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# PURCHASE OF **PREFERENCE SHARES**

## BACKGROUND

London & Colonial Assurance PCC Plc (LCA) is organised as a Protected Cell Company, and each unique cell of the company can have at least one preference share issued by that cell. This means that the value of any preference share at any time is the value of any residual assets in the cell after all of LCA's liabilities in that cell have been met. The purpose of this note is to consider some of the ways that the preference share may be held and suggest possible UK tax consequences of its disposal.

### 1. INDIVIDUAL BUYS THE PREFERENCE SHARE AND RETAINS OWNERSHIP THROUGHOUT LIFE

If an individual buys and holds the share as an investment, any dividends received by the individual will be chargeable to income tax at the individual's marginal rate. If the individual disposes of the share, any gain arising on the value of the share will be chargeable to capital gains tax depending on the total taxable income of the individual.

If the individual still owned the share at the time of death, then the preference share will form part of his/her estate. Any gains from the redemption of the preference share arising on death are not taxed. Under current UK tax rules (as at April 2019), if the policyholder has owned the preference share for at least two years at time of death, then the proceeds from the redemption of the preference share will be "excluded property" and qualifies for IHT Business Relief.

### 2. INDIVIDUAL BUYS THE PREFERENCE SHARE AND PUTS THE SHARE INTO TRUST

The purchase of the share will have no immediate tax consequences. Provided the gift into trust occurs relatively close to the purchase of the share, there should be no significant capital gain. However, if the gift takes place much later after the purchase, and particularly if there has been some life changing event, the gift may trigger a capital gain.

If the gift into trust occurs soon after the purchase of the preference share, then it is most likely that the gift will fall within the £3,000 annual inheritance tax exemption. If the share has acquired value through the passage of time, then any value transferred that is greater than £325,000 will be chargeable to inheritance tax at 20%. In addition, the trust will be charged to tax every 10 years and subsequent distributions from the trust will be subject to inheritance tax.

### 3. INDIVIDUAL BUYS THE PREFERENCE SHARE AND GIFTS THE SHARE TO HEIRS

The purchase of the share will have no immediate tax consequences. Provided the gift occurs relatively close to the purchase of the share, there should be no significant capital gain. However, if the gift takes place much later after the purchase, and particularly if there has been some life changing event, the gift may trigger a capital gains tax charge.

If the gift occurs soon after the purchase of the preference share, then it is most likely that the gift will fall within the £3,000 annual inheritance tax exemption. If the share has acquired value through the passage of time then any value transferred which does not qualify for Business Relief will become a Potentially Exempt Transfer and if the individual dies within 7 years of the date of the gift, it will be added to his/her estate for inheritance tax purposes and the heirs of his estate will be required to pay additional inheritance tax.

The recipient of the share will acquire it at the market value of the share on the date of the gift. Any subsequent disposal of the share will trigger a gain for capital gains tax purposes. Any dividends paid will be taxable at the recipient's marginal rate of income tax.

## SUMMARY

As can be seen, there are several possible options for purchasing and holding the preference share attaching to a cell of LCA. The interaction between different taxes means that there may not be one perfect option, and careful consideration of an individual's circumstances is required. This note represents LCA's understanding of a limited number of options and does not constitute tax advice. Clients should always seek appropriate advice before embarking on a course of financial planning.

*This general information has been provided on the basis of our understanding of the current legislation as of 15 April 2019. Should any of the information provided be inaccurate, incomplete or misleading, we take no responsibility for any reliance placed on it. We recommend that individuals always seek specialist tax advice so that their individual circumstances can be fully considered.*

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