TECHNICAL SALES BRIEFING

TOP-SLICING RELIEF

KEY POINTS

- Following the Budget on 11 March 2020, HM Revenue & Customs (HMRC) clarified the operation of top-slicing relief as it applies to contracts of life assurance (and capital redemption bonds). There was then further clarification of several points which emerged in the Insurance Policyholder Taxation Manual in May 2023 following a further Tribunal case.
- To calculate the top-slicing relief following this clarification it is necessary to go back to first principles and run the calculations in full.
- Top-slicing is a relief and it must be calculated separately to ascertain relief to apply to any charge to tax.
- Following the introduction of various nil-rate tax bands the relief can be quite complicated to calculate, but nevertheless it still remains a very useful tool for reducing an individual's exposure to higher or additional rate tax.
- Following the May 2023 clarification, it was determined that only gains arising after April 2021 would benefit from a recalculation of the Personal Savings Allowance ("PSA") and Starting Rate Band for Savings ("SRBS") in the notional calculation.

BACKGROUND

The taxation of policies of life assurance and capital redemption bonds has been well documented by insurers over the years. The rules for taxation of contracts of life assurance (which, for the purpose of these rules, also includes capital redemption bonds) are all contained in chapter 9, part 4, of the Income Tax (Trading and other income) Act 2005 ("ITTOIA 2005"). Whilst these rules appear simple at first glance, they can be quite complicated especially when applied to the current UK tax legislation.

HMRC's interpretation of the top-slicing rules, especially in relation to the application of the Personal Allowance ("PA") and the availability of the nil-rate savings bands such as the Personal Savings Allowance (PSA) and the Starting Rate Band for Savings (SRBS) was questioned both in court and in the public domain and, in the Budget on 11 March 2020, and again in May 2023, clarification was forthcoming.

Therefore, the purpose of this briefing is to go back to first principles and consider the top-slicing rules and the legislation in light of these developments.

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CONTRACTS OF INSURANCE ARE TAXED AS SAVINGS INCOME

Firstly, we must understand that overseas contracts of insurance are non-income producing assets. That is to say, they do not produce any income and are only taxed when chargeable gains occur[1]. Furthermore, any gains on contracts of UK or overseas life insurance are always taxed to savings rates of income, as confirmed in s18 of the Income Tax Act 2007 ("ITA 2007"). The following is an extract from this Act:

MEANING OF "SAVINGS INCOME"

"Savings income is income a) which is within subsection (3) or (4)........... (4) income is within this subsection if (a) it is chargeable under chapter 9 of part 4 of ITTOIA 2005 (gains from contracts of life insurance etc.)"

ORDER OF TAXATION AND TYPES OF INCOME

When calculating an individual's UK taxable income, there are different types of income which are always taxed in a specific order. This is very important as it not only drives the actual tax rates that an individual will pay for their different types of income, but also whether some of the newer bands apply against that income – such as Personal Savings Allowance, Starting Rate Band for Savings or Dividend Allowance.

There are broadly three types of income which are taxed in the following order:

› **Non-savings income** – which will include employment income and rental income

› **Savings income** – which includes bank interest and gains from contracts of overseas life insurance

› **Dividend income** – which, of course, includes UK dividend income.

When performing UK income tax calculations, it is crucial that the different types of income are kept separate.

As previously detailed, where income is from an overseas bond, it will be taxed as savings income and thus will be taxed **after** non-savings income, but before any dividends are considered (please note that the order of taxation changes when calculating the notional tax figure in Step 2 Part A of the calculation shown on page 6).

THE UK PERSONAL ALLOWANCE (PA)

Every tax year, a UK resident receives a personal allowance, which stands at £12,570 for the tax year 2025/26. This allows for full relief for any income which falls within this allowance except where an individual's Adjusted Net Income ("ANI") exceeds £100,000 at which point this allowance is reduced by £1 for every £2 of income over that figure, until it is lost entirely. The marriage allowance can also provide for up to 10% of a person's allowance to be transferred to their spouse or civil partner, who then receives a corresponding tax reducer.

