



## **Guernsey Practice Notes**

### Requirements for Approved Retirement Annuity Trust Schemes and Approved Retirement Annuity Schemes

April 2015

These notes have been prepared by the BWCI Group in conjunction  
with the States of Guernsey Income Tax Office



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Readers are reminded that nothing stated in these notes should be treated as an authoritative statement of the **Law** on any particular aspect or in any specific case and action should not be taken as a result of these notes alone. Any further enquiries may be addressed to the Retirement Annuity Supervisor, States of Guernsey Income Tax Office, PO Box 37, 2 Cornet Street, St Peter Port, GY1 3AZ

# 1. Introduction

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## 1.1 Introduction

These notes set out the contributions which may normally be paid to and the benefits which may normally be provided by retirement annuity schemes and retirement annuity trust schemes seeking approval under section 157A of the Income Tax (Guernsey) Law, 1975. The Director of Income Tax may be prepared to allow other benefits in special circumstances. These notes do not cover offshore retirement annuity contracts or retirement annuity trust schemes seeking exemption under section 40(ee) of the **Law**.

The notes produced by the **Director** regarding the procedure for applications for approval, together with a summary of the consequences of approval under section 157A, are set out in Appendix 1.

## 1.2 Application of these Practice Notes

These Practice Notes apply in full to **Retirement Annuity Trust Schemes**.

Sections 2, 5.3, 6.3 and 9 and Appendix 4 of these Practice Notes do not apply to contracts written under **Retirement Annuity Schemes** but the remaining sections apply in full to such schemes and contracts.

## 1.3 Definitions

The terms which appear in bold type in these notes are defined in Appendix 2.

## 2. Trustees and Advisers

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### 2.1 Appointment of Trustee

There should usually be at least two Guernsey resident trustees, although a Guernsey resident corporate trustee may act alone.

Members of **Retirement Annuity Trust Schemes** may not be trustees of the scheme, nor may any relative of the member or his or her spouse. For these purposes “relative” means a person related to the member by either blood or marriage. This condition may be waived, however, if the terms of the Instrument establishing the Trust specifically enable the trustees to act by majority and the majority of those trustees are neither members of the Scheme nor relatives, as defined above.

Any changes to the trustees must be notified to the **Director** within 30 days of such change.

### 2.2 Conditions of Approval

The trustees should ensure that they have read the relevant sections of The Trusts (Guernsey) Law, 2007 and appreciate their responsibilities thereunder. For example, they may wish to take independent professional advice as to the implication of their investment strategy on future cash flow for making annuity payments and, indeed, for the continuing security of such annuity payments. Also, accounts should be prepared and lodged with the Income Tax Office annually.

Where trustees are regulated by the GFSC they should ensure that they also comply with the requirements of the **GFSC RATS Rules**.

Adherence to these Practice Notes is a condition of approval and such approval will not be granted until the trustees have confirmed such adherence by completing a Trustee Confirmation Form (see Appendix 4) and returning it to the **Director**.

Any subsequent changes to the trust deed and rules must be notified to the **Director** as detailed in Appendix 1.

## 3. Membership

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### 3.1 Membership

Membership of an **Approved Scheme** may be made available either to a single individual or group of individuals or may be made available without limitation.

Every member of an **Approved Scheme** must be made aware of the terms of the scheme.

### 3.2 Approval of Members

Each member to be admitted to the scheme must also be approved and this is usually done by submission of Form RAMC (see Appendix 5) at the time of joining. However, where the scheme is an employer-sponsored arrangement, Form RAMC does not need to be submitted.

## 4. Contributions

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### 4.1 Contributions by Members

A member is not required to contribute to a scheme. Where a member does contribute, contributions in any year of up to the lower of £50,000 and 100% of **Taxable Income** will be allowable as a deduction for tax purposes. The application of this tax relief limit to contributions made by a married couple to **Approved Schemes** is explained in Statement of Practice M48.

The **Law** does not prohibit the payment of members' contributions in excess of this amount but no tax relief will be granted for contributions in any year in excess of the lower of £50,000 and 100% of **Taxable Income**. This limit applies to the overall contributions to all **Approved Schemes** and **Approved Occupational Pension Schemes**.

The monetary limit of £50,000 is current as at 2015 but may be reviewed for subsequent years.

