

CAPITAL GAINS TAX AND WRAPPER CHOICE

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Legal & General Assurance Society Limited

Registered in England No. 166055

Registered office: One Coleman Street,
London EC2R 5AA.

www.legalandgeneral.com/advisercentre

A member of the Association of British Insurers. Regulated by the Financial Services Authority.

Q28438 07/10 H0114119



IMPORTANT INFORMATION

The details contained in this presentation are based on Legal & General's understanding of current tax law and HM Revenue & Customs' practice. This may be subject to change which cannot be foreseen.

Past performance is not a guide to future returns or performance.

The value of the investments can fluctuate, are not guaranteed, and customers may not get their full money back.

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KEY CHANGES ARISING FROM THE BUDGET

TAX YEAR 2010/2011

CAPITAL GAINS TAX	PRE 22 JUNE 2010	POST 22 JUNE 2010
Basic rate taxpayer	18%	18%
Higher/Additional rate taxpayer	18%	28%
Trustees/Personal Representatives	18%	28%
Annual exemption (no change)	£10,100	£10,100

INHERITANCE TAX

Nil rate band remains at £325,000 until 5 April 2015

TAXATION OF WRAPPERS

COLLECTIVES

Capital gains within fund free of tax but investor is liable to capital gains tax (CGT).

Gains taxed at 18% for basic rate taxpayers and 28% for higher/additional rate taxpayers.

CGT annual exemption £10,100.

Income taxed on investor as it arises (even if accumulated):

- 32.5% / 42.5% on dividends for higher/additional rate taxpayers
- 40% / 50% on interest for higher/additional rate taxpayers

No indexation relief.

No taper relief.

TAXATION OF WRAPPERS

INVESTMENT BONDS (ONSHORE)

Life fund taxation complex, but income and gains effectively taxed at 20%.

Fund gets RPI indexation relief (useful in higher inflation environment).

Fund can offset losses and expenses.

20% or 30% further tax to pay for a higher or additional rate taxpayer.

Gains assessed to income tax at chargeable event.

No tax return until a chargeable event.

5% a year tax deferred regular withdrawals.

Fund switching does not trigger a chargeable event - particularly relevant for example where clients want to protect gains from high growth funds.

Top slicing.

TAXATION OF WRAPPERS

INVESTMENT BONDS (OFFSHORE)

No income tax or CGT paid in the fund (non-recoverable withholding tax on dividends).

'Gross roll up' means the funds may grow faster.

Gains assessed to income tax at chargeable event.

20%, 40% or 50% tax to pay for a basic, higher or additional rate taxpayer.

No tax return until a chargeable event.

5% a year tax deferred regular withdrawals.

Fund switching does not trigger a chargeable event - particularly relevant for example where clients want to protect gains from high growth funds.

Top slicing.

Time apportionment relief if you reside overseas during a period of the investment.

FACTORS AFFECTING WRAPPER CHOICE

INVESTMENT OBJECTIVES

- Income
- Growth
- Total return

ASSET ALLOCATION STILL KEY TO INVESTMENT STRATEGY

- Equities
- Bonds
- Property
- Cash

PERSONAL TAX POSITION

- Income tax
- Capital gains tax

WORKED EXAMPLES

INVESTOR PROFILE

- Investment £100,000 over 10 years
- Basic rate taxpayer (20%)
- Higher rate taxpayer (40%)
- Additional rate taxpayer (50%)
- The whole of all chargeable gains and life policy gains are assumed to be taxed at the appropriate rate

POST-BUDGET POSITION

- Chargeable gains assessed fully at 18% for basic rate taxpayers and 28% for higher and additional rate taxpayers
- Annual exemption remains at £10,100 indexed at 2.5% a year through the investment period
- Annual exemption only used on final encashment

ASSET CLASSES

- Fixed Interest Fund: Interest yield 6.0% a year, no growth
- Equity Income Fund: Dividend yield 3.5% a year, growth 2.0% a year
- Equity Growth Fund: Dividend yield 1.0% a year, growth 6.5% a year

NOTES:

1. All tax calculations based on an onshore investment bond.
2. Life fund tax assumed at 18% on unrealised post indexation gains. Indexation assumed at 2.5% a year.
3. Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

