

## **Exclusion 81 - Top Slicing Relief**

The Self Assessment Calculator, and software based on it, hasn't been producing accurate calculations when considering top slicing relief (TSR) on chargeable event gains. This is because the Starting Rate for Savings and Personal Savings Allowance had not been included in the TSR calculation when they were available to taxpayers.

Life insurance policies, life annuity contracts and capital redemption policies are only charged to tax in certain circumstances, called chargeable events. When there is a chargeable event gain, the gain is charged to tax in one year, when the gains have accrued on the policy over the life of the contract. This can result in taxpayers being subject to tax at a higher rate than they would normally have been subject to had the gains been taxed over the life of the contract. Top slicing relief provides a tax reduction or repayment to taxpayers who are so affected.

Top slicing relief is calculated by working out the tax due on the full chargeable event gain, and comparing this to the amount due if the gain was limited to the amount of the gain spread over the length of the contract. It is in this calculation that the Starting Rate for Savings and Personal Savings Allowance are not currently included.

These allowances, and the personal allowance, are available to the same extent that they are in the main tax computation, as they are set by reference to the taxpayer's total income. For example, a higher rate taxpayer will have a Personal Savings Allowance of £500 in their main Income Tax calculation and in the top slicing relief calculation, while an individual with total income including the whole chargeable event gain of more than £150,000 will have no personal allowance or Personal Savings Allowance in either calculation.

We have introduced Exclusion 81 on version 9.0 of the e-filing exclusions list for 2016-17. This means that for 2016-17, customers may receive a correction calculation from HMRC. We were unable to make changes for 2017-18, but we are working closely with software developers, the agent community and other stakeholders to determine how we can best support our customers from April. We will be issuing correspondence in due course.

Thank you for your patience and ongoing support.