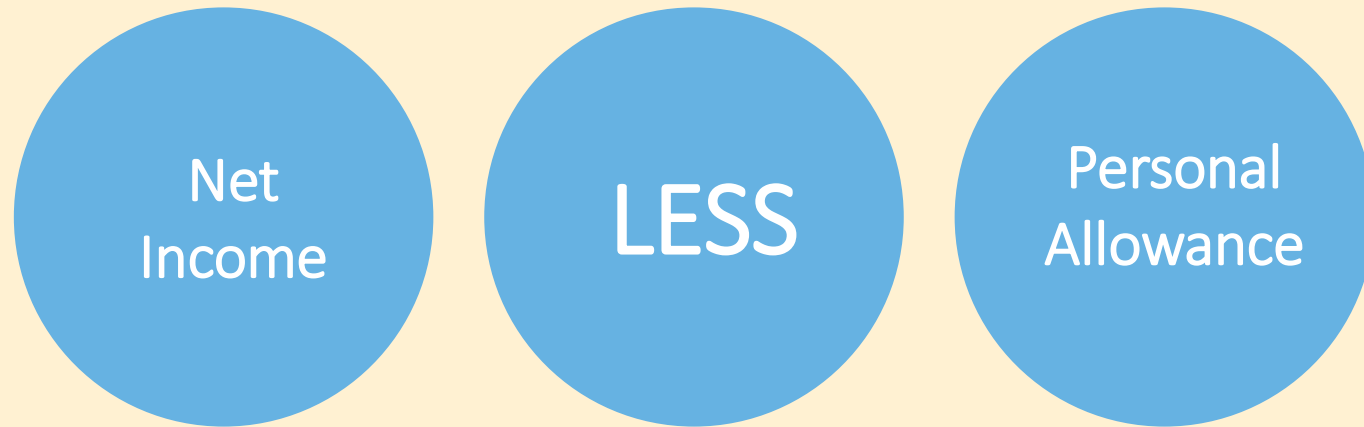
Adjusted Net Income	Amount £
Net Income	A
<u>Less</u> RAS pension	B
<u>Less</u> Gift Aid	C
Adjusted Net Income	D
Income Limit	<u>(100,000)</u>
Excess	D - 100,000 (E)
PA reduction	E/2

Step – 2.5 Adjusted Net Income

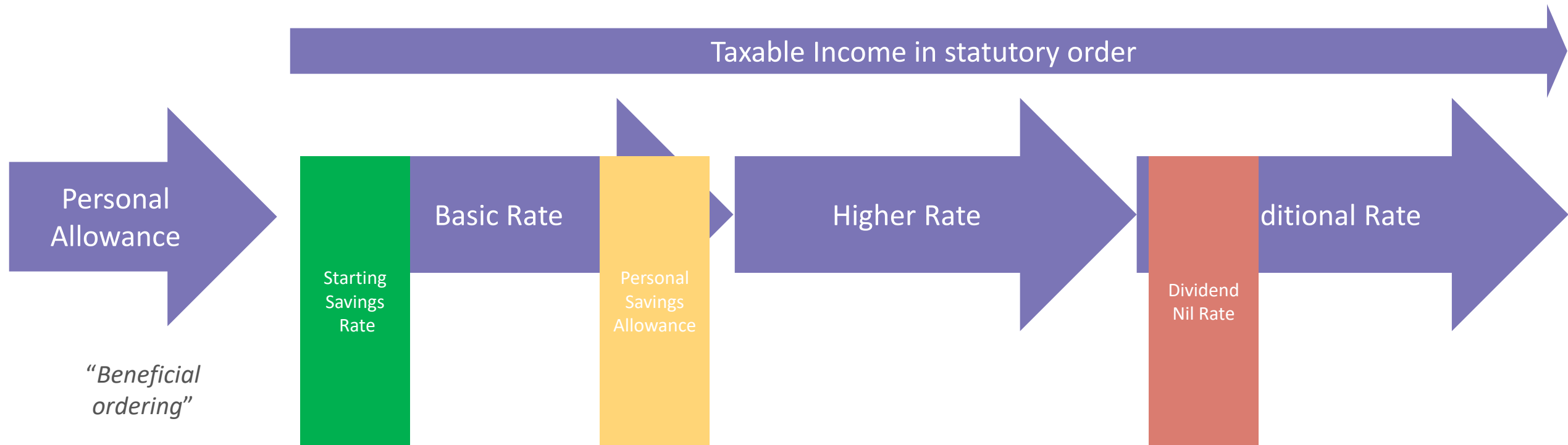


The full amount of bond gains and interest and dividends are included at Step 1 of the UK income tax computation.