### 4.2 Carry Forward Provisions

From 2011 onwards, if an individual has made a contribution to a **Retirement Annuity Scheme** or a **Retirement Annuity Trust Scheme** but cannot take advantage of the full tax relief available to him in any year, he may carry forward the unused tax relief to a later year, for a maximum period of 6 years following the end of the relevant year of charge. Within that six year period, however, any contribution made which exceeded the maximum relief available for that year alone, would absorb all, or part, of any brought forward relief, irrespective of whether or not it was required to reduce any tax payable.

The unused tax relief as a result of contributions to a **Retirement Annuity Scheme** or a **Retirement Annuity Trust Scheme** which are below the tax relief limit cannot be utilised by contributions to an **Approved Occupational Pension Scheme** unless the individual is also entitled to carry forward provisions in that scheme as a result of contributions to that scheme which, when aggregated with the **Retirement Annuity Scheme** and **Retirement Annuity Trust Scheme** contributions, are less than the tax relief limit.

The following example demonstrates the carry forward provisions.

An individual has a **Taxable Income** of £35,000 in 2011 and makes contributions to a **Retirement Annuity Trust Scheme** of £2,000 in 2011. He therefore has £33,000 of potential tax relief available to carry forward to later years, to be utilised by **Retirement Annuity Trust Scheme** or **Retirement Annuity Scheme** contributions by the end of 2017.

In 2012 he receives a (non-taxable) inheritance of £60,000 and invests it in his **Retirement Annuity Trust Scheme**. His **taxable income** is again £35,000.

The calculation of his unused tax relief to carry forward to 2013 and later years is:

|                               |                |
|-------------------------------|----------------|
| Brought forward from 2011     | £33,000        |
| Year of Charge 2012 allowance | <u>£35,000</u> |
|                               | £68,000        |
| Contributions made in 2012    | (£60,000)      |
| Available to carry forward    | £8,000         |

## 4. Contributions (continued)

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As the 2011 carry-forward has been fully utilised, £8,000 may be carried forward until the end of 2018. Note that the full amount of the pension contribution must be taken into account for determining the amount carried forward even though the individual only required £35,000 of tax relief to eliminate his tax liability for 2012.

In 2013 the individual's **Taxable Income** is again £35,000 and he makes a **Retirement Annuity Trust Scheme** contribution of £2,000. The previous £8,000 unused carry-forward remains available until 2018 and in addition, £33,000 of unused tax relief may be carried forward until 2019.

### 4.3 Contributions by Employers

An employer of a member is permitted to contribute to the scheme if it wishes to do so. If the contribution is an **Ordinary Contribution** it will be allowable as a deduction for tax purposes in the accounting period in which it is paid. Anti avoidance legislation prevents employers making disproportionately large **Ordinary Contributions** for individual members.

Where a contribution is not an **Ordinary Contribution**, the **Director** may allow it as a deduction for the accounting period in which it was paid. Alternatively the **Director** may direct that the contribution be apportioned over a longer period.

Employers' contributions are normally exempt from taxation as a benefit in kind for the member and do not count towards the member's tax relief limit described in section 4.1. However, in the case of a **Proprietary Director** or a **Proprietary Employee** any employer contributions in excess of 25% of **Relevant Earnings** would be taxable as a benefit in kind.

Where the employer contributes to the scheme it may (but is not required to) operate net pay arrangements through the ETI scheme in the same way as for an occupational pension scheme.

## 5. Benefits

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### 5.1 Commencement of Benefits

A member may elect to commence benefits at any time from age 50, or at an earlier age if due to **Incapacity** or where the **Director** has agreed an earlier age due to the individual's occupation.

However, commencement of benefits may not be deferred beyond age 75.

### 5.2 Benefits

Subject to the options available under section 7, benefits must be taken in pension form. It is not, however, necessary to purchase an annuity from an insurance company and the annuity may be paid out of the fund itself. If desired, the annuity may be guaranteed for a period of up to 10 years.

A quotation should be obtained either from an **Actuary** or from a recognised insurance company. In obtaining such a quotation, the annuity may allow for no increases or for annual increases of a fixed rate of up to 5% per annum, or in line with inflation as measured by any recognised index in Guernsey or the UK or in any other **Crown Dependency**. A contingent spouse's annuity not greater than the annuity may be provided for if required by the member. The quotation may take account of any reduced expectation of life for a member in poor health, but it is not compulsory to do so. The level of income drawdown should not normally exceed the quotation obtained but may be less if the member so requests and if the prior agreement of the **Director** has been obtained. It should not normally be the intention to pay a low rate of annuity so as to leave a substantial fund for a member's beneficiaries on his death (however, see 6.3 below).