BASIC RATE TAXPAYER/ FIXED INTEREST: YIELD 6.0%, GROWTH 0%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£159,813	£159,813	£159,813
Gain	None (all reinvested interest net of 20% tax)	None (all reinvested interest net of 20% tax)	£59,813 (income and growth rolled up)
Estimated annual exemption	£13,400	£ 13,400	None
Taxable gain	None	None	£59,813
Tax 18% / 18% / 0%	None	None	None
Net Proceeds	£159,813	£159,813	£159,813

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

HIGHER RATE TAXPAYER/ FIXED INTEREST: YIELD 6.0%, GROWTH 0%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£142,429	£142,429	£159,813
Gain	None (all reinvested interest net of 40% tax)	None (all reinvested interest net of 40% tax)	£59,813 (income and growth rolled up)
Estimated annual exemption	£ 13,400	£ 13,400	None
Taxable gain	None	None	£59,813
Tax 18% / 28% / 20%	None	None	£11,963 (life policy gains taxed at 20%)
Net Proceeds	£142,429	£142,429	£147,850

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

ADDITIONAL RATE TAXPAYER/ FIXED INTEREST: YIELD 6.0%, GROWTH 0%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£134,392	£134,392	£159,813
Gain	None (all reinvested interest net of 50% tax)	None (all reinvested interest net of 50% tax)	£59,813 (income and growth rolled up)
Estimated annual exemption	£ 13,400	£ 13,400	None
Taxable gain	None	None	£59,813
Tax 18% / 28% / 30%	None	None	£17,944 (life policy gains taxed at 30%)
Net Proceeds	£134,392	£134,392	£141,869

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

BASIC RATE TAXPAYER/ EQUITY INCOME: YIELD 3.5%, GROWTH 2.0%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£170,814	£170,814	£170,814
Gain	£25,751 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£25,751 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£70,814 (income and growth rolled up)
Estimated Annual Exemption	£ 13,400	£ 13,400	None
Taxable gain	£12,351	£12,351	£70,814
Tax 18% / 18% / 0%	£2,223	£2,223	None
Net Proceeds	£168,591	£168,591	£170,814

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

HIGHER RATE TAXPAYER/ EQUITY INCOME: YIELD 3.5%, GROWTH 2.0%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£157,165	£157,165	£170,814
Gain	£24,720 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£24,720 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£70,814 (income and growth rolled up)
Estimated Annual Exemption	£ 13,400	£ 13,400	None
Taxable gain	£11,320	£11,320	£70,814
Tax 18% / 28% / 20%	£2,038	£3,170	£14,163 (life policy gains taxed at 20%)
Net Proceeds	£155,127	£153,995	£156,651

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

ADDITIONAL RATE TAXPAYER/ EQUITY INCOME: YIELD 3.5%, GROWTH 2.0%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£151,420	£151,420	£170,814
Gain	£24,227 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£ 24,227 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£70,814 (income and growth rolled up)
Estimated annual exemption	£ 13,400	£ 13,400	None
Taxable gain	£10,877	£10,877	£70,814
Tax 18% / 28% / 30%	£1,958	£3,045	£21,244 (life policy gains taxed at 30%)
Net Proceeds	£149,462	£148,375	£149,570

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

BASIC RATE TAXPAYER/ EQUITY GROWTH: YIELD 1.0%, GROWTH 6.5%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£206,103	£206,103	£192,708
Gain	£91,956 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£91,956 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£92,708 (income and growth rolled up)
Estimated annual exemption	£ 13,400	£ 13,400	None
Taxable gain	£78,556*	£78,556*	£92,708
Tax 18% / 18% / 0%	£14,140	£14,140	None
Net Proceeds	£191,963	£191,963	£192,708

*For high growth equity funds, a basic rate taxpayer in receipt of this gain would also be liable to CGT at 28%.
Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

HIGHER RATE TAXPAYER/ EQUITY GROWTH: YIELD 1.0%, GROWTH 6.5%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£201,360	£201,360	£192,708
Gain	£90,874 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£90,874 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£92,708 (income and growth rolled up)
Estimated annual exemption	£ 13,400	£ 13,400	None
Taxable gain	£77,474	£77,474	£92,708
Tax 18% / 28% / 20%	£13,945	£21,693	£18,542 (life policy gains taxed at 20%)
Net Proceeds	£187,415	£179,667	£174,166