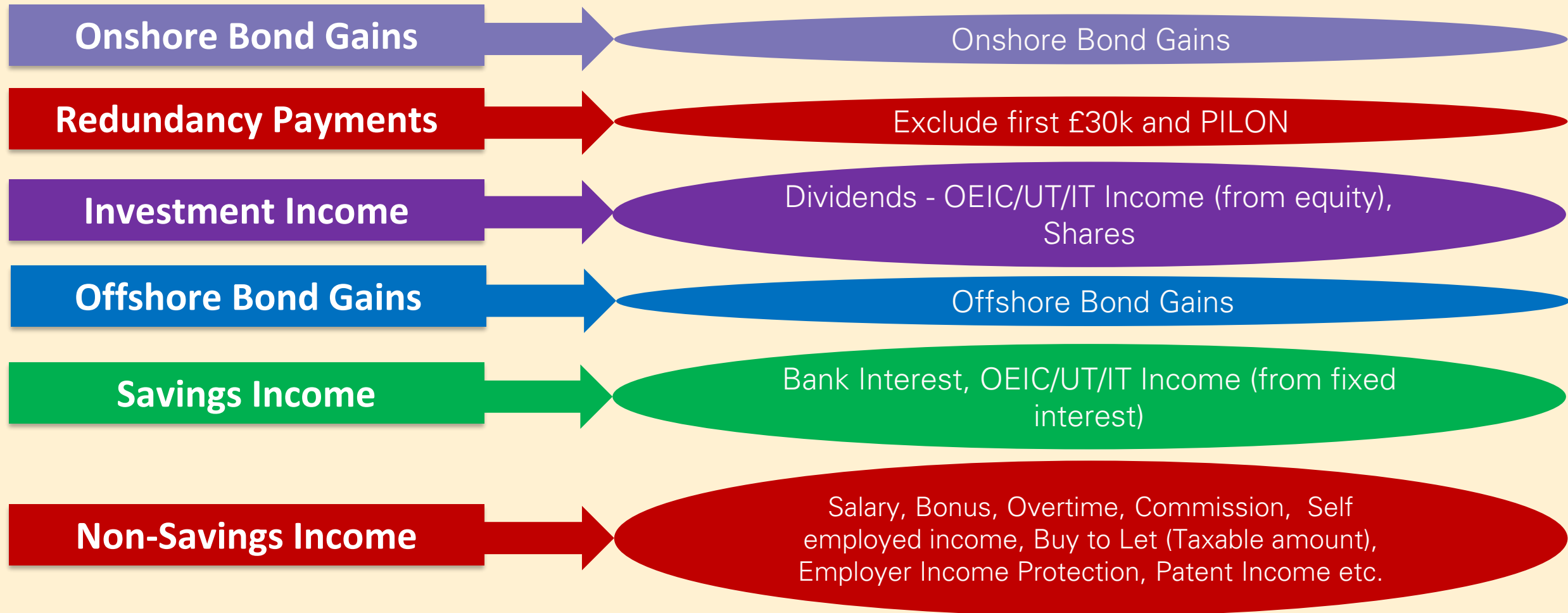
Step 3 – Taxable Income



Step 4 - the “allowances”



Order of income



Step 5

Adjusted Net Income (for allowance purposes)	£34,000
Personal Allowance	£12,570
Adjustment	£0
Total Allowance	£12,570

Non Savings Income

Gross Pension Contributions	0	@	0.00%	0
Personal Allowance	12,570	@	0.00%	0
Basic Rate	7,430	@	20.00%	1486
Higher Rate	0	@	40.00%	0
Additional Rate	0	@	45.00%	0

£1,486

Savings Income

Starting Rate	0	@	0.00%	0
Personal Savings Allowance	1,000	@	0.00%	0
Personal Allowance	0	@	0.00%	0
Basic Rate	0	@	20.00%	0
Higher Rate	0	@	40.00%	0
Additional Rate	0	@	45.00%	0

£0

Offshore Bond Gain

Starting Rate	0	@	0.00%	0
Personal Savings Allowance	0	@	0.00%	0
Personal Allowance	0	@	0.00%	0
Basic Rate	10,000	@	20.00%	2000
Higher Rate	0	@	40.00%	0
Additional Rate	0	@	45.00%	0

£2,000

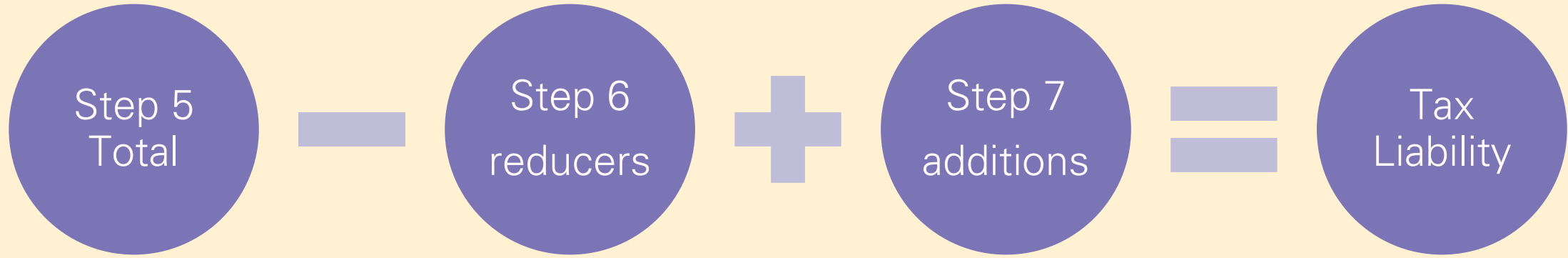
Dividend

Dividend Allowance	1,000	@	0.00%	0
Personal Allowance	0	@	0.00%	0
Basic Rate	2,000	@	8.75%	175
Higher Rate	0	@	33.75%	0
Additional Rate	0	@	39.35%	0

