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Top slicing relief

Introduction

Top slicing relief (TSR) is generally available where the taxpayer would be liable to tax at a lower rate or they've had their personal allowance (PA), personal savings allowance (PSA), or the starting rate band for savings (SRSB) income reduced if it were not for the inclusion of the chargeable event gain in their income for the year.

What is TSR and how does it apply?

When a chargeable event gain (CEG) occurs, the tax is based when that event happens, meaning you can, to a degree, control when any tax is paid and by whom.

Individuals can defer their gains to a time when they've less taxable income, such as in retirement. However, where there has been gains accrued over a number of years but a large chargeable gain applied in a single year, this could disadvantage the policy owner. So, to ensure tax is charged on a fair basis and mitigate the impact of this, TSR might be available.

TSR is available when the taxpayer goes up a tax band due to the inclusion of the CEG to their income for that tax year. However, it can also apply if the CEG affects an individual's PA, PSA and the SRSB, as gains from both onshore and offshore bonds are taxed as savings income.

TSR is available for individuals only and can't be claimed by companies, trustees or personal representatives.

TSR is given by comparing the tax due on the full CEG to the amount of tax due on the 'sliced' annual equivalent of the gain. The sliced gain is the gain spread over the complete number of policy years.

How do you calculate the complete number of policy years?

For full surrender for both onshore and offshore bonds, then you use the complete number of policy years from when the policy was created. This is also the case if there have been additional top up investments and the event is a full surrender.

However, if there are two or more partial withdrawals that exceed the 5% tax deferred allowance, and the policy is an:

- Onshore bond
- Offshore bond taken out on or after 6 April 2013, or
- Offshore bond that has been varied, assigned or held as a security for a debt after 6 April 2013

then the number of whole policy years since previous excess gain should be used.

How is TSR calculated?

TSR can help reduce tax payable, not the gain itself. When calculating TSR, it's always the full gain used to assess if any personal tax allowances or benefits being received would be affected, by the addition of a chargeable gain.

However, when assessing the capital gains tax (CGT) rate, it's the top sliced gain i.e. the annual equivalent and not the full gain that is used, please see [CG21204 - Rates of tax: Available basic rate band - HMRC internal manual - GOV.UK.](#)

Calculation steps

One chargeable event

Step 1: Calculate the total taxable income identifying how much of the gain falls within the PA, PSA, SRSB, basic, higher or additional rate bands. Remember the order of income¹ when it comes to taxation is:

- Non-savings, non-dividend income, e.g. salary, self-employed earnings, pension income, rental income. The PA is used in the most tax efficient way so against this source first if the individual has this source of income.
- Savings income, interest on deposits, corporate bonds gains from offshore bonds. The PA, PSA and SRSB might be available to use to offset against this income source.
- Dividend income. The £500 dividend allowance is taxed at 0% but will sit in income tax band.
- Redundancy payments after the first tax free £30,000.
- Savings income with a tax credit (gains from onshore bonds).

Step 2: Calculate the total tax due on the income including the gain across all tax bands and deduct basic rate tax.

- The gains should be treated as the highest part of income. This means the gain is taxed after other income, e.g. after non-savings, savings and dividend income.
- Gains from offshore bonds are ordinarily taxed before dividends in an income tax calculation, so in the top slice calculation this may need to be adjusted if the client has dividend income as well.
- Deduct basic rate tax treated as paid to find the total liability for the tax year. This applies whether or not the gain comes from an onshore or offshore bond.
- The basic rate tax credit that comes with onshore bond gains is deducted after top-slicing relief.
- The basic rate tax treated as paid applies only to any part of the gain that is taxable. Don't deduct the 20% basic rate in respect of any gains that sit within the policyholder's personal allowance.

Step 3: Calculate the annual equivalent of the gain. This is the top sliced gain (TSG) and is done by dividing the gain by the total number of years (N).

Step 4: Calculate the individual's liability to tax on the annual equivalent (TSG).

- If the PA, PSA or the SRSB is lost or reduced in step 1, then it can be reintroduced in step 4 depending on the income and value of the top sliced gain.
- Deduct basic rate tax treated as paid on the top sliced gain and multiply the result by N. This gives the total relieved liability.

