canada life

Fund Advisers and Fund Adviser Fees

Briefing Note

Under most policies issued by Canada Life International and Canada Life International Assurance (Ireland) (referred to as "Canada Life") clients are able to nominate fund advisers to manage the underlying investments held within their policies.

Nominating a fund adviser

The process of appointing a fund adviser includes the following steps:

- As part of the application process, the client nominates a fund adviser.
- Canada Life, as owner of the assets, appoints the fund adviser, but reserves the right to decline the nomination.
- The agreement to manage the assets is between the owner of the assets, Canada Life, and the fund adviser. Canada Life appoints the client to act as their agent to take investment advice.
- Investment recommendations made by the fund adviser are discussed with the client and the fund adviser maintains records of these discussions.

Fund advisers can be appointed either on a discretionary, or a non-discretionary basis and can charge a fee for their service:

- **Discretionary fund adviser**

  The fund adviser will operate to a discretionary mandate and have the necessary regulatory permissions to change the underlying investments without the need to agree any changes with the client before they submit the dealing instructions.

- **Non-discretionary fund adviser**

  The fund adviser can only submit dealing instructions once agreement has been received from Canada Life or the client if they are appointed as an agent of Canada Life. The fund adviser will need to have the regulatory authority to provide financial advice.

Fund adviser fees

Following guidance issued by HMRC and external tax advice, where certain conditions are met, any fund adviser fees deducted from a product are not treated as part of the 5% tax deferred allowance, irrespective of whether the fund adviser is acting on a discretionary or non-discretionary basis.

The fees paid for advice given to Canada Life cannot be used to subsidise advice in other areas. **The cost of advice for other services and financial advice must be met through adviser charging, which is treated as part of the 5% tax deferred allowance.**

For example, where an adviser takes a fund adviser fee and gives advice or offers services in other areas that they do not charge for, the client is benefiting indirectly from the charge for the investment advice given to Canada Life. This would cause the whole fee to be treated as being part of the tax deferred allowance.

Existing or legacy business

For those policies that already have a fund adviser fee being deducted and paid, the clients would need to complete a new investment instruction.

If an adviser is being paid through adviser charging then there should be no need to switch to a fund adviser fee. If they were acting as a fund adviser then their fees should already be deducted as such.

Interaction with VAT

The VAT status of a payment is not affected by the source of that payment, it is based on what the payment is for.

Our understanding is that product arrangement is intermediation and therefore exempt from VAT, whereas advice is VATable. However, advisers should clarify the position with their accountant and local Inspector of Taxes.

If advice relates to the underlying investments then it cannot be intermediation and so is potentially VATable.

If advisers incorrectly allocate costs to a fund adviser fee or an adviser charge they could potentially be charging VAT on a non-VATable service or the other way round. This could cause issues for an adviser firm under Treating Customers Fairly.

The following link provides further information regarding VAT.

http://www.hmrc.gov.uk/manuals/vatfinmanual/VATFIN7665.htm

This briefing note has been prepared for professional advisers use only. The information regarding taxation is based on our understanding of current legislation, law and HM Revenue & Customs practice as at September 2020. We recommend that advisers and investors take their own professional tax advice.

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