£175

£3,575

Steps 6 & 7



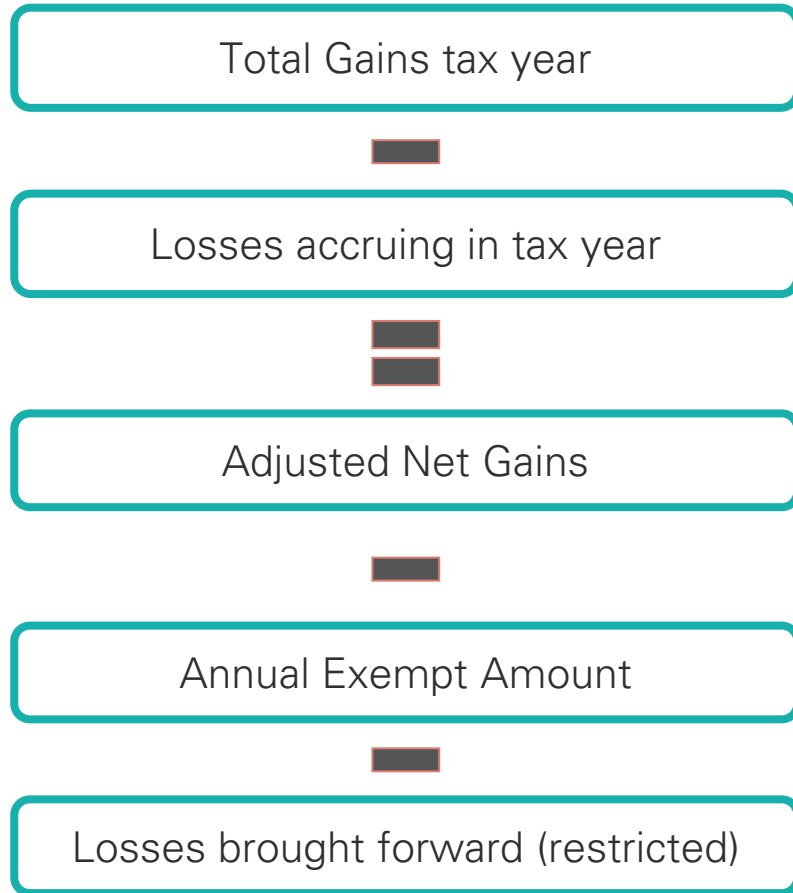
Onshore bond tax credit

20% of gain **outside** personal allowance

Top Slicing Relief

Further 2 separate calculations

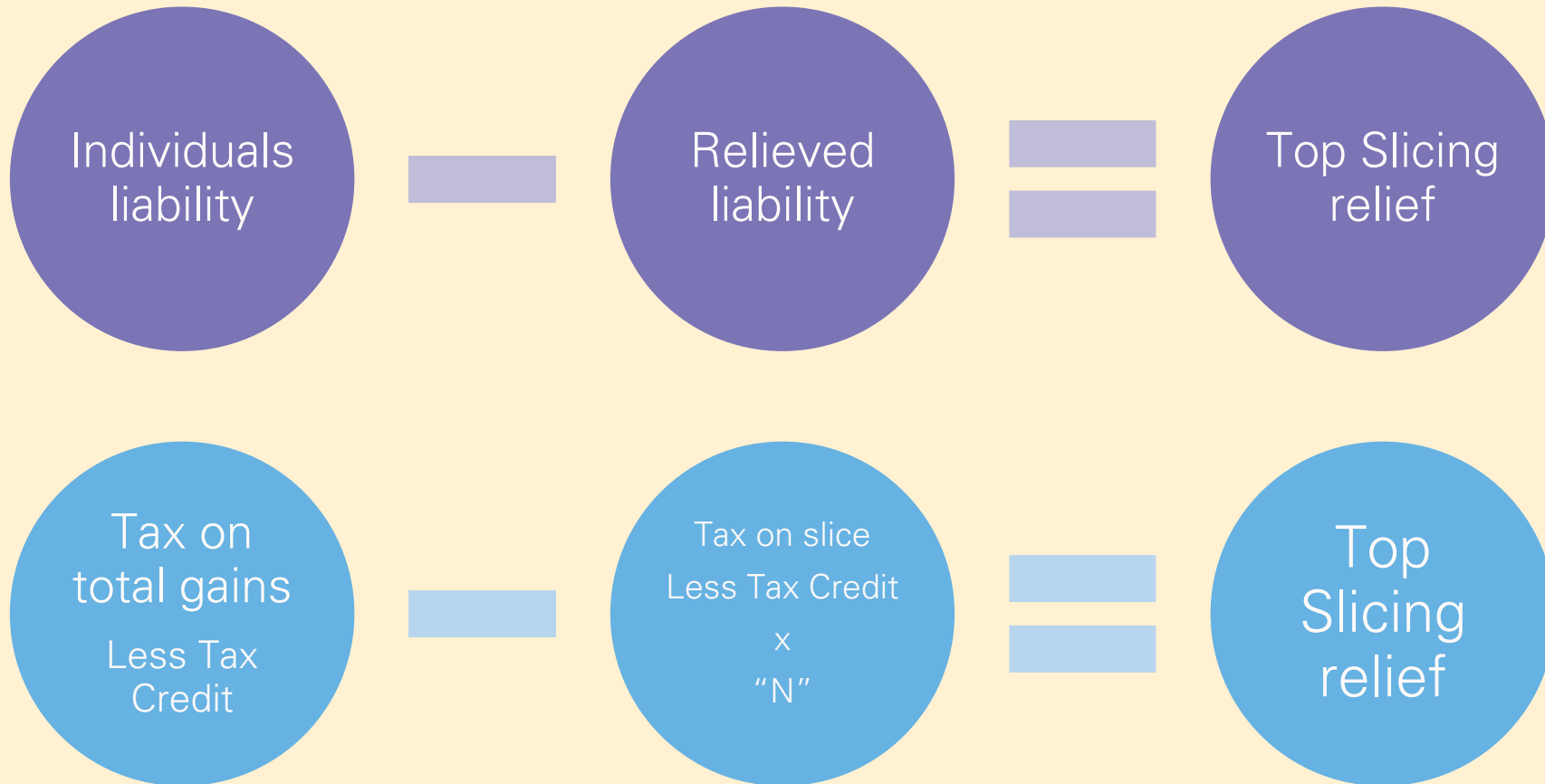
Taxable gains computation



An abstract geometric composition on a teal background. On the left, a large circle is split vertically: the left half is a reddish-orange color, and the right half is a light cream color. A thin, curved segment of the circle's edge is visible in the bottom-left corner. To the right of the circle, two dark grey triangles are positioned side-by-side, their bases resting on a horizontal line. The text 'Top slicing' is written in a white, sans-serif font, centered over the right triangle.

