The Private Office
Supporting Product and Risk Information

the private office

Contents

Introduction

This document provides important regulatory and product information that should be read in conjunction with your personalised suitability report.

Regulatory Disclosure

Aggregated Costs and Charges

The annual aggregated total charge shown in your personalised report is in monetary terms and is based on the current fund value of the plan plus any additional contributions being invested over the course of the next twelve months. It provides an indication of the charges that would be deducted from the plan during the year if there were no investment growth. In reality, the charge in monetary terms will be higher or lower than shown depending on the performance of the underlying investment. The figures may differ from other documents you receive due to slight differences in the calculation methods.

There may be transaction charges that apply within the underlying funds for the sale and purchase of securities. This will be shown in reduced performance figures, as will the ongoing investment management charge of the underlying funds, rather than an explicit fee that you will be able to see. These transaction charges will fluctuate year on year depending on the underlying investments.

A dilution levy may be applied by the fund manager on sales and purchases. This is paid directly back to the fund and does not benefit the fund manager in any way. It is applied solely to protect the interests of existing and continuing investors who would otherwise bear all the dealing costs incurred when investors enter or leave the fund.

If you hold funds on the TPO Invest platform, each year TPO Invest will provide you with a costs and charges statement which will provide full details of the investment transaction charges that have applied. Please note that your enclosed SIPP illustration will show an estimate of what these annual transaction costs might be. We should point out that the TPO Invest platform fee noted will be referred to as an 'Administration and Custody Charge' in your annual statement.

Please note that the 'Platform Service Charge' is the charge paid to TPO Invest for the SIPP, ISA and GIA wrappers and the ongoing administration that is involved. The 'Investment Management Charge' (sometimes referred to as the 'Ongoing Charges Figure') is the charge paid to the fund manager for their skill and experience in managing the underlying investments.

These charges are separate to the annual Adviser Service Charge that you agree to pay TPO.

We will provide you with a report once a year which details the actual total costs and charges you have incurred in relation to all of your assets under advice and the services you have received from The Private Office (TPO).

Pension Illustration

We have enclosed an illustration from the recommended pension to illustrate possible future fund values of the new pension taking into account the charges that apply. The figures may be different from those in the tables in our report because of the different assumptions used.

For example, it assumes that you will buy an annuity at a specified age in the future. You are not required to buy an annuity at any age; this age is selected to demonstrate possible future benefits of your pension.

It is important to note that these figures are based on standard assumptions and projections set by the FCA, and are not guaranteed.

Projected Pension Fund Comparison

As with the pension illustration, we have a regulatory obligation to provide you with a projection pension fund comparison.

This compares the projected fund you could receive from your existing pensions and the recommended alternative at a specified age in the future assuming a growth rate set by the FCA.

It is not always easy to compare charges on a like-for-like basis. Although the comparison takes account of charges, it does not take account of the relative investment performance of the existing and proposed alternative plans. It also does not factor in the future income withdrawal strategy. Therefore, it is simply a linear comparison of costs alone.

Key Investor Information Document (KIID) and Supplementary Information Document (SID)

The relevant Key Investor Information Documents (KIID) and Supplementary Information Documents (SID) for the funds held within your portfolio model are available here:

www.theprivateoffice.com/key-investor-information

Financial Services Compensation Scheme Protection

Investing in UK Investment Funds

- The Financial Services Compensation Scheme (FSCS) protects investors when UK-authorised financial services or investment firms fail by paying compensation.
- Your investment is usually guaranteed by the FSCS up to an amount of £85,000 across all accounts held with the failed financial services firm or provider.
- The FSCS does not cover investment losses due to market movements.
- If an investment fund decreases in value due to poor market performance, the FSCS will not compensate for these losses.
- The FSCS is designed to cover claims against firms that are unable to meet their financial obligations, not for losses arising from investment decisions.
- The FSCS might be relevant if there was fraud or mismanagement directly by a UK-authorized firm and the assets were lost due to that firm's failure.

Investing in Offshore Funds

If you invest in our Discretionary portfolios your money may have an allocation to one or more offshore funds, called UCITS (Undertakings for the Collective Investment in Transferable Securities) which are based in EU financial centres in Dublin and Luxembourg.

Because UCITS aren't authorised by the FCA, investors are not necessarily entitled to all the protections that are provided to investors under the FSCS. However, if a UK based financial advice firm has recommended a UCITS fund to you, you may still be eligible to claim in some circumstances.

UCITS funds based in Dublin and Luxembourg are regulated under a harmonized EU regulatory framework, which provides robust investor protections. The UCITS Directive lays down stringent rules on diversification, liquidity, and risk management to ensure the safety of investors' money.

- UCITS funds are required to segregate their assets from those of the management company. This means that if the management company were to fail, the assets of the UCITS fund are protected and cannot be used to settle the debts of the management company. This segregation ensures that investors' assets are kept separate and protected from the insolvency of the fund manager.
- In addition, UCITS funds must appoint an independent custodian or depositary to safeguard the assets. The custodian holds the assets in a separate account, ensuring that if the fund manager or the custodian becomes insolvent, the assets of the fund remain unaffected.

In summary, the regulations governing overseas UCITS funds provides for a high level of investor protection, which includes regular disclosures, restrictions on eligible assets, and risk-spreading requirements. These measures reduce the risk of a UCITS fund failing due to mismanagement or other issues.

It is important to know that any UCITS funds which are included in our portfolios will have to meet strict regulatory criteria and be recognised by the FCA as being suitable for UK investors as well as being authorised in the country where they are based.

Corporate actions

If you are invested in an Advisory portfolio, from time to time your portfolio may be subject to a corporate action.

A corporate action is a move initiated by an investment house that may have an impact on your investment. Corporate actions differ from one to the next with some actions unlikely to have a significant impact on your investment, for example; a change in the name of a fund.

www.theprivateoffice.com/key-investor-information/corporate-notifications

Risk Warnings

General

- My advice and recommendations are based on my understanding of current law and taxation, which may be subject to change in the future.
- All statements concerning the tax treatment of products and their benefits are based on my understanding of current tax law and HMRC practice.
- Levels and bases of tax relief are subject to change, which may affect the suitability of the recommended products and could mean that information on taxation contained in this report becomes inaccurate.
- The companies whose products I have recommended are considered secure and able to meet their obligations to customers. My recommendations are based on published information that is provided by ratings agencies. I cannot assume responsibility for the accuracy and completeness of this information or accept any losses if circumstances arise due to the failure of any company whose products I have recommended.

Investment

- Past performance is used as a guide only. It is no guarantee of future returns.
- Your investment can go up and down and you may not get back the full amount invested.
- If you transfer or surrender the plan, especially during the early years, the fund value may be less than you have invested.
- The investment growth rates used by companies in their illustrations are not minimums or maximums and offer no form of guarantee. The returns achieved may be less than those illustrated.
- Certain asset classes and funds will perform better than others and the asset allocation will change unless it is regularly rebalanced.
- The capital value of your investment will be eroded if you make withdrawals in excess of the net growth of the underlying investments.
- Inflation will reduce the real value of your investment and any income over time.
- It may take some time to realise the value of certain underlying assets, such as funds that invest in property and hedge funds.
- An investment in corporate bonds is generally less secure than an investment in Government bonds due to the greater possibility of default.
- Currency exchange rates may cause your investments to fall as well as rise in value.
- An exchange traded product (ETP) is a type of security that is derivatively-priced and which trades intra-day on a national securities exchange. This means that they are not priced once a day. The price will change throughout the day in the same manner of a traded equity;
- Investment Trusts can gear or borrow to invest. This can magnify capital appreciation in good investment conditions, but increases the risk of capital loss in poor investment conditions.
- Unusually high levels of buying and selling may increase the fund's dealing costs and affect the value of its assets. In this situation, to protect the interests of existing investors the fund manager may apply a 'dilution levy' which increases the cost of buying and selling. This is typically between 0.5% and 2% of the trade, and the proceeds are held within the fund.

