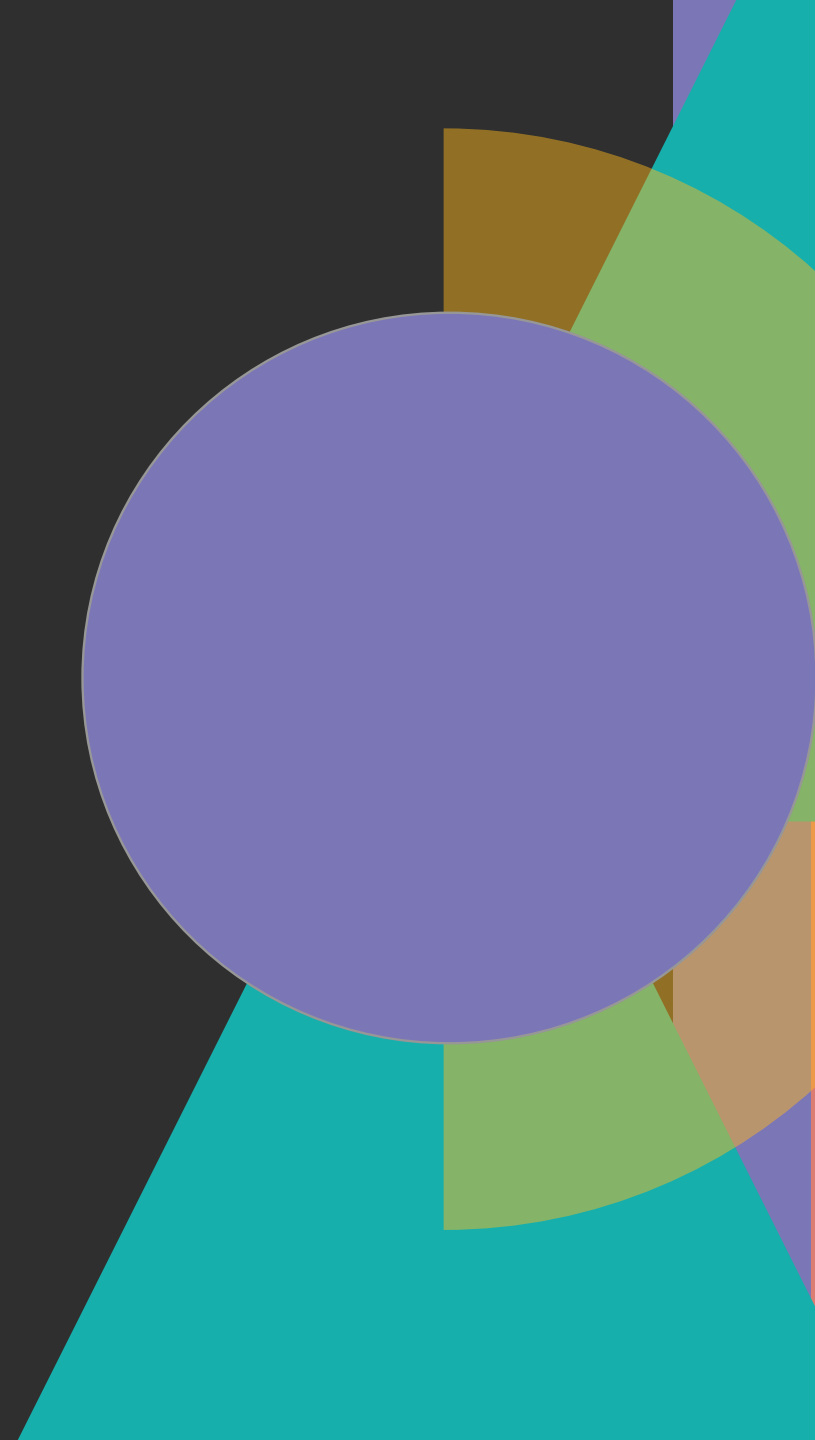


Advising SMEs

The business owner at tax year end

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice as of January 2023 all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients



Les Cameron

Head of Technical



This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

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Learning Objectives

By the end of this session you will be able to:

Describe

The tax treatment of the different methods of profit extraction

Evaluate

The impact of corporation tax changes on corporate investments

Evaluate

The planning and advice considerations when advising business owners



The issues

Spot the difference

“....my retirement is sorted out, I heard about this unlisted company no-one has heard of and bought up the shares with my SIPP, it'll definitely do well enough to cover my retirement and it's not too risky.....”

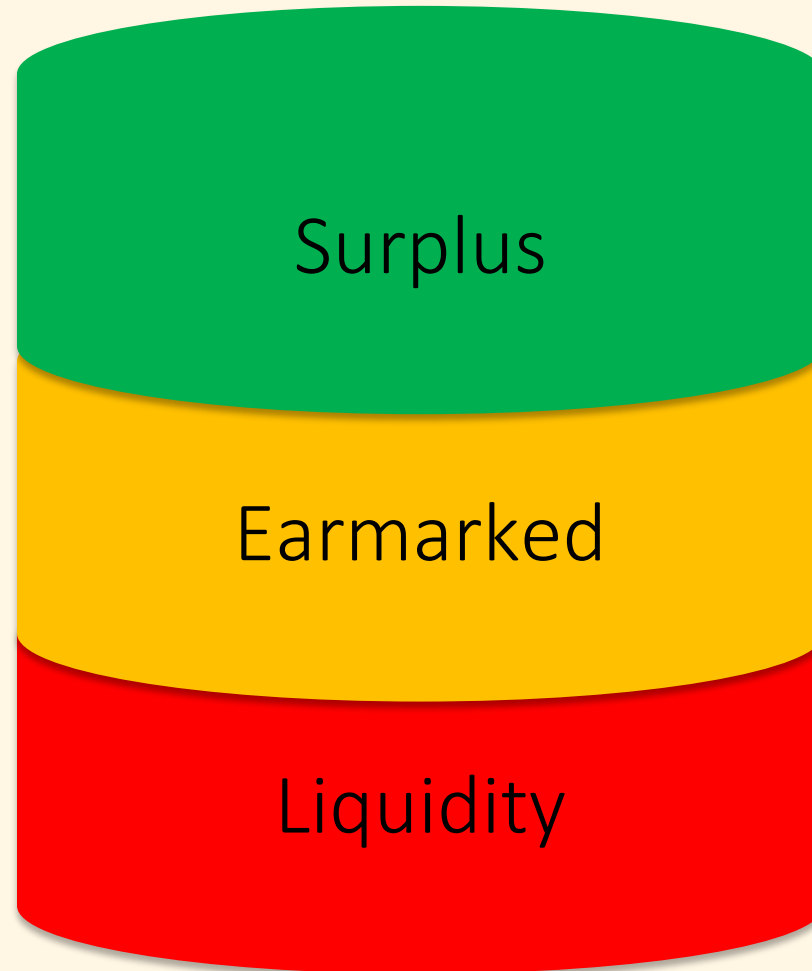
No-one, ever, probably

“.....my business is my pension....”

Lots of people, definitely

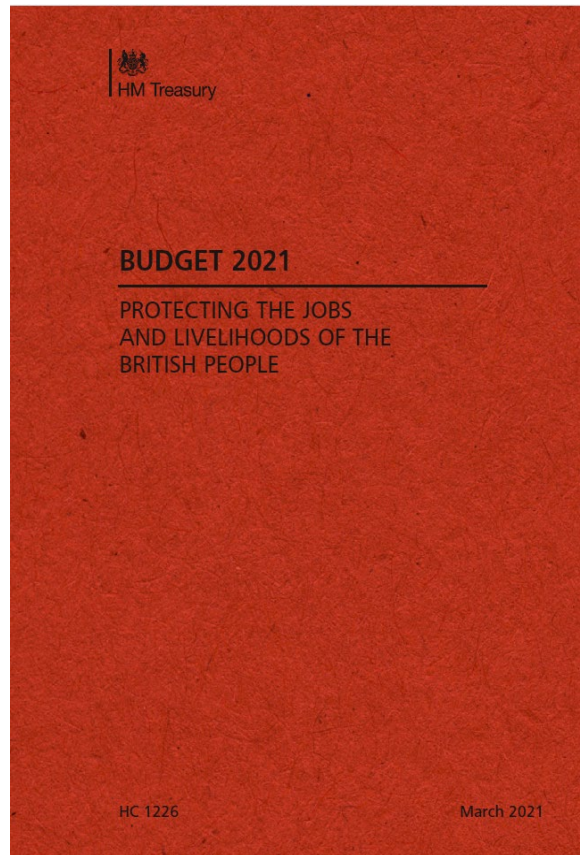
Cash problem?

Eroding
value?



Jeopardising
retirement?

So, where is the SME...



Corporation Tax Increase

All main allowances frozen

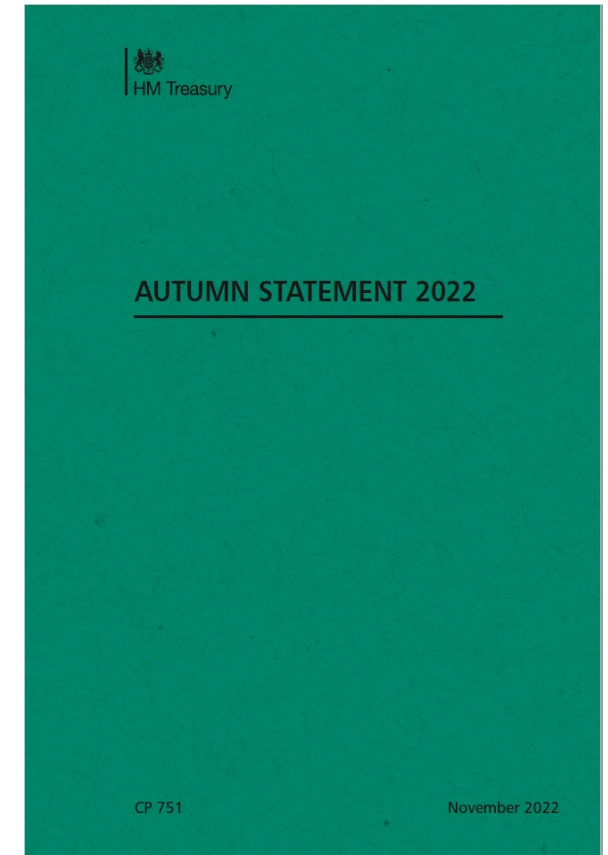
National Insurance alignment with Income Tax