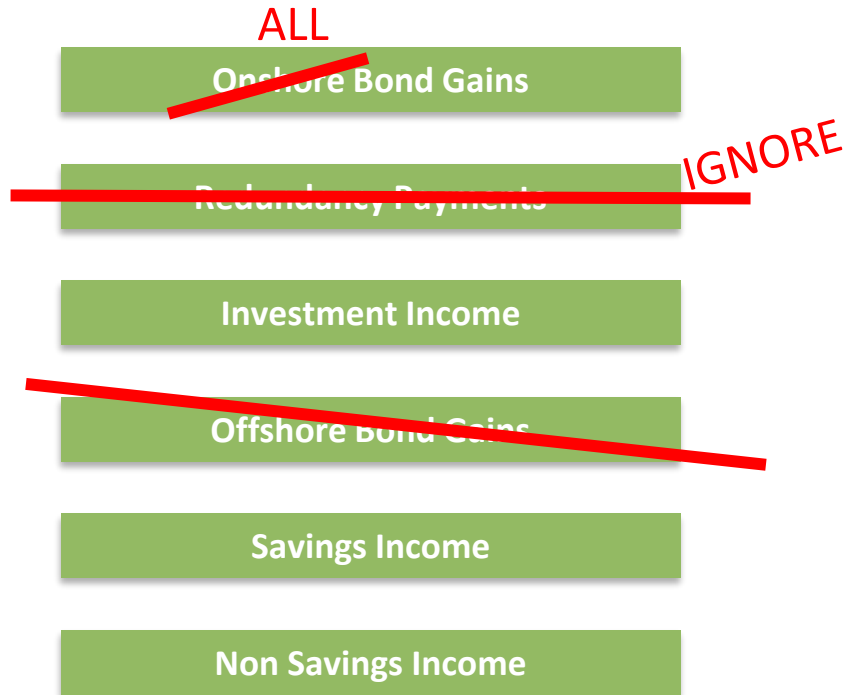
Top slicing

Top Slicing – 3 easy steps

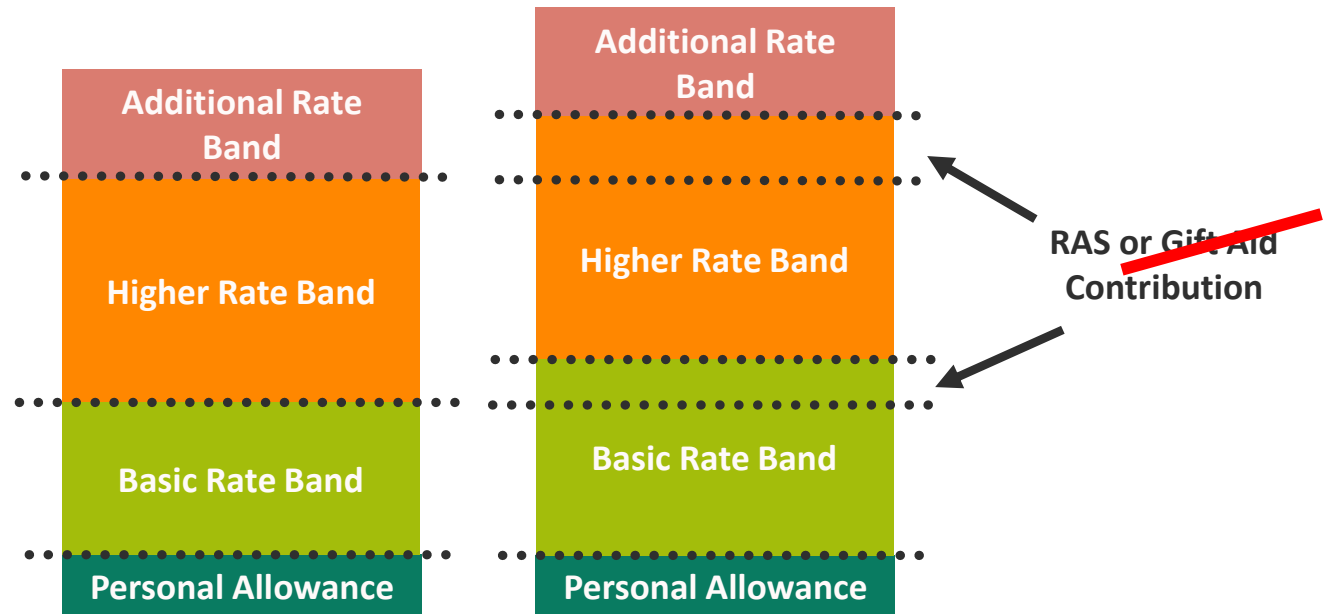


Tax Changes in Top Slicing Calcs

Order of income



Extension of tax bands



Tax Changes in Topslicing

"Silver
change"

Individual's Liability i.e. full gains

Relieved liability i.e. the slices

Personal Allowance

~~"Beneficial Ordering"~~

Adjusted Net Income

Net Income including FULL gains

Less RAS pension

Less Gift Aid

Adjusted Net Income

Net Income including sum of SLICES

Less RAS pension

Less Gift Aid

Savings
Allowances

Adjusted Net Income

Net Income including FULL gains

Less RAS pension

Less Gift Aid

Adjusted Net Income

Net Income including FULL gains

Less RAS pension

Less Gift Aid

LET'S GO LIVE.