Step 5: Deduct the total liability at step 4 from the total liability at step 2 to give the amount of TSR.

Two or more chargeable events:

Steps 1 and 2 are the same for one chargeable event.

Step 3: Calculate the annual equivalent (TSG) for each by dividing it by the number of years for each gain and then add all these to arrive at the total annual equivalent (TSG).

Step 4: Calculate the individual's liability to tax on the annual equivalent (TSG).

- If the PA, PSA or SRSB is lost or reduced in step 1, then it can be reintroduced in step 4 depending on the income and value of the top sliced gain.
- Deduct basic rate tax treated as paid on the top sliced gain and multiply the result by N. This gives the total relieved liability.

Step 5: Multiply the result at step 4 by the full gain on the policy.

Step 6: Divide the result at step 5 by the total top sliced gain at step 3. To give the total relieved liability.

Step 7: Deduct the total relieved liability at step 6 from the total liability at step 2 to give the amount of TSR.

To illustrate how this works in practice please see the case studies below following the steps laid out above. Please note these are based on the 2025-26 tax year.

Case study 1: Phyllis

Moving up a tax band due to CEG.

Phyllis, 65 has £15,000 pension income for this tax year.

She surrenders her investment bond and the chargeable gain is £50,000 and she has owned this policy for four complete years.

Step 1 – Calculate total taxable income and identify if any allowances are affected and how much of the gain falls within the relevant tax bands.

£15,000 + £50,000 = £65,000. Phyllis is a higher rate taxpayer and so her PSA is reduced to £500.

Also, for every £1 of income above the personal allowance, the starting rate for savings band is reduced on a £1 for £1 basis.

£15,000 - £12,570 = £2,430 so the SRSB is reduced as follows: £5,000 - £2,430 = £2,570.

Income source	Amount	Band	Rate	Tax Due
Pension	£12,570	Personal allowance	0%	£0
	£2,430	Basic rate	20%	£486
Chargeable gain	£2,570	Starting rate for savings	0%	£0
	£500	Personal savings allowance	0%	£0
	£32,200	Basic rate	20%	£6,440
	£14,730	Higher rate	40%	£5,892
Total	£65,000			£12,818

Deduct tax on the pension income £12,818 - £486 = £12,332 tax on chargeable gain.

Step 2 – Calculate the total tax due on the gain and deduct basic rate tax.

Total tax on gain £12,332 - basic tax credit £10,000 (£50,000 @ 20%) = £2,332

Step 3 – Calculate the annual equivalent (TSG).

£50,000 / 4 = £12,500

Step 4 – Calculate the individual's liability to tax on the annual equivalent/ TSG and deduct basic rate tax.

Income source	Amount	Band	Rate	Tax Due
Pension	£12,570	Personal allowance	0%	
	£2,430	Basic rate	20%	£486
Annual equivalent	£2,570	Starting rate for savings	0%	£0
	£1,000	Personal savings allowance	0%	£0
	£8,930	Basic rate	20%	£1,786
Total	£27,500			£2,272

Deduct tax on pension income £2,272 - £486 = £1,786

Deduct basic tax credit on annual equivalent/ TSG £2,500 (£12,500 @ 20%)

Total liability on top-slice = (£1,786 - £2,500) x 4yrs = £0

Step 5 – Calculate top-slice relief: deduct step 4 from step 2.

£2,332 (step 2) - £0 (step 4) = £2,332 top slice relief

Chargeable gain of £50,000 therefore:

Tax to pay on offshore bond

£12,332 less top-slice relief £2,332 = £10,000

Tax to pay on onshore bond:

As basic rate tax of £10,000 already paid so £2,332 - £2,332 TSR = £0

Case study 2: Malcolm

Multiple income sources.

Malcom has a salary of £32,000 and dividend income of £5,000 for this tax year.

He surrenders his offshore investment bond which give a chargeable gain of £60,000 and he's owned the policy for five complete years.

Step 1 – Calculate total taxable income and identify if any allowances are affected and how much of the gain falls within the relevant tax bands.