1.25% increase to Dividend Tax

Additional Rate band decreased

Dividend Allowance reducing

Capital Gains Tax Exemption Reduced



Devolved Taxation

Belfast

No income tax powers

Edinburgh

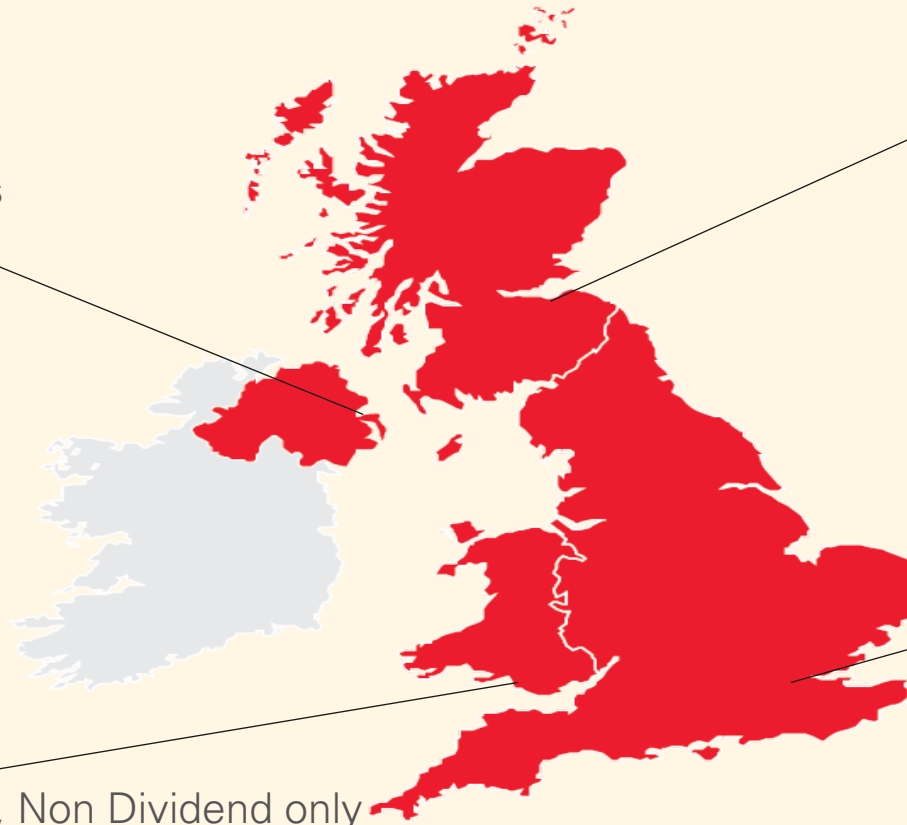
Non savings, Non Dividend only
(Rates & Bands)

Cardiff

Non savings, Non Dividend only
(Rates only)

London

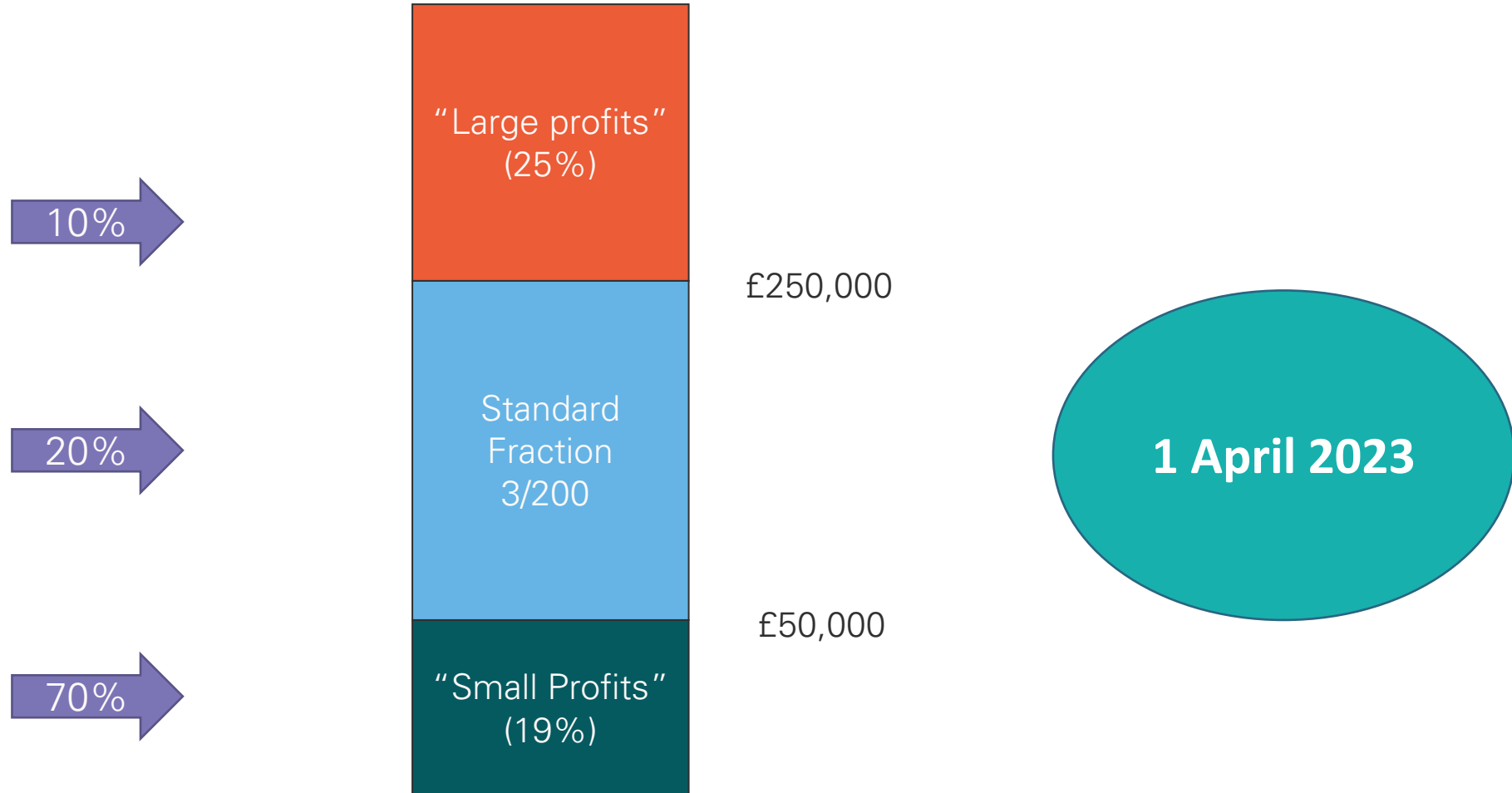
Non savings, Non Dividend (Eng & NI)
Savings
Dividends
Allowances (tax traps)
National Insurance
Capital Gains Tax
Corporation Tax





Corporation Tax

Corporation Tax changes



Calculating corporation tax

Profit		£130,000
Corp Tax	25%	£32,500
Marginal relief	£250,000	
	<u>£130,000</u>	
3/200 (1.5%)	£120,000	£1,800
	Tax due	£30,700
	Effective Rate	23.62% (£30,700/£130,000)

Effective rates

Profit	19%			26.5%			Total Tax	Effective Rate
£10,000	£10,000	19%	£1,900				£1,900	19.00%
£20,000	£20,000	19%	£3,800				£3,800	19.00%
£30,000	£30,000	19%	£5,700				£5,700	19.00%
£40,000	£40,000	19%	£7,600				£7,600	19.00%
£50,000	£50,000	19%	£9,500				£9,500	19.00%
£60,000	£50,000	19%	£9,500	£10,000	26.5%	£2,650	£12,150	20.25%
£70,000	£50,000	19%	£9,500	£20,000	26.5%	£5,300	£14,800	21.14%
£80,000	£50,000	19%	£9,500	£30,000	26.5%	£7,950	£17,450	21.81%
£90,000	£50,000	19%	£9,500	£40,000	26.5%	£10,600	£20,100	22.33%
£100,000	£50,000	19%	£9,500	£50,000	26.5%	£13,250	£22,750	22.75%
£110,000	£50,000	19%	£9,500	£60,000	26.5%	£15,900	£25,400	23.09%
£120,000	£50,000	19%	£9,500	£70,000	26.5%	£18,550	£28,050	23.38%
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
£140,000	£50,000	19%	£9,500	£90,000	26.5%	£23,850	£33,350	23.82%
£150,000	£50,000	19%	£9,500	£100,000	26.5%	£26,500	£36,000	24.00%
£160,000	£50,000	19%	£9,500	£110,000	26.5%	£29,150	£38,650	24.16%
£170,000	£50,000	19%	£9,500	£120,000	26.5%	£31,800	£41,300	24.29%
£180,000	£50,000	19%	£9,500	£130,000	26.5%	£34,450	£43,950	24.42%
£190,000	£50,000	19%	£9,500	£140,000	26.5%	£37,100	£46,600	24.53%
£200,000	£50,000	19%	£9,500	£150,000	26.5%	£39,750	£49,250	24.63%
£210,000	£50,000	19%	£9,500	£160,000	26.5%	£42,400	£51,900	24.71%
£220,000	£50,000	19%	£9,500	£170,000	26.5%	£45,050	£54,550	24.80%
£230,000	£50,000	19%	£9,500	£180,000	26.5%	£47,700	£57,200	24.87%
£240,000	£50,000	19%	£9,500	£190,000	26.5%	£50,350	£59,850	24.94%
£250,000	£50,000	19%	£9,500	£200,000	26.5%	£53,000	£62,500	25.00%