Alternatively, it is acceptable to determine the amount of the annuity payment by reference to the drawdown tables published by the UK Government Actuary's Department (GAD). If this approach is adopted, the annuity payable should be within the range 100% to 150% of the GAD basis amount unless prior agreement for an alternative percentage has been obtained from the **Director**.

The terms and conditions of such annuity payments may be reviewed at appropriate intervals.

The trustees will be required to deduct tax in accordance with the ETI scheme upon any annuity payments made and should notify the **Director** before the first pension payment is made.

A lump sum, part of which may be tax free, may also be taken (see section 7). The annuity does not need to commence when the lump sum is taken, but must commence before age 75.

### 5.3 Risk Disclosure

If an annuity is not being purchased from an insurance company then the annuitant (and contingent annuitant, where appropriate) should be known to have other means of subsistence and thus not be specifically dependent upon the retirement annuity trust scheme for a significant part of their normal living expenses in retirement. The danger is that in basing an annuity on a quotation, which in turn utilises an "average expectation of life" assumption, there will be a substantial proportion of annuitants (and contingent annuitants) who outlive the available funds in a retirement annuity trust scheme. Thus the trustees must warn the parties concerned of this danger. The wording of the **GFSC RATS Rules** may be used for this purpose. Furthermore, if the annuity payment has been determined by reference to the GAD drawdown tables and a percentage greater than 100% of the basis amount has been used then the parties concerned should be made aware that this increases the probability that they will outlive the available funds.



## 6. Death Benefits

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### 6.1 Death before Commencement of Benefits

The following benefits may be provided:-

- (i) a lump sum (tax free) of up to the amount of the member's **Fund Value** at the date of death; plus
- (ii) an annuity payable to the member's spouse, children or **Dependants** derived from the member's remaining **Fund Value**. This annuity will be taxable according to the recipient's personal circumstances

### 6.2 Death after Commencement of Benefits

An annuity payable to the member's spouse, children or **Dependants** with the aggregate of such pensions not exceeding 100% of the pension which could have been provided for the member had he not commuted any annuity for a lump sum may be provided.

Alternatively, it is acceptable to wind up a **Retirement Annuity Trust Scheme**, or the member's share of the **Retirement Annuity Trust Scheme**, in accordance with section 6.3.

### 6.3 Termination of Scheme

If there is a fund left after all annuitants' entitlements have been met this may be distributed as required by the Deed, or at the discretion of the trustees. However, it should be noted that if distributions are made other than in the form of an annuity under the scheme, an income tax charge will arise at the standard rate of 20% on the remaining funds held within the scheme. Where amounts are paid in the form of an annuity the payments will be taxable according to the personal circumstances of the recipient.

## 7. Lump Sums

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### 7.1 Full Commutation

Where the **Fund Value** is **Trivial in Amount** or the **Fund Value** in respect of a spouse's, child's or **Dependant's** pension is **Trivial in Amount** or retirement is due to **Serious Ill Health** the entire **Fund Value** may be paid as a lump sum.

It is permissible to commute a **Fund Value** which is **Trivial in Amount** at any age. The full amount of the trivial commutation is taxable at the standard rate (currently 20%) if commutation occurs before age 50 and at half the standard rate if commutation occurs on or after age 50. However, the trivial commutation of a spouse's, child's or **Dependant's** pension on the death of a member is taxable at the standard rate regardless of age.

It is not necessary to seek prior approval from the **Director** before commuting a **Fund Value** which is less than £15,000. However, before commuting a **Fund Value** of greater than £15,000, Trustees should:

- a) obtain a declaration from the individual confirming that the **Fund Value** may be deemed **Trivial in Amount** (ie the individual is age 50 or over and the aggregate of the individual's **Fund Values** (including any previous trivial commutations, taken at face value) from all **Approved Occupational Pension Schemes** and **Approved Schemes** does not exceed £30,000); and
- b) seek clearance from the **Director**

Tax should be remitted to the **Director** within 30 days of the commutation being paid.