Income Related

- Income generated from investments could be variable and not guaranteed.
- The capital value of the investment will be eroded if income exceeds growth after charges.
- The level of income provided / required may not be sustainable.

Investment Switch

- There could be a brief time when money being switched between investments is not invested. During this time you will not benefit from any increase in the value of these investments, but nor will you suffer from any reduction in their value.
- There is no guarantee that the recommended new investment strategy will perform better than the current investment strategy.

ISA

- The favourable tax treatment of ISAs may change over the period of investment. This could affect the benefits you receive.
- If you leave the UK and are no longer a UK resident, you can keep the ISA investment with its tax advantages but you cannot make any new contributions.
- ISA investments are potentially liable to Inheritance Tax on death (except those eligible for Business Relief).
- Income tax deducted at source on foreign dividends may not be recoverable. There is no further income tax to be paid on investments held within an ISA.

ISA Transfer

- The transfer value may differ from that illustrated due to the time taken to transfer the fund.
- Your fund will not be invested for a few days while the transfer is taking place. During this time, it will not benefit from any uplift in market values. Conversely, it will not be affected by any decline in values.
- There is no guarantee that the new ISA will perform better than your existing ISA.

Pension Recommendations

- It is important to periodically review your pension against expectations, particularly if you are close to taking benefits when it is advisable to transfer into low risk investments to minimise the effects of short-term market volatility.
- The benefits you receive may be lower than illustrated if:
  - You stop or reduce your contributions.
  - Investment performance is lower than illustrated.
  - You take your benefits earlier than your chosen retirement date.
  - Tax rules change.
  - Charges increase above those illustrated.
- Currently, if HMRC believes an individual has deliberately used their pension to shelter money from inheritance tax they could still include the pension fund within the individuals estate for Inheritance Tax purposes. From April 2027, the position will change and most pensions will automatically form part of an individuals estate for inheritance tax
- Not all types of investment can be held within a SIPP. For instance, neither residential property nor tangible moveable property (e.g. machinery, jewellery) can be held in a SIPP without facing heavy tax penalties.

  If such assets are held in a pension, you (as a member of the SIPP) would have to pay an unauthorised member payment tax charge of 40% of the value of the taxable property. Furthermore, the SIPP administrator would have to pay a scheme sanction tax charge of 15% of the value of the taxable property. If the cost of the asset is more than 25% of the value of the SIPP, you would have to pay a further unauthorised payment tax surcharge of 15% of the value of the taxable property. Additionally, if more than 25% of the SIPP value is invested in taxable property, the pension could be deregistered, and all of the benefits of a pension would be lost. It is therefore very important that you seek appropriate advice if you ever wish to make changes or access alternative investments within the SIPP.

Pension Switching

- The transfer value may differ from that illustrated due to the time taken to transfer the fund.
- Your fund will not be invested for a few days while the transfer is taking place. During this time, it will not benefit from any uplift in market values. Conversely, it will not be affected by any decline in values.
- There is no guarantee that the new plan will perform better than your existing plan.
- Currently, if HMRC believes an individual has deliberately used their pension to shelter money from inheritance tax they could still include the pension fund within the individuals estate for Inheritance Tax purposes. From April 2027, the position will change and most pensions will automatically form part of an individuals estate for inheritance tax.

Defined Benefit Pension Transfer

- The recommendations in this report are based on the information provided by the scheme administrator, and the analysis undertaken in the Appropriate Pension Transfer Analysis (APTA) and Transfer Value Comparator (TVC). I cannot be held responsible for any errors or omissions contained in this information or the APTA and TVC.
- In order to make a comparison between the benefits you could receive from the existing scheme and the recommended alternative it has been necessary to make certain assumptions about future growth and annuity rates. These rates are prescribed by the FCA. However, it is important to note that these are assumptions and they may not reflect future outcomes. It is possible that the fund could be fully extinguished during your lifetime.

- The APTA and TVC report does not on its own show whether or not transferring your defined benefit pension is advisable, as that also depends on many other factors, such as your attitude to risk, your personal circumstances and your objectives. It does, however, provide an indication of the likelihood of being able to match or exceed the benefits provided by your existing scheme. There is no guarantee that the critical yield that you achieve will be sufficient to replace the benefits being given up.
- There is a high degree of uncertainty as to the final level of benefit you could receive from a money purchase pension given that you are relying on future investment performance as opposed to guaranteed annual scheme revaluation (increases). Once you reach retirement, the product you use to secure your retirement income may not necessarily offer the same structure or payment increase options when compared with your current defined benefit scheme.
- Where an individual transfers funds from one registered pensions scheme to another, and dies within two years of the transfer then their executors need to report this. HMRC will investigate and if they consider that the individual knew they has a short life expectancy, they may decide that the amount transferred is assessable to Inheritance Tax. From April 2027, the position will change and most pensions will automatically form part of an individuals estate for inheritance tax.
- If the transfer value of your defined benefit pension is not classed as a Cash Equivalent Transfer Value and is not a permitted transfer, any Lifetime Allowance protection you may be entitled to will be lost.
- Although the Lifetime Allowance has been abolished, a valid Lifetime Allowance Protection certificate provides you with an enhanced Lump Sum and Lump Sum and Death Benefit Allowance.
- Your fund will not be invested until the transfer has taken place and you could materially suffer as a result of upward movements in the investment markets.
- The transaction is irreversible, and there is no requirement for the ceding scheme to accept the funds back should you change your mind once application forms have been submitted.
- Access to the Pension Protection Fund will be lost with regard to the transferred defined benefit pension.

Drawdown

- Investment returns and future income are not guaranteed and can fall as well as rise.
- If the pension fund suffers heavy investment losses in the early years this could affect your ability to sustain the same level income into the future. The higher the income, the harder it will be to recoup these investment losses.
- This is a sophisticated solution that requires regular monitoring and is likely to incur higher costs. You should contact me prior to making any changes to your withdrawals.
- Taking large income / lump sum withdrawals may result in a substantial tax charge.
- You should weigh up the flexibility of drawdown against the certainty of an annuity, which provides a guaranteed income for the rest of your life.
- Annuity providers know that not all annuitants will live as long as expected. The providers use this ‘mortality gain’ to subsidise current annuity rates. This subsidy is not present within drawdown. Therefore, a higher investment return is required to provide a comparable income. The longer you delay annuity purchase, the less you will benefit from the cross subsidy when you eventually buy an annuity. This is known as ‘mortality drag’.
- Any annuity bought in the future will depend on annuity rates at that time and the investment performance of your pension fund. No guarantee can be made that annuity rates will be better at that time and they may even be worse.

Uncrystallised Funds Pension Lump Sum

- By taking your pension fund as a lump sum there is a risk that you could outlive your savings. In the worst case scenario, you could run out of money.
- The more of your pension fund you take as a lump sum, the less fund will be available to provide an income in retirement.
- If you deliberately spend your pension fund or give it away, you may still be treated as having the money for benefit entitlement calculations.
- You should weigh up the flexibility of taking a lump sum from your pension fund against the certainty of an annuity, which would provide a guaranteed fixed income for the rest of your life.

