

Taxation of investment bonds - Quick reference guide 7

Taxation of investment bonds - multiple chargeable events in the same tax year

This guide will provide you with an understanding of how multiple gains from Onshore and/or Offshore investment bonds in the same tax are treated for income tax purposes. This guide is not suitable for investment bonds held by companies.

We have a calculator which can perform the calculation described within this guide (with a maximum of ten bond gains in a tax year). The calculator can be found on our website: quilter.com/cehub

The normal order of income applies

If more than one bond is surrendered in part or in full in the same tax year, offshore bond gains will be assessed prior to onshore bond gains. If the person assessable for the gains can benefit from top slicing relief the gains are added together for the purposes of the calculation - This is demonstrated in the example below.

Losses can't be offset

It is not possible to offset a loss on one bond against a gain on another bond. This means that if there are multiple bond surrenders in one tax year you would ignore the bond with the loss from the calculations.

This doesn't stop the loss being utilised using deficiency relief however this is covered in quick reference guide 8:

quilter.com/cehub

Multiple chargeable events are added together for top slicing relief

Top slicing is a method of determining an annual equivalent value of the gain made over a number of 'relevant years'. This number is given on the gain certificate. This annual equivalent will be added to the client's income for the tax year in which the gain arises to establish the level of relief available, if at all.

Top slicing relief is explained in more detail in Quick Reference Guide 5: quilter.com/cehub

Where there are multiple bond gains in the same year all are added together to establish the slice and an average number of years is calculated.

Calculate the average number of years

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Bond	Gain	Years held	Sliced gain
1	£3,200	5	£640
2	£66,600	13	£5,123
3	£12,000	10	£1,200
4	£37,200	12	£3,100
Total	£119,000		£10,063

The total gain is divided by the total sliced gain to provide an average number of years:

$$\text{£119,000} / \text{£10,063} = 11.825$$

This average number is used to calculate the relieved liability as explained in Quick Reference Guide 5: quilter.com/cehub

Example tax calculations.

2021/22 tax bands and reliefs:

Personal allowance: £12,570

Personal savings allowance:

£1,000 for basic rate taxpayers
£500 for higher rate taxpayers
£0 for additional rate taxpayers

Income after allowance:

Basic rate: up to £37,700
Higher rate: £37,701 - £125,140
Additional rate: £125,141 +

Customer with 3 bond gains, currently a basic rate tax payer:

Earned income: £45,000
Chargeable gains: £12,500 over 5 years made on an onshore bond
£15,000 over 4 years made on an onshore bond
£18,000 over 6 years made on an offshore bond

Step 1 – Check what allowances are available:

Total income is below £100,000 so full personal allowance is available. Higher rate tax is payable on total income so £500 personal savings allowance is available.

Step 2 – Calculate the 'total liability' above the basic rate credit:

Income	Band	Rate	Tax
Earned income £12,570	Personal allowance	0%	£0
Earned income £32,430	Basic rate	20%	£6,486
Offshore bond gain £500	Personal savings allowance	0%	£0
Offshore bond gain £4,770	Basic rate	20%	£954
Offshore bond gain £12,730	Higher rate	40%	£5,092
Onshore bond gain £27,500	Higher rate	40%	£11,000
Total pre reliefs			£23,523

Total liability for top slicing purposes on bond gains = (£954 + £5,092 + £11,000)
£17,046 minus tax credit of £9,100*: **£7,946**

* Although no tax credit is available for an Offshore bond gain, it is included within the top slicing relief calculation (s531 ITTOIA 2005) to ensure relief is limited to higher and additional rates of tax only.

* Tax credit = £45,500 x 20%

Step 3 – Calculate the average number of years and ‘relieved liability’

<i>Bond</i>	<i>Gain</i>	<i>Years held</i>	<i>Sliced gain</i>
1	£12,500	5	£2,500
2	£15,000	4	£3,750
3	£18,000	6	£3,000
Total	£45,500		£9,250

Average years = £45,500 / £9,250 = **4.919**

<i>Income</i>	<i>Band</i>	<i>Rate</i>	<i>Tax</i>
Earned income £12,570	Personal allowance	0%	£0
Earned income £32,430	Basic rate	20%	£6,486
Bond gain £500	Personal savings allowance	0%	£0
Bond gain £4,770	Basic rate	20%	£954
Bond gain £3,980	Higher rate	40%	£1,592
Total pre reliefs			£9,032

Relieved liability for top slicing purposes on the sliced gains = (£954 + £1,592)
£2,546 minus tax credit of £1,850 (£9,250 x 20%): £696 x average years 4.919 = **£3,424**

Step 4 – Calculate the relief:

Total liability (£7,946) minus relieved liability (£3,424) = **£4,522**

Step 5 – Calculate the tax after relief:

<i>Income</i>	<i>Band</i>	<i>Rate</i>	<i>Tax</i>
Earned income £12,570	Personal allowance	0%	£0
Earned income £32,700	Basic rate	20%	£6,486
Offshore bond gain £500	Personal savings allowance	0%	£0
Offshore bond gain £4,770	Basic rate	20%	£954
Offshore bond gain £12,730	Higher rate	40%	£5,092
Onshore bond gain £27,500	Higher rate	40%	£11,000
Total pre reliefs			£23,523
Basic rate tax credit			£5,500*
Top slicing relief			£4,522

£7,024 tax due on bond gains, £6,486 on earned income.

* As this is the full tax computation the tax credit is 20% of the onshore bond gains only.

The information provided in this article is not intended to offer advice.

It is based on Quilter's interpretation of the relevant law and is correct at December 2024. While we believe this interpretation to be correct, we cannot guarantee it. Quilter cannot accept any responsibility for any action taken or refrained from being taken as a result of the information contained in this article.

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