A person is also allowed to allocate their income tax personal allowance to the various income types in such a way that it results in the least tax being payable (ref: s25 ITA 2007). Ordinarily, the personal allowance would be allocated to the **non-savings income** in priority as it results in the highest tax. This is illustrated in the table on the next page.

[1] A full discussion of chargeable events legislation is beyond the scope of this briefing. However, various documents on this can be found on our website **www.utmostinternational.com**

THE NIL-RATE SAVINGS BANDS CONSIDERED

Over recent years, HMRC have applied various new tax incentives for people with only moderate levels of income, providing lower rates of tax within the usual tax bands depending on the level of specified sources of income. These nil-rate savings bands are all contained within the usual basic rate and higher rate bands of tax. That is to say, where a person has some income within these bands, this will still count towards their usual basic rate or higher rate limits. They can therefore be thought of as sub-tax bands within that specific band.

These nil-rate savings bands are as follows:

STARTING RATE BAND FOR SAVINGS (SRBS)

This was introduced in the tax year 2008/09 and applies where there is some savings rate income and other (taxable) non-savings income less than £5,000.

PERSONAL SAVINGS ALLOWANCE (PSA)

This was introduced in the tax year 2016/17 and applies to all types of savings income (including contracts of overseas life assurance) and is £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers do not benefit from the PSA.
Note, the actual term 'allowance' used by HMRC in guidance material is quite misleading, as this is not an allowance in the strict sense of the word like the income tax personal allowance. Instead, it is actually a savings rate band where tax is charged at 0% for income within this band.

DIVIDEND ALLOWANCE

This was introduced from tax year 2016/17, and applies to all types of dividend income but, unlike the SRBS and PSA, the amount is the same irrespective of the taxable income an individual receives. Again, the term dividend allowance which is used in guidance is misleading, as this is not an allowance but simply a 0% tax band, with the figure for 2025/26 being £500.

This leads to the following chart and a plethora of different rates of tax within the UK tax system.

INCOME TYPE		NON-SAVINGS	SAVINGS	(PSA/SRBS)	DIVIDEND	(DIVIDEND ALLOWANCE)
PA	**Less PA** £12,570[5] Allocated in most efficient way	(£X)	(£X)		(£X)	
TAXABLE INCOME		(£X)	(£X)		(£X)	
TAXPAYER	**Basic rate** First £37,700 taxable (different rates and bands apply in Scotland for non-savings income only)	20%	20%	0% within SRBS[2] 0% within PSA (£1,000)[2]	**8.75%**	0% within dividend allowance[4]
	Higher rate £37,701 - £125,140 taxable	40%	40%	0% within PSA (£500)[3] Then – 40%	**33.75%**	0% within dividend allowance[4]
	Additional rate Over £125,140 taxable	45%	45%	No PSA	**39.35%**	0% within dividend allowance[4]

[2] Applies where non-savings taxable income is less than £5,000. Note, the savings income within this band still counts towards the basic or higher rate thresholds.

[3] Applies to all types of savings income and, again, savings income falling within the PSA still counts towards the basic rate or higher rate thresholds. The PSA is £1,000 if no income is taxable at higher rate but £500 if some income is taxable at higher rate.

[4] Applies to all types of dividend income despite taxpayer status. As per SRBS and PSA, dividend income falling within this allowance still counts towards the basic rate or higher rate thresholds.

[5] Where an individual's ANI is above the income limit of £100,000 p.a., the amount of the personal allowance will be reduced by £1 for every £2 of income above the limit until it is eliminated.