Guaranteed Lifetime Annuity

- Due to potential changes in fund values and annuity rates before the transaction is fully completed, the income you receive may be higher or lower than that quoted in this report and the illustration provided.
- Once you have set up your annuity, you will not be able to cash it in or get any lump sum from it.
- Once the annuity is in payment you cannot change the level of income or any of the benefits or options, even if your circumstances change.
- The total income paid from the annuity could be less than the amount used to buy it.
- You may not have made adequate provision for your dependant(s). The contract (and therefore payments) will cease upon death unless a joint life and / or guarantee period option is selected, and death occurs within this period, or capital protection is held.
- If you choose a level income or an escalation rate which is less than inflation, your income will reduce in real terms and not keep up with rising prices.

Equity Release

- Choosing equity release will affect you in the longer term. You need to be sure that the arrangement suits you both now and in the future. For example, equity release can make it hard to move. If you decide you want to downsize later on you may not have enough equity in your home to do this. It can even stop someone else from moving into your home in the future.
- Interest rates on equity release policies are generally higher than on traditional residential mortgages.
- Releasing equity from your home may affect your eligibility for state benefits, grants or allowances.
- Whilst equity release itself will not give rise to any tax liability, your current tax position could change if you choose to invest the capital and you may end up paying more tax.
- If you release too much equity from your home you may find you do not have the money you need later in your retirement, for instance if you need to pay for long-term care.
- Equity release schemes can be complicated to unravel if you change your mind.
- The amount of inheritance you can leave will be reduced, possibly to nothing.
- If details are given incorrectly, withheld, or are false in any way, the lender will almost certainly reject your application. This will make it much harder to apply to another lender.

Lifetime Mortgage

- A change in your circumstances could affect the plan and require you to repay some of the amount borrowed.
- This is a lifetime commitment. If you choose to fully repay the plan early, you will have to repay the loan and the interest, and there may be substantial early repayment charges to pay.
- The costs you incur will be relatively high if you die shortly after taking out the loan.
- Generally, the earlier a lifetime mortgage is arranged the greater the amount repayable will be.
- There is no guarantee that any equity will be left in the property when the lifetime mortgage ends and there may not be any value to leave to your estate.
- Failure to adhere to the full mortgage terms and conditions could result in the forced sale of your property.
- You will need to inform the provider if someone else moves into the property once the policy is in place.

Home Reversion Plan

- The amount paid by the provider will be significantly less than the true market value of your home.
- You will not be able to buy the property back once the property has been sold to the provider.
- As a tenant, your right to occupy the property will be subject to you adhering to the terms of the tenancy agreement.

VCT and EIS

- Investing in unquoted growth-orientated companies is high risk. The investment could fall in value, potentially to nil, and you may not get back the full amount invested.
- There is no guarantee that the qualifying status of the shares will be maintained. This could result in the loss of tax reliefs previously, or prospectively obtained.
- The shares of unquoted companies can fall or rise in value more sharply than shares in larger, more established companies.
- Shares in unquoted companies cannot easily be sold as it may take time to find a buyer. An exit is only possible when each individual company is sold.

Protection Recommendations

- If you stop paying premiums the cover will cease.
- Protection policies are subject to underwriting. There is no guarantee that the provider will offer the level of cover being applied for. They may also exclude certain circumstances or increase the premium as a result of this process.
- Failure to disclose all relevant information truthfully and completely could result in the policy becoming void and the insurer not paying a claim.
- You should check the provider literature for exclusions i.e. circumstances when the policy will not pay out.
- You may find that the cover provided is less than required if it is not reviewed regularly.

Term Assurance

- At no time during, or at the end of the term will this policy provide a surrender or cash-in value.
- At the end of the term selected, cover will cease and no further benefit will be payable.
- During the term of the policy you may suffer an illness which affects your future insurability. If you survive the policy's full term, you may not be able to obtain further cover at acceptable rates.

Income Protection

- If your occupation or salary changes in the future you should contact the insurance company as this may affect the terms of the policy.
- In the event of a claim your pay-out will be reduced if your income does not support your chosen cover. No premiums will be refunded if this happens.
- In the event of a claim your pay-out may be reduced if you continue to receive payments from your employment or other benefit payments. No premiums will be refunded if this happens.
- The benefits paid under this plan may affect your eligibility to claim some means-tested state benefits, or claim benefits from other income protection policies.
- Failure to notify the provider within weeks of incapacity may result in an extension to the deferred period and in turn delay payment of any claim.
- You will not be entitled to any pay-out from this plan if you are not engaged in a full-time remunerative occupation immediately prior to a period of disability. No premiums will be refunded if this happens.

Whole of Life Insurance

- Premiums continue throughout your life. If you are unsure that you can afford premiums at any time, this policy is unlikely to be suitable for you.
- Your policy will be reviewed at regular intervals and the premium may need to rise, or the cover reduced significantly depending on investment performance, market returns and charges.

Product Information

Self-invested Personal Pension (SIPP)

A self-invested personal pension (SIPP) is a type of money purchase pension plan that provides a tax-efficient way for individuals to save for their retirement. SIPPs work in a similar way to a stakeholder or personal pension plan but provide access to a wider and more sophisticated range of investments that the individual can manage themselves. For these reasons, SIPPs may have higher charges and tend to be more suitable for experienced investors with a larger pension fund. Most SIPPs allow the individual to invest in a range of assets, including:

- Stocks and shares quoted on a recognised UK or overseas stock exchange.
- Collective investments such as unit trusts and investment trusts.
- Government securities.
- Insurance company funds.
- Some National Savings and Investment products.
- Deposit accounts with banks and building societies.
- Commercial property (such as offices, shops or factory premises).

Other features of a SIPP include:

- The ability to lend to a company where members are not directors or shareholders.
- The ability to borrow up to 50% of the pension fund to purchase a commercial property.
- The ability to invest up to 100% of a company's shares so long as the company is not controlled by the member or associates, and this is acceptable to the SIPP provider. However, tax charges may apply if the company is controlled by a member or an associated person.

Stakeholder Pension

A stakeholder pension is a type of money purchase pension that provides a tax-efficient way for individuals to save for their retirement. Stakeholder pensions were introduced as a cheaper and more flexible alternative to personal pensions, and they must comply with certain standards set by the government. These include:

- A low minimum investment of £20.
- Charges capped at 1.5% of the fund each year for the first 10 years, 1% a year thereafter.
- The flexibility to stop, start and change contributions without penalty.
- The ability to switch to another pension without penalty.
- The option to retire before the selected retirement age without penalty.

Stakeholder pensions generally offer a narrower range of investment opportunities and options than other types of pension plans.

Personal Pension Plan

A personal pension plan (PPP) is a type of money purchase pension that provides a tax-efficient way for individuals to save for their retirement. PPPs suit a wide range of individuals but are primarily aimed at those who do not have access to a workplace pension.

PPPs are not subject to restrictions on charges and therefore tend to offer a wider range of investment opportunities and options than stakeholder pensions. This flexibility provides greater scope to tailor the pension plan to the individual's needs and circumstances.

Flexi-access Drawdown

Flexi-access drawdown provides a flexible and tax-efficient means of drawing benefits from a pension fund. An individual can take up to 25% of the pension fund being crystallised as a tax-free lump sum at outset, subject to a overall limit of £268,275 in most cases. The remainder of the fund remains invested within a tax advantaged environment from which the individual can take regular or ad-hoc income withdrawals to suit their needs and circumstances. There is no upper limit to the amount the individual can withdraw as an income. However, each withdrawal is taxed at their marginal rate of Income Tax.

