

Clause 1: Gains from contracts for life insurance etc: top slicing relief

Summary

1. This clause introduces amendments to Top Slicing Relief (TSR) rules on life insurance policy gains in sections 535 to 537 of ITTOIA 2005 to ensure they operate fairly and prevent excessive relief. The amendments will apply to all gains arising after Budget day.

Details of the clause

2. Subsection 1 sets out the legislation to be amended by this clause.
3. Subsection 2 inserts new subsection (8) in section 535 of ITTOIA 2005 to confirm that for the purposes of the TSR calculations:
 - the rules of reliefs and allowances at section 25(2) of ITA 2007, that require reliefs and allowances to set off income in a way that results in the greatest reduction in an individual's income tax liability, do not apply; and
 - an individual's reliefs and allowances must be deducted from other income before being deducted from the gain.
4. Subsections 3 and 4 confirms the calculation of the income tax liability on a proportion of the gain as required within the calculation of TSR in sections 536(1) and 537 of ITTOIA 2005. The clarifications allow the individual's personal allowance, but not any other relief or allowance, to be calculated as though the gain from the chargeable event is limited to the proportion of the gain.
5. Subsection 5 provides that the amendments made by this section have effect for the tax year 2019-20 and subsequent tax years.
6. Subsection 6 provides that the amendments made by this section do not have effect for the tax year 2019-20 or 2020-21 in the case of an individual who is only liable for tax under Chapter 9 of Part 4 of ITTOIA 2005 on gains from one or more chargeable events which occur before 11 March 2020.

Background note

7. Top Slicing Relief is designed to mitigate the impact of individuals being charged to tax at a higher rate due to the inclusion of a life insurance policy gain, or gains, in income for the year.
8. This clause will put beyond doubt the calculation of TSR by setting out the basis of the personal allowance available and specifying how allowances and reliefs can be set against life insurance policy gains. This ensures a fair outcome for those taxpayers eligible for TSR, in line with the original policy intent, and prevents excessive relief.