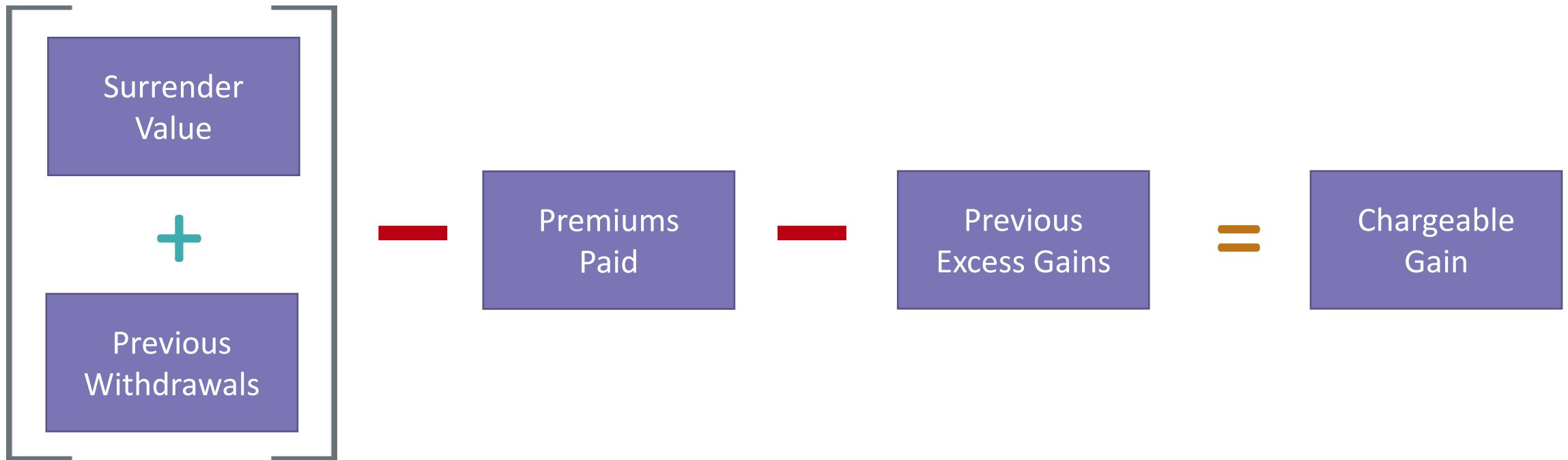
Key points about the 5% TDA

- Available to individuals and trustees
- All partial withdrawals across segments count towards the TDA usage
- Tax deferred, not tax free
- 20 year rule (100% of capital returned)
- Excess event gains occur at end of insurance year
- Be careful when taking large one off withdrawals across segments

5% TDA Worksheet: Excess events

Policy Year	Invested	5% TDA	Withdrawals	TDA remaining	Excess
11/5/10 - 10/5/11	100,000	5,000	2,000	3,000	0
11/5/11 - 10/5/12		8,000	2,000	6,000	0
11/5/12 - 10/5/13		11,000	2,000	9,000	0
11/5/13 - 10/5/14		14,000	2,000	12,000	0
11/5/14 - 10/5/15		17,000	22,000	0	5,000
11/5/15 - 10/5/16		5,000	2,000	3,000	0
11/5/16 - 10/5/17		8,000	2,000	6,000	0
11/5/17 - 10/5/18		11,000	2,000	9,000	0
11/5/18 - 10/5/19		14,000	2,000	12,000	0
11/5/19 - 10/5/20		17,000	2,000	15,000	0

Gain calculation (not partials!)



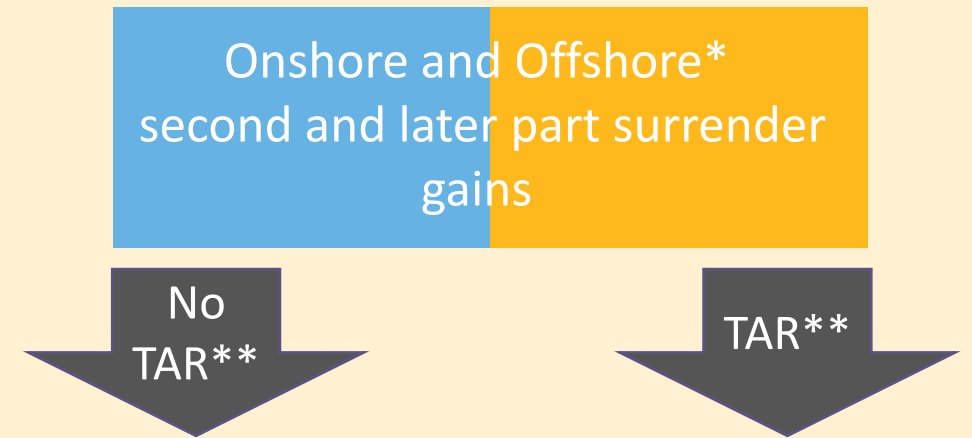
Calculating “N” – post 5 April 13 policies or policies treated as such



- Always back to commencement



- Always back to commencement



- Always back to the last excess event
- Always back to commencement.