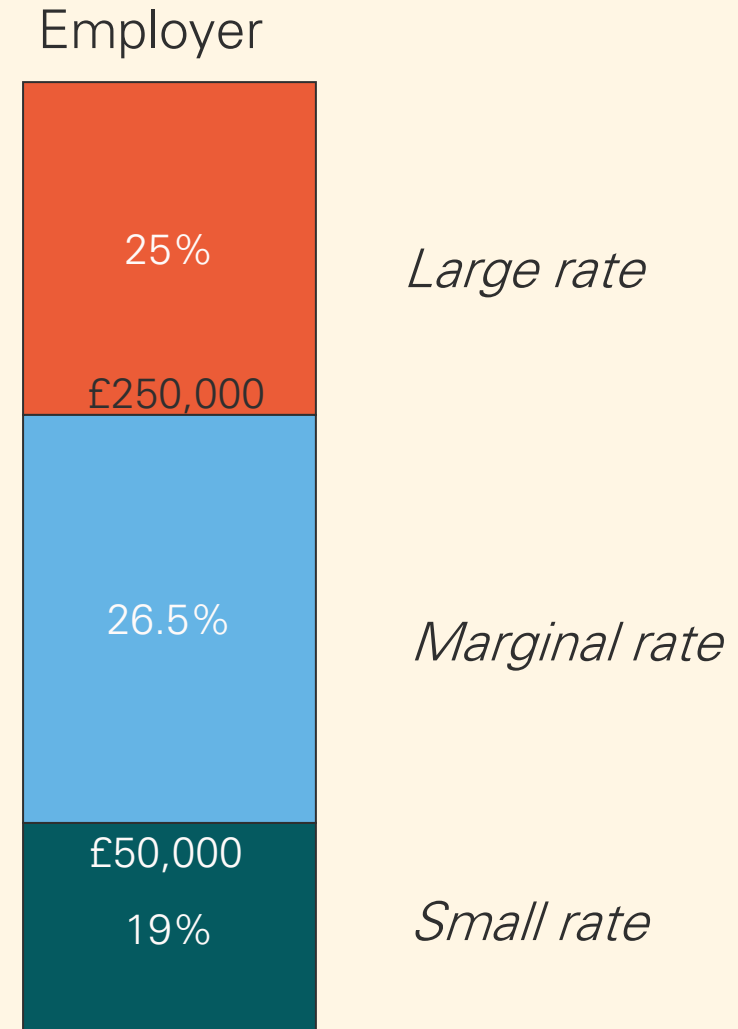
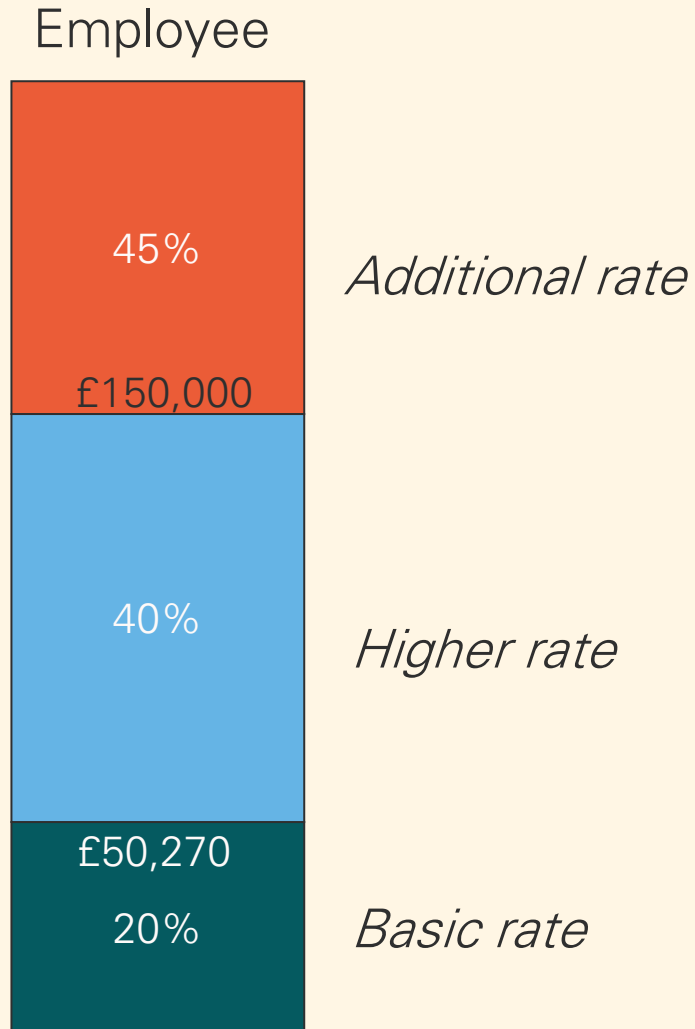
Effective rates

Profit	19%			26.5%			Total Tax	Effective Rate
£10,000	£10,000	19%	£1,900				£1,900	19.00%
£20,000	£20,000	19%	£3,800				£3,800	19.00%
£30,000	£30,000	19%	£5,700				£5,700	19.00%
£40,000	£40,000	19%	£7,600				£7,600	19.00%
£50,000	£50,000	19%	£9,500				£9,500	19.00%
£60,000	£50,000	19%	£9,500	£10,000	26.5%	£2,650	£12,150	20.25%
£70,000	£50,000	19%	£9,500	£20,000	26.5%	£5,300	£14,800	21.14%
£80,000	£50,000	19%	£9,500	£30,000	26.5%	£7,950	£17,450	21.81%
£90,000	£50,000	19%	£9,500	£40,000	26.5%	£10,600	£20,100	22.33%
£100,000	£50,000	19%	£9,500	£50,000	26.5%	£13,250	£22,750	22.75%
£110,000	£50,000	19%	£9,500	£60,000	26.5%	£15,900	£25,400	23.18%
£120,000	£50,000	19%	£9,500	£70,000	26.5%	£18,550	£28,050	23.38%
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
£140,000	£50,000	19%	£9,500	£90,000	26.5%	£23,850	£33,350	23.98%
£150,000	£50,000	19%	£9,500	£100,000	26.5%	£26,500	£36,000	24.33%
£160,000	£50,000	19%	£9,500	£110,000	26.5%	£29,150	£38,650	24.63%
£170,000	£50,000	19%	£9,500	£120,000	26.5%	£31,800	£41,300	24.79%
£180,000	£50,000	19%	£9,500	£130,000	26.5%	£34,450	£43,950	24.92%
£190,000	£50,000	19%	£9,500	£140,000	26.5%	£37,100	£46,600	25.05%
£200,000	£50,000	19%	£9,500	£150,000	26.5%	£39,750	£49,250	25.17%
£210,000	£50,000	19%	£9,500	£160,000	26.5%	£42,400	£51,900	25.28%
£220,000	£50,000	19%	£9,500	£170,000	26.5%	£45,050	£54,550	25.39%
£230,000	£50,000	19%	£9,500	£180,000	26.5%	£47,700	£57,200	25.50%
£240,000	£50,000	19%	£9,500	£190,000	26.5%	£50,350	£59,850	25.61%
£250,000	£50,000	19%	£9,500	£200,000	26.5%	£53,000	£62,500	25.71%