£32,000 + £5,000 + £60,000 = £97,000

Income source	Amount	Band	Rate	Tax Due
Salary	£12,570	Personal allowance	0%	
	£19,430	Basic rate	20%	£3,886
Chargeable gain*	£500	PSA	0%	
	£17,770	Basic rate	20%	£3,554
	£41,730	Higher rate	40%	£16,692
Dividend income	£500	Dividend allowance	0%	
	£4,500	Higher rate	35.75%	£1,608.75
Total	£97,000			£25,740.75

Deduct the tax paid on salary and dividends £25,740.75 - £3,886 - £1,608.75 = £20,246 tax on chargeable gain.

Step 2 – Calculate the total tax due on the gain and deduct basic rate tax.

*Remember in this step, the order of income changes so that the bond gain is taxed as the highest part of income and taxed after the dividend income.

Income source	Amount	Band	Rate	Tax Due
Salary	£12,570	Personal allowance	0%	
	£19,430	Basic rate	20%	£3,886
Dividend income	£500	Dividend allowance	0%	
	£4,500	Basic rate	10.75%	£483.75
Chargeable gain	£500	Personal savings allowance	0%	
	£12,770	Basic rate	20%	£2,554
	£46,730	Higher rate tax	40%	£18,692
Total	£97,000			£25,615.75

Deduct the tax paid on salary and dividends £25,615.75 - £3,886 - £483.75 = £21,246 tax on chargeable gain.

Deduct basic rate tax credit on gain £21,246 - £12,000 (£60,000 @ 20%) = £9,246.

Step 3 – Calculate the individual's liability to tax on the annual equivalent (TSG).

£60,000 / 5 = £12,000

Step 4 – Calculate the individual's liability to tax on the annual equivalent (TSG).

Income source	Amount	Band	Rate	Tax Due
Salary	£12,570	Personal allowance	0%	
	£19,430	Basic rate	20%	£3,886
Dividend income	£500	Dividend allowance	0%	
	£4,500	Basic rate	10.75%	£483.75
Annual equivalent	£1,000	Personal savings allowance	0%	
	£11,000	Basic rate	20%	£2,200
Total	£49,000			£6,569.75

Deduct tax on employment £6,569.75 - £4,369.75 = £2,200.

Deduct basic tax credit on annual equivalent (TSG) £2,400 (£12,000 @ 20%).

Total liability on top-slice (£2,200 - £2,400) x 5 yrs = £0.

Step 5 – Calculate top-slice relief, deduct step 4 from step 2.

£9,246 (step 2) - £0 (step 4) = £9,246 top slice relief.

Chargeable gain of £60,000, therefore:

Total tax to pay on offshore bond gain:

£20,246 - £9,246 = £11,000

Total tax to pay if this was an onshore bond:

as basic rate tax of £12,000 already paid so remaining £8,246 - £9,246, TSR = £0

Case study 3: Alison

Loss of allowances due to CEG.

Alison has a salary income of £45,000.

She surrenders her bond she has had for 12 years and there's a chargeable gain of £90,000.

Step 1 – Calculate total taxable income and identify if any allowances are affected and how much of the gain falls within the relevant tax bands.

£45,000 + £90,000 = £135,000 so Alison is an additional rate taxpayer and the whole gain is taxable due to loss of allowances.

For every £2 of income above £100,000 the PA is reduced by a £1, so due to the CEG, Alison has no PA, no PSA and no SRSB.

Income source	Amount	Band	Rate	Tax Due
Salary	£0	Personal allowance	0%	
	£37,700	Basic rate	20%	£7,540
	£7,300	Higher rate	40%	£2,920
Chargeable gain	£80,140	Higher rate	40%	£32,056
	£9,860	Additional rate	45%	£4,437
Total	£135,000			£46,953

Deduct the tax paid on salary £46,953 - £10,460 = £36,493 tax on chargeable gain.

Step 2 – Calculate the total tax due on the gain and deduct basic rate tax.

Total tax on gain £36,493 - basic tax credit £18,000 (£90,000 @ 20%) = £18,493.