AN EXAMPLE OF A STANDARD TAX CALCULATION

It may be helpful here to provide a fictional example of a tax calculation that incorporates some of these rules. Mike is a UK resident and in 2025/26 he has some pension income of £11,650 (i.e. below the personal allowance of £12,570) and a small amount of savings and dividend income. We can now calculate how Mike would be taxed on this income by using various bands and allocating the personal allowance accordingly:

	NON-SAVINGS	SAVINGS	DIVIDEND
EMPLOYMENT INCOME	£11,650		
BANK INTEREST		£5,000	
OVERSEAS GAIN		£1,000	
UK DIVIDENDS			£4,000
LESS PERSONAL ALLOWANCE	(£11,650)		(£920[6])
TAXABLE	£0	£6,000	£3,080

£5,000 at 0% = £0 **Savings income** within the SRBS (non-savings (taxable) income less than £5,000)
+
£1,000 at 0% = £0 **Savings income** within PSA – given at £1,000 as basic rate taxpayer

£6,000 (total taxable savings income)

Tax on savings income = £0

£500 at 0% = £0 **Dividend income** within the dividend allowance
+
£2,580 at 8.75% = £225.75 **Dividend income** taxed at basic rate

£3,080 (total taxable dividend income)

Tax on dividend income = £225.75

Total tax to pay = £225.75

Here it is interesting to note that UK tax calculations are often more challenging where people have lower rates of taxable income. If a client was an additional rate taxpayer then the PSA, SRBS and PA would all be unavailable and the calculations would be simplified. This is unfortunately a quirk of the various tax incentives that have been introduced in recent times. As a person's income can reduce in retirement and fluctuate year on year it also means that advisers will need to understand how these newer bands operate.

[6] Under s25 ITA 2007 the PA would be allocated to the dividend income as the savings income will already benefit from the SRBS and PSA. To allocate the PA to the savings income would waste these bands.

RECAP OF THE TOP SLICING RELIEF CONCEPT

Now, with these tax concepts in mind, we can turn to look at top-slicing and how the rules work here.

Top-slicing relief itself can be considered as effectively a 'tax reducer'. The relief is designed as a spreading mechanism to allow relief on the basis of what would have been taxed had the gain been spread over several years instead of one year. The relief is designed to give some higher or additional rate relief where some of the bond gain is subject to some higher or additional rate tax. The relief calculations then apply rules to calculate both the tax that is being relieved and the relief itself.

CLARIFICATION

With regard solely to the personal allowance, the Budget 2020 contained clarification that if the personal allowance is lost (or restricted) in Step 1 because ANI is over £100,000, the ANI should be further recalculated in the notional calculation steps. In other words, the fact the allowance was lost when considering the full gain doesn't necessarily mean it will be lost when considering the "sliced" gain.

They also clarified that, when considering the notional calculations regarding the tax on the slice, the allocation of the PA under s25(2) ITA 2007 must be applied to other income in priority to the sliced bond gain regardless of whether this wastes the personal allowance due to some of this income being able to benefit from the various nil-rate bands such as the PSA or dividend allowance. In other words, the PA will only be able to be offset against the bond gains where other income is less than the PA before considering the slice.

With regard to the SRBS and the PSA, further clarification in May 2023 confirmed that, like the PA, these bands are to be recalculated in Step 2 of the calculation.

They have also pointed out **that the amount of tax that can be relieved** under the top-slicing calculations (for **both** overseas and UK life assurance bonds) has always been restricted by basic rate of tax as provided by s530 ITTOIA.

However, whilst the amount that can be relieved is restricted by the basic rate, no reduction is given for gains meeting s530(4) ITTOIA 2005 which includes gains falling within the personal allowance. S530(4) ITTOIA 2005 does not include the SRBS or PSA, which means if gains fall into these bands, before the relief calculations are conducted, they must still be considered to have been taxed at the basic rate.

This has the effect of reducing the relief available but, of course, the taxpayer, as shown in our example previously, has already potentially benefited from the bands before any top-slicing relief is considered.

Before the introduction of these nil-rate savings bands, various 'quick methods' emerged to calculate top-slicing relief. It is likely that in practice these methods will no longer work.

It was also often suggested that the relief only applies where gains straddle the basic or higher rate band threshold. However, whilst this may have been true before the introduction of the nil-rate savings bands, it is no longer the case. Relief could apply where a person's gains all sit within higher rate – simply because the top-slicing calculations may allow relief for gains slicing back into the PSA. Example 3 on page 9 shows this in operation.

