



More top slicing

A Paraplanners' Assembly
Case Study Investigation
with Utmost International
April 2024



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A Paraplanners' Assembly
Case Study Investigation

Learning outcomes

- Understand how top slicing relief works
- How this impacts on a client
- Consider planning opportunities

Case study

David

- 65 years old and recently retired
- married to Sally (no income)
- two children
- pension income of £19,000 per annum
- savings and investments of £300,000
 - > £9,000 per annum interest
 - > £3,000 dividends
- onshore bond
 - > Gain of £440,000
 - > No previous withdrawals
 - > In 21st policy year

Initial thoughts and observations

- Adjusted net income (ANI)
- Personal allowance
- Starting rate on band savings
- Personal savings allowance
- Dividend allowance
- IHT
- Unequal split of assets?

Order of taxes

Income is taxed, and allowances and tax bandings are applied, in a certain order

Non-savings	Savings	Dividends	Chargeable gains
Salary Profits Rents PIID etc.	Bank/building society GILTS Corporate bonds Offshore*	Shares Collectives	Onshore

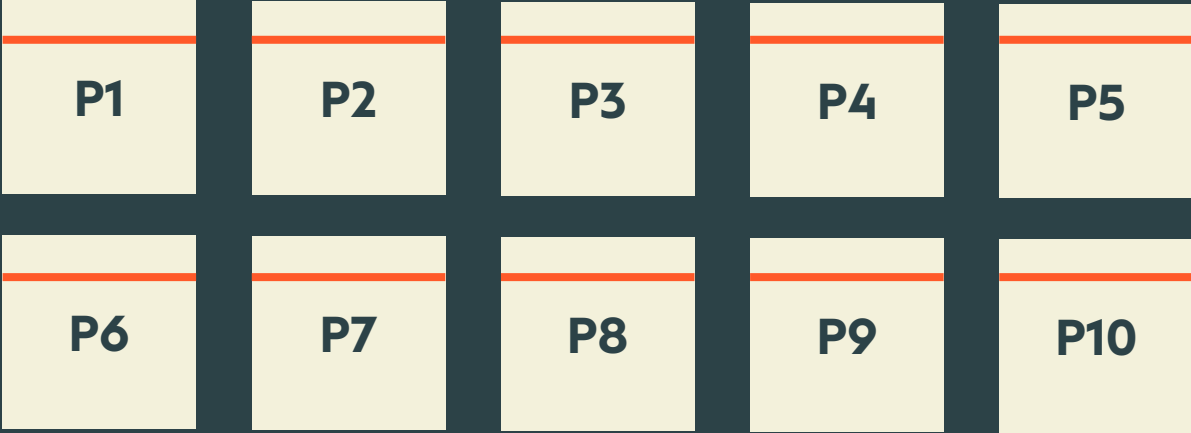
Calculating the gain and top slice

Bond structure



Calculating the gain and top slice

Partial withdrawals



Calculating the gain and top slice

**Full
segment
surrender**



Gain calculation

Full segment surrender

$$(A+B) - (C+D)$$

A = Surrender value

B = Withdrawals

C = Premium paid

D = Previous excess events

Gain calculation

Partial surrender

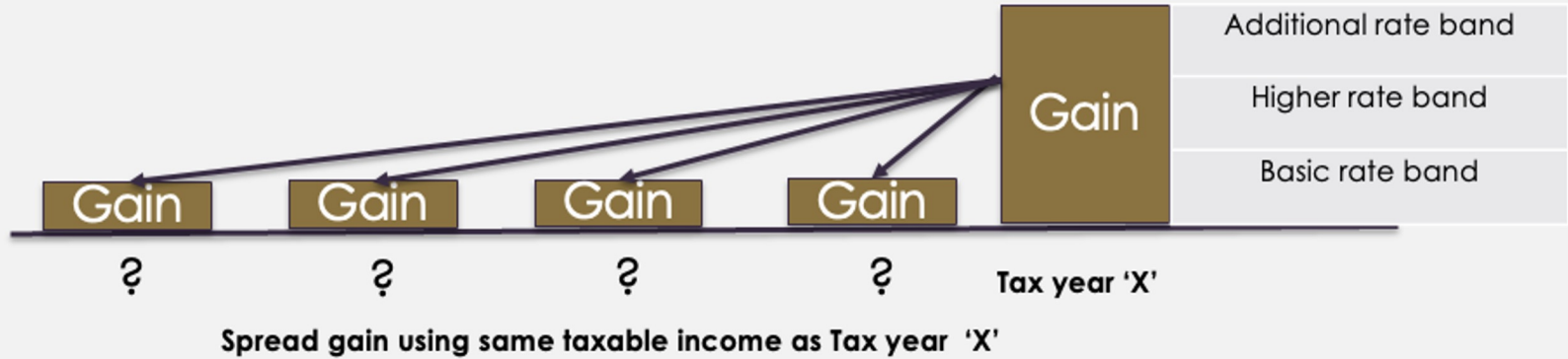
5% of premium(s) paid (across policies)