Step 3 – Calculate the individual's liability to tax on the annual equivalent (TSG).

£90,000 / 12 = £7,500.

Step 4 – Calculate the individual's liability to tax on the annual equivalent (TSG).

£45,000 + £7,500 = £52,500.

As Alison's income in this step means she is a higher rate taxpayer and her income is now below £100,000, a PSA of £500 and the full PA of £12,570 can also be added back into the calculation.

Income source	Amount	Band	Rate	Tax Due
Salary	£12,570	Personal allowance	0%	
	£32,430	Basic rate tax	20%	£6,486
Annual equivalent	£500	Personal savings allowance	0%	
	£4,770	Basic rate tax	20%	£954
	£2,230	Higher rate tax	40%	£892
Total	£52,500			£8,332

Deduct tax on employment = £1,846 tax on gain.

Deduct basic tax credit on annual equivalent (TSG) £1,500 (£7,500 @ 20%).

Total liability on top-slice = (£1,846 - £1,500) x 12 years = £4,272.

Step 5 – Calculate top-slice relief: deduct step 4 from step 2.

£18,493 (step 2) - £4,272 (step 4) = £14,221 top slice relief.

Chargeable gain of £90,000, therefore:

Total tax to pay on offshore bond gain

£36,493 - £14,221 = £22,272

Total tax to pay on onshore bond gain:

£36,493 - £18,000 tax already paid - £14,221 = £4,272.

Case study 4: Ben

Multiple gains in the same year.

Ben has a salary income of £40,000.

He also has two onshore bonds, which he surrenders in the same tax year.

Bond 1 has a CEG of £15,000 and Ben has owned this for 10 full years

Bond 2 has a CEG of £7,000 and Ben has owned this policy for five full years

Step 1 – Calculate total taxable income and identify if any allowances are affected and how much of the gain falls within the relevant tax bands.

£50,000 + £15,000 + £7,000 = £72,000 so Ben is now a higher rate taxpayer, and his PSA has dropped to £500.

Income source	Amount	Band	Rate	Tax Due
Salary	£12,570	Personal allowance	0%	£0
	£37,430	Basic rate	20%	£7,486
Chargeable gain	£500	Personal savings allowance	0%	£0
	£21,500	Higher rate	40%	£8,600
Total	£72,000			£16,086

Deduct the tax paid on salary £16,086 - £7,486 = £8,600 tax on chargeable gain.

Step 2 - Calculate the total tax due on the gain and deduct basic rate tax.

Total tax on gain £8,600 - basic tax credit £4,400 (£22,000 @ 20%) = £4,200.

Step 3 - Calculate the individual's liability to tax on each of the annual equivalent/TSG.

Bond 1 £15,000 / 10 = £1,500

Bond 2 £7,000 / 5 = £1,400

Total = £2,900

Step 4 - Calculate the individual's liability to tax on the annual equivalent (TSG) and deduct basic rate tax.

Income source	Amount	Band	Rate	Tax Due
Salary	£12,570	Personal allowance	0%	
	£37,430	Basic rate tax	20%	£7,486
Annual equivalent	£500	Personal savings allowance	0%	
	£2,400	Higher rate tax	40%	£960
Total	£52,500			£8,446

Deduct tax on employment = £960 tax on gain.

Deduct basic tax credit on annual equivalent (TSG) £580 (£2,900 @ 20%).

Total liability on top slice = (£960 - £580) = £380.

Step 5 - Multiply the result at step 4 by the full gain on the policy:

$$£380 \times £22,000 = £8,360,000$$

Step 6 - Divide the result at step 5 by the total top sliced gain at step 3, to give the total relieved liability.

$$£8,360,000 / £2,900 = £2,882.76.$$

Step 7 - Deduct the total relieved liability at step 6 from the total liability at step 2 to give the amount of TSR:

$$£4,200 \text{ (step 2)} - £2882.76 \text{ (step 6)} = £1,317.24 \text{ top slice relief.}$$

Chargeable gain of £22,000, therefore:

Total tax to pay on onshore bond gains:

$$£8,600 - £4,400 \text{ tax already paid} - £1,317.2 = £2,882.74$$

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