### 7.2 Retirement Lump Sum

In circumstances other than those set out in paragraph 7.1 above, a member who has attained age 50 may commute up to 30% of his **Fund Value** for a lump sum.

Retirement lump sums in excess of a specific limit are subject to income tax. In assessing the taxable element of a lump sum, the lump sum benefits (excluding **Serious Ill Health** lump sums, trivial commutation lump sums and lump sums paid in respect of overseas transfers in) paid since 1 January 1998 from all **Approved Schemes** and **Approved Occupational Pension Schemes** must be aggregated. The maximum tax-free lump sum limit is reviewed annually. Details of the limits for the last five years are provided below.

| Year | Maximum tax-free lump sum<br>£ |
|------|--------------------------------|
| 2011 | 167,000                        |
| 2012 | 173,000                        |
| 2013 | 179,000                        |
| 2014 | 183,000                        |
| 2015 | 184,000                        |

## 7. Lump Sums (continued)

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Details of the current limit in force may be found at [www.gov.gg/taxationonpensions](http://www.gov.gg/taxationonpensions)

A lump sum can be paid at the same time or before or after a member commences annuity payments and a member may elect to receive his lump sum in any number of tranches.

The example in Appendix 7 illustrates this flexibility.

## 8. Transfers of Benefits

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### 8.1 Outward Transfers of Benefits

Outward **Transfer Payments** may be made to:

- another **Approved Scheme** or an **Approved Occupational Pension Scheme** or a **Statutory Scheme**;
- a pension scheme approved in the United Kingdom, Jersey, the Isle of Man or the Republic of Ireland
- other pension schemes outside Guernsey which provide similar benefits (ie schemes which have the same early retirement and retirement lump sum restrictions as an **Approved Scheme**)
- Guernsey schemes which are neither **Approved Schemes** nor **Approved Occupational Pension Schemes**

Appendix 1 covers the tax implications of such transfers.

### 8.2 Inward Transfers of Benefits

Inward transfers of benefits may be made from the arrangements listed in section 8.1 above. Regard should also be had to the relevant legislation regarding pension transfers in the transferring territory.

## 9. Accounts and Investment of the Funds

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### 9.1 Accounts

The **Director** will ask to see accounts annually.

### 9.2 Investment of the Funds

The investment(s) selected for the **Retirement Annuity Trust Scheme** should have regard to the cashflow requirements needed to make the annuity payments.

The following are suitable investments for **Retirement Annuity Trust Schemes**:

1. Equity investment in any company quoted on a recognised stock exchange.
2. Equity investment in companies not quoted on a recognised stock exchange. Where any member of the scheme holds, together with relatives or any other member, more than 15% of the issued share capital of the company, not more than 10% of the total fund shall be invested in the company.
3. Any other investment marketed by a generally recognised financial institution.
4. Loans to members may be made by the Trustees, provided that:
  - (a) The total amount advanced at any time does not exceed 30% of the **Fund Value**.
  - (b) Interest is charged on a commercial basis. Such interest must actually be paid by the member at least annually and, for these purposes, "commercial basis" means interest should be charged on the loan at a rate no lower than that obtainable on a similar amount deposited with, and no higher than that payable on a similar amount borrowed from, a financial institution.
  - (c) The Trustees should ensure that they hold sufficient security for the loan, to enable them to enforce repayment at any time.
  - (d) The loan must be repaid before benefits commence to be paid in respect of the member for whom the loan was made.
5. Purchase of property let on a commercial basis. This may include property occupied by a member, their relatives or connected companies, provided that a properly valued commercial rent is paid. Property should be wholly owned by the Trustees; part ownership is not permitted.

Investment in any asset not listed above is only permitted with the prior consent of the **Director**.

### 9.3 Gearing

The trustees should not borrow money for the purposes of additional investment (i.e. "gearing") except in the case of investment into real property. However, borrowings that were entered into before July 2011 may continue.

# Appendix 1 Applications for and Consequences of Approval

## Applications for Approval of Scheme

Applications for approval should be made using form 681 and addressed to the Retirement Annuity Supervisor (see Appendix 6).

The **Director** is unable to provide a pro-forma trust deed, nor is he able to offer advice on the wording or composition of this, and it is strongly recommended that professional advice is obtained before executing a trust deed. It would be usual for the trust deed to contain, possibly as an appendix, the Rules of the scheme, confirming that it will conform to the requirements of the **Law**.