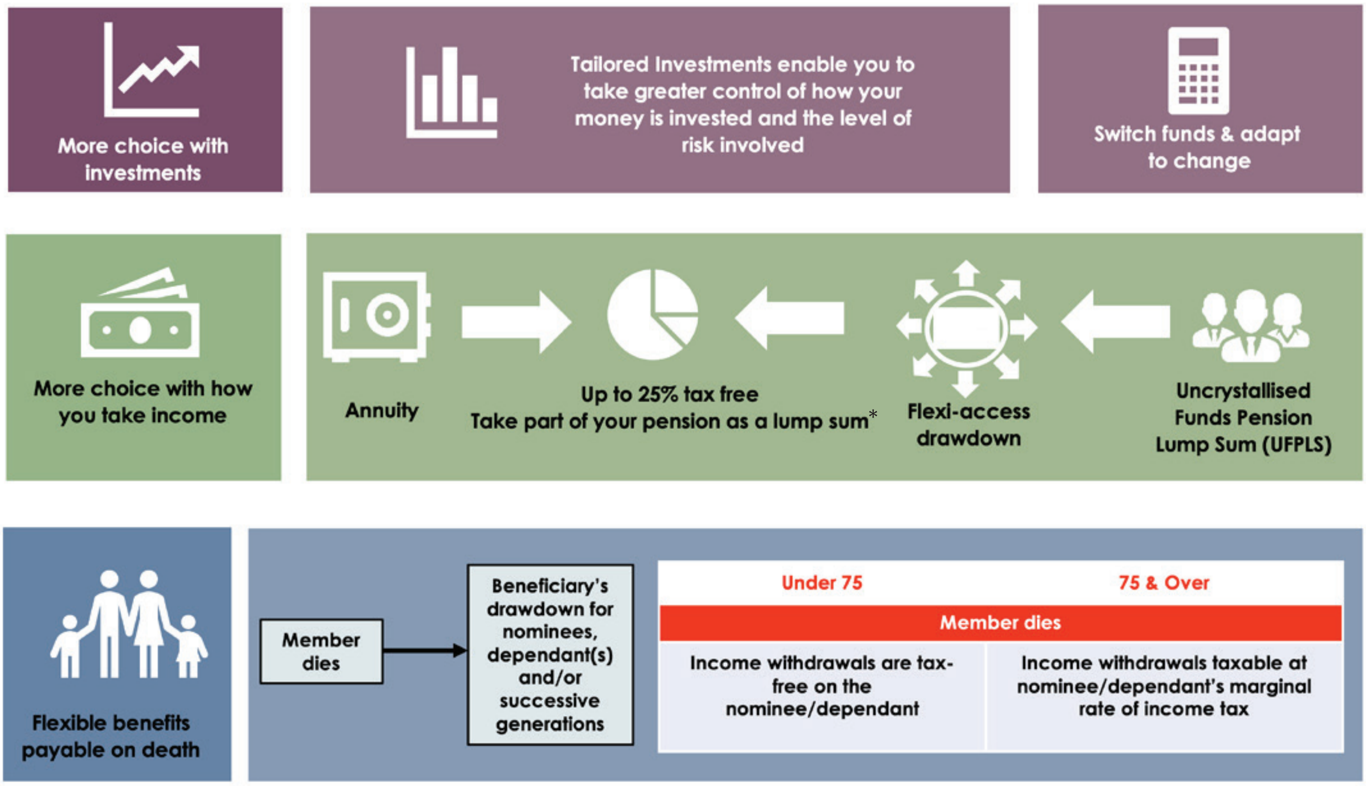
Flexi-access drawdown also provides a tax-efficient way of passing wealth down through the generations as any unused pension fund can usually be passed down to a wide range of beneficiaries free from Inheritance Tax until April 2027. From April 2027, most pensions will be included in an individuals estate for Inheritance Tax.

Pension Freedoms

Thanks to new Pension Freedoms rules that came into effect from April 2015, there are a number of different options available to you when you wish to take an income from your pension funds and how you pass on benefits to your beneficiaries.

Below we have highlighted some of the key features of a scheme that has fully adopted these rules.

However, this will only be the case when your pension provider has adopted these new rules. When we review an existing pension, or recommend a new one, this will be a key factor when formulating our advice.



*Subject to an overall limit of £268,275 in most cases

Phased Flexi-access Drawdown

Phased flexi-access drawdown provides a flexible and tax-efficient means of drawing benefits from a pension fund. It allows an individual who wishes to 'phase their retirement' and does not need to take their entire tax-free cash entitlement as one lump sum at outset, to leave as much of their pension fund invested in a tax advantaged environment for as long as possible and only take regular or ad-hoc withdrawals as required to supplement their other income.

The pension fund is gradually crystallised with each withdrawal made up of a smaller tax-free lump sum (25% of the crystallised fund) and a taxable income element. There is no upper limit to the amount that the individual can withdraw. However, the income element is taxed at the individual's marginal rate of Income Tax.

Phased flexi-access drawdown also provides a tax-efficient way of passing wealth down through the generations as any unused pension fund can usually be passed down to a wide range of beneficiaries free from Inheritance Tax until April 2027. From April 2027, most pensions will be included in an individuals estate for Inheritance Tax.

You can only access benefits using phased flexi-access drawdown if you have not already received the maximum permitted tax free cash lump sum allowed under regulation.

Lump Sum Allowance

The Lump Sum Allowance was one of three new allowances which were introduced following the abolition of the Lifetime Allowance on 6 April 2024.

In simple terms the Lump Sum Allowance will limit the overall amount of tax free lump sums you can take from your pension funds during your lifetime. For most people this lifetime limit will be £268,275.

This does not mean you can take all of our pension pot as a tax free lump sum if it is worth less than £268,275 as there are rules in place that limit the tax free amount you can receive to either 25% of the value of the pension pot you are crystallising or £268,275 – whichever is the lower figure.

Uncrystallised Funds Pension Lump Sum

25% of each payment will be tax free if you have sufficient Lump Sum Allowance available with the remainder taxed as income at the individual's marginal rate of Income Tax.

If you do not have sufficient Lump Sum Allowance remaining, the proportion not covered by your Lump Sum Allowance will be taxable income. In some cases this could mean that 100% of the payment is subject to income tax.

Lump Sum and Death Benefit Allowance (LS&DBA)

The Lump Sum and Death Benefit Allowance was one of three new allowances which were introduced following the abolition of the Lifetime Allowance on 6 April 2024.

In simple terms the Lump Sum and Death Benefit Allowance will limit the overall amount of lump sums that can be paid to your beneficiaries from your pension funds tax free if you die before your 75th birthday.

For most people this lifetime limit will be £1,073,100.

Any lump sums paid after your 75th birthday will automatically be subject to income tax at your beneficiaries marginal rate of tax.

If your beneficiaries decide to move their inherited pension fund into a nominee drawdown arrangement and take an income at a later date, there will be no excess charge applied to the fund regardless of the value of the pension pot they inherit.

However, if you had passed your 75th birthday before you died they will have to pay income tax on any payments they receive from the inherited fund. These payments will be classed as an income payment even if your beneficiary withdraws the entire fund in a single transaction.

If you died before your 75th birthday any withdraws they make will remain free from income tax in most cases.

Capped Drawdown

Capped drawdown provides a flexible and tax-efficient means of withdrawing benefits from a pension fund. An individual can take up to 25% of the pension fund being crystallised as a tax-free lump sum at outset within the prescribed limit. The remainder of the fund remains invested within a tax advantaged environment from which the individual can take regular or ad-hoc income withdrawals to suit their needs and circumstances. Each withdrawal is taxed at their marginal rate of Income Tax.

Capped drawdown is closed to new applicants and has been replaced by flexi-access drawdown, but some plans allow further funds to be moved into the capped drawdown plan. Individuals who held a capped drawdown plan on 6 April 2015 can remain in capped drawdown provided they do not withdraw an income above the cap set by the Government Actuary's Department (GAD). The cap is equivalent to 150% of the income available from a level single life annuity and is reviewed every three years up until age 75, and annually thereafter.