- No immediate tax charge
- Added back on surrender (B in formula)
- Excess withdrawals

Gain calculation

Top slicing relief

- Starting rate for savings
- Personal allowance



Tax before surrender

Adjusted net
income (ANI)

Non savings income

Personal allowance	£12,570 @ 0%	£0
Basic rate	£6,430 @ 20%	£1,286

Savings income

Personal savings allowance	£1,000 @ 0%	£0
Basic rate	£8,000 @ 20%	£1,600

Dividend income

Dividend allowance	£500 @ 0%	£0
Basic rate	£2,500 @ 8.75%	£219

Total tax **£3,105**

Tax on bond gain

£440,000 gain
in 21st year

Savings rate band	N/A	
Personal allowance	N/A	
Basic rate	£6,700 @ 20%	£1,340
Higher rate	£87,440 @ 40%	£34,976
Additional rate	£345,860 @ 45%	£155,637
<i>Less onshore tax credit</i>	<i>£440,000 @ 20%</i>	<i>£88,000</i>
Total tax on bond gain [A]		£103,953
<i>Less top slicing relief [B]</i>		<i>£93,033</i>
Final tax on gain	[A] – [B]	£10,920

Tax after surrender

Non savings income

Basic rate	£19,000 @ 20%	£3,800
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Savings income

Basic rate	£9,000 @ 20%	£1,800
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Dividend income

Dividend allowance	£500 @ 0%	£0
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Basic rate	£2,500 @ 8.75%	£219
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Onshore bond gain

Final tax on gain		£10,920
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Total tax		£16,739
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Tax after surrender

Notable points

- Tax on other income gone up by £2,714
- Effective tax rate on gain of 2.5%
- Don't forget internal bond tax though

Planning opportunities

Reduce interest to £0

- Gift savings to spouse; or
- Invest in non-income producing assets

Non savings income

Basic rate	£19,000 @ 20%	£3,800
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Savings income

Basic rate	£0 @ 20%	£0
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Dividend income

Dividend allowance	£500 @ 0%	£0
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Basic rate	£2,500 @ 8.75%	£219
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Onshore bond gain

Final tax on gain		£0
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Total tax		£4,019
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Planning opportunities

Assign segments

- To Sally
- To children

Personal allowance	N/A	
Starting rate	£5,000 @ 0%	£0
Basic rate	£32,700 @ 20%	£6,540
Higher rate	£87,440 @ 40%	£34,976
Additional rate	£314,860 @ 45%	£141,687
<i>Less onshore tax credit</i>	<i>£440,000 @ 20%</i>	<i>£88,000</i>
Total tax on bond gain [A]		£95,203
<i>Less top slicing relief [B]</i>		<i>£95,203</i>
Final tax on gain	[A] – [B]	£0

Planning opportunities Spreading the gains

- Use different tax years
- How much can he surrender now with no tax?
 - > Partial withdrawal
 - > Full segment surrenders

Planning opportunities

Pension contribution

- Bond gain now

Savings rate band	N/A	
Personal allowance	N/A	
Basic rate	£10,300 @ 20%	£2,060
Higher rate	£87,440 @ 40%	£34,976
Additional rate	£342,260 @ 45%	£154,017
<i>Less onshore tax credit</i>	<i>£440,000 @ 20%</i>	<i>£88,000</i>
Total tax on bond gain [A]		£103,053
<i>Less top slicing relief [B]</i>		<i>£103,053</i>
Final tax on gain	[A] – [B]	£0

Planning opportunities

Pension contribution

- Overall tax now

Non savings income

Basic rate	£19,000 @ 20%	£3,800
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Savings income

Basic rate	£9,000 @ 20%	£1,800
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Dividend income

Dividend allowance	£500 @ 0%	£0
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Basic rate	£2,500 @ 8.75%	£219
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Onshore bond gain

Final tax on gain		£0
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Total tax		£5,819
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Effective tax relief of

323%

What would we do?

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