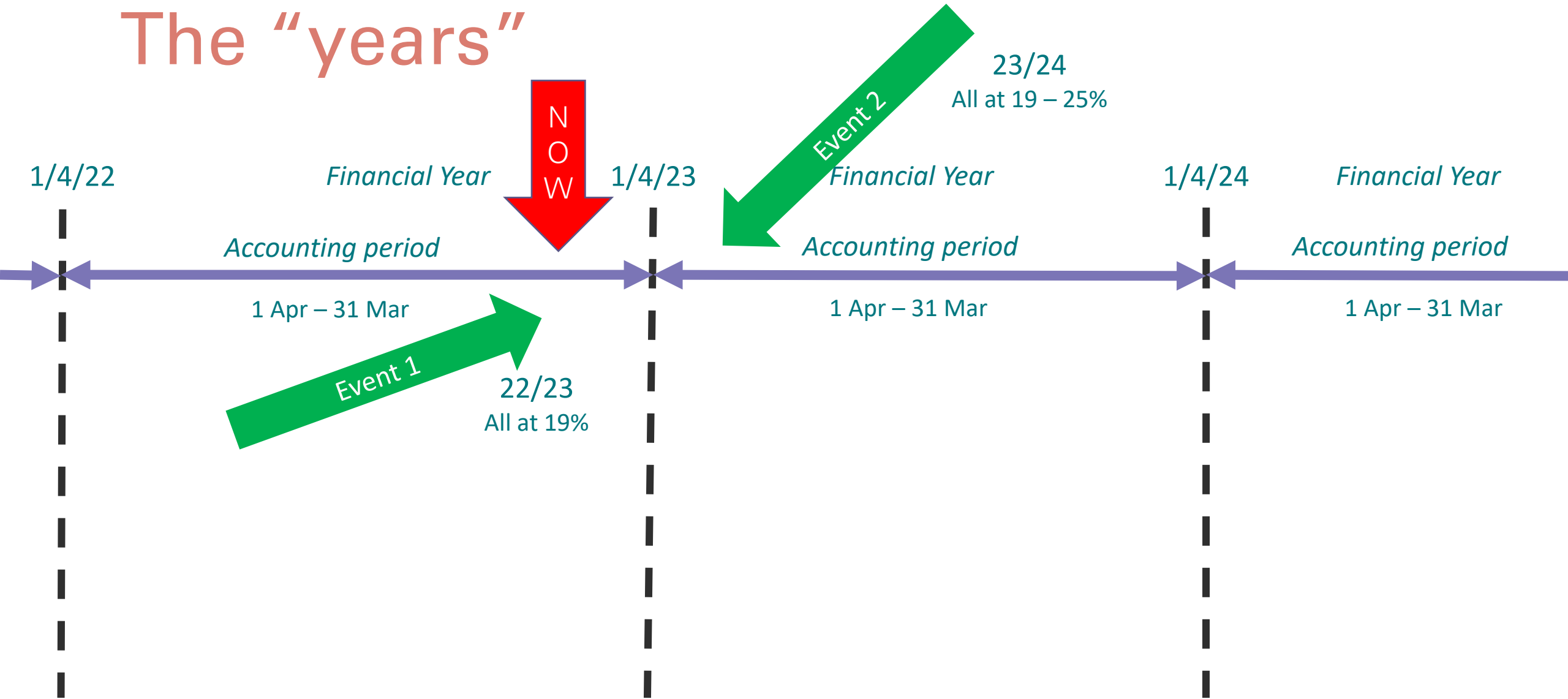
Effective Rate

23.62%

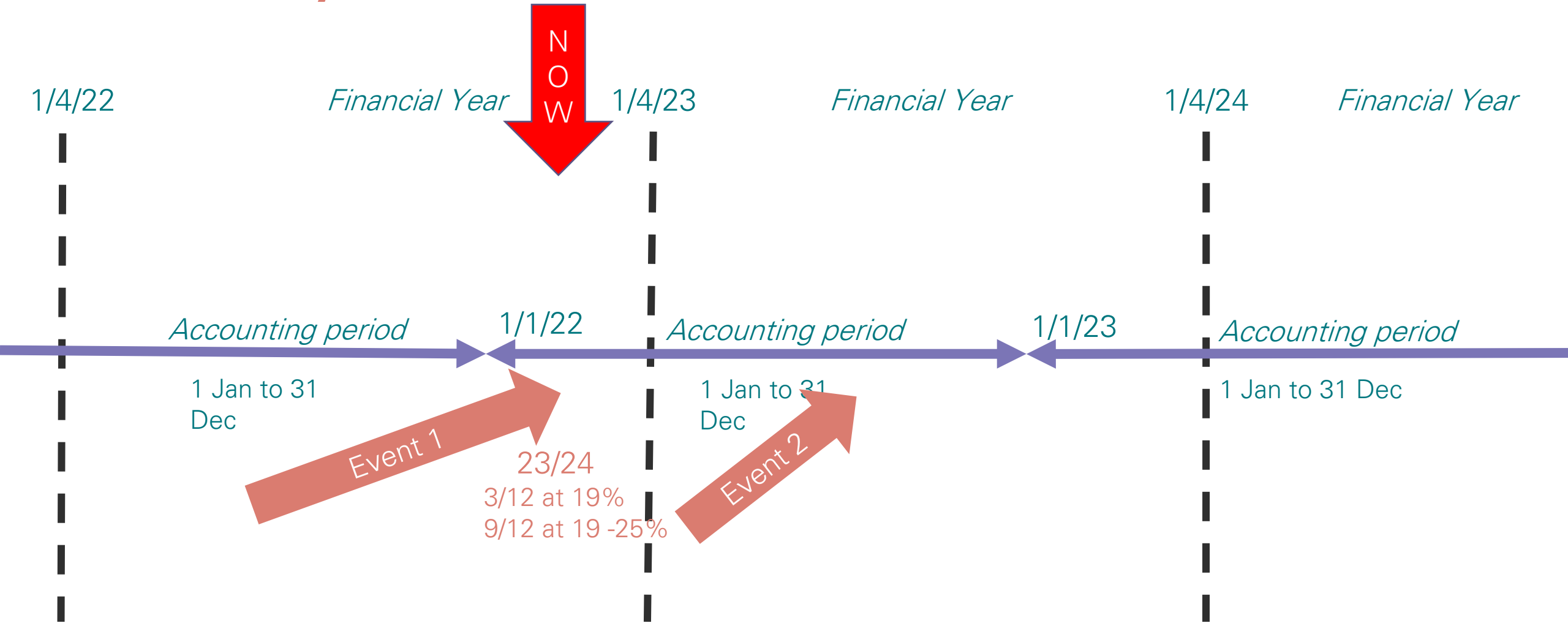
Tax Relief



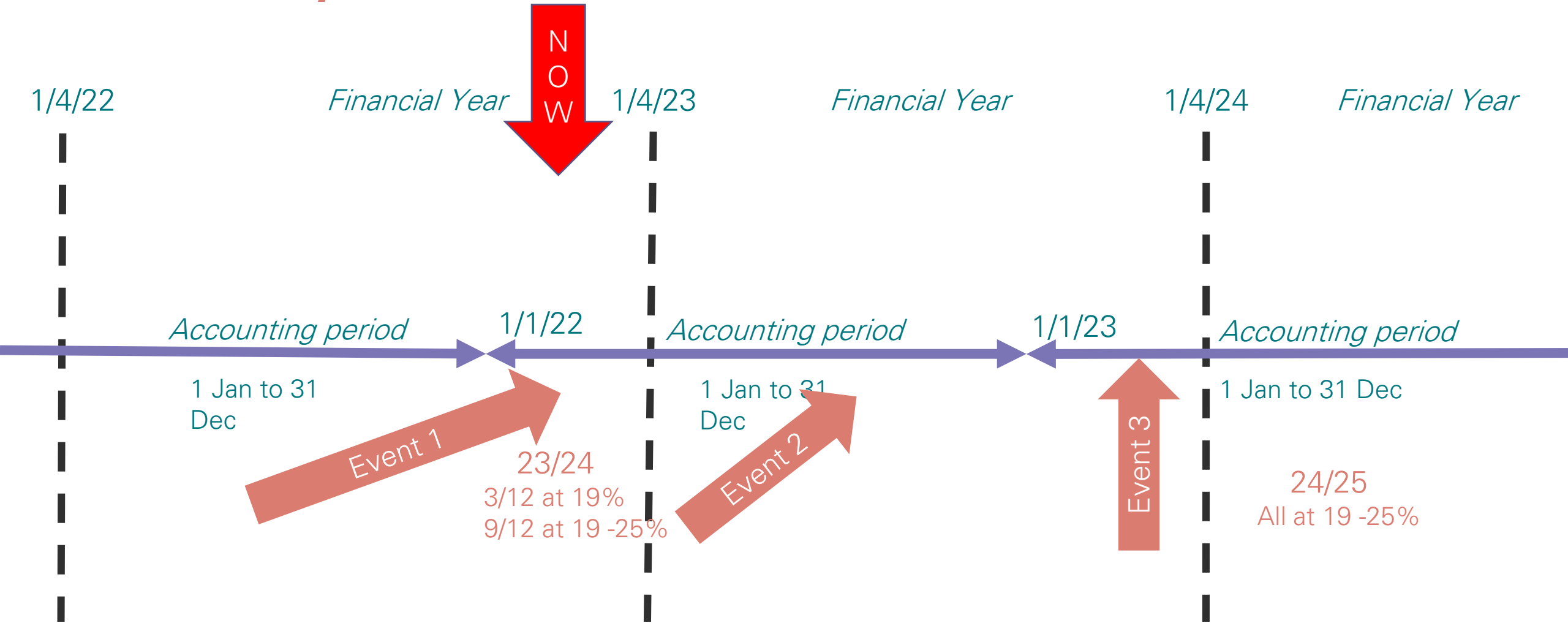
The “years”



The "years"



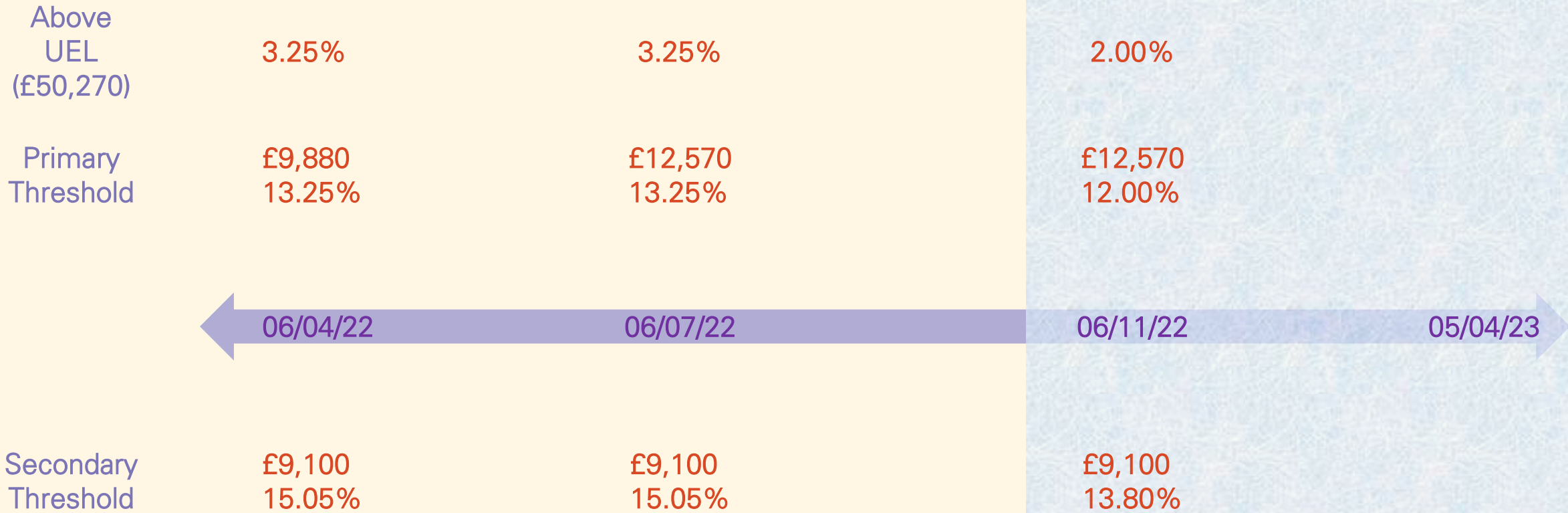
The "years"