The main benefit to continuing with capped drawdown is that the money purchase annual allowance is not triggered when income is taken from the fund provided the income cap is not exceeded; and hence the individual can still claim tax relief on any future contributions subject to the normal contribution and annual allowance limits.

Capped drawdown also provides a tax-efficient way of passing wealth down through the generations as any unused pension fund can usually be passed down to a wide range of beneficiaries free from Inheritance Tax until April 2027. From April 2027, most pensions will be included in an individuals estate for Inheritance Tax until April 2027. From April 2027, most pensions will be included in an individuals estate for Inheritance Tax.

What is a Pension Small Pot Payment?

If clients have small pensions, they may be able to take them as cash lump sums – up to three small pots of £10,000 each from non-occupational pension schemes and an unlimited number from occupational pension schemes, subject to rules.

Small pots – what do you need to know?

- A maximum of three small, non-occupational pensions can be commuted under small pot payments.
- There is no limit to the number of occupational pensions that can be commuted under small pot rules.

A small pot payment (properly called 'small lump sum') can be made from any arrangement, whether the rights are uncrystallised or comprise a pension in payment, irrespective of the overall value of the individual's pensions worth. Up to three small non-occupational pensions (personal pension plans etc.) can be commuted under small pots payments, but there's no limit on the number of occupational pensions that can be taken under small pots. To allow the payment of small pot commutation, the following conditions need to be fulfilled:

- the member has reached the minimum retirement age of 55 or satisfies the definition for ill-health early retirement or has a protected early pension age.
- each payment must not exceed £10,000 at the time it's paid to the client.
- for non-occupational pension schemes, the payment must extinguish all member benefit entitlement under the arrangement.
- for occupational or public service pension schemes, the payment must extinguish the member's entitlement to benefits under the paying scheme.

In respect of non-occupational pensions (personal pensions etc.), a maximum of three small pot payments are permitted. A full list of the conditions is in the Pensions Tax Manual (PTM063700) covering;

- Payments under occupational or public service pension schemes.
- Payments under larger occupational or public service pension schemes.
- Payments under a scheme that is not an occupational or public service pension scheme.

Small pots from non-occupational pension schemes are about arrangements, not schemes.

'Small pots' applies at arrangement level rather than scheme level. So the payments can be made from two or three separate registered pension schemes or from the same scheme where the payments are made from two or three different arrangements under that scheme.

Guaranteed Lifetime Annuity

A guaranteed lifetime annuity provides a guaranteed fixed income for the individual's entire life. The level of income is dependent upon:

- The annuitant's age.
- Their state of health.
- Certain lifestyle choices (e.g. smoking).
- The prevailing annuity rate.
- The size of the pension fund.
- The options and benefits selected at outset.

Income payments can be made at various intervals (e.g. monthly, annually) and can remain level or increase annually. Annuity income is typically paid by the provider net of basic rate Income Tax.

There are several death benefit options that can be selected at outset to provide for a spouse, civil partner, dependant or beneficiary, including:

- Joint life annuity - This will provide them with a set percentage of the income for the rest of their life.
- Guarantee period - This will ensure that income payments continue to be paid for a minimum period.
- Value Protection - This will protect a percentage of the pension fund used to purchase the annuity and pay this out as a lump sum (less any income payments made).

If the annuitant dies before age 75, payments are made free of tax. If the annuitant dies after age 75, the beneficiary will pay Income Tax at their marginal rate on the payments they receive.

Section 32 Buyout Plan

A Section 32 buyout plan can be used to transfer pension benefits built up in an occupational pension scheme into an individual pension plan. They are typically used when an individual leaves employment or the scheme is being wound up.

Many Section 32 buyout plans include a guaranteed minimum pension (GMP) which provides the individual with a guaranteed income for their entire life. This guaranteed minimum pension represents the pension income the individual would have received from the State Earnings Related Pension Scheme (SERPS) if they had contracted out through the occupational pension scheme.

Small Self-administered Scheme (SSAS)

A small self-administered scheme (SSAS) is a small occupational pension scheme that is typically set up by the directors (up to a maximum of 11) of a business on a money purchase basis. The members are appointed as trustees so they can control the scheme's assets and investment choices. A SSAS benefits from certain exemptions to pension legislation that are typically applicable to other pension schemes, providing its members with access to a wider range of investment opportunities and functions that can help when running a business.

The trustees must:

- Establish the SSAS.
- Register the scheme.
- Set up a scheme bank account.
- Carry out a range of administrative duties including investment selection, payment of benefits and appointment of advisers.

A SSAS also requires a Scheme Administrator whose role is to:

- Register the pension scheme with HMRC.
- Report events relating to the scheme and the scheme administrator to HMRC.
- Make returns of information to HMRC.
- Provide all relevant information to the scheme members.

It is important that the scheme administrator is aware of their responsibilities and that they have the knowledge to fulfil this role. If they are not deemed 'fit and proper' by HMRC then the scheme could be deregistered, and as a result, a professional scheme administrator is generally advisable.

Contributions are paid into the scheme bank account before they are invested at the trustees' discretion (subject to certain restrictions). It is important to note that the scheme assets are held in the name of the trustees - there are no individual pots for each member, although each member is deemed to hold a proportion of the scheme's assets.

A SSAS can invest in assets that are not generally available for many other types of pension scheme, including commercial property and the director's own business as part of a succession or exit strategy. As an example, a SSAS can purchase the company's trading premises and lease them back to the company.

Loans

A SSAS can make loans to the sponsoring employer provided five key criteria can be satisfied:

1. Maximum loan amount is 50% of the net value of the assets less any existing loans.
2. Maximum term of the loan is five years.
3. Repayments must have capital and interest payments throughout the term of the loan and be paid either monthly or quarterly.
4. HMRC rules state that the interest rate must be at least 1% above the average high street bank base rate. The loan interest, which is allowable as a business expense for tax purposes, is paid back into the scheme.
5. Loans should generally be secured against a first charge on commercial property or, in certain cases, residential property (where a charge over proceeds of the sale rather than the asset prevents a taxable property charge).

Loans to members or persons connected with members are not permitted.

If a SSAS loan reaches the end of its term and is still outstanding, then the loan may be extended. This is called a rollover and is only available where an employer is experiencing genuine difficulties making repayments.

Purchasing the company's shares

Up to 5% of the SSAS scheme assets can be invested in the shares of the sponsoring employer. An additional 5% can be invested in related employer companies - up to an overall maximum of 20%. Care should be taken when investing in shares of the sponsoring employer. Individual approval will be necessary to ensure that the SSAS does not acquire an interest in assets such as office equipment or company vehicles, as this will result in a tax charge.

A SSAS can also borrow money, subject to terms and conditions, for investment purposes. For example, the SSAS may raise a mortgage to assist with the purchase of the company's premises by the scheme and the mortgage repayments may then be covered, in all or in part, by the rental income that the company pays the SSAS.

Drawing benefits from a SSAS

When the time comes to draw benefits, a member can receive - up to the prescribed limit - a tax-free lump sum from their share of the scheme's assets with the balance used to provide an income. This can be paid directly from the SSAS or via a range of retirement income solutions.

Death benefits

In the event of the death of one of the members, the SSAS can continue intact. It would not be necessary to sell any of the assets because the beneficiaries can opt to take the benefit as flexi-access drawdown, if scheme rules allow.

This would mean that the funds can remain invested within the scheme. If no income is needed it can continue to grow within the scheme until it is needed or until it is passed to another beneficiary on second death.

Trustee Investment Plan (TIP)

A trustee investment plan (TIP) is a type of pension investment designed to provide pension scheme trustees with the opportunity to invest existing pension scheme assets in a wide range of investment opportunities.