Where the Trustees are regulated by the GFSC, scheme documentation does not need to be submitted with the application form, although the **Director** may subsequently request additional information. Where the Trustees are not regulated by the GFSC, the **Director** will normally expect to see a properly executed trust deed.

Once an application for approval has been received it will be allocated a reference number. This reference number should then be quoted on all further correspondence in connection with the scheme.

Any changes to the scheme documentation which affect or may affect continued approval must be advised to the **Director** within 30 days of implementation. The deed of amendment does not need to be submitted but a letter summarising the changes should be sent to the **Director**.

Any changes to the trustees or the correspondence address must be notified to the **Director** within 30 days.

## Basis of Approval

The **Law**, at section 157A(2), allows for the approval of a Retirement Annuity Scheme contract made by an individual with a company, resident in Guernsey (or carrying on business through a permanent establishment situated in Guernsey) and carrying on in Guernsey the business of granting annuities on human life. Approval of such a contract is subject to the conditions contained in sections 157A (2) and (3) of the **Law**. The **Director** may also place other conditions on the Scheme as he thinks fit in appropriate cases.

The **Law**, at section 157A (4), allows for the approval of a Retirement Annuity Trust Scheme provided that it is established:

- (a) under the laws of the United Kingdom or Guernsey and is administered in either of those territories; and
- (b) for the purposes of providing Retirement Annuities for individuals and their families and dependants; and
- (c) under irrevocable trusts.

Approval is also subject to the conditions contained in sections 157A (2) and (3) of the **Law**, in other words the same as those for insurance company based retirement annuity contracts with necessary adaptations. The **Director** may also place other conditions on the Scheme as he thinks fit in appropriate cases.

## Tax Consequences of Schemes Approved under Section 157A

Income derived from investments and deposits forming a part of the scheme will be exempt from Guernsey income tax.

Both members' and employers' contributions will qualify for income tax relief. See Section 4.

Lump sum payments which fall within the limits laid down by the States of Guernsey Income Tax Office, excluding trivial commutations but including a lump sum payment following the death of a member before commencement of benefits, may be made free of tax. Lump sums in excess of the tax-free limit taken in commutation of pension (see section 7) or following the death of a member after commencement of benefits are taxable at the standard rate.

Commutations of **Fund Values** which are **Trivial in Amount** are taxed at the standard rate if the member is under age 50 and at half the standard rate if the member is over age 50. However, the trivial commutation of a spouse's pension on the death of a member is taxable at the standard rate regardless of age.

**Transfer Payments** to other **Approved Schemes** or to **Approved Occupational Pension Schemes** or **Statutory Schemes** may be made without deduction of tax.

**Transfer payments** made to schemes outside of Guernsey or to Guernsey schemes which are neither **Approved Schemes** nor **Approved Occupational Pension Schemes**, with the exception of certain schemes approved in the United Kingdom, will be subject to income tax at one half of the standard rate.

Any pension paid in respect of Guernsey service or as a result of a **Transfer Payment** being accepted by a Guernsey scheme will normally be subject to Guernsey income tax and the payer will normally be required to operate the Employees Tax Instalments Scheme.

### Actuary

A Fellow of the Institute and Faculty of Actuaries

### Approved Occupational Pension Scheme

A pension scheme or part of a pension scheme approved by the **Director** in accordance with section 150 of the **Law** and any scheme authorised by Resolution of the States of Guernsey

### Approved Scheme

A retirement annuity scheme or a retirement annuity trust scheme approved by the **Director** under section 157A of the **Law**

### Crown Dependency

Guernsey, Jersey or the Isle of Man

### Dependant

An individual who is dependent for the ordinary necessities of life upon a member of an **Approved Scheme**.

### Director

The Director of Income Tax referred to in section 205 of the **Law**.

### Fund Value

The member's entire (pre-commutation) accumulated fund under the Scheme, including contributions, investment returns and the proceeds from any insurance policies.

### GFSC RATS Rules

The Retirement Annuity Trust Schemes Rules, 2010 made by the Guernsey Financial Services Commission, as amended from time to time.

### Incapacity

Physical or mental deterioration which prevents an individual from following his or her normal employment, or which seriously impairs earning capacity.

