Preference Share Information Guide

For use by professional advisers and intermediaries only

London & Colonial
Innovation In Pensions

Introduction

London & Colonial Assurance PCC Plc (LCA) is structured as a protected cell company. This means that LCA is divided into individually recognised cells and attached to each cell is at least one preference share. Each cell has its own designation (the product number) which identifies it.

When a client buys one of LCA's flexible annuity products the assets and funds they invest in are placed into one of these cells. And as a separate cash transaction the client can also buy the preference share that is attached to the cell which holds all the investments which are used to support their product.

LCA's clients can only purchase a preference share in the cell that is used to support their product. Purchasing a preference share, as well as a LCA flexible annuity product, can be advantageous.

Frequently Asked Questions

If your question is not covered below, please contact your business development manager who will be happy to help.

1. How much does a preference share cost?

The cost of the preference share depends on the initial premium invested into the LCA flexible annuity product. As an example, for an initial premium up to £1,000,000 the cost of buying the preference share would generally be between £350 and £1,500.

2. How do you buy a preference share?

On requesting an illustration for one of LCA's flexible annuity products, LCA will also provide a quote for the cost of buying a preference share. There is no obligation on the client to buy a preference share.

Where the client wishes to also buy a preference share, they will inform LCA and pay the appropriate cash amount.

3. Does an additional preference share need to be bought each time an additional premium is paid into a LCA flexible annuity product?

No, the client is buying a preference share in the company which is linked to the cell that supports their product. The investments purchased with the additional premium are placed into the cell that was established at outset to support their product.

4. Can the preference share, and the product be bought by different people?

No, as the investments in the cell are used to support the client's product, only the client can buy the associated preference share.

5. Does the preference share need to be purchased at the same time as the product?

No, the preference share can be bought at any time during the client's lifetime. The cost of the preference share would depend on the total value of the investments sitting within the cell at the time of purchase.

Due to the potential tax benefits of purchasing the preference share at the same time as the product it is strongly recommended that if your client wishes to purchase a preference share it is purchased at the same time they make their initial investment in the product.

6. Are there any dividends paid on the preference share?

No dividend income arises from the preference share. This is because investments within the cell are being used to support the LCA flexible annuity product during the client's lifetime and as such the preference share only holds an expectation of the value that might remain after their death..

7. Who owns the preference share on the client's death?

If the client holds the preference share on their death ownership passes to their personal representatives (executors if your client has a will or administrators if no will). The value of the preference share (the remaining value of the investments within the cell) must be included in their estate for probate purposes.

8. How is the preference share taxed on the client's death?

On the client's death the investments sitting within the cell remain ringfenced. This means that when your client dies their personal representatives must include the value of the preference share in their estate for probate purposes. Where there is inheritance tax payable the estate may be entitled to business relief on the preference share.

Frequently Asked Questions (continued)

9. Why might inheritance tax not be payable on the value of the preference share?

Business relief reduces the value of a business or its assets when working out how much inheritance tax has to be paid. These assets may include shares in qualifying businesses. Business relief is available at either 100% or 50%. Under current UK tax rules where the asset or share is in an unlisted trading company 100% relief is available. LCA is an unlisted trading company meaning that provided the client held the preference share for at least two years and continued to hold it on their death it should qualify for 100% business relief.

Please note HM Revenue & Customs (HMRC) will only conduct a business relief assessment when the estate makes a claim after death. Whilst business relief has been around since 1976 and over time UK governments have recognised the value of this relief, LCA accept no responsibility for any changes in legislation.

10. Can the preference share be gifted to a trust?

Yes, the client can gift their preference share into a trust. Transferring the preference share to a trust is treated as a deemed disposal for capital gains tax purposes and a gift for inheritance tax purposes.

Where the transfer occurs close to the purchase of the preference share as the value of the share is minimal the disposal should be within the capital gains tax annual exempt allowance (currently £3,000) and the gift within the inheritance tax annual exemption (currently £3,000).

However, if the transfer occurs, for example, after a life changing event the value of the preference share may be greater meaning that capital gains tax or inheritance tax may potentially be payable.

We would recommend that independent tax advice is sought before a client gifts their preference share into a trust.

11. Can the preference share be gifted to an individual?

Yes, the client can gift the preference share to an individual provided that individual is aged 18 or over.

Transferring the preference share outright to another person is treated as a deemed disposal for capital gains tax purposes and a gift for inheritance tax purposes.

Where the transfer occurs close to the purchase of the preference share as the value of the share is minimal the disposal should be within the capital gains tax annual exempt allowance (currently £3,000) and the gift within the inheritance tax annual exemption (currently £3,000).

However, if the transfer occurs, for example, after a life changing event the value of the preference share may be greater meaning that capital gains tax or inheritance tax may potentially be payable.

We would recommend that independent tax advice is sought before a client gifts their preference share outright to another person.

The general information within this guide is based on LCA's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice which could be subject to change in the future. This information does not constitute investment, tax, legal or any other form of advice. It is not a substitute for such professional advice or services. LCA, including any companies of STM Group of companies and their officers and employees, cannot accept responsibility for any loss caused as a result of any action taken or refrained from being taken upon the contents of this guide. It is the responsibility of readers to satisfy themselves as to whether any product and/or service is suitable for recommendation to their client(s).

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Gibraltar Company Registration Number: 80650
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