



## Company Investments in Life Assurance Savings and Investment Plans – Life Advisory Services

**This document gives a brief overview of company investments in life assurance savings and investment plans. It is based on Irish Life's understanding of Revenue law and practice at December 2012.**

The tax treatment of profits from lump sum investments or savings accumulated in a life assurance product changed fundamentally for investments made after 1<sup>st</sup> January 2001.

### **Gross Roll Up of Investment Returns**

Lump sum investment and savings plans issued after 1<sup>st</sup> January 2001 benefit from the Gross Roll Up regime i.e. all income and gains in the life fund accumulate gross, with a 'deemed' tax charge on any growth only on each 8<sup>th</sup> plan anniversary while the contract is in force.

When part or all of the funds are withdrawn, an exit tax will be deducted from the 'profit' element of the withdrawal, with a credit for any tax paid on any previous 8<sup>th</sup> year anniversary. Exit tax is currently charged at the rate of 25% where the plan owner is a company.

### **Life Assurance Investments**

The effect of the Gross Roll Up regime is that a company can defer tax on the investment until at least the 8<sup>th</sup> anniversary of the contract, thus allowing the company to compound investment earnings without those earnings being reduced by taxes during this period. This should lead to accelerated investment growth.

Another advantage is that the life company with whom the funds are invested is responsible for the deduction and payment of exit tax. The net amount is payable to the investor.

### **Versus**

#### **Direct Investments**

Where a company invests directly in a deposit account, stocks, shares, or property, any income arising from the investment (interest, dividends, rental income) is subject to tax on an annual basis at the 25% rate of Corporation Tax payable on non-trading income.

In the case of close companies, such income could also be subject to a 'close company surcharge' (an additional tax of 20%) if it remains undistributed within 18 months of the end of the accounting period in which it arose.

Obviously Capital Gains Tax would also be payable on any gain made on the disposal of equities or property – normally at the standard CGT rate of 33%.

### **Options**

**Gross Roll Up with a tax charge on each 8<sup>th</sup> anniversary and an exit tax of 25% on the profit made on life investments.**

### **Versus**

**25% pa on income, and  
33% CGT at the end on direct investments.**

## Company Investment

### Life Assurance Investment Plan Versus Direct Investment

	Investment Plan where the plan owner is a company	Direct Investment by a company
<b>Investment choice</b>	Wide range of funds, Equity, Gilts, Cash, Property, a mix, specific sector Equity Funds available.	Equities, Gilts, Deposits and Property (depending on size of funds).
<b>Returns</b>	Performance will be dictated by investment choice, level of risk, term of investment.	
<b>Tax on Income</b>	Profit element of any (annual) withdrawals subject to exit tax at 25%.	Annual Investment Income subject to Corporation Tax at 25%*.
<b>Capital Returns</b>	Profit element of all withdrawals subject to exit tax. (25%)	Disposal of shares / property subject to Capital Gains Tax (33%) No CGT on Gilts, however as most gilts return the nominal value, unlikely to produce capital gains.
<b>Suitability for Income Versus Capital Growth</b>	Ideally suited to providing capital growth, particularly from a tax viewpoint. All income and gains accrue gross within the fund. Tax liability only arises on each 8 <sup>th</sup> anniversary of the contract with a credit for this tax when funds are ultimately withdrawn. Exit tax rate on profit at 25%. Exit tax is deducted and paid to the Revenue by the life company.	Deposits unlikely to provide any significant income or capital growth and historically have not even kept pace with inflation in the long term. Gilts unlikely to produce capital gains. Equities can provide capital growth in the long term, but part of the return is automatically paid out as income dividends.
<b>Close Company Surcharge</b>	Return not treated as investment income.	Potential liability for certain companies if income arising remains undistributed.

\*Dividend Withholding Tax is not deducted on dividends paid by Irish resident companies to other Irish tax resident companies.

Investment costs / charges must also be taken into account.

In the case of direct investments: stamp duty, brokerage commission and cost of investment advice.

In the case of life assurance bonds: entry or exit charges and annual management fees.

**We advise that your client seeks professional tax and legal advice as the information given is a guideline only and does not take into account your client's particular circumstances.**

**Information is correct as at December 2012 but is subject to change.**