### Law

The Income Tax (Guernsey) Law, 1975, as amended.



### Ordinary Contribution

A periodic contribution fixed in amount or calculated on some definite basis by reference to the earnings or contributions of the members of the scheme, or to the number of such members, or in the case of a body corporate, a periodic contribution consisting of a share of the profits arising to that body from the business in connection with which the scheme is established and computed according to a formula approved by the **Director**.

Ordinary contributions should normally be on a consistent basis of calculation for all members of the scheme. However, different contribution structures can be applied with the agreement of the trustees/insurance company on the advice of an **Actuary** where appropriate.

### Proprietary Director

A director of a company who is either the beneficial owner of, or able, either directly or through the medium of other companies or by any other indirect means, to control more than fifteen per cent of the ordinary share capital of the company.

### Proprietary Employee

In relation to a company, an employee who is the beneficial owner of, or able, either directly or through the medium of other companies or by any other indirect means, to control more than fifteen per cent of the ordinary share capital of the company.

### Relevant Earnings

As defined at section 157A (9) (a) of the **Law**.

### Retirement Annuity Scheme

A scheme approved under Section 157A (2) of the **Law**.

### Retirement Annuity Trust Scheme

A scheme approved under Section 157A (4) of the **Law**.

### Serious Ill Health

A member will be deemed to be in serious ill health if the scheme's trustees have received evidence from a registered medical practitioner that the life expectancy of the member is less than a year.

### Statutory Schemes

A scheme as defined in section 612(1) of the UK Income and Corporation Taxes Act 1988

### Taxable Income

Income of the member in respect of which tax is chargeable and arising or accruing in the year of computation. No account is taken of deductions or allowances.

### Transfer Payment

A payment equal to the member's **Fund Value**, at the time when the payment is made. Reasonable administration expenses may be deducted from the **Fund Value**.

### Trivial in Amount

A **Fund Value** not exceeding £15,000.

A **Fund Value** of greater than £15,000 may be deemed trivial in amount for an individual age 50 or over if the aggregate of the individual's **Fund Values** (including any previous trivial commutations) from all **Approved Occupational Pension Schemes** and **Approved Schemes** does not exceed £30,000.

This appendix summarises the extra statutory concessions relating to pensions which the **Director** may be prepared to allow in certain circumstances.

### Divorce

When a husband and wife separate the **Director** may be prepared to allow a transfer of part of the pension rights of one of the parties from an **Approved Scheme** to another **Approved Scheme** or **Approved Occupational Pension Scheme**. Each case would however need to be submitted to the **Director** for individual consideration and subject to agreement with the scheme trustees.

**Scheme Name:**

**Income Tax Reference:**

I/we confirm that I/we have received a copy of the Practice Notes relating to retirement annuity trust schemes and have read and noted its contents and agree to act in accordance therewith.

I/we also confirm that I/we have read the relevant sections of The Trusts (Guernsey) Law, 2007 and appreciate our responsibilities thereunder.

**Signed** \_\_\_\_\_

**Name** \_\_\_\_\_

**Signed** \_\_\_\_\_

**Name** \_\_\_\_\_

**Signed** \_\_\_\_\_

**Name** \_\_\_\_\_

**Date** \_\_\_\_\_

**Appendix 5 Retirement Annuity Member Certificate**

- 1. Full name of member
  
- 2. Full postal address (do not abbreviate)
  
- 3. Income Tax reference number of member
  
- 4. Reference number under which trust approved by the Director of Income Tax:
  
- 5. (a) Date of first premium  
  
(b) Expected frequency and amount of future premiums

**DECLARATION**

This certificate gives details of a member in a Retirement Annuity Trust Scheme or a Retirement Annuity Scheme which is in a form approved by the Director of Income Tax, Guernsey and is submitted to the Director in accordance with Regulations made under section 159 of the Income Tax (Guernsey) Law, 1975.