TOP-SLICING METHODOLOGY

The following sets out how the calculations would apply for overseas contracts of life assurance:

STEP 1 – FIRST CALCULATE LIABILITY TO TAX ON THE BASIS THE GAIN IS ADDED TO SAVINGS INCOME. THIS IS THE TAX DUE BEFORE CONSIDERING ANY TOP-SLICING RELIEF

- Work out the tax liability using usual order for taxation detailed earlier, with offshore bond gains sitting before dividends but after any non-savings income
- Make these calculations assuming offshore bond gains are added to savings income and usual rules regarding limitation of PA, PSA and SRBS
- You will get a tax liability of **£T** of which **£X**[7] is the liability due to life policy gains
- This is the tax that is due on the policy gains before any top-slicing relief is applied.

STEP 2 – CALCULATE TOP-SLICING RELIEF DUE

Part A

- Reduce £X[7] calculated in Step 1 by the basic rate (20%) on the taxable gain – ref s531(1) ITTOIA
- Note **only taxable gains** are reduced by the basic rate credit, as given in s530(4) ITTOIA. Any part of gains sitting in the PA is ignored but gains within the PSA and SRBS are still counted
- Work out the resulting "**notional tax**" due on the bond gain - **£Y**
- Note **£Y** is simply a **notional tax figure** worked out for the purposes of the relief calculations and has no direct correlation to the actual tax payable (this remains as **£X** in Step 1).

Part B

- Now slice your full gains by divisor **N**[8] and work out the tax due on the slice on the same basis i.e. any taxable gain is reduced by basic rate tax, even though it's overseas
- For the purposes of the allocation of PSA and SRBS, these can be recalculated at this point. Where the PA was lost, in whole or in part, in Step 1, it can also be recalculated here to take into account that it may now be available
- Factor this gain back up by **N** and take it off the notional tax **£Y** calculated in part **A**
- The resulting figure is the top-slicing relief - **£TSR**.

STEP 3 – CALCULATE THE FINAL TAX LIABILITY

- Take the TSR off the usual tax liability **calculated in Step 1** i.e. **£T - £TSR** = tax to pay.

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[7] Where an individual has dividend income then the order of taxation changes for the relief calculations, including this step. Here £X will need to be recalculated by putting the gain(s) after dividend income in the the order of taxation before being reduced by the basic rate. An example of this is shown in Example 4 on page 10. The allocation of the PA in the relief calculations may also be different to that in the main tax calculations in some situations. Note it can only be applied to the bond gains in the relief calculations where other income is less than the personal allowance, i.e. it has to be allocated to other income in priority even if this wastes other nil-rate bands such as the PSA or dividend allowance.

[8] For determining the divisor N on an overseas policy it is important to understand first what the event is:
- For surrender events then N always goes back to inception of the policy and is therefore the number of years the policy has been in force
- For excess events then for the purposes of N we also need to know when the policy was issued, if it's been varied (including assignments) and whether there has been previous excess events:
- Issued Pre 6 April 2013, and not varied (including assignments), N will always go back to inception of the policy as for surrender events.
- Issued Post 6 April 2013 or issued pre 6 April 2013 and subject to a variation (including top-ups, assignment for consideration or no-consideration - including bank pledges - ref FA 2013, Sch 8) N will be the number of years since the last excess event (where applicable) or inception - whichever is later. This could therefore impact a series of excess events - as here top-slicing relief would be removed.

EXAMPLES OF TOP-SLICING RELIEF

In the following pages we have provided some examples of how this works in practice. Note, these example are purely fictitious and are designed to exaggerate the effect to show the principles in action.

EXAMPLE 1

An individual has the following income for the tax year 2025/26 and we will assume that they have held an overseas bond for 20 years and fully surrender it for a gain of £55,000. They also have a standard personal allowance of £12,570 and their only other income is a pension of £13,000 per annum.