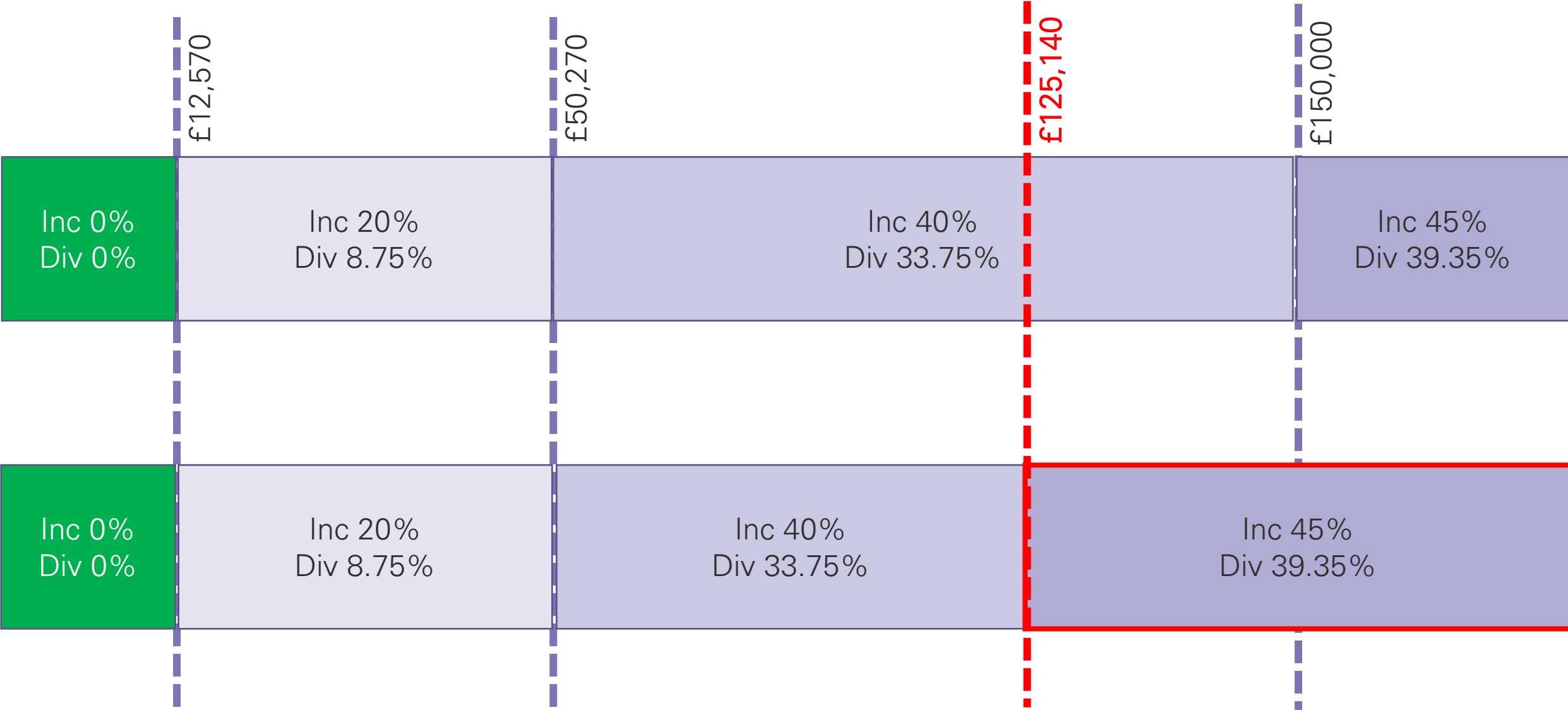


Individual Tax

The NI journey



Rates and Bands



0%_s

2022/23

2023/24

2024/25

ANNUAL EXEMPT AMOUNT
Capital gains only

£12,300

£6,000

£3,000

DIVIDEND NIL RATE
Dividends only

£2,000

£1,000

£500

SAVINGS STARTING RATE /
PERSONAL SAVINGS ALLOWANCE
Interest and Bond Gains

£5,000
£1,000 / £500

£5,000
£1,000 / £500

£5,000
£1,000 / £500

PERSONAL ALLOWANCE
Interest, Dividends and Bond Gains

£12,570

£12,570

£12,570

£32,870
+ Original Capital

£25,570
+ Original Capital

£22,070
+ Original Capital

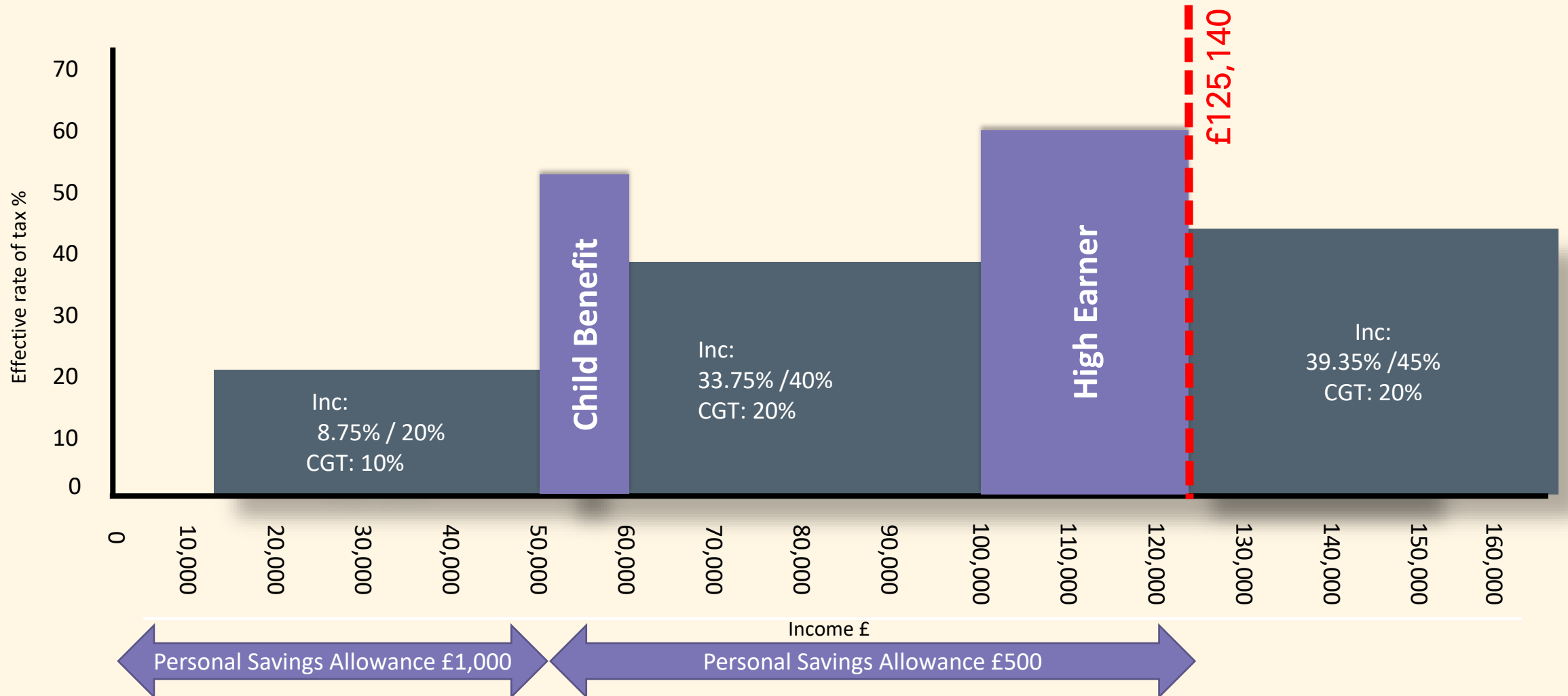
Where's the dividend pain?

Additional Tax	Dividend Allowance		
	£2,000	£1,000	£500
Basic Rate	£0	£87.50	£131.25
Higher Rate	£0	£337.5	£506.25
Additional Rate	£0	£393.5	£590.25

	2022/23
Gross Profit	£2,469
Corporation Tax Rate	19%
Corporation Tax	£469
Dividend payable	£2,000

2023/24 onwards		
£2,469	£2,667	£2,721
19%	25%	26.5%
£469	£667	£721
£2,000	£2,000	£2,000

UK Income Tax Landscape



The full amount of bond gains and interest and dividends are included at Step 1 of the UK income tax computation.



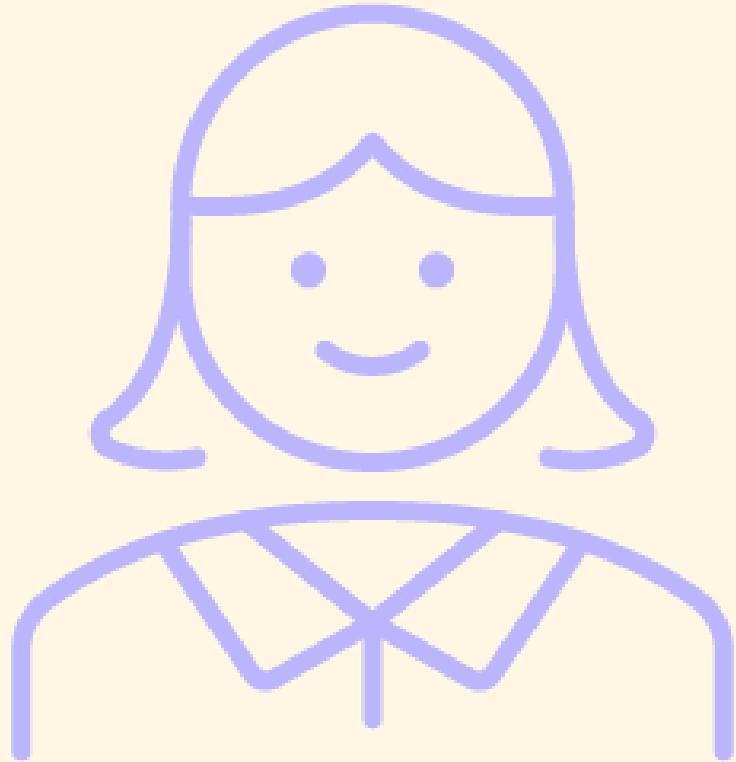
Extraction

Profit Extraction (dividends after DNR)

	£1,000 of profit		
Corporation Tax	19%	26.5%	25%
Realised Profit	£810	£735	£750
Dividends net:			
8.75%	£739	£671	£684
33.75%	£537	£487	£497
39.35%	£491	£446	£455

	£1,000 of pension, 25% PCLS
Net:	
20%	£850
40%	£700
45%	£662.50

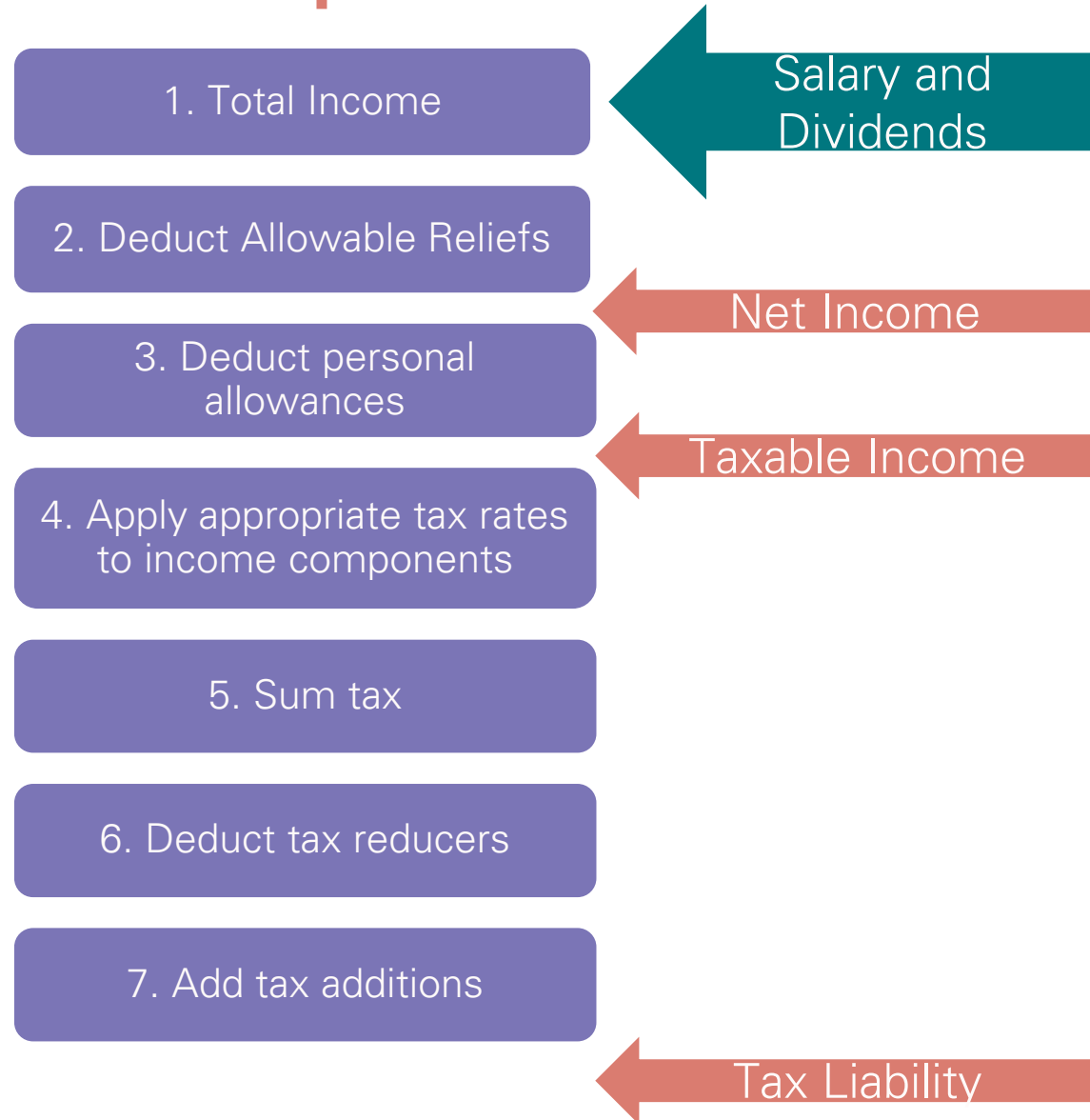
Here's somethings about ...



Mary

- Early 40s, married to Ted, who is self employed
- She's the main breadwinner
- 1 young child, 5 years
- IT contractor, through limited company
- Contracts expected to be around £200,000 p.a. as she is back contracting full time
- She is a paid up member of an old GPP she had when she was employed but hasn't made payments for several years.