Trustees can switch funds within a TIP at low cost and without any immediate tax consequences. Typically, regular contributions and flexible regular withdrawals are available. Any withdrawals are paid into the pension scheme bank account and remain subject to the rules of the pension. The TIP can be encashed partially, or wholly at any time, but may be subject to an early exit penalty.

Individual Savings Account (ISA)

An ISA is a flexible tax-free investment wrapper with an annual subscription limit. There are three types of ISA* which have a total annual subscription limit of £20,000 for the current tax year. They are:

- Cash ISA
- Stocks and Shares ISA
- Innovative Finance ISA

*There are other types of ISA including Lifetime ISA and Junior ISA. However, the annual subscription limit and rules governing these ISAs are all slightly different.

An individual is able to open and contribute to multiple ISAs of the same type during the same tax year. Assuming the ISA is 'flexible', they can even take money out of the ISA and put it back in later in the tax year without losing any of their tax-free allowance.

Investment gains within an ISA are tax free. There is no tax to pay on any interest or dividends earned within a Cash ISA or Innovative Finance ISA, and there is no Income Tax or Capital Gains Tax to pay on profits made within a Stocks and Shares ISA.

It is possible to transfer an ISA from one provider to another at any time, including fully or partially transferring current tax year subscriptions. An individual can also choose to transfer all, or part of the money they have invested in an ISA in previous years.

ISAs no longer lose their tax-free status on the death of the investor, as the plan becomes a 'continuing ISA' and will remain so for up to three years, until the account is closed, or until the administration of the deceased's estate is completed, whichever comes first. If choosing to keep the deceased's assets in specie, a Stocks and Shares ISA can be transferred to a surviving spouse's or civil partner's ISA as long as they remain with the same ISA provider as the deceased, otherwise they will inherit an increased ISA allowance equal to the value of the deceased's ISAs known as an 'additional permitted subscription'.

Junior ISA

Junior ISAs are long-term tax-free savings accounts available to children who are under 18 and resident in the UK. There are two types of Junior ISA, a Cash Junior ISA and a Stocks and Shares Junior ISA and they work in much the same way as a full, adult ISA.

A Junior ISA can be opened and managed by a parent or guardian. The child can take control of the account when they reach age 16, but they cannot withdraw the money until they reach age 18. Anyone can contribute into a Junior ISA. However, there is a limit on the amount that can be invested in any one tax year - this is £9,000 in the current tax year. A child can only have one active Junior ISA provider per ISA type, rather than being able to use a different provider each year as is the case with adult ISAs.

Lifetime ISA

The Lifetime ISA (LISA) became available from 6 April 2017. It is designed to encourage younger savers and help them with the dilemma of whether to save for their first home or save for retirement.

Eligibility

UK residents and Crown Employees and their spouses or civil partners, aged between 18 and 40 can save into a LISA. Contributions to an existing LISA may continue until age 50.

Contribution limit

Eligible individuals can save up to £4,000 per tax year in a LISA. Contributions will also count towards the individual's overall annual ISA allowance limit which is currently £20,000.

Money from other ISAs built up in previous years may be transferred into a LISA (subject to the £4,000 per tax year limit) and once set up a LISA can be transferred to another provider.

Tax & government bonus

There is no tax on gains or income within a LISA, just as it is within a standard ISA.

The government will add a bonus of 25% to contributions each year which means for every £100 paid in the investor will receive an additional £25. The bonus will continue to be paid on contributions made every year until age 50. The bonus is paid monthly. if subscriptions are added monthly (any time a subscription is added the bonus is claimed and added soon after).

Penalty free withdrawals

The government specifies the purposes for which monies, including any bonus, can be withdrawn without suffering a penalty. These are:

- Any reason after age 60.
- To buy a first home worth up to £450,000 at any time (conditions apply) from 12 months after first saving into the account.
- On death.
- On terminal illness, where life expectancy is less than 12 months.

Exit charges and penalties

Where withdrawals are not for one of the reasons listed above, a 25% exit charge will be applied to the amount withdrawn. This is intended to recover the government bonus including any growth with a small additional charge.

Impact on pensions

A LISA has no impact on pension contributions. Pension contributions are still eligible for tax relief whilst LISA bonuses are being paid.

Death benefits

'Additional permitted subscriptions' for a spouse or civil partner are allowed on death (including the government bonus in the LISA), but the money will no longer be held in a LISA and should the surviving spouse/ civil partner choose to do so (and is eligible) they can pay up to £4,000 per annum into their own LISA.

General Investment Account

A General Investment Account (GIA) is the name given to an investment vehicle which holds assets not allocated to a specific tax wrapper. GIAs can hold a number of different investments including Unit Trusts, OEICs, Investment Trusts, ETFs and Structured Products. The taxation of a GIA is summarised below.

Dividends

The tax free dividend allowance is £500 and dividends paid above this level are taxed according to an individual's tax bracket at the following rates:

Basic Rate Taxpayer	8.75%
Higher Rate Taxpayer	33.75%
Additional Rate Taxpayer	39.35%

Individuals with dividend income of £501 or more must complete a tax return, even if they remain a basic rate taxpayer.

Interest

The Personal Savings Allowance (PSA) allows basic rate taxpayers to earn up to £1,000 of interest tax-free in a tax year. This falls to £500 for higher rate taxpayers and additional rate taxpayers must pay tax on all interest.

Interest distributions from authorised investment funds are typically paid gross. Any interest earned after the deduction of the PSA is added to the individual's other income and taxed at their marginal rate of Income Tax.

Capital Gains

Capital gains above the annual exemption of £3,000 are taxed according to an individual's tax bracket. The rate of capital gains tax payable is as follows:

Non-Taxpayer and **Basic Rate Taxpayer:** 18% (assuming total taxable income and gains do not exceed £37,700)

Higher Rate Taxpayer and **Additional Rate Taxpayer:** 24%

Offshore Investment Bond

An offshore investment bond is a tax-efficient investment wrapper held in an offshore jurisdiction, typically combining flexibility with a wide range of investment opportunities. The main tax benefit of investing in an offshore bond is gross roll-up, where the gains on the underlying investments are not subject to tax at source - apart from an element of withholding tax. They also allow the bondholder a greater degree of choice as to when they pay any deferred tax, as a 'chargeable event' will occur when they cash in all or some of their bond.

Offshore bonds have two versions - life insurance bonds which are single premium life insurance contracts that last for as long as the last life assured and capital redemption bonds which are usually offered with a fixed term of 99 years.

Withdrawals of up to 5% each year of the amount invested can be taken without triggering any immediate liability to Income Tax. However, the tax is only deferred to when the bond is cashed in, then withdrawals are added to any profit made and taxed as income in that tax year.

This could result in a 'chargeable gain' which is chargeable to Income Tax rather than Capital Gains Tax. The switching of the underlying investments within an investment bond has no tax implications.

Taxation of chargeable gain for individuals

Where a gain falls over two tax bands, the appropriate tax rate is applied to the proportion of the gain that falls within each band.

In terms of how tax is applied to the gain, HMRC has a system called 'top slicing' which allows the overall gain to be spread over the number of full policy years the bond has been held. If the bond holder is a basic rate taxpayer and the total gain moves them into the higher rate tax bracket, or a higher rate taxpayer and the total gain moves them into the additional rate tax bracket, 'top slicing' could eliminate, or at least reduce any additional tax liability.

Onshore Investment Bond

An onshore investment bond is technically a single premium life assurance contract although the life cover aspect is nominal. Investment bonds are collective investments offering a wide choice of managed, general and specialist funds providing opportunities to invest in equity, property and fixed interest securities.

Withdrawals of up to 5% each year of the amount invested can be taken without triggering any immediate liability to Income Tax. However, the tax is only deferred to when the bond is cashed in, then withdrawals are added to any profit made and taxed as income in that tax year.

