

## A-day issues for trustees

In issue 11 of Financial Update, we reported on the planned changes to the current pensions regime, often referred to as Pension Simplification. As details of the rules continue to roll out, it has become apparent that the new legislation will impact upon, and mean added responsibilities for, trustees and members of occupational pension schemes.

With the main changes taking place on 6 April 2006 (A-day), if you are a trustee or an employer with an occupational pension scheme, there are a number of key issues that you need to be aware of:

- Members of contracted in and contracted out money purchase schemes (CIMPS/COMPS) could jeopardise their tax-free cash allowances by continuing to fund an existing arrangement.
- As a trustee, you could find yourself open to legitimate claims if you do not review and take action to protect members' tax-free cash accruals post A-day.
- Your post A-day responsibilities and accountability will increase. Further challenges will develop around Member Nominated Trustees.

One of the changes that will impact on both trustees and scheme members is the accumulation of tax-free cash, post A-day. Funds accrued from April 2006 onwards will attract a 25% tax-free cash allowance. However, if a member continues to pay contributions into their existing occupational scheme, they may not be able to access their full

entitlement, a result of a calculation under the simplification rules.

In 2003, 86% of all members drawing benefits from occupational money purchase schemes were entitled to a tax-free cash amount greater than

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25% of their fund value. [Source: *Money Marketing*, 29 July 2004.] Based on these figures, under the new legislation, four out of five members could now lose their entitlement to cash that was previously preserved under the old scheme rules. There are methods of counteracting this, however. It is possible to ensure members can take advantage of the high levels of tax-free cash they have accrued under the old regime, whilst securing the maximum levels of cash going forward, however, the time line between now and April is short, so decisive action should be taken now.

If you are a trustee and you do not take action to protect your members' benefits, you could face legitimate claims against you, and see restriction to the changes you are

able to make to the scheme in the future. Therefore, it is important that you are aware of the future ramifications for both yourself and the pension scheme members.

For further information regarding how the changes may affect you, your company and your employees, please contact Andre Turville on 020 7216 4600 or [a.turville@uhy-uk.com](mailto:a.turville@uhy-uk.com).

### For more information

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Andre can meet you at our offices, or at your home or business premises.



## Investing for your children's future

Since 1999, parents investing funds in their children's names have been liable to tax on income arising from those investments, where that income exceeds £100 per year. Using life assurance bonds, both onshore and offshore, has since become a popular means for parents to create tax efficient income for their child(ren).

If you are a parent looking to set up an investment for your child's benefit, you can establish a bond in your own name. It can then be left to grow. If it is an onshore bond, the underlying investments are subject to tax on income and capital gains at a rate of approximately 20%, whilst if it is an offshore bond, there is effectively no tax on interest, dividends and capital gains. This contrasts with tax at either 32.5% or 40% that you, as a higher rate tax payer, would otherwise be charged on dividends and income respectively.

When your child requires the money, to help towards the costs of higher education for example, you simply assign segments of the bond to your child by way of a gift. Your child can then encash the segment(s).

The assignment would be considered a potentially exempt transfer for inheritance tax purposes. However, it would not be considered a chargeable event for income tax purposes, so no tax charge would arise. When the segment was subsequently encashed by your child, a chargeable event would occur. The tax liability would be assessed against the child's tax position. Providing your child has sufficient unused personal allowance, this being the likely case if they were a student, then no tax would be payable.

As an example of how an offshore bond could be used, if you made an investment of £50,000, which grew at a rate of 6% per annum, your investment would be worth £89,500 after ten years. If 10% of

the bond was assigned, then encashed by your child, £8,950 would be realised. 10% of the total gain would then be liable to tax i.e. £89,500 - £50,000 = £39,500 x 10% = £3,950. This sum would be within your child's personal income tax allowance, currently £4,895, so no tax would be payable.

The added benefit from this type of bond investment is that you are able to repeat this exercise, enabling your child to receive tax free income year after year until the bond is exhausted.

If you would like further information about both onshore and offshore life assurance bonds, please contact Peter Miller on 020 7216 4668 or email him at p.miller@uhy-uk.com.

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## The price of protection

**Are you aware that you may currently be paying more than you need to for life assurance, income, family and mortgage protection? As well as being costly, if your policy has been in place for a number of years and your circumstances have changed, your policy may no longer be appropriate.**

Current insurance rates are very competitive. As a result, you could make substantial savings by either switching your cover to a more competitive provider, or changing the type of your cover you have to one better suited to your current circumstances.

The new pension regulations, that are to be introduced in April 2006, will allow you to establish life assurance cover through your pension plan. The relaxation of the current rules will allow you to obtain tax relief on life assurance premiums, at your marginal rate. The level of cover available, however, will be limited to the difference between the value of your pension and the new lifetime allowance of £1.5 million.

If your pension funds are worth significantly less than the lifetime allowance, there will be considerable scope for either rebroking your existing cover or establishing high levels of protection in a tax efficient manner.

In order to establish whether savings could be made, you first need to review your current pension and life assurance arrangements. If you would like further advice or information on protection schemes, please contact Peter Miller on 020 7216 4668 or email him at p.miller@uhy-uk.com.

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