

International Bond from Standard Life International Post-retirement income



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

Minimise tax and maximise retirement income

Offshore bonds aren't just for clients who are years away from taking their pension benefits. An offshore bond complements a pension when your client needs a tax efficient income in retirement.

How can your client pay less tax?

Your client can now **reduce their income in retirement** and improve their tax status. They can draw from their offshore bond and **pay less tax by using their personal allowance and top slicing tax relief**.

Tax is paid on an offshore bond chargeable gain when the bond is cashed in but the rate depends on the holder's tax status at that time. Your client has the ability to reduce their drawdown income in retirement and so become a basic-rate (or non-) taxpayer. This ability, especially when combined with top slicing tax relief, is an effective way of reducing your client's tax bill on an offshore bond.

Top slicing really works

It reduces tax by averaging any chargeable gain over the number of years the bond is held. The longer the bond is held, the larger the gain can be before higher rate tax is payable.

The following example is based on a UK resident who has no other income this year, and has a basic tax allowance. The basic-rate threshold is £40,835 (this assumes basic-rate tax allowance of £34,800 plus £6,035 personal tax allowance, based on 2008/2009 figures). The following table shows the chargeable gain which can be created in a bond over a specified number of years, before any higher-rate tax has to be paid. For example, on line 1 the gain of £204,175 top-sliced over five years keeps the gain within the basic-rate threshold. For more information, please read Offshore Briefing Number 3 on [adviserzone](#).

Complete policy year	Bond GAIN beyond which higher rate tax is payable
5	£204,175
10	£408,350
15	£612,525
20	£816,700

The earlier you take out an offshore bond the greater the potential to avoid higher rate tax.

Case study

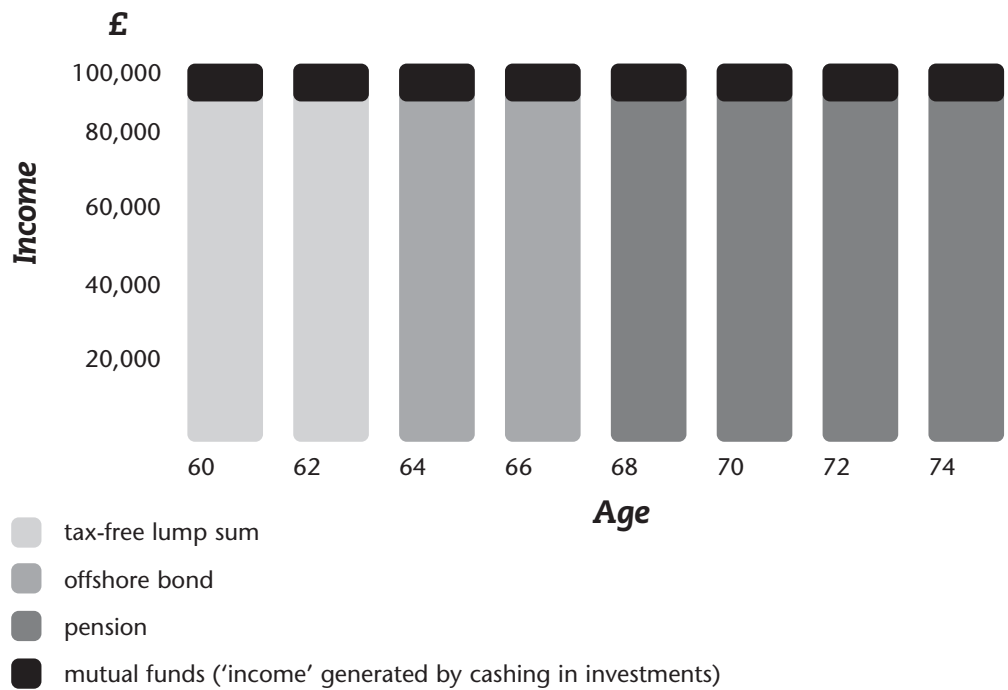
Making tax relief work for your client

John retires in his 60's and wants an income of around £100,000 a year. He has the following assets:

- a pension fund of £1.5m including a tax-free lump sum of £375,000;
- an offshore bond of £500,000 held for six years; and
- mutual funds (OEICs and unit trusts) of £300,000 (invested in funds that produce very little income).

By carefully drawing from these assets and taking advantage of tax reliefs, John **wouldn't pay tax for the first four years** of his retirement and reduces his tax thereafter.

Sources of Retirement Income



Retirement Phase

The first four years.

Effective Tax Rate: 0%

What does John do each year?

John spends £93,750 of his tax-free lump sum and takes no income from his drawdown fund. He cashes in £15,000 of mutual funds each year.

This gives him a total income of £108,750.

How is he taxed?

He pays no tax.

- The majority of the income is the tax-free lump sum from his pension.
- The £15,000 of mutual funds includes a chargeable gain of £8,000 which is within his Capital Gains Tax allowance.

The next five years.

Effective Tax Rate: 8%

John uses £100,000 of his offshore bond and cashes in £15,000 of mutual funds each year.

This gives him a total income of £115,000.

He pays £8,570 in tax pa.

- The offshore bond £100,000 includes a £50,000 chargeable gain. John has held the bond for 10 complete years in year 5 and so top slicing tax relief averages the gain for tax purposes to $£50,000 \div 10 \text{ years} = £5,000$.

This income is within his basic rate. His personal allowance is £6,035, which is tax-free. He then pays $(£2,230 \times 10\%) + £41,735 \times 20\% = £8,570$ tax.

- The £15,000 of mutual funds includes a chargeable gain of £8,000 which is within his Capital Gains Tax allowance.
- A similar calculation will take place each year.

The remaining drawdown years.

Effective Tax Rate: 25%

John draws £85,000 from his pension and cashes in £15,000 of mutual funds each year.

This gives him a total income of £100,000.

John pays £24,626 in tax pa.

- John pays income tax on his pension income. He is a higher-rate taxpayer and pays £24,626 on his pension income.
- The £15,000 of mutual funds includes a chargeable gain of £8,000 which is within his Capital Gains Tax allowance.

The calculations assume allowances (given at the 2008/2009 rates) do not increase each year. In reality we expect allowances to grow and so the effect would be greater than illustrated.

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 this document, 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.

Tax and legislation is 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.

IB15 1008 PDF ©2008 Standard Life International