UK income tax computation



Pre change position				Short Summary								
		Gross value of individuals pension contributions				Pre Change		After change		Difference		
Scottish Tax Payer	No	Paid gross e.g. OPS, RACs, AVCs	£0			Individual Bank Account	£80,092	£34,372	-£45,720	-57%		
Available Profits	£200,000	Relief at Source e.g PP,GPP	£0			Company Bank Account	£63,729	£63,729	-£0	0%		
Salary Paid	£9,100					Pension Contributions	£0	£78,678	£78,678	Infinite Increase		
Dividends Paid	£90,900	Employer Contributions	£0			HMRC total take	£56,179	£23,221	-£32,958	-59%		
				Detailed View								
				Individual		Pre Change		After change		Difference		
Change (use a - for reductions)												
Salary Paid		Paid gross e.g. OPS, RACs, AVCs	£0	Salary		£9,100	£9,100	£0	No change			
Dividends Paid	-£63,729	Relief at Source e.g PP,GPP	£0	Plus Dividend received		£90,900	£27,171	-£63,729	-70%			
				Less Income Tax		£19,908	£1,899	-£18,009	-90%			
				Less National Insurance		£0	£0	£0	No change			
				Less Contributions gross		£0	£0	£0	No change			
				Net Income		£80,092	£34,372	-£45,720	-57%			
				Less Contributions paid net		£0	£0	£0	No change			
				Cash remaining		£80,092	£34,372	-£45,720	-57%			
		Employer Contributions	£78,678	Employer								
After change				Available Profits		£200,000	£200,000	£0	No change			
Salary	£9,100	Paid gross e.g. OPS, RACs, AVCs	£0	Less Dividend Paid		£90,900	£27,171	-£63,729	-70%			
Dividends	£27,171	Relief at Source e.g PP,GPP	£0	Less Employer Pension Contribution		£0	£78,678	£78,678	Infinite Increase			
				Less Corporation Tax		£36,271	£21,322	-£14,949	-41%			
				Less Salary Paid		£9,100	£9,100	£0	No change			
				Less Employers National Insurance		£0	£0	£0	No change			
				Profit remaining		£63,729	£63,729	-£0	0%			
Assumed rate of tax on pension income 20%				Reduction in individuals bank account		£45,720						
				Increase in pension provision		£78,678	Pension Contributions		£0	£78,678	£78,678	Infinite Increase
				Amount after PCLS and tax		£66,876						
				"Return" on bank account reduction		46.27%						

This tool will enable you to sit with a client and discuss the different options that they have for extracting profits from their business. You can input a client's current remuneration structure and highlight the difference adjusting this structure can benefit them and possibly mitigate the tax and national insurance payable to HMRC.

Employee National Insurance is using the "Effective Annual threshold" of £11,908 which refers to the Primary Threshold level if the weekly level was applied for a full year. This is based on the Primary Threshold being £9,880 from 6 April 2022 until 5 July 2022, and then £12,570 from 6 July 2022 until 5 April 2023. The "effective" National Insurance rates factor in the 1.25% reduction from 6 November 2022.

The above is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which is subject to change without notice. Every care has been taken as to its accuracy, but it must be appreciated that neither M&G nor its representatives can accept any responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of material contained in this calculator.

Please note that the tool uses Category A National Insurance. Any employment allowance which may be available is not taken into account. The employment allowance is not available for sole owner/directors.

If you have any questions on using this tool, please contact your Account Manager.

Tax legislation states that that the personal allowance may be deducted in the way which will result in the greatest reduction in the taxpayer's liability to income tax. The calculator however proceeds on the basis that it is offset firstly against non-savings income, then savings income and then dividend income. In particular circumstances, a different order may produce a more beneficial result for the individual.

£200,000 – full extraction

Individual	2022/23	2023/24
Salary	£9,100	£9,100
Plus Dividend received	£154,629	£144,062
Less Income Tax	£47,451	£44,772
Less National Insurance	£0	£0
Less Contributions gross	£0	£0
Net Income	£116,278	£108,389
Less Contributions paid net	£0	£0
Cash remaining	£116,278	£108,389

Employer		
Available Profits	£200,000	£200,000
Less Dividend Paid	£154,629	£144,062
Less Employer Pension Contribution	£0	£0
Less Corporation Tax	£36,271	£46,839
Less Salary Paid	£9,100	£9,100
Less Employers National Insurance	£0	£0

2023/24
£9,100
£157,069
£49,891
£0
£0
£116,278
£0
£116,278
£217,697
£157,069
£0
£51,528
£9,100
£0

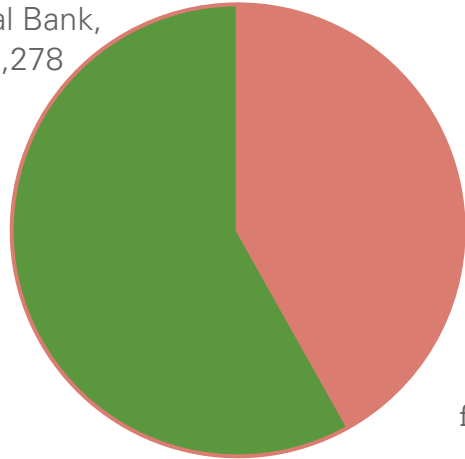
£200,000 – full extraction

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Less Contributions gross	£0	£0
Net Income	£116,278	£116,278
Less Contributions paid net	£0	£0
Cash remaining	£116,278	£116,278
Employer		
Available Profits	£200,000	£217,697
Less Dividend Paid	£154,629	£157,069
Less Employer Pension Contribution	£0	£0
Less Corporation Tax	£36,271	£51,528
Less Salary Paid	£9,100	£9,100
Less Employers National Insurance	£0	£0

£200,000 - Decisions, decisions...

SALARY
£9,100
DIVIDENDS
£154,629
PENSION
£0
CO BANK AC
£0

Personal Bank,
£116,278

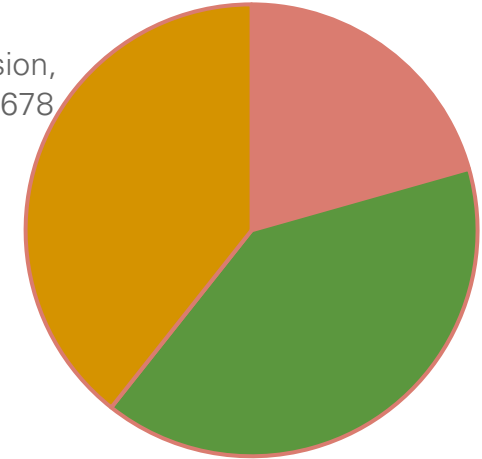


HMRC,
£83,722

- Tax inefficient extraction – high tax (c40%)
- Significant cash for living expenses.
- No funds retained – future dividend source
- Additional rate tax liability
- Lost personal allowance
- Child benefit charge to pay (£1,133)
- Annual Allowance lost
- No pension provision

SALARY
£9,100
DIVIDENDS
£90,900
PENSION
£78,678
CO BANK AC
£0

Pension,
£78,678

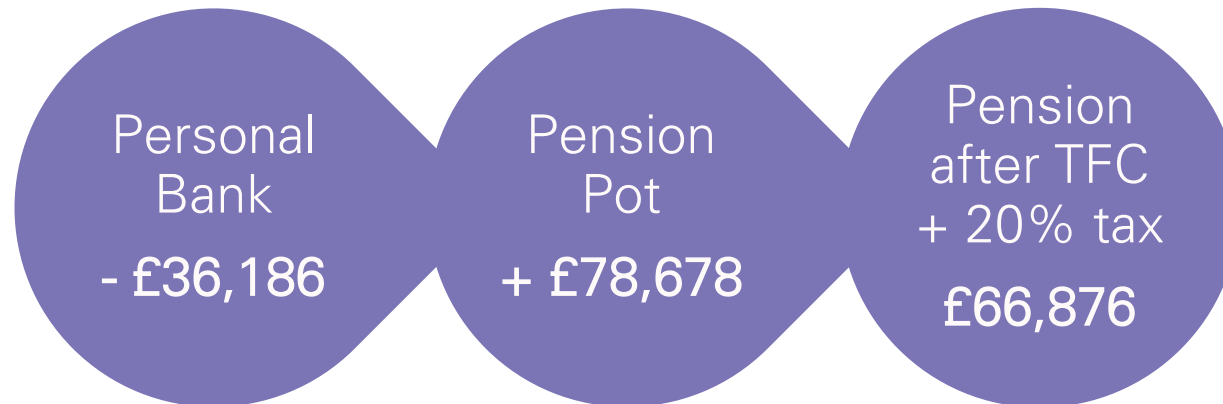
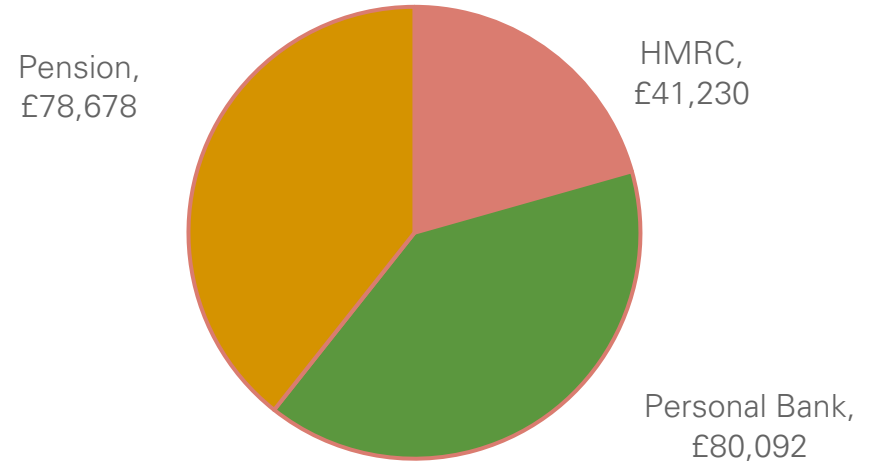
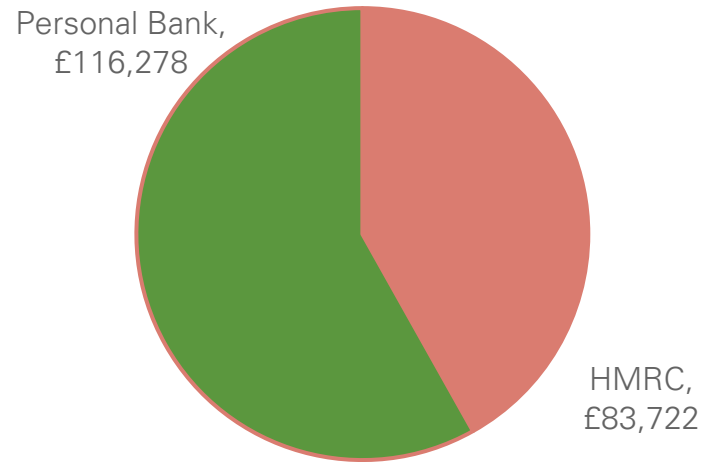


HMRC,
£41,230

Personal
Bank,
£80,092

- Reduced taxation (c20%)
- Less cash for living expenses
- No funds retained – future dividend source
- No additional rate tax liability
- Personal allowance retained
- Child benefit charge to pay (£1,133)
- Annual Allowance used
- Pension provision made

£200,000 - Decisions, decisions...



84%
return!