The underlying assets of an onshore investment bond are subject to Corporation Tax at a rate equivalent to basic rate Income Tax. No further tax is paid until a 'chargeable event' occurs (e.g. the payment of a death claim, a full surrender, certain part surrenders or a transfer of ownership). This could result in a 'chargeable gain' which is chargeable to Income Tax rather than Capital Gains Tax. The switching of the underlying investments within an investment bond has no tax implications.

Taxation of chargeable gain for individuals

If the gain falls entirely within an individual's personal allowance or basic rate tax band there is no further tax to pay. However, non-taxpayers cannot reclaim the tax paid. If the gain falls into the higher or additional rate tax band, further tax is payable at 20% or 25% respectively. Where a gain falls over two tax bands, the appropriate tax rate is applied to the proportion of the gain that falls within each band.

In terms of how tax is applied to the gain, HMRC has a system called 'top slicing' which allows the overall gain to be spread over the number of full policy years the bond has been held. If the bond holder is a basic rate taxpayer and the total gain moves them into the higher rate tax bracket, or a higher rate taxpayer and the total gain moves them into the additional rate tax bracket, 'top slicing' could eliminate, or at least reduce any additional tax liability.

Equity Release

Equity release is the name given to a range of products that let individuals over the age of 55 (although the minimum age does vary between providers) access some of the money tied up in the value of their home. There are two main types of equity release schemes.

Lifetime mortgages

Lifetime mortgages are the most popular type of equity release. A lifetime mortgage allows a homeowner to borrow a lump sum (or a series of lump sums depending on the type of plan taken out) against the value of their home. The amount available to borrow depends on their age, health and lifestyle, and the value of the property. The homeowner will still own their home, and they can stay in it for as long as they wish. It is only when they die or move into long term care that their home is sold and the loan and interest that has been accumulated is paid back from the proceeds of the sale. This roll-up of interest means that the debt can increase quite quickly. When taking out a lifetime mortgage consideration should be given to the following:

- The minimum age at which the homeowner can take out a lifetime mortgage - the earlier the loan is taken, the greater the cost in the long run.
- The maximum percentage available to borrow. A homeowner can normally borrow a percentage of the value of their property, starting at around 60% and typically increasing with age.
- Whether the homeowner can pay some or all of the interest which will reduce costs. In cases where the homeowner can make payments, the loan amount may be based on their income as well as the value of their home. Providers will also have to check that they can afford these regular payments.
- Whether the homeowner can withdraw the equity they are releasing in small amounts when they need it, or whether they have to take it as one lump sum. The advantage of being able to take money out in smaller amounts is that interest is only charged on the amount withdrawn.
- What level of maintenance the homeowner will be expected to carry out on the property, and how often it will be inspected.

Home reversion plan

Home reversion plans are typically available to those aged over 60 or 65. Under a home reversion plan the homeowner sells part, or all, of their home to a home reversion provider. In return they will normally receive between 20% and 60% of the current market value of their home in the form of a lump sum or regular payments. Although the individual can remain in their home for the rest of their life, they will no longer own it. When they die or move into a care home, the home reversion provider will sell the property, keep their share of the proceeds and pass the remainder, if there is any, to the original homeowner or their estate. When taking out a home reversion plan consideration should be given to the following:

- The minimum age at which the homeowner can take out a home reversion plan.
- The percentage of the market value the homeowner will receive. This will increase the older they are when they take out the plan but may vary from provider to provider.
- Whether or not the homeowner can release equity in several payments or one lump sum.
- What level of maintenance the homeowner will be expected to carry out on the property and how often it will be inspected.

Enterprise Investment Scheme

An Enterprise Investment Scheme (EIS) is a government-supported tax relief scheme created to encourage investment into start-ups and early-stage businesses undertaking a qualifying trade in the UK. It offers attractive tax benefits to investors in return for taking on the risk of investing in small businesses with high growth potential.

Tax relief is provided in the form of a tax credit to set against the individual's Income Tax liability in the tax year. The amount of the tax credit cannot exceed the individual's total Income Tax liability for that tax year.

Provided the underlying investment remains qualifying and is held for at least three years, they offer the following tax benefits:

- 30% Income Tax relief (on investments up to £2 million per tax year if anything over £1m is invested in 'knowledge-intensive' companies).
- Any growth on the value of the shares will be free from Capital Gains Tax when they are sold.
- A gain made on the sale of other assets can be reinvested in EIS shares and deferred over the life of the EIS investment (assuming the EIS investment is made within the period one year before or three years after the gain arose).
- From April 2026 100% relief will remain available on qualifying assets valued up to £1 million. An effective rate of relief of 50% will be applied to any qualifying assets over £1 million.
- Income Tax or Capital Gains Tax relief is also available on losses (net of Income Tax relief given).

Venture Capital Trust

Venture Capital Trusts (VCT) were introduced to encourage individuals to invest indirectly in small, higher-risk companies that are either unquoted or listed on AIM, the London Stock Exchange for small and medium sized growth companies. A VCT is a company that buys small stakes in a number of these early-stage companies. Although a VCT is clearly a higher risk investment, it provides a number of significant tax benefits as summarised below.

Income Tax relief

Income Tax relief at the rate of 30% of up to £200,000 annual investment. The tax relief is paid up front. However, to retain the tax relief the individual must continue to hold the shares for at least five years.

Tax relief is provided in the form of a tax credit to set against the individual's Income Tax liability in the tax year. The amount of the tax credit cannot exceed the individual's total Income Tax liability for that tax year.

Dividends

There is no Income Tax to pay on any dividends paid from the shares held within a VCT.

Capital Gains Tax

There is no Capital Gains Tax to pay on the disposal of the shares held within a VCT and there is no minimum holding period for this rule to apply. However, if the shares are sold at a loss, this loss cannot be used to reduce a Capital Gains Tax liability.

Level Term Assurance

Level term assurance provides a simple and cost-effective way of obtaining a fixed level of life cover over a specified term.

If the life assured dies within the term, the policy will pay out a lump sum. If the life assured survives the term, there will be no pay out and the premiums are lost. Premiums are based on age and health, the amount of cover and the policy term.

The cover can remain level or increase by a fixed rate - at regular intervals - throughout the term of the plan. Critical illness cover can be incorporated within some policies. If critical illness cover is included and a claim is made, it will not pay out on any subsequent death claim, unless a 'buy back' option is selected.

Family Income Benefit

A family income benefit plan provides a simple and cost-effective means of obtaining a set level of life insurance cover over a specified term. The cover can remain level or increase by a fixed rate, at regular intervals, throughout the term of the plan.

If the life assured dies during the term, the policy will pay out an income for the remainder of the term. If the life assured survives the term, there will be no pay out and the premiums are lost. Premiums are based on age and health, the amount of cover and the policy term.

Critical illness cover can be incorporated within some family income benefit policies. If critical illness cover is included and a claim is made, it will not pay out on any subsequent death claim unless a 'buy back' option is selected.

Whole of Life

Whole of life insurance provides continuous cover throughout the life assured's life and pays out a lump sum on death whenever that may occur, provided premiums are maintained. Premiums are usually payable for the duration of the life assured's life and are substantially more expensive than an equivalent term assurance policy.

A proportion of the monthly premium is invested and as a result the policy may build up a surrender value over time. However, the premium and / or the sum assured may need to change in the future if the investment returns required to support the initial amount of cover are not achieved.

Whole of life insurance is typically set up on one of the following three bases.

Maximum cover

This provides the highest initial amount of cover for the premium paid. The initial premium and level of cover are usually guaranteed not to change for a set period (usually five or ten years). Following this initial period, the plan is reviewed and it is likely that either the premium will increase or the cover will reduce.