STEP 1 - TAX ON THE WHOLE GAIN

	NON-SAVINGS	SAVINGS
PENSION	£13,000	
GAIN		£55,000
LESS PERSONAL ALLOWANCE	(£12,570)	
TAXABLE	£430	£55,000

£430 pension taxed at 20% = £86 non-savings income taxed first

£4,570 gain taxed at 0% = £0 (SRBS available as non-savings taxable income less than £5,000)

£500 gain taxed at 0% = £0 (PSA is £500 as total taxable income, including the bond gain, breaches higher rate threshold)

£32,200 gain taxed at 20% = £6,440

£37,700 ✓ basic rate tax limit

£17,730 gain taxed at 40% = £7,092

TAX £T = £13,618 (of which £13,532 **£X** is due to gains)

STEP 2 - CALCULATE THE TOP-SLICING RELIEF DUE

Part A - Tax on whole taxable gain minus basic rate tax credit

Basic rate tax credit = £55,000 at 20% = £11,000

£13,532 - £11,000 = £2,532 **(£Y)**

Part B - Tax on top-sliced gain and top-slicing relief

Top-sliced gain = £55,000 ÷ 20 = £2,750

	NON-SAVINGS	SAVINGS
PENSION	£13,000	
GAIN		£2,750
LESS PERSONAL ALLOWANCE	(£12,570)	
TAXABLE	£430	£2,750

£430 of pension taxed at 20% = £100 (non-savings income taxed first)

£2,750 of gain taxed at 0% (SRBS available)

Tax payable on slice due to bond gain	= £0
Less basic rate tax credit on taxable slice (£2,750 x 20%)	= (£550)
	£0

£0 x 20 (N) = £0

Relieved tax liability on gains = £0

Calculate the top-slicing relief

Top-slicing relief = the difference between notional tax **(£Y)** and the tax liability of the equivalent slice **(£0)** calculated above.

£2,532 - £0 = £2,532

Top-slicing relief = £2,532

STEP 3 - CALCULATE THE FINAL TAX LIABILITY

Tax (£T)	£13,618
Less top-slicing relief	(£2,532)
Resulting tax liability after top-slicing relief	= £11,086

EXAMPLE 2

An individual has the following income for the tax year 2025/26 and we will assume that they have held an overseas bond for 4 years and fully surrender it for a gain of £80,000. We will also assume that they have a standard personal allowance of £12,570 and their only other income is a pension of £12,570 per annum.

STEP 1 - TAX ON THE WHOLE GAIN

	NON-SAVINGS	SAVINGS
PENSION	£12,570	
GAIN		£80,000
LESS PERSONAL ALLOWANCE	(£12,570)	
TAXABLE	£0	£80,000

£5,000 gain taxed at 0% = £0 (SRBS available as non-savings taxable income less that £5,000)

£500 gain taxed at 0% = £0 (PSA is £500 as taxable income breaches higher rate threshold

£32,200 gain taxed at 20% = £6,440

£37,700 ✓ basic rate tax limit

£42,300 gain taxed at 40% = £16,920

TAX £T = £23,360 (of which all, £23,360 **£X** is due to gains)

STEP 2 - CALCULATE THE TOP-SLICING RELIEF DUE

Part A - Tax on whole taxable gain minus basic rate tax credit

Basic rate tax credit = £80,000 at 20% = £16,000

£23,360 - £16,000 = £7,360 **(£Y)**

Part B - Tax on top-sliced gain and top-slicing relief

Top-sliced gain = £80,000 ÷ 4 = £20,000

	NON-SAVINGS	SAVINGS
PENSION	£12,570	
GAIN		£20,000
LESS PERSONAL ALLOWANCE	(£12,570)	
TAXABLE	£0	£20,000

£5,000 gain taxed at 0% (SRBS available as non-savings taxable income less that £5,000)

£1,000 gain taxed at 0% (PSA is £1,000 as has been recalculated at Step 2.)

£14,000 gain taxed at 20% = £2,800

Tax payable on slice due to bond gain	= £2,800
Less basic rate tax credit on taxable slice (£20,000 x 20%)	= (£4,000)
	£0

£0 x 4 (N) = £0

Relieved tax liability on gains = £0

Calculate the top-slicing relief

Top-slicing relief = the difference between notional tax **(£Y)** and the tax liability of the equivalent slice **(£0)** calculated above.