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

ADDITIONAL RATE TAXPAYER/ EQUITY GROWTH: YIELD 1.0%, GROWTH 6.5%

	COLLECTIVE Pre 22 June 2010	COLLECTIVE Post 22 June 2010	INVESTMENT BOND
Value at 10 years	£199,284	£199,284	£192,708
Gain	£90,398 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£ 90,398 (only capital growth is taxable on realisation – income taxed year-on-year on arising basis)	£92,708 (income and growth rolled up)
Estimated annual exemption	£ 13,400	£ 13,400	None
Taxable gain	£76,998	£76,998	£92,708
Tax 18% / 28% / 30%	£13,860	£21,560	£27,812 (life policy gains taxed at 30%)
Net Proceeds	£185,424	£177,724	£164,896

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

WORKED EXAMPLES: BASIC RATE TAXPAYER SUMMARY

Asset Class	Net proceeds for Basic Rate Taxpayers Pre-Budget 22 June 2010			Net proceeds for Basic Rate Taxpayers Post-Budget 22 June 2010		
	Collective £	Investment Bond (Onshore) £	Percentage difference in return (Investment Bond compared to Collective)	Collective £	Investment Bond (Onshore) £	Percentage difference in return (Investment Bond compared to Collective)
Fixed Interest	159,813	159,813	0.0	159,813	159,813	0.0
Equity Income	168,591	170,814	+1.3	168,591	170,814	+1.3
Equity Growth	191,963	192,708	+0.4	191,963	192,708	+0.4

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

WORKED EXAMPLES: HIGHER RATE TAXPAYER SUMMARY

Asset Class	Net proceeds for Higher Rate Taxpayers Pre-Budget 22 June 2010			Net proceeds for Higher Rate Taxpayers Post-Budget 22 June 2010		
	Collective £	Investment Bond (Onshore) £	Percentage difference in return (Investment Bond compared to Collective)	Collective £	Investment Bond (Onshore) £	Percentage difference in return (Investment Bond compared to Collective)
Fixed Interest	142,429	147,851	+3.8	142,429	147,851	+3.8
Equity Income	155,127	156,651	+1.0	153,995	156,651	+1.7
Equity Growth	187,415	174,166	-7.1	179,667	174,166	-3.06

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

WORKED EXAMPLES: ADDITIONAL RATE TAXPAYER SUMMARY

Asset Class	Net proceeds for Additional Rate Taxpayers Pre-Budget 22 June 2010			Net proceeds for Additional Rate Taxpayers Post-Budget 22 June 2010		
	Collective £	Investment Bond (Onshore) £	Percentage difference in return (Investment Bond compared to Collective)	Collective £	Investment Bond (Onshore) £	Percentage difference in return (Investment Bond compared to Collective)
Fixed Interest	134,392	141,869	+5.6	134,392	141,869	+5.6
Equity Income	149,462	149,570	+0.1	148,375	149,570	+0.8
Equity Growth	185,424	164,896	-11.1	177,724	164,896	-7.2

Source of data: All tax calculations provided by Technical Connections Limited 20 June 2010.

THE BENEFITS OF BONDS IN FINANCIAL PLANNING

INVESTMENT MANAGEMENT AND TAX PLANNING

- No tax charge on switches between funds (for example, investors can switch when the market dictates without incurring a tax charge).
- Control over when tax is paid.

TRUST PLANNING

- Estate planning (for example, discounted gift trusts).
- Wealth protection (for example, investment bonds not currently included when 'means-testing' benefits for nursing homes).
- Tax planning (for example, benefits can be assigned without triggering a tax charge, range of trust options, perfect vehicle for discretionary trusts).

ADMINISTRATION

- No dividends to declare.
- No UK tax to pay yearly on dividends.
- No record keeping of acquisition prices / reinvested dividends.

THE FEATURES OF BONDS IN FINANCIAL PLANNING

INVESTMENT CHOICE

- Wide and diverse choice of funds available, including funds with guarantees.
- Variety of investment objectives.
- Variety of risk options.

EASY ACCESS TO FUNDS

- Regular withdrawal facility allows ability to take 5% per year tax deferred for 20 years.
- Partial encashment at any time (surrender charges may apply in early years).

BUILT IN DEATH BENEFIT

- Death of last life assured.

TOP SLICING

- This allows the gain to be averaged over the period of the investment.

'INVESTMENT CHOICE' FROM LEGAL & GENERAL

ONSHORE BONDS

- Portfolio Bonds
- With Profit Bonds
- Discounted Gift Scheme

OFFSHORE BONDS

- International Portfolio Bond
- International Discounted Gift Scheme

COLLECTIVES

- Unit Trusts (full range of active and index-tracker funds)
- ISAs (full range of active and index-tracker funds)
- Structured Products

THANK YOU