

Tax efficient flexibility

Pushing the pension limits

You may already be thinking about investing for clients who will be too close to the lifetime limit for a pension payment to make sensible tax planning. And more clients than you might expect are at risk of breaching these limits.

Age of client	Estimated current value of pension fund which will EXCEED lifetime allowance at retirement
35	£625,000
40	£740,000
45	£875,000
50	£1,035,000

Lifetime Allowance increases up to 06/04/2011 are known. The table assumes Lifetime Allowance increases after 06/04/2011 increase at 2.5% pa, fund increases at 6% pa, retirement age of 65 and no further payments (as at April 2008).

Keeping retirement options open

Other clients may be reluctant to commit to pension saving, because they are concerned that making a pension payment will be at the expense of flexibility and access.

Your client may be concerned that the money may be needed for other purposes, for example, funding university fees, or to boost income if they want to retire before they can access their pension funds.

Your client can pay up to 100% of their relevant UK earnings to their pension and get tax relief (capped by the Annual Allowance – £235,000 in tax year 2008/2009).

What can offshore bonds offer?

Offshore bonds work well for flexible retirement saving as:

- your client's money grows virtually **tax-free (like a pension)**;
- your client has **easy access** to their money at any time (unlike a pension); and
- paying the bond proceeds into a pension can **stop higher-rate taxpayers paying higher-rate tax on bond gains**.

Your client can achieve the tax saving by making a large personal pension payment to change their tax status, and cashing in their bond in the same tax year.

How does this work?

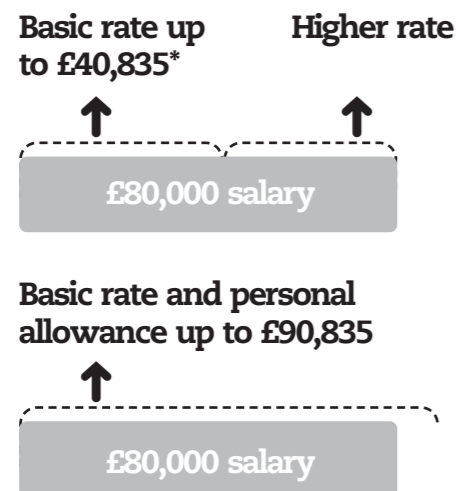
Clients will usually get **basic-rate tax relief** on pension payments by making a net payment. For example, a client makes a payment of £8,000 to their pension. The pension provider then claims back **20% tax** on this amount from HM Revenue & Customs (so it's as if £10,000 was invested in their pension).

Higher-rate tax relief is given by allowing more of the client's income to be taxed at basic-rate rather than higher-rate. For example, if the client above was a higher-rate taxpayer in 2008/2009, the amount of income taxed at basic-rate, after the personal allowance of £6035, is £44,800. This gives further relief of 20% on earned income. Together with the tax relief of 20% given at source this gives total relief of 40% (reclaimed through your client's tax return.)

There are 2 key steps to using this expanded basic-rate band with an offshore bond:

1. Make a large enough pension payment to become a basic-rate taxpayer.

* This figure is calculated by adding the following for the tax year 2008/09 – basic-rate tax band of £34,800 and personal allowance of £6,035.



A higher-rate taxpayer with a salary of £80,000 (say) pays higher-rate tax on income over £40,835*.

Making a pension payment of £40,000 increases his basic-rate band to £90,835 (including personal allowance). The basic-rate band has increased beyond his income so the higher-rate taxpayer is now a basic-rate taxpayer.

The £40,000 pension payment is grossed up with basic-rate tax relief to give £50,000.

Marginal tax relief is given by increasing the basic-rate band:

$£40,835* + £50,000 = £90,835$

2. Cash in an offshore bond and use top slicing to avoid higher-rate tax on the chargeable gain. Your client can even use the proceeds to fund the pension payment.

Basic rate up to £90,835 including personal allowance



Your client has been investing in an offshore bond for 10 years. He originally invested £100,000 and it's now worth £200,000. He cashes it in.

The amount of tax he pays is calculated using top slicing tax relief. This adds a 'slice' of his gain to his salary to see what tax bracket he's in.

Providing the slice doesn't take him out of his basic-rate bracket he pays the savings rate of 20% on the whole gain.

Top slicing tax relief on offshore bond gains works as follows:

The gain is: $£200,000 - £100,000 = £100,000$

The 'slice' is calculated by dividing the gain by the amount of time the bond is held:

$£100,000 \text{ gain} \div 10 \text{ years} = £10,000$

This is added to salary to give total taxable income of:

$£80,000 + £10,000 = £90,000$

This is less than the basic-rate band of £90,835 (including the personal allowance), and so the chargeable gain is taxed at the savings rate for basic-rate taxpayers (20% for tax year 2008/2009).

The Benefits

- The client saves 20% tax on his offshore bond chargeable gain.
- The client secures tax relief on his pension payment.
- The client has had the flexibility to access monies throughout the bond term unlike saving via a pension.
- The client retains the choice of investing in a pension or using the bond for other financial needs.

Please note that if top slicing takes your client out of the basic-rate bracket then tax at the higher-rate will apply.

Why Standard Life International?

The International Bond offers:

Tax Efficiency	Unlike onshore investing, where investments are subject to tax on all income and gains, an offshore investment grows virtually free of tax.
Clarity	A clear charging structure.
Control	The ability to vary the allocation rate via rebated Funded Initial Commission.
Flexibility	By default, the bond is divided into 100 identical individual policies or 'segments'. Your client can choose a different number of segments if desired, subject to a minimum of £200 per segment.
Investment Choice	Access to an extensive range of Insured Funds, Mutual Funds, Whole of Market Funds, a panel of Discretionary Fund Managers and a selection of Deposit Accounts.
Service	Commitment to high quality service – a dedicated team of offshore specialists in Dublin deal with all your enquiries.

No guarantees are given regarding the effectiveness of any arrangement entered into on the basis of these comments, and Standard Life International is not responsible for any advice given on the basis of this document.

Please note that the value of an investment may fall as well as rise and an investor may not get back the amount originally invested.

An assessment of your client's needs should be confirmed before a recommendation can be made. Key features, including a projection which is personal to your client's circumstances, should be provided if a recommendation for an investment product is made.

Tax and legislation are likely to change. All the information in this document relating to taxation is based on our understanding of law and tax practice in Ireland and the UK at the date of publication. The future tax position of the bond or your client's own tax position may alter.

Standard Life International Limited is authorised and regulated by the Irish Financial Regulator, regulated by the Financial Services Authority for the conduct of UK business and regulated by the Jersey Financial Services Commission for the conduct of Jersey business. Standard Life International Limited is on the Financial Services Authority Register. The registration number is 446898.

Registered in Ireland (408507) at 90 St Stephen's Green, Dublin 2. www.slinternational.ie 00353 1 639 7766. Calls may be recorded/monitored.

IB14 1008 2M ©2008 Standard Life International