£7,360 - £0 = £7,360

Top-slicing relief = £7,360

STEP 3 - CALCULATE THE FINAL TAX LIABILITY

Tax (£T)	£23,360
Less top-slicing relief	(£7,360)
Resulting tax liability after top-slicing relief	= £16,000

EXAMPLE 3

An individual has the following income for the tax year 2025/26 and we will assume that they have held an overseas bond for 10 years and fully surrender it for a gain of £35,140. Note, due to their other employment income, they will not have any personal allowance or SRBS in Step 1 but will recover only their personal allowance in Part B of Step 2.

STEP 1 - TAX ON THE WHOLE GAIN

	NON-SAVINGS	SAVINGS
EMPLOYMENT/SALARY	£90,000	
GAIN		£35,140
LESS PERSONAL ALLOWANCE (LOST DUE TO ANI IN THIS STEP BEING OVER £125,140)	(£0)	
TAXABLE	£90,000	£35,140

£37,700 of salary taxed at 20% = £7,540 (salary taxed at basic rate)

£52,300 of salary taxed at 40% = £20,920 (salary taxed at higher rate)

£500 gain taxed at 0% = £0 (PSA is £500 as taxable income breaches higher rate threshold but doesn't breach additional rate of £125,140)

£34,640 gain taxed at 40% = £13,856 (amount of gain taxed to higher rate)

TAX £T = £42,316 (of which all, £13,856 **£X** is due to gains)

STEP 2 - CALCULATE THE TOP-SLICING RELIEF DUE

Part A - Tax on whole taxable gain minus basic rate tax credit

Basic rate tax credit = £35,140 at 20% = £7,028

£13,856 - £7,028 = £6,828 **(£Y)**

Part B - Tax on top-sliced gain and top-slicing relief

Top-sliced gain = £35,140 ÷ 10 = £3,514

	NON-SAVINGS	SAVINGS
EMPLOYMENT/SALARY	£90,000	
GAIN		£3,514
LESS PERSONAL ALLOWANCE (RECOVERED DUE TO ANI IN THIS STEP BEING UNDER £100K)	(£12,570)	
TAXABLE	£77,430	£3,514

£37,700 of salary taxed at 20% = £7,540 (salary taxed at basic rate)

£39,730 of salary taxed at 40% = £15,892 (salary taxed at higher rate)

£500 gain taxed at 0% (PSA is £500 as taxable income breaches higher rate threshold)

£3,014 at 40% = £1,206

Tax payable on slice due to bond gain	£1,206
Less basic rate tax credit on taxable slice (£3,514 x 20%)	(£703)
	= £503

£503 x 10 (N) = £ 5,030

Relieved tax liability on gains = £5,030

> **IMPORTANT NOTE**
>
> Top-slicing relief is still given here despite the gain all sitting within higher rate. This relief is due to part of the gain slicing back into the PSA.

Calculate the top-slicing relief

Top-slicing relief = the difference between notional tax **(£Y)** and the tax liability of the equivalent slice **(£5,030)** calculated above.

£6,828 - £5,030 = £1,798

Top-slicing relief = £1,798

STEP 3 - CALCULATE THE FINAL TAX LIABILITY

Tax (£T)	£42,316
Less top-slicing relief	(£1,798)
Resulting tax liability after top-slicing relief	= £40,518

EXAMPLE 4

An individual has the following income for the tax year 2025/26 and we will assume that they have held an overseas bond for seven years and fully surrender it for a gain of £42,000. Note, due to their pension income, they will have a reduced SRBS of £2,500 along with a dividend allowance of £1,000.

STEP 1 - TAX ON THE WHOLE GAIN

	NON-SAVINGS	SAVINGS	DIVIDENDS
PENSION	£15,070		
INTEREST		£2,700	
GAIN		£42,000	
DIVIDENDS			£5,000
LESS PERSONAL ALLOWANCE	(£12,570)		
TAXABLE	£2,500	£44,700	£5,000

£2,500 of pension taxed at 20% = £500

£2,500 of interest taxed at 0% = £0 (SRBS is £2,500, some of the SRBS is lost some non-savings income over PA)

£200 of interest taxed at 0% = £0 (PSA applied to interest as savings income, PSA is £500 as taxable income breaches higher rate threshold.)