* Offshore - Pre 6 April 2013 policies always back to commencement

**Time apportionment relief

Insurance Year v Tax Year

5th April

5th April

5th April

Tax Year 1

Tax Year 2

Policy
Year 1

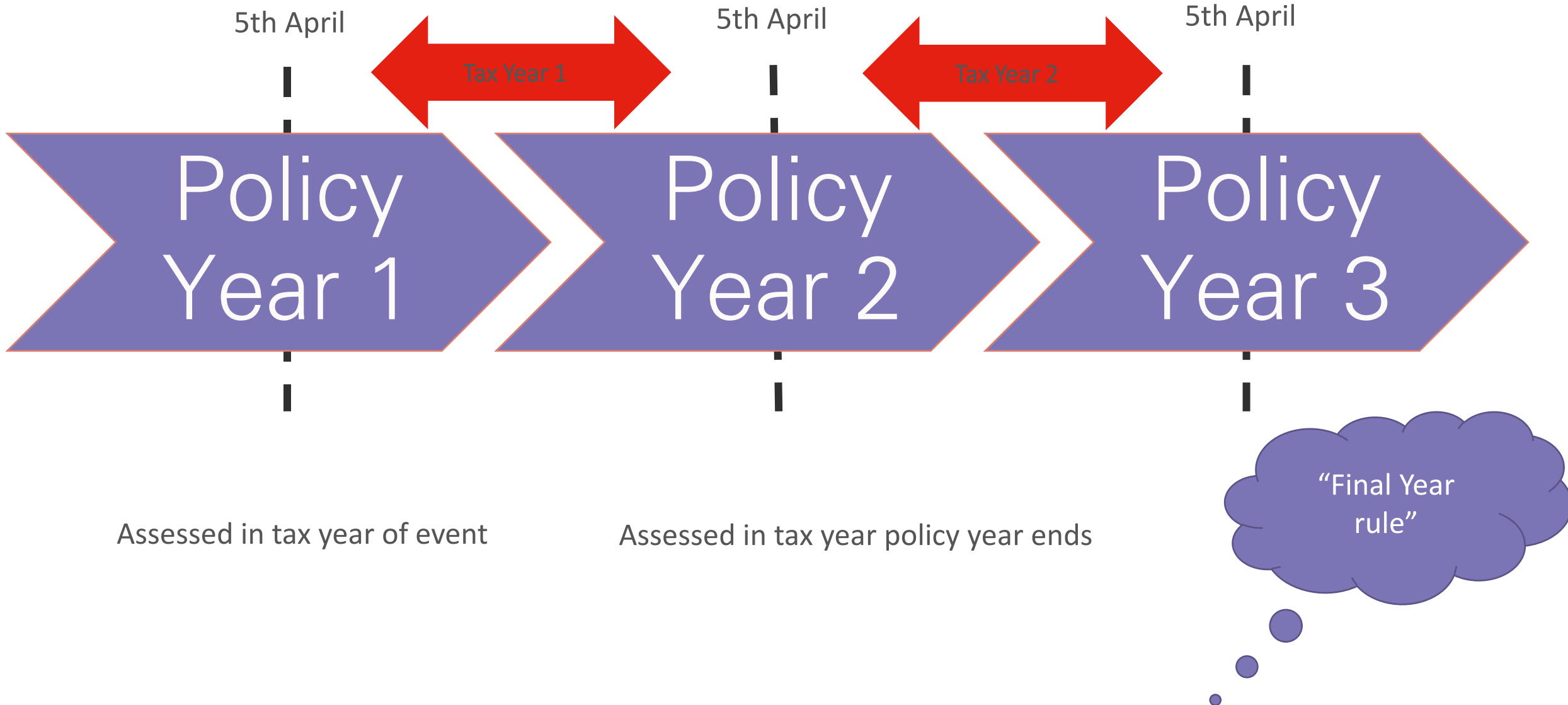
Policy
Year 2

Policy
Year 3

Assessed in tax year of event

Assessed in tax year policy year ends

“Final Year
rule”



Final Year rules

... If an event brings a policy or contract to an end - full surrender of rights, death, maturitythe 'insurance year' is treated as ended on that date. It is then referred to as the 'final insurance year'...

... If that rule would result in an 'insurance year' beginning and ending within the same tax year, then the 'final insurance year' is extended to include the previous 'insurance year'...

HMRC internal manual

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Insurance Policyholder Taxation Manual

From: [HM Revenue & Customs](#)
Published: 19 March 2016
Updated: 23 September 2020, [see all updates](#)

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Calculating gains: 'insurance year'

'Insurance year' - sometimes called policy year - begins on the day a policy is taken out and on the same date in subsequent years. It ends on the day before the anniversary of the start date and each subsequent year.

