

Trustee based assignments

For advisers' use only (not to be relied on by anyone else)

Key benefits of using an International Bond

Any growth is virtually free of income tax.*

Bonds can be written under trusts which could mitigate your client's inheritance tax liability.

No annual trustee tax returns required unless there is a chargeable gain.

Bonds can be assigned to another adult owner, meaning the amount of tax paid is based on the recipient's tax status.

Assignment of individual bond segments can be made as and when required, giving the trustees control over when and how much is assigned.

Case study

“I’ve planned ahead to give my children the best start to their adult life, but I want to retain some control to make sure the money is put to good use! The only problem is I’m taxed at the higher rate and I don’t want this eating into the return.”

*Irrecoverable withholding tax may be payable on certain investment funds, as in some countries withholding tax is deducted from dividend and interest payments. See Important information on page 2 for more information.

Mark decided that he wanted to invest £100,000 for his children’s future. He wanted to make sure that his two children, Karen, 8, and John, 13, would get as much benefit from this investment as possible. He needed an investment that would be IHT effective and tax efficient, as well as easy to administer with a range of investment options.

Mark met with his adviser and he recommended that Mark transfer the £100,000 into a Standard Life Gift Plan discretionary trust and that this is then invested in a Standard Life International Bond. Mark appointed himself, his wife and his sister as trustees, and Karen and John are within the class of discretionary beneficiaries. As the trustees invested in an International Bond, they don’t have to complete an annual trustee tax return unless there is a chargeable gain.

10 years later

Ten years later when the trustees hold their annual meeting they decide that they want to use the International Bond to help Karen and John. John is in employment and is looking to buy his first flat, while Karen is due to start university in the autumn. No withdrawals have been made and the International Bond is now worth £162,890**, written in 100 separate policies. The trustees decide to earmark and pay out John’s half of the bond (50 policies) for the deposit on a flat and use 6 policies to provide Karen with nearly £10,000 to fund her first year at university.

To save tax, the trustees’ adviser recommends that they assign (transfer) 50 policies to John and 6 policies to Karen rather than cashing in the policies.

What happens when Karen and John cash in their policies after the assignment?

Karen pays no tax on her gain from the bond

As Karen has no income, she is a non-taxpayer. Her 6 policies are worth a total of £9,773. She cashes these in and makes a chargeable gain of £3,773. This is comfortably within her personal allowance, and she has no income tax to pay.

**This figure is an example and isn’t guaranteed. What your client may get back depends on how their investment performs, and the tax treatment of the investment.

John pays £6,289 tax on his gain from the bond

John is a management trainee at a financial company and earns £23,000 a year. His 50 policies are worth £81,445 and he makes a chargeable gain of £31,445 when he cashes them in. His tax charge is calculated as follows:

Gain = £31,445 (£81,445 proceeds less £50,000 paid for these policies)

Tax = £31,445 x 20% = £6,289

As John is a basic rate tax payer he can use 'top slicing relief' to reduce the impact of his gain. Top slicing relief allows a basic rate tax payer, who would become a higher rate tax payer as a result of the gain on their investment, to reduce their liability to tax by spreading the gain over the number of years the policy has been in force. The policies were in force for 10 complete years from the start date, so he can divide the gain (£31,445) by 10 giving him a 'slice' of £3,144.50. When this is added to his taxable income of £16,525 (after deduction of the personal allowance of £6,475), he is still comfortably in the basic rate tax bracket (£37,400 in 2010/11).

What would happen if the trustees cash in the policies instead of assigning them?

As settlor of the trust, Mark would be liable for £14,087 of income tax on the gain from the bond

Mark earns £90,000 and is already paying higher rate tax. If the trustees had cashed in the 56 policies he would have made a chargeable gain of £35,218. His tax, which he can reclaim from the trustees, would be calculated as follows:

Gain = £35,218 (£91,218 proceeds less £56,000 paid)

Tax = £35,218 x 40% = £14,087

In this example, not only does assigning save £7,798 in tax, it also ensures Mark doesn't lose his personal allowance by keeping his income below the key £100,000 threshold.

If the trustees had cashed in the policies, and Mark had paid the tax due without reclaiming it from the trustees, this could be treated as a further chargeable transfer to the trust. This would complicate his IHT planning and may have tax consequences.

This case study is an example and it is provided for information only. It does not provide full details of how an International Bond, trust or Gift Plan operates. Details are available in the Key Features Documents and Estate Planning section on www.adviserzone.com.

Important information

- All information in this document relating to taxation is based on our understanding of law and practice in Ireland and the UK at June 2010. The future tax position of the bond or your client's own tax position may alter. The tax information given only applies if your client is resident in the UK for tax purposes.
- For the purposes of this example 2010/11 tax rates have been used throughout unless otherwise stated.
- Any growth within the bond is virtually free of income tax. Chargeable events may result in an income tax charge and irrecoverable withholding tax may be payable on certain investment funds, as in some countries withholding tax is deducted from dividend and interest payments. If your client invests in a net fund, where tax is paid on returns within the fund, where possible Standard Life International will reclaim the tax paid within the fund and return this to your client. We may not be able to reclaim tax due to changes in HM Revenue & Customs practice.
- All examples are for illustrative purposes only.
- The assumed rate of growth for the International Bond is 5%. The projection does not take account of the effect of charges on the bond.
- No guarantees are given regarding the effectiveness of any arrangement entered into on the basis of this document.
- The value of investments can go down as well as up. Your client may not get back as much as they invest.