Balanced cover

The premiums will be higher for the same level cover. However, a greater proportion of the premium is invested to subsidise future premium increases. Therefore, the premium is less likely to increase at future reviews.

Guaranteed cover

There is no investment element and the premium and cover are fixed from outset.

Some policies provide the option to insure against certain critical illnesses or becoming disabled. If critical illness cover is included, and a claim is made, it will not pay out on any subsequent death claim, unless the 'buy-back' option is selected.

Mortgage Protection Assurance

Mortgage protection assurance is cheaper than level term assurance and is commonly used to insure the outstanding loan amount on a repayment mortgage. The level of cover provided is based on an assumed interest rate. It decreases slowly during the early part of the plan term, but more quickly towards the end of the plan term to approximately track the remaining mortgage balance.

If the life assured dies within the term, the policy will pay out a lump sum. If the life assured survives the term, there will be no pay out and the premiums are lost. Premiums are based on age and health, the amount of cover and the policy term.

Critical illness cover can be incorporated within some mortgage protection assurance policies. If critical illness cover is included and a claim is made, it will not pay out on any subsequent death claim, unless a 'buy back' option is selected.

Decreasing Term Assurance

Decreasing term assurance is cheaper than level term assurance and is commonly used to insure against a reducing liability or where the requirement for cover reduces during the term. It provides an amount of life cover that decreases at a constant rate over a specified term.

If the life assured dies within the term, the policy will pay out a lump sum. If the life assured survives the term, there will be no pay out and the premiums are lost. Premiums are based on age and health, the amount of cover and the policy term.

Critical illness cover can be incorporated within some decreasing term assurance policies. If critical illness cover is included and a claim is made, it will not pay out on any subsequent death claim unless a 'buy back' option is selected.

Income Protection

Income protection provides a replacement tax-free income if the life assured is unable to work due to accident or ill health. Typically, up to 75% of the life assured's income (less any state benefits they would be entitled to) can be insured. In the event of a claim the policy will pay out after a deferred period which can range from a month up to two years.

Benefits will continue to be paid until the end of the policy term, death or retirement, or the life assured no longer meets the definition of incapacity detailed in the policy schedule - whichever comes sooner.

The cover is permanent, which means cover will never be cancelled, no matter how many claims are made. The level of cover provided prior to a claim and the benefits provided following a claim can remain level or increase in line with a fixed rate or index. Premiums are dependent on the income required as well as the life assured's age, health and occupation. The deferment period also affects the premium, with a shorter period resulting in higher premiums. Premiums may be guaranteed throughout the term of the policy or reviewable each year.

Key Person Term Assurance

A key person term assurance plan provides the business with a capital lump sum in the event of a key employee's death and / or critical illness (if selected) which can be used to help:

- Offset any reduction in profits.
- Prevent the business getting into financial difficulty.
- Recruit and train a replacement.
- Pay off business loans.

It provides a simple and cost-effective way of obtaining a fixed level of cover over a specified term. If the life assured dies within the term, the policy will pay out a lump sum. If the life assured survives the term, there will be no pay out and the premiums are lost. The level of cover required is typically calculated using one of the following three methods:

Payroll-based approach

This is the most commonly used method and is arrived at by using the following formula:

Key person's salary
x
business's gross profit
x
Number of years to recover from loss of key person
=
Total business payroll

Salary-based approach

This is suitable when the aim is to find an equally competent replacement, but it does not allow for the key person's contribution to overall turnover. A popular multiple to use is five times the key employee's total remuneration package.

Profits based approach

This is suitable when there are few key persons. Popular multiples are either two times gross profits or five times net profits.

Taxation

The following conditions must be met if premiums are to receive Corporation Tax relief.

- The reason for the cover must be for loss of profits.
- The only relationship of the life assured to the business is employee/employer.
- The life assured has no significant shareholding - and is not a member of a family that holds shares - in the business. As a guide, tax relief is usually given without question on a shareholding of up to 5%.
- The policy provides annual or short-term (usually up to five years) life or critical illness protection and does not have an investment element or the option to convert to a policy with an investment element.
- The sum assured must be reasonable.

Assuming the business is the policyholder, the premium will not be treated as a benefit-in-kind (P11D benefit) as the benefits belong to the business.

If all of the conditions detailed above are met and the policy premiums are allowed as a trading expense, then any benefits payable under the policy are usually liable to tax as a trading receipt. Where these conditions are not met and the policy premiums do not qualify as a trading expense, the policy proceeds are normally regarded as capital receipts and therefore free from tax. Note that failure to claim relief on the premium where it was available, does not mean that the benefits will be tax free.

A business should obtain confirmation of the tax position from HMRC as each case will be considered on its own merits.

Shareholder Protection

Shareholder protection is designed to provide the remaining shareholders with the means to purchase the shares of another shareholder in the event of that shareholder's death and / or earlier critical illness (if selected) to ensure a speedy conclusion to the succession problem. When combined with a level term assurance plan it provides a simple and cost-effective way of obtaining a fixed level of cover over a specified term. If the life assured dies within the term, the policy will pay out a lump sum. If the life assured survives the term, there will be no pay out and the premiums are lost.

It is important that the plan is set up to reflect the terms of any legal agreement that the shareholders have put in place to deal with such an eventuality. This is typically covered within the company's articles of association or the shareholder agreement and may take the form of:

A cross option agreement

This approach provides the continuing shareholders with the option to buy, and the estate to sell the shares of the deceased shareholder within a specified timeframe. If either party exercises its option, the other party must comply.

A buy and sell agreement

This binds the estate to sell and the surviving shareholders to buy the deceased's shareholding. As a binding contract for sale exists, this prevents Business Relief being claimed by the estate which means this approach is seldom appropriate.

A single option agreement

It is usual to incorporate a single option on critical illness. This provides only the shareholder who is ill with the right to exercise the option, which means that they cannot be forced out if they feel they will be able to return to the business once they have recovered.

Advice should be sought from a solicitor before arranging shareholder protection to ensure that the company's articles of association do not contain any conflicts or restrictions on the transfer of shares.

There are three main methods that can be used to set up the insurance plans:

1. Own life plans under business trusts.
2. Life of another plans owned by the shareholders.
3. Company owned plans to buy back shares.

The advantages and disadvantages of each option is summarised below.

	ADVANTAGES	DISADVANTAGES
Own life plans under business trust	• Fewer plans are required. • It provides greater flexibility to accomodate new shareholders and changing beneficiaries. • It is posssible to assign a plan back to a leaving shareholder.	• It is more complex and involved. • Premiums should be equalised to ensure the commerciality of the transaction and avoid the possibility of an Inheritance Tax charge being levied on the proceeds. • Could give rise to a 'pre-owned asset tax charge' if the settlor is included as a potential beneficiary.
Life of another plans	• Easy to set up. • No trust required. • No equalisation of premiums required.	• If there are multiple shareholders this will result in an excessive number of plans. • There is little flexibility to accommodate new shareholders. • It can be difficult to prove insurable interest. • Shareholders will incur tax on premiums as a P11D benefit.
Company owned plans	• No trust required. • No equalisation of premiums required. • No P11D benefit implications.	• Companies Act 2006 legal requirements must be satisfied before a buyback can take place.

Taxation

Broadly, if the business is the plan owner and pays the premium, Corporation Tax relief is unlikely to be granted on the premiums. However, they will not be taxable as a benefit-in-kind (P11D benefit). In contrast, if the shareholders take out their own plans and the business pays the premiums, they will constitute a benefit-in-kind.

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No 2 The Bourse, Leeds LS1 5DE

T: 0333 323 9060
E: enquiries@theprivateoffice.com
W: theprivateoffice.com

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