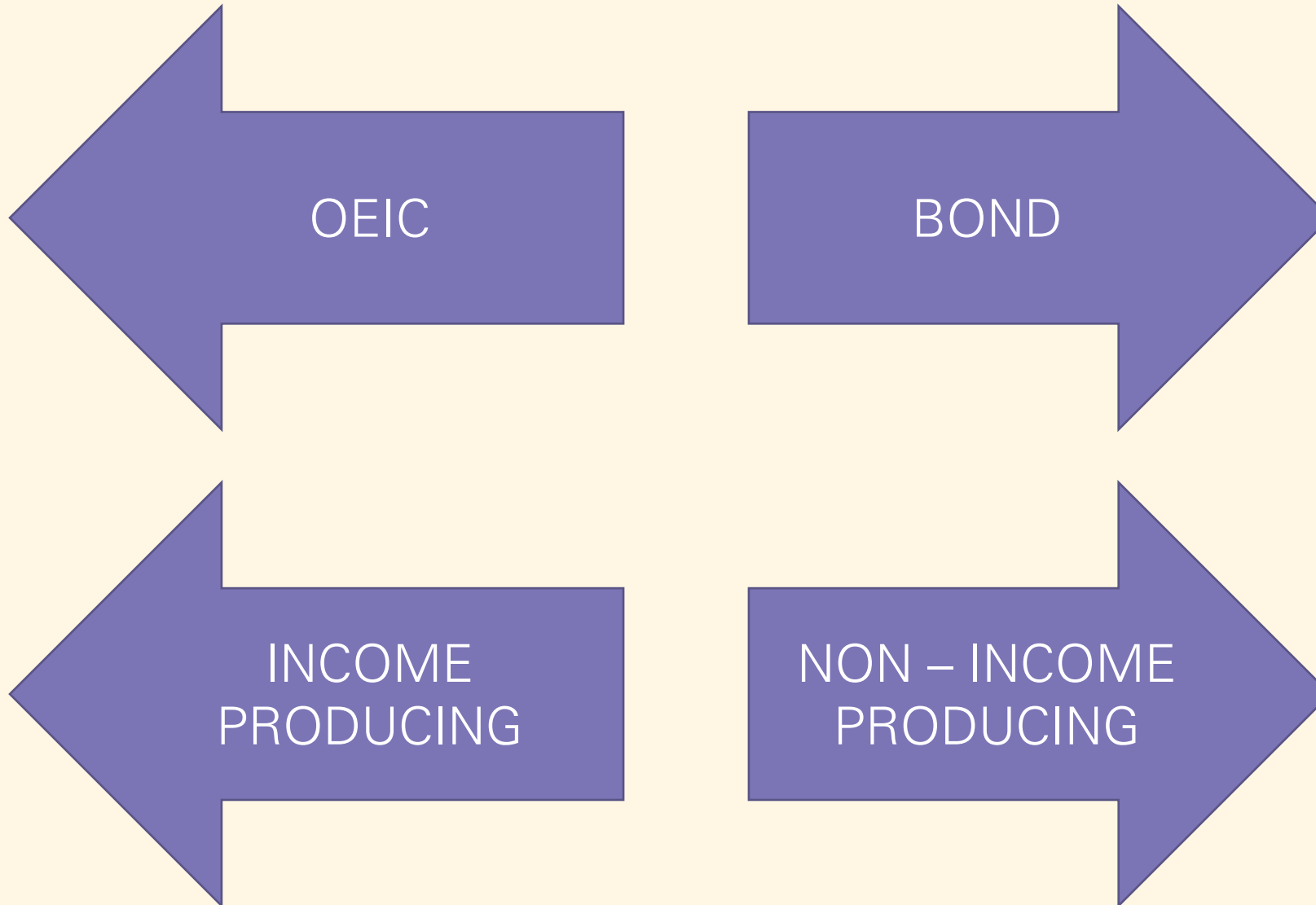
For example, a policy taken out on 1 June 2004 has an 'insurance year' ending on 31 May 2005. A part surrender giving rise to an 'excess event' taking place on 1 April 2005 would fall in tax year 2004-05. But the gain on the 'excess event' would be treated as arising at the end of the 'insurance year', on 31 May 2005, and consequently would be assessable for tax year 2005-6.

If an event brings a policy or contract to an end - full surrender of rights, death, maturity or taking a capital sum as a complete alternative to annuity payments - the 'insurance year' is treated as ended on that date. It is then referred to as the 'final insurance year'.

If that rule would result in an 'insurance year' beginning and ending within the same tax year, then the 'final insurance year' is extended to include the previous 'insurance year'.

LET'S GO LIVE.