Pensions

Employer tax relief

Profit		£130,000		£120,000
Corp Tax	25%	£32,500	25%	£30,000
Marginal relief	£250,000		£250,000	
	<u>£130,000</u>		<u>£120,000</u>	
3/200	£120,000	£1,800	£130,000	£1,950
	Tax due	£30,700	Tax due	£28,050
	Effective Rate	23.62%	Effective Rate	23.38%

$$£30,700 - £28,050 = £2,650 / £10,000 = 26.5\%$$

Wholly and Exclusively

Will tax relief be granted for an employer contribution?

.....the same rules apply as for any other expense In particular, any contribution must be paid wholly and exclusively for the purposes of the trade for it to be deductible (ICTA88/S74 (1) (a) for corporation tax and ITTOIA05/S34 for income tax).....

.....it is important to emphasise that as part of the cost of employing staff pension, contributions will, prima facie, be allowable.....,

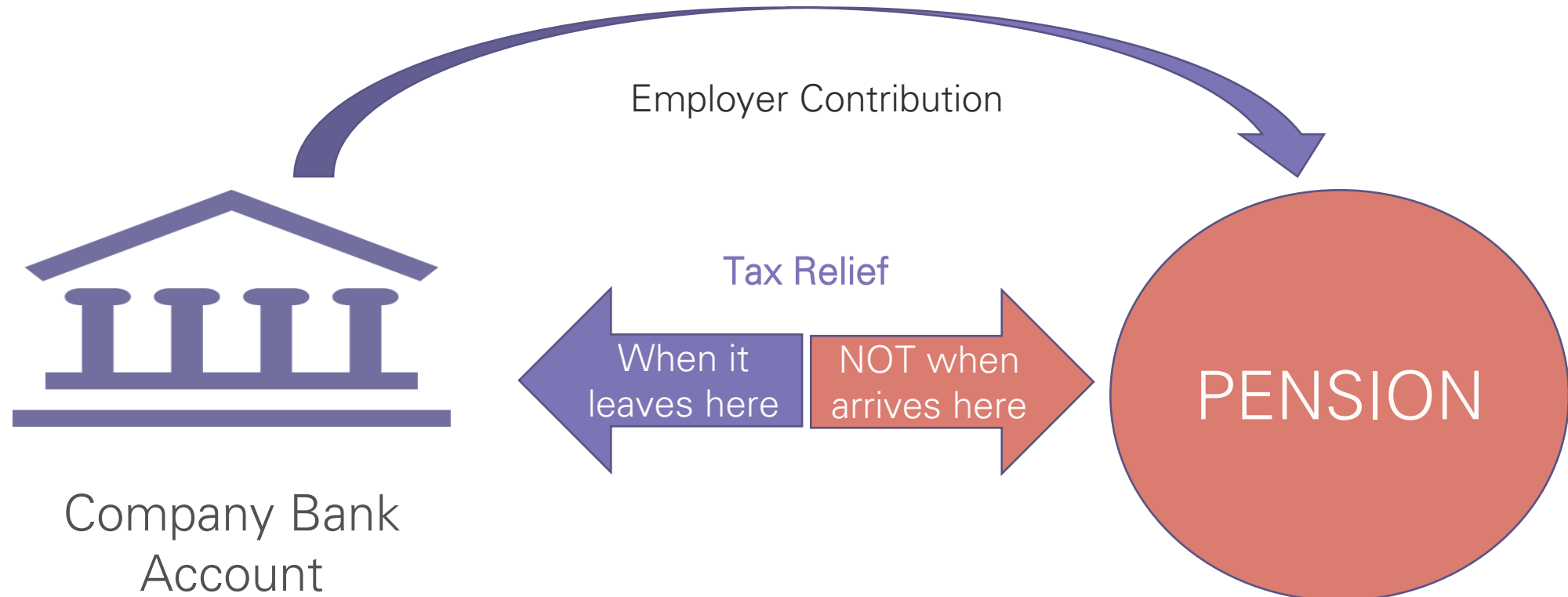
..... Whether there was a non-trade purpose for the payment will depend upon the facts of the individual case.

.....One situation is where the level of the remuneration package is excessive for the value of the work undertaken

..... accept that the contributions are paid wholly & exclusively where the remuneration package paid in respect of a director of a close company, or an employee who is a close relative or friend of the director or proprietor (where the business is unincorporated) is comparable with that paid to unconnected employees performing duties of similar value.....

Answer - Probably! Sort it out with the accountant.

Corporation Tax Relief



Annual Allowance - Money Purchase Pension Inputs

The calculation

Your
Contributions



Your
Employer
Contributions



Third
Party
Contributions

Tapered AA – Income Limits

“Adjusted income” > £240,000

“Threshold income” > £200,000

SALARY

DIVIDENDS

EMPLOYER PENSION
CONTRIBUTIONS

Carry Forward

3 years ago

Member* of a
UK registered
pension
scheme?

2 years ago

Member* of a
UK registered
pension
scheme?

1 year ago

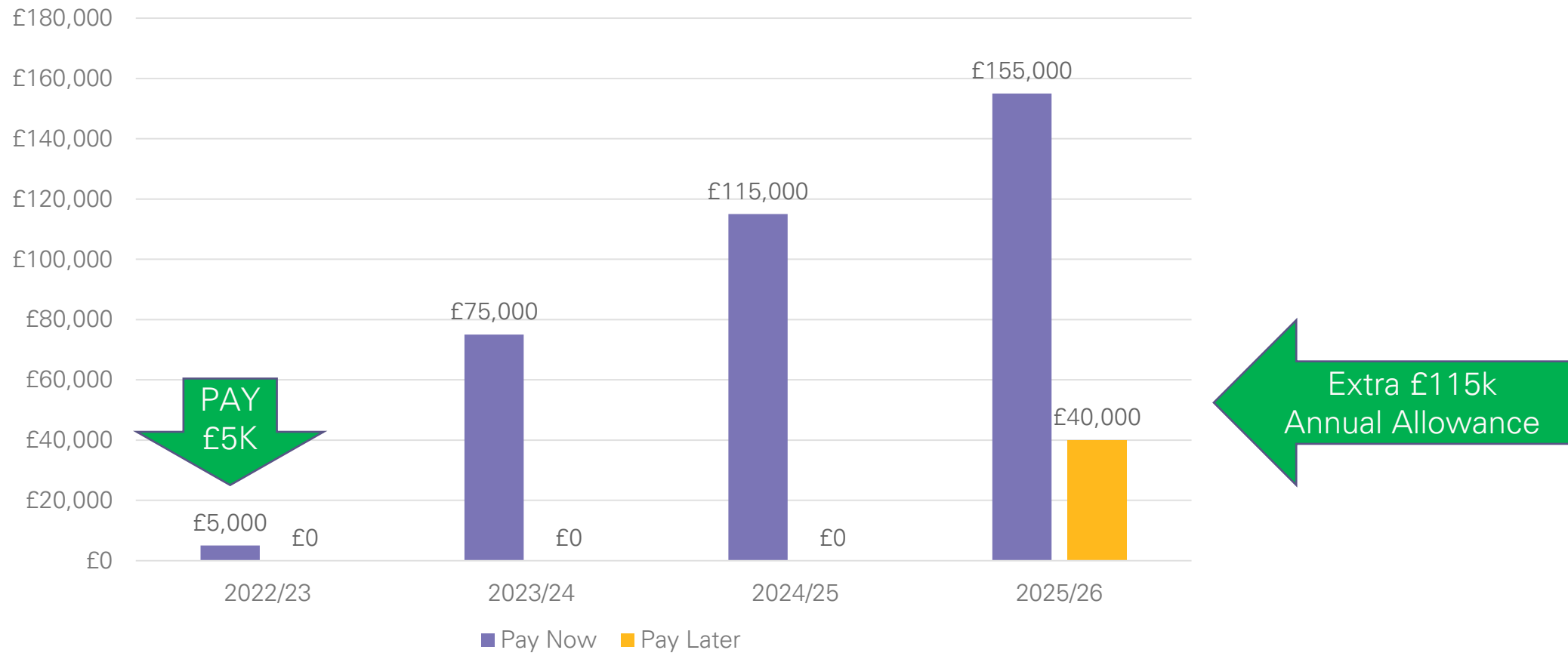
Member* of a
UK registered
pension
scheme?

This year

Will be a
member* of a
UK registered
pension scheme

** Active, deferred, pensioner or pension credit member*

Don't delay!



Annual Allowance – carry forward

	2019/20	2020/21	2021/22	2022/23
Pension Inputs	£0	£80,000	£0	£0
Unused	£40,000	£40,000	£40,000	£40,000
				<u>£80,000</u>
				<u>£120,000</u>

What if this was £80,000?

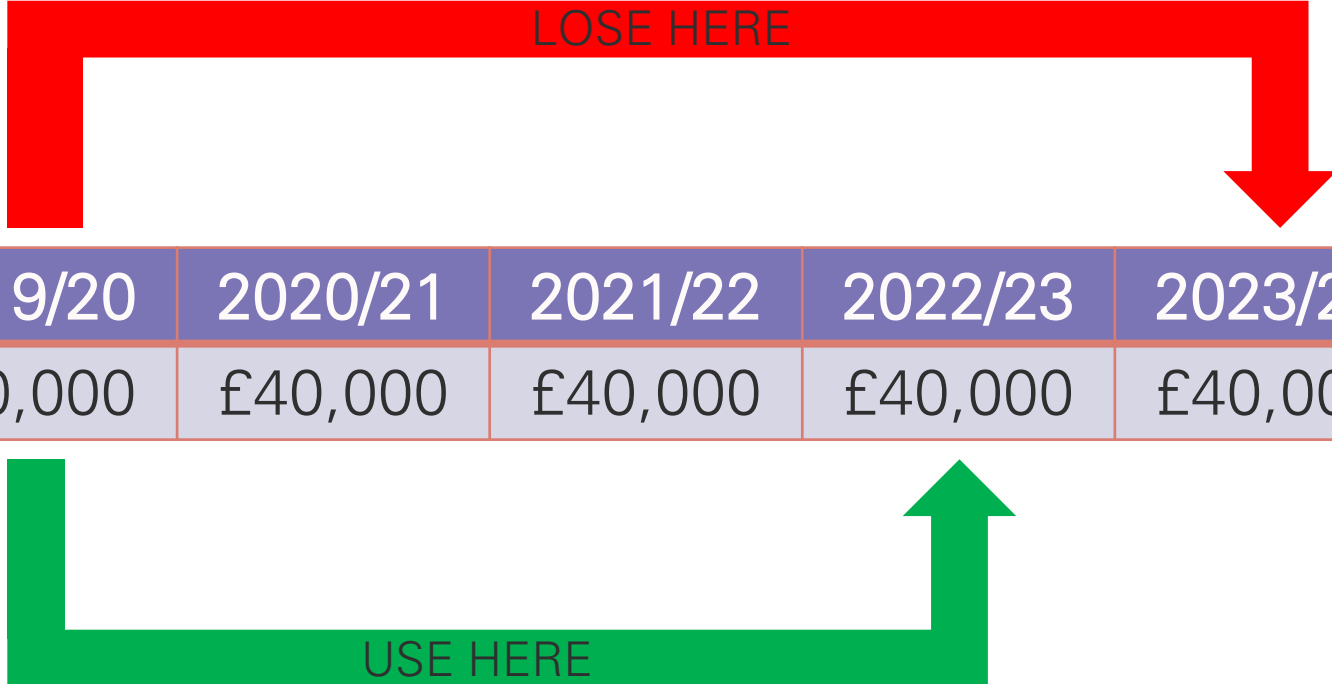
Was there £40,000 unused from 2017/18 & 2018/19?