£300 of gain taxed at 0% = £0 (remaining PSA applied to gain as savings income)

£32,200 of gain taxed at 20% = £6,440

£37,700 ✓ basic rate tax limit

£9,500 of gain taxed at 40% = £3,800

£500 of div's taxed at 0% = £0

£4,500 of div's taxed at 33.75% = £1,518.75

Tax £T = £12,258.75 (of which £10,240 **£X** is due to gains)

STEP 2 - CALCULATE THE TOP-SLICING RELIEF DUE

Part A - Tax on whole taxable gain minus basic rate tax credit

Basic rate tax credit = £42,000 at 20% = £8,400

The notional tax figure **£X** needs to be recalculated because for the relief calculation, gains are taxed as the top-slice of income above dividends

	NON-SAVINGS	SAVINGS	DIVIDENDS	GAIN
PENSION	£15,070			
INTEREST		£2,700		
GAIN				£42,000
DIVIDENDS			£5,000	
LESS PERSONAL ALLOWANCE	(£12,570)			
TAXABLE	£2,500	£2,700	£5,000	£42,000

£2,500 of pension taxed at 20% = £500

£2,500 of interest taxed at 0% = £0 (SRBS – see above)

£200 of interest taxed at 0% = £0 (PSA applied to interest as savings income)

£500 of dividends taxed at 0% = £0 (Dividend allowance)

£4,500 of dividends taxed at 8.75% = £393.75

£300 of gain taxed at 0% = £0 (remaining PSA applied to gain as savings income)

£27,200 of gain taxed at 20% = £5,440

£37,700 ✓ basic rate tax limit

£14,500 of gain taxed at 40% = £5,800

Notional tax £T = £12,133.75 (of which £11,240 **£X** is due to gains)

£11,240 - £8,400 = £2,840 **(£Y)**

Part B - Tax on the top-sliced gain and top-slicing relief

Top-sliced gain = £42,000 ÷ 7 = £6,000

	NON-SAVINGS	SAVINGS	DIVIDENDS	GAIN
PENSION	£15,070			
INTEREST		£2,700		
GAIN				£6,000
DIVIDENDS			£5,000	
LESS PERSONAL ALLOWANCE	(£12,570)			
TAXABLE	£2,500	£2,700	£5,000	£6,000

£2,500 of pension taxed at 20% = £500
£2,500 of interest taxed at 0% = £0 (SRBS)
£200 of interest taxed at 0% = £0 (PSA applied to interest as savings income)
£500 of dividends taxed at 0% = £0 (Dividend allowance)
£4,500 of dividends taxed at 8.75% = £393.75
£800 of gain taxed at 0% = £0 (remaining PSA applied to gain as savings income and PSA is now £1,000 as recalculated in relief calculations)
£5,200 of gain taxed at 20% = £1,040

Tax on slice due to bond gain	= £1,040
Less BRT on slice (£6,000 at 20%)	= (£1,200)
	£0

£0 x 7 (N) = £0
Relieved liability on gains = £0

Calculate the top-slicing relief

Top-slicing relief = the difference between notional tax **(£Y)** and the tax liability of the equivalent slice **(£0)** calculated above.

£2,840 - £0 = £2,840

Top-slicing relief = £2,840

STEP 3 - CALCULATE THE FINAL TAX LIABILITY

Tax (£T)	£12,258.75
Less top-slicing relief	(£2,840)
Resulting tax liability after top-slicing relief	= £9,418.75

EXAMPLE 5

An individual has the following income for the tax year 2025/26. They have held an overseas bond for 4 years and fully surrender it for a gain of £203,090. Their only other income is from a personal pension which pays them £5,000 per annum.

