The Guaranteed Bond

Notes on Tax Liabilities

Please keep these notes with your Policy Documents - they are designed to help you understand your tax position and the information you should show on your tax return.

BASIC RATE INCOME TAX

The money you receive from your Bond is paid from funds which are taxable at a corporation tax rate of 20% in Countrywide Assured's hands. To compensate for this you are given a 20% notional tax credit for any chargeable gains arising on the policy. The notional tax is not treated as repayable in any circumstances, even if you are a non tax payer. If you are a basic rate taxpayer there is usually no further tax to pay on income or maturity payments.

LIABILITIES FOR TAX AT THE HIGHER RATE

As money invested with Countrywide Assured has already been subjected to tax, you can only incur a potential income tax liability at the higher rate in respect of policy gains. Therefore, if you already pay higher rate tax, or if the chargeable gain (see below) puts your total income above the higher rate tax threshold, you may incur a tax liability on the money you receive from your Bond.

INCOME PAYMENTS

You are allowed to receive in each Policy year, for a maximum of 20 years, 5% of the value of your investment without incurring an immediate liability to tax. Any amount you receive over this 5% will be classed as a chargeable gain and added to your income. This does not happen until the end of the Policy year in which you receive the money from your Bond. If the full 5% is not withdrawn from your Bond, the unused allowance can be carried forward to the next year.

MATURITY

When your Bond matures, a final chargeable gain calculation is carried out. This calculation is different to that for income payments. The amount you receive at maturity and any previous income payments are added together. From this is subtracted the amount you invested and any chargeable gains that have occurred at the time of previous income payments. The resulting figure is the final chargeable gain which will be added to your income.

CHARGEABLE GAIN

When money is withdrawn from a Bond, Countrywide Assured will check, as described above, whether there is a chargeable gain. If there is a chargeable gain, Countrywide Assured are required to issue a chargeable event certificate to you. This certificate will show details of the money you have invested in, and received from your Bond, as well as the amount of any chargeable gain.

Any chargeable gain should be entered on your tax return, in the "Additional information" pages (HMRC form SA101), under the heading "Life insurance gains". You should complete this section of your tax return from the information provided on the chargeable event certificate.

TOP SLICING

If you are a higher rate tax payer you will pay tax on the whole chargeable gain. However, if you are a basic rate tax payer, where the gain makes you a higher rate tax payer then, "Top Slicing" may reduce or even eliminate any potential tax liability as a result of a chargeable gain. "Top Slicing" is the H M Revenue & Customs way of recognising that any chargeable gain may have arisen as a result of money being invested over a number of years. The calculation for each individual is complex and only the H M Revenue & Customs have all information to assess the final tax liability. The example below may help you to understand chargeable gains and how top slicing can help.

EXAMPLE

A Guaranteed Growth Bond with an initial investment of £10,000 is taken out over a term of 3 years. The Bond will mature with a guaranteed maturity value of £11,500. In the tax year of maturity, the Policyholder has other taxable income of £35,700. The marginal tax rate applying in the tax year of maturity is 20%.

ON MATURITY THERE WILL BE CHARGEABLE GAIN OF:

(Maturity Value + Any Income Payments) - (Initial Investment + Gain On Any Income Payments)
(£11,500 + £0) - (£10,000 + £0)
Chargeable Gain = £1,500

WITHOUT TOP SLICING, THE TAX LIABILITY WILL BE 20% OF THE FOLLOWING:

(Taxable income + Chargeable gain) - Higher Rate Tax Threshold (say £36,000)
(£35,700 + £1,500) - £36,000 = £1,200
Tax Liability = 20% of £1,200
Tax Liability = £240

USING TOP SLICING, THE TAX LIABILITY WILL BE CALCULATED AS FOLLOWS:

Chargeable Gain = £1,500
Chargeable Gain has arisen over three years, therefore the chargeable gain per year = £500
Tax liability per year will be 20% of:
(Taxable income + Chargeable gain per year) - Higher Rate Tax Threshold
(£35,700 + £500) - £36,000 = £200
Tax liability per year = 20% of £200 = £40
Total tax liability = £40 x 3 years
Total tax liability = £120

This example has only been shown to illustrate the possible effects of top slicing. It is not intended to give any indication as to the likely maturity value of a guaranteed bond, or of your own tax liability. Top slicing will have no effect for Policyholders whose taxable income means they are already higher rate taxpayers.

The information above reflects our understanding of current legislation and tax regulations which are both subject to change.

Countrywide Assured

INVESTMENT SERVICES

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CA 1504 (06/08)