


For financial advisers only

Bonds benefits

'Tax-free' withdrawals
Virtually tax-free growth
Control of the tax point
Inheritance tax efficiency
Assignment
Top-slicing



The availability of top-slicing relief on investment bond gains can give your clients the financial edge over unit trusts and open-ended investment companies (OEICs). This case study, one of a series of six, shows how top-slicing can help reduce your client's tax liability when faced with a chargeable gain.

The client

Emma is a basic rate taxpayer on a salary of £35,000 a year. Just over 10 years ago she invested £100,000 in an onshore bond, which is now worth £150,000, meaning she's incurred a chargeable gain of £50,000.

Her financial objective

Emma wants to cash in her bond to put it towards buying a new house but she wants to avoid paying higher rate tax on the £50,000 gain.

The solution

Emma's financial adviser recommends an onshore bond, so she can take advantage of its top-slicing feature. Top-slicing is a relief against higher rate tax on a chargeable gain because it takes into account that the gain has accrued over a number of years, in Emma's case 10 years.

Top slicing is good news for Emma as it means she won't be liable to pay higher rate tax on her gain. Here's why:

Salary	=	£35,000
Personal allowance	=	£6,475 (2009/10)

Using top-slicing:

$£50,000$ (the chargeable event gain) / 10 years (number of complete years she's had the investment) = $£5,000$

$£35,000 - £6,475 + £5,000 = £33,525$ – this is within the basic rate tax allowance of $£37,400$.

And because tax is deducted at source, Emma doesn't have to pay any more tax.

Onshore bond versus unit trusts and OEICs

If her adviser had recommended a capital growth unit trust or OEIC (generating no income) instead of an onshore bond, things would have been quite different as top-slicing isn't a feature of these types of plans.

If Emma had made the same £50,000 gain, then she would have been liable to £7,182 capital gains tax (CGT).

Here's how:

$£50,000$ chargeable gain - $£10,100$ yearly CGT allowance = $£39,900$

$£39,900 \times 18\% = £7,182$.



Our *Top-slicing relief* sales aid gives you more information on this feature. If you'd like a copy of this or the other sales aids in our 'Bonds benefits' series, please get in touch with us.

This information is based on our understanding of current taxation law and HM Revenue & Customs practice, which may change.

If you want any more information on our investment offering, please get in touch with us.

Committed to meeting investment needs

We're committed to helping you meet your clients' needs. Included in our overall investment offering are our two five-star rated bonds.

Onshore	Offshore
Investment Control	Wealth Management Portfolio
	

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