The tax spectrum



0%_s

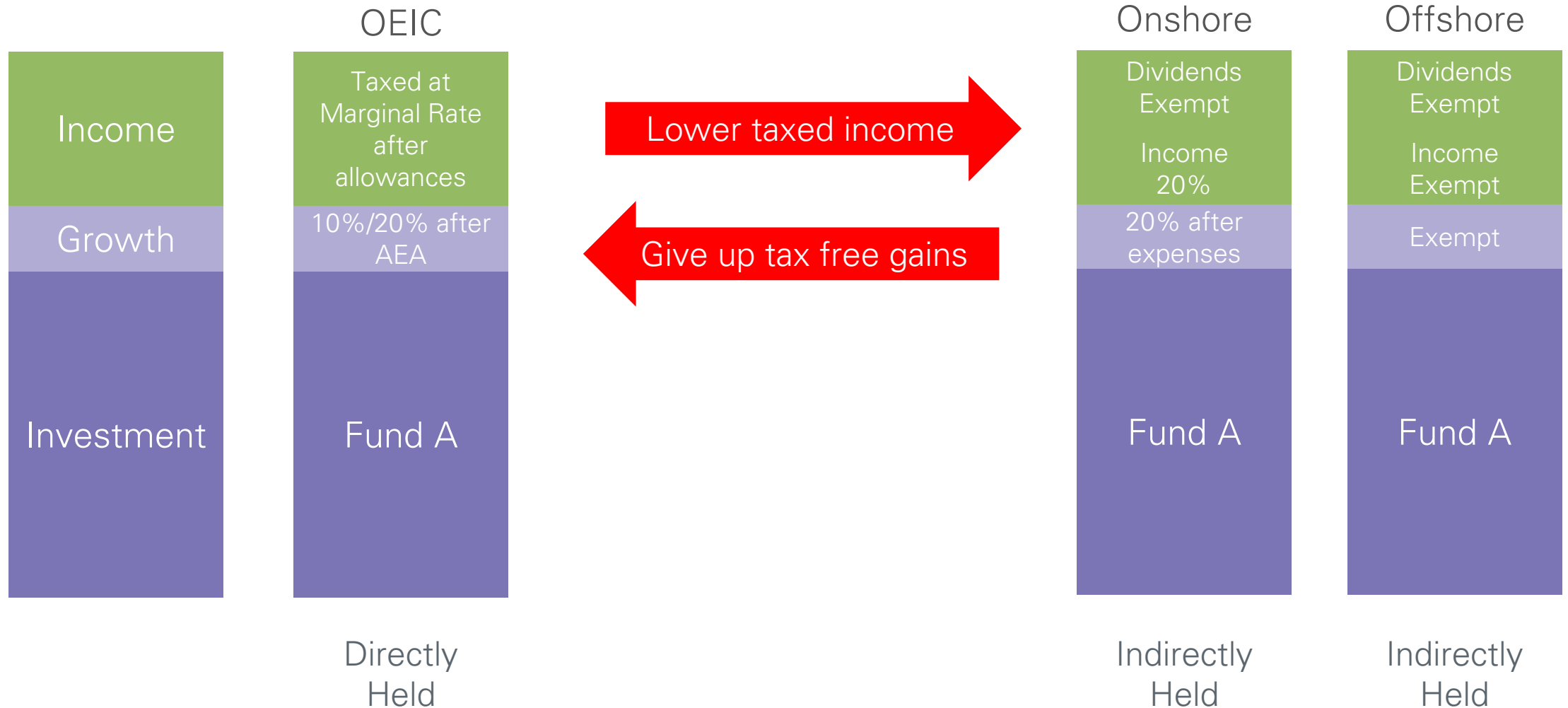
2022/23

2023/24

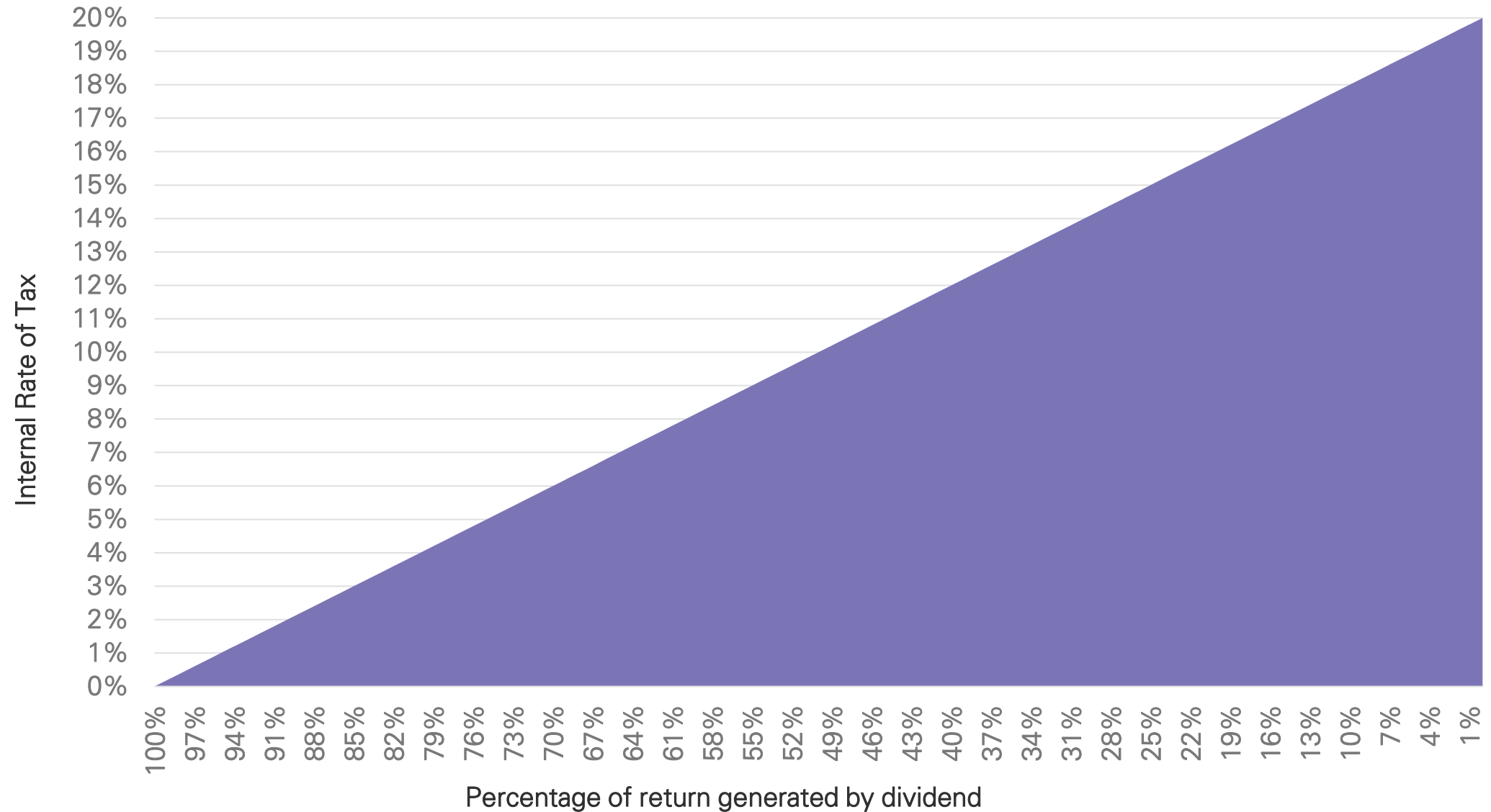
2024/25

ANNUAL EXEMPT AMOUNT Capital gains only	£12,300	£6,000	£3,000
DIVIDEND NIL RATE Dividends only	£2,000	£1,000	£500
SAVINGS STARTING RATE / PERSONAL SAVINGS ALLOWANCE Interest and Bond Gains	£5,000 £1,000 / £500	£5,000 £1,000 / £500	£5,000 £1,000 / £500
PERSONAL ALLOWANCE Interest, Dividends and Bond Gains	£12,570	£12,570	£12,570
	£32,870 + Original Capital	£25,570 + Original Capital	£22,070 + Original Capital

The trade off



Onshore Internal Tax Rate (by dividend component)



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Thanks for your time

Get in touch with your usual contact if you need further help.





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