STEP 1 - TAX ON THE WHOLE GAIN

	NON-SAVINGS	SAVINGS
PENSION	£5,000	
GAIN		£203,090
LESS PERSONAL ALLOWANCE (LOST IN THIS STEP DUE TO ANI BEING OVER £125,140)	(£0)	
TAXABLE	£5,000	£203,090

5,000 of pension taxed at 0% = £0

£32,700 gain taxed at 20% = £6,540

£37,700 ✓ basic rate tax limit

£87,440 gain taxed at 40% = £34,976

£82,950 gain taxed at 45% = £37,328

Tax £T = £78,844 (of which all, £78,844, **£X** is due to gains)

STEP 2 - CALCULATE THE TOP-SLICING RELIEF DUE

Part A - Tax on whole taxable gain minus basic rate tax credit

Basic rate tax credit = £203,090 at 20% = £40,618

(none of the gain sits within PA as the PA was reduced to zero due to ANI)

£78,844 - £40,618 = £38,226 **(£Y)**

Part B - Tax on top-sliced gain and top-slicing relief

Top-sliced gain = £203,090 ÷ 4 = £50,773

	NON-SAVINGS	SAVINGS
PENSION	£5,000	
GAIN		£50,773
LESS PERSONAL ALLOWANCE*	(£5,000)	(£7,570)
TAXABLE	£0	£43,203

* must be applied to other income in priority before applying to savings income from gain

£5,000 of gain taxed at 0% (SRBS now available in this step as non-savings taxable income is less than £5,000 - the savings income is now absorbed by PA)

£500 gain taxed at 0% (PSA is £500 as taxable income breaches higher rate threshold)

£32,200 at 20% = £6,440

£37,700 ✓ basic rate limit

£5,503 gain taxed at 40% = £2,201

Tax payable on slice due to bond gain = £8,641

Less basic rate tax credit on taxable slice (£43,203 x 20%) = (£8,641) (gain falling within PA is not reduced)

£0

£0 x 4 (N) = £0

Relieved tax liability on gains = £0

Calculate the top-slicing relief

Top-slicing relief = the difference between notional tax **(£Y)** and the tax liability of the equivalent slice **(£0)** calculated above.

£38,226 - £0 = £38,226

Top-slicing relief = £38,226

STEP 3 - CALCULATE THE FINAL TAX LIABILITY

Tax (£T)	£78,844
Less top-slicing relief	(£38,226)
Resulting tax liability after top-slicing relief	= £40,618

CONCLUSION

We can draw some conclusions from these examples and the methodology:

- Top-slicing relief is a separate relief calculation applied to the tax ordinarily due. It will only be available where there is at least **some** higher, or additional, rate liability on the chargeable gain itself
- As mentioned on page 5 of this briefing, when dealing with the personal allowance, the figure used in the top-slicing calculations may need to be recalculated in situations where it was lost (or restricted) in the actual tax calculation. In the same manner the SRBS and PSA must now be assessed separately in Step 2 of the relief calculations.
- The gain itself does not necessarily have to straddle the basic rate or higher rate band to get top-slicing relief. For example, a gain that sat entirely within the higher rate may get top-slicing relief if the PSA had not been used on other savings income
- Where a gain fully sits within the additional rate before top-slicing is applied, no top-slicing will be available
- Due to the SRBS and the PSA being included as part of the reduction of basic rate tax in the relief calculations, relief may not be fully given in all circumstances. This includes where a gain is taxed at 0% within the SRBS and/or PSA and a small amount falls into higher rate
- In the relief calculations the personal allowance can only be applied to the bond gains after it has been applied to other income, even if this means wasting the personal allowance due to the availability of the nil-rate savings bands such as the PSA or dividend allowance
- Finally, in most cases these calculations will now need to be performed in full to avoid any errors.

The clarifications here, on the most part, are simply technical ones to assess the impact of the changes to the various tax bands. However, it is perhaps useful to go back to first principles and remind ourselves how the rules operate.

Top-slicing relief remains a valuable relief that can help reduce a policyholder's exposure to higher or additional rates of tax.

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