**Signed** ..... Trustee/Officer of Company

**Application for Approval under the  
Income Tax (Guernsey) Law, 1975, as amended (“the Law”)**

**Occupational Pension Scheme  
Retirement Annuity Contract  
Retirement Annuity Trust Scheme  
(delete as appropriate)**

1. Name of Scheme/Contract .....  
.....
  
2. Names of Trustees and Administrators .....  
.....  
.....
  
3. Name of sponsoring employer (if applicable) .....
  
4. Details of any associated schemes for employer named at 3. above .....
  
5. Address for correspondence .....  
.....  
.....
  
6. Date of establishment of Scheme/Contract .....
  
7. Anticipated approximate size of membership .....
  
8. I/we hereby apply for approval under: *(delete as appropriate)*
  - (a) section 150(2) of the Law (Occupational Schemes);
  - (b) section 157A(2) of the Law (Retirement Annuity Contracts);
  - (c) section 157A(4) of the Law (Retirement Annuity Trust Schemes)
  
9. I/we confirm that:
  - (a) a copy of the Instrument establishing the Scheme/Contract is available to the Director of Income Tax on request (see Note 2 on next page);

- (b) any changes to the Scheme, Deed, Rules or Contract of a material nature will be advised to the Director within 30 days of implementation (see Note 4 below);
- (c) any changes to the Trustees or the correspondence address will be notified to the Director within 30 days;
- (d) the Trustees/Administrators:
  - (i) are satisfied that the Scheme, Deed, Rules or Contract satisfies all of the conditions of the legislation under which approval is sought;
  - (ii) are aware of and have read the Practice/Guidance Notes/Codes of Practice published by the Director in respect of such arrangements (see Note 5 below);
  - (iii) undertake to ensure that the Scheme, Deed, Rules or Contract is administered so as to adhere to the relevant legislation, notes, guidance or codes, or to advise the Director immediately if this ceases to be the case;
  - (iv) undertake to supply the Director with such further information as the Director may reasonably require.

#### 10. Declaration

**I hereby declare that the information provided in this application is true and correct to the best of my knowledge and belief. I have taken professional advice in completing the application, as appropriate.**

**I am authorised to make the declaration above on behalf of the Trustees/Scheme Administrator.**

**Signed** .....

**Date** .....

**Capacity in which you are making the application (if not Trustee/Scheme Administrator):**

.....

#### **NOTES ON APPLICATION FOR APPROVAL**

1. When completed, the application should be submitted to the Income Tax Office, addressed to:
  - the Pension Schemes Supervisor (for section 150 applications); or
  - the Retirement Annuity Supervisor (for section 157A applications).
2. Do NOT send Scheme or Contract documentation unless requested. For Retirement Annuity Trust Schemes, the document establishing the Scheme should only be submitted if its trustees are not regulated by the GFSC.
3. A letter confirming approval will be sent as soon as possible after receipt of the application, which will contain the approval reference number.
4. A change to a Scheme, Deed, Rules or Contract will be regarded as material if it affects, or may affect, continued approval. There is no specific form for advising such changes.
5. All legislation, notes and codes are available at [www.gov.gg/taxationonpensions](http://www.gov.gg/taxationonpensions).
6. The application should only be signed by a person authorised and able to provide the information and undertakings requested. This will obviously include the Trustees or Administrators, but may also include a person holding a legal, actuarial or accountancy qualification.

The example in this appendix illustrates how the lump sum calculation and payment in tranches works in practice.

A member aged 50 has a **Fund Value** of £100,000 on 1 January 2011. He would like to receive a lump sum of £10,000 on 1 January 2011 but does not wish to commence pension payments on this date.

On 1 January the administrator calculates the minimum fund that needs to be “retired” to provide the lump sum. This is derived as

$$\frac{\pounds 10,000}{30\%} = \pounds 33,333$$

After payment of the lump sum the member’s fund has two segments:

- A “Retired Segment” of £23,333 [ $\pounds 33,333 - \pounds 10,000$ ] which must be used to provide an annuity either immediately or at a future date
- An “Unretired Segment” of £66,667 [ $\pounds 100,000 - \pounds 33,333$ ] which can be “retired” (with up to 30% commuted) at a future date

Suppose the member:

- Pays additional contributions over 2011 which total £15,000
- Receives an investment return of 5% over 2011 on the funds invested at 1 January 2011
- Receives an investment return of 3% on the contributions paid over 2011.

The position at 1 January 2012 is that the member will have:

- £24,500 remaining in his Retired Segment [ $\pounds 23,333 \times (1+5\%)$ ]
- £85,450 in his Unretired Segment [ $\pounds 66,667 \times (1+5\%) + \pounds 15,000 \times (1+3\%)$ ]