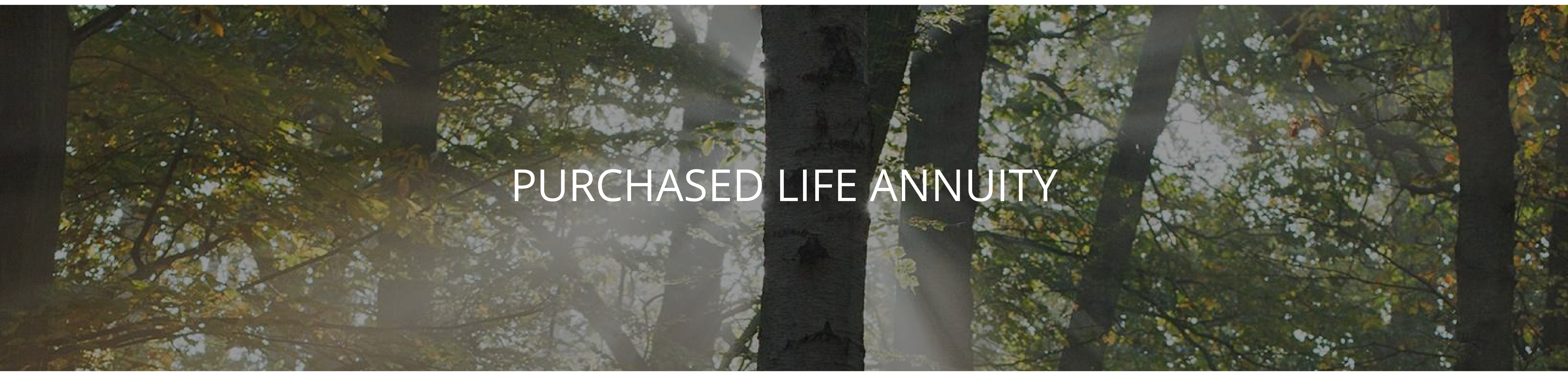
Integritas Financial Planners Ltd
Nurture · Grow · Protect



PURCHASED LIFE ANNUITY

What is it?

A purchased life annuity (PLA) is a single premium life plan which pays an income for life or a fixed period. The income is treated as a combination of a return of capital and interest on the capital. Income tax is only payable on the interest part.

There are many optional benefits that can be taken with a purchased life annuity but for those individuals who are particularly concerned about receiving full value, should they die soon after purchase, the option of a guaranteed period or capital protection may be considered. A guaranteed period, which would normally be five or ten years simply means that should you die within the chosen period, payment of an income would continue to be paid for the balance of time remaining (total payments may well be less than the original amount invested). Capital protection on the other hand means that should you die having received (in total gross income) less than the original amount invested, the balance is repaid as a lump sum to your estate. If neither capital protection nor a guaranteed period is selected, there will be no return of capital on your death, and as such the initial income will be higher.

Eligibility

Minimum age is 18 but some providers will allow purchased life annuities to be purchased by clients aged over 90.

For a PLA to qualify for the capital element to be paid tax free it cannot be purchased because of the terms of a Will or settlement i.e. the capital element cannot be paid tax free where:

- The money comes from the proceeds of a Will where an annuity has to be bought because of conditions in the Will
- The money comes from the proceeds of a Will or settlement where an annuity has to be bought to replace an annuity that was due to be paid under the terms of the Will or settlement
- Annuities purchased out of income of property disposed of by a will or settlement as a result of that will or settlement

However HMRC states, in regards to proceeds from a Will, the annuity will not be barred from exemption where:

- A lump sum is inherited under a Will with no conditions or terms
- The gift of a lump sum is received from a settlement with no conditions or terms

Contribution limits

The minimum purchase price is usually £3,000 with the maximum around £250,000.

Contributions can be made by a third party including your employer.

Taxation

The interest part of the income will be taxed as savings income and, unless an application is received to have this paid without the deduction of tax, 20% tax will be deducted from your payments. Non- rate taxpayers can reclaim any overpaid tax from HM Revenue & Customs. Higher and additional rate taxpayers need to declare this income and pay any additional tax due.

If you are a non-taxpayer you should complete Inland Revenue form R89, or R86 for joint purchasers to ensure that your annuity income is payable gross.

To ensure that a part of your income payment is regarded as returned capital, you should complete HMRC form, PLA6.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

Withdrawals

Payments from a purchased life annuity are split into two parts, a capital element and an interest element. The capital element is deemed to be a part return of an annuitant's original capital and as such is not taxable. The capital content varies according to such factors as age and frequency of payment. Only the interest element is taxable and is taxed as savings income with tax being deducted at 20% at source.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Choosing the right annuity is very important as once bought, your annuity cannot be switched to another annuity provider, cannot be changed to a different type of annuity and cannot be altered in any way for the rest of your life. For example, you will not be able to change the level of income beyond that set at the beginning and will have no prospect of benefitting from any future increased annuity rates.
- The level of income is fixed at outset and will depend upon the level of annuity rates available at that time.
- The plan does not have a surrender value at any time.
- Normally payments will cease on death unless an option to continue for a spouse/dependant has been selected.
- If your life expectancy is not achieved, buying an annuity could result in the total amount paid out, being less than the cost of the annuity purchased.
- In the event of death, depending upon the type of annuity purchased, benefits to dependants could be lower than those enjoyed under some of the other investment options available.