



UTMOST ADVANCED EXPLORATION OF INVESTMENT BONDS - EPISODE 3

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Case study 1 solution

Step 1

Calculate the total income tax liability for the year relating to the chargeable gain.

£500 of gain @ 0% = £0 (personal savings allowance (PSA))

£19,500 of gain @ 40% = £7,800

Tax relating to gain from investment bond = £7,800

Step 2

Calculate the total tax due on the gain across all tax bands & deduct basic rate tax treated as paid.

– Tax on gain £7,800 - £4,000 (BRTC) = £3,800

Step 3

Calculate the annual equivalent of the gain £20,000/5 = £4,000

Step 4

Calculate the individual's liability to tax on the annual equivalent

– £500 @ 0% = £ 0

– £3,500 @ 40% = £ 1,400

– £1,400 - £800 (BRTC) = £600

Relieved liability = £600 x N = £3,000

Step 5

Calculate top slicing relief = Step 2 – Step 4

Top Slice Relief = £3,800 - £3,000 = £800

Step 6

Tax liability after top-slicing relief

– Tax relating to gain from investment bond = £7,800

– Top-slicing relief = £800

– Tax liability = £7,000

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