Standard Life

Company investments

Life assurance savings and investment policies

We've outlined the benefits of investing through a life assurance policy versus investing directly. These benefits apply to both lump sum and regular investments.

Investing through a life assurance policy:

- 25% exit tax

Versus

Direct investment:

- 25% corporation tax each year on income
- Potential 20% close company surcharge
- Potential 33% CGT on sale of direct investments

	Life assurance investment policy	Direct investment
Tax on income	Gross roll up* applies to lump sum investments and savings policies issued after 1 January 2001. This means all income and gains in the policy are accumulated gross, with a deemed exit tax charge applied on any gain accumulated only on each 8th anniversary or deducted from any gain realised on withdrawal, death, maturity or assignment. This allows the company to compound the investment earnings without those earnings being reduced by taxes during this period (other than exit taxes after the 8th anniversary). Since January 2012 exit tax is 25% where the policy owner is a company. External advice is that this is the final tax liability.	Where a company invests directly in a deposit, stocks, shares or property, any income from the investment (non trading income e.g. interest, dividends, rent) is taxed annually at 25% rate of Corporation Tax.
Close company surcharge	Investment while in the bond is exempt from the close company surcharge**.	If the company is a close company, income may be subject to the close company surcharge of an additional 20% if it is undistributed within 18 months after the end of the accounting period that it arose.
Tax on withdrawal/sale	Advice from external tax advisers is that the gain paid out of the bond should be exempt from the close company surcharge**. This is on the basis that the gain realised by the company is not treated in the company's accounts as 'income'.	Corporation tax may apply on any chargeable gains. The gain on sale may or may not be reduced by allowable capital gain tax losses.
Diversification	Life assurance policies offer a wide range of investment options which allows companies to diversify within one policy.	A rebalancing of an equity portfolio could trigger a CGT cost (compared to rebalancing of a portfolio within a life assurance investment policy).
Administration	The life company is responsible for the deduction and payment of exit tax with the balance paid to the investor.	The company is responsible for the correct calculation, payment and reporting of tax.
Flexibility	Ability to invest regularly or on a lump sum basis.	Dependent on investment.

*Gross roll up is subject to any non-recoverable withholding tax

**Companies should consult with their own professional tax advisers to confirm this view applies to them.

Comparison of a company investment through a life policy versus a direct deposit - 6 year investment example

^ AER is the annual equivalent rate and shows what the interest would be if compounded and paid each year.

	Investment in life policy	Direct deposit
Investment	€250,000	€250,000
Invested premium	€253,750	-
Life assurance premium levy	€2,500	-
Total invested after levy	€251,250	-
Assumed return/interest rate	3.5%	2% AER^
6 year return (after charges for life policy)	€290,884	-
Return	**€40,884**	**€30,915**
Exit tax	(€10,221)	-
Total 6 years Corporation Tax @ 25%	-	(€7,729)
Total 6 years close company surcharge	-	(€4,637)
Net return	**€30,663**	**€18,549**
Net return (%)	12.27%	7.42%

Assumptions:
Investment in Life policy: This example assumes a fund with a return of 3.5% per annum investment growth and a 1% annual management charge. It assumes exit tax of 25% paid on full withdrawal after six years, 2% initial commission and 101.5% allocation received. These figures are examples only and are not guaranteed. The actual investment growth will depend on how your investments perform and may be worth more or less than shown here.

Direct Deposit: 2% is an illustrative 6 year fixed rate return only. This example assumes that interest, corporation tax and close company surcharge are applied annually.

Both examples assume the interest rates, exit and corporation tax rates and close company surcharge rules and rates remain unchanged for the period.

Warning: These figures are estimates only. They are not a reliable guide to the future performance of this investment.

Standard Life clients can choose from a range of investment options. **Please see 'Your investment options' (SYIO1) for more information.**

Close companies

Most Irish resident companies are 'close' companies. A Close Company is controlled by five or fewer participators or is controlled by any number of participators who are directors. The definition of a Close Company includes a company where, on distribution of its full income, more than 50% goes to five or fewer participators or participators who are directors. A participator is a person having an interest in the income or capital of the company.

Laws and tax rules may change in the future. The information here is based on our understanding of the situation in March 2014. You should not base your decision to invest solely on the information in this document. You should seek professional tax and legal advice to satisfy yourself of your own tax position.

Visit **www.standardlife.ie** to find out more about us.

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