Yes, there was!

Don't look back for just 3 years...

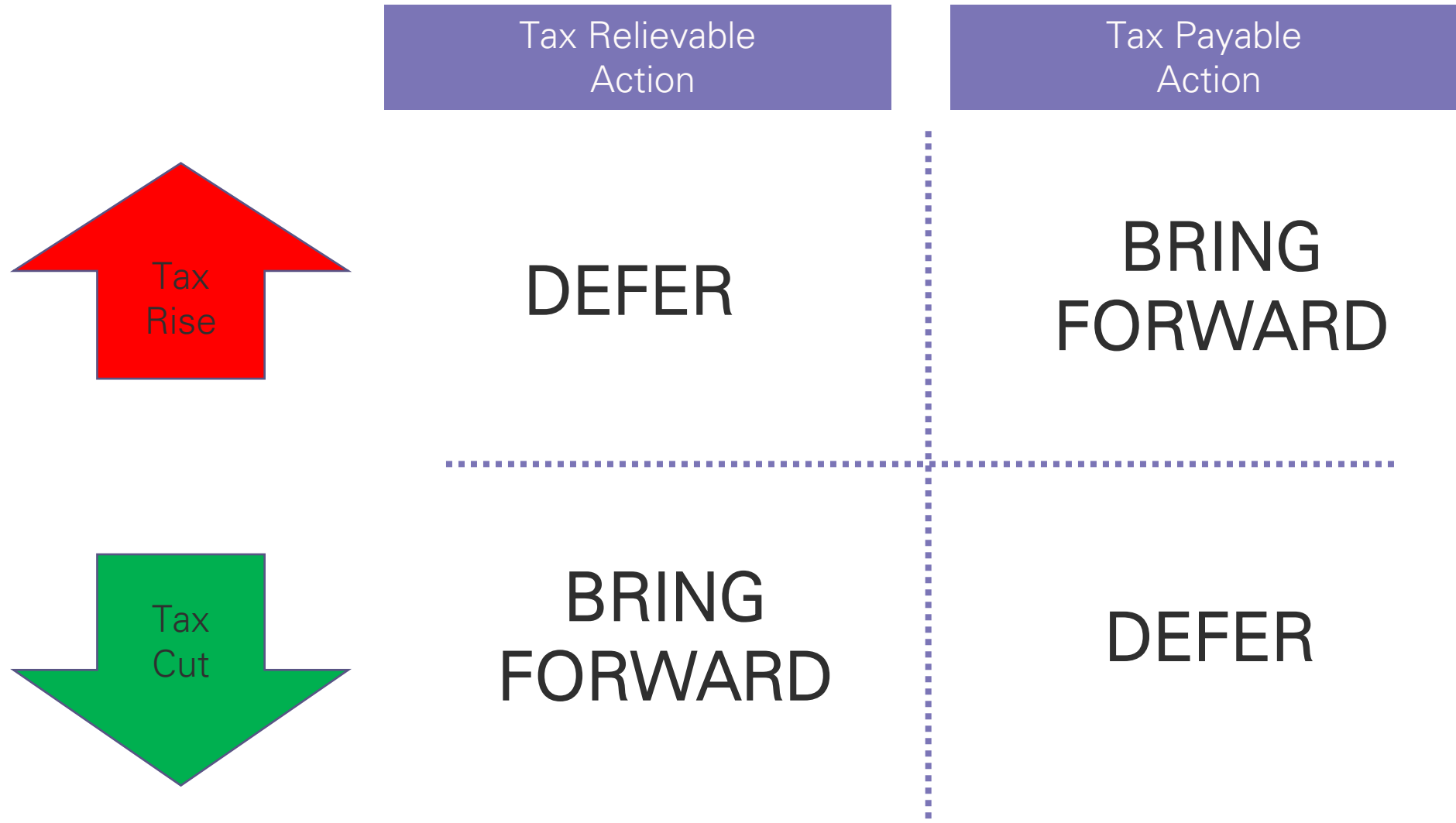
1. Uncover unused allowances from 3 previous years
2. If the prior 2 years to current year have an AA excess, look back further years

Use it or lose it

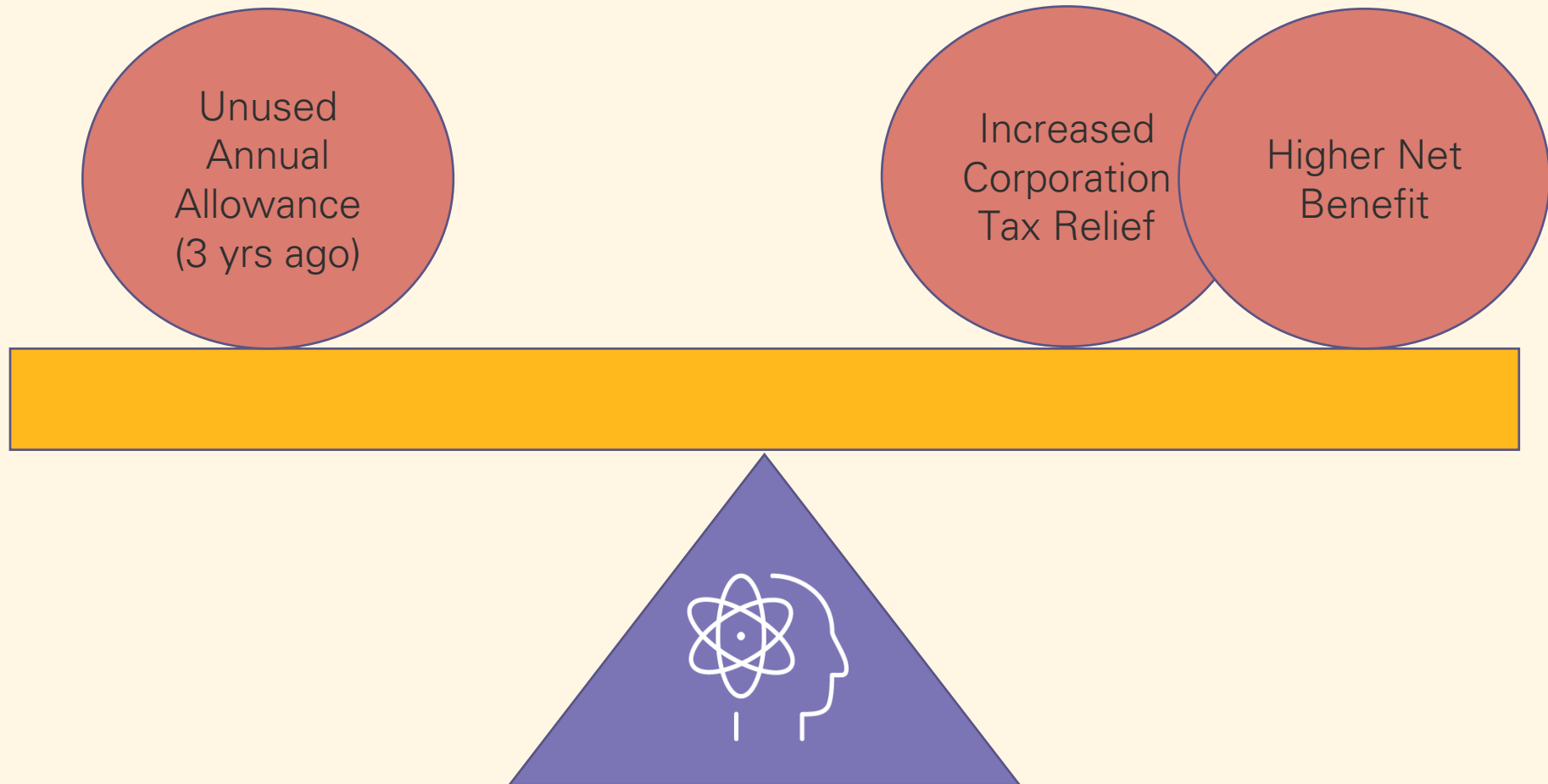


	2019/20	2020/21	2021/22	2022/23	2023/24
Unused AA	£40,000	£40,000	£40,000	£40,000	£40,000

Tax Changes



Pause for thought



Lose it or use it?

£0 of c/f from 3 years ago

	2022/23 (CT 19%)	2023/24 (CT 25%)	Tax Relief (19%/25%)	Pension	Retained Profit	Pension (Net 30%)	Retained profits (Net 33.75%)	Net in Personal Bank
1	£40,000	£40,000	£17,600	£80,000	£0	£56,000	£0	£56,000
2	£0	£80,000	£20,000	£80,000	£0	£56,000	£0	£56,000

£40,000 of c/f from 3 years ago

	2022/23 (CT 19%)	2023/24 (CT 25%)	Tax Relief (19%/25%)	Pension	Retained Profit	Pension (Net 30%)	Retained profits (Net 33.75%)	Net in Personal Bank
1	£80,000	£40,000	£25,200	£120,000	£0	£84,000	£0	£84,000
2	£0	£80,000	£20,000	£80,000	£32,400	£56,000	£21,465	£77,465

Lose it or use it?

Corporation Tax Breakeven

25%
< £12,000 to £13,000
26.5%
< £15,000 to £16,000

Net Personal Breakeven

25%
< £5,000 to £6,000
26.5%
< £6,000 to £9,000

Carry Forward levels based on CT rates, where not using the carry forward may deliver more



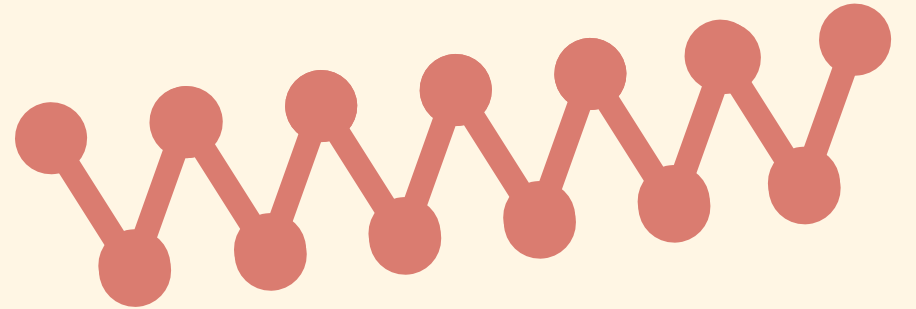
Investments

Why / How do corporates invest?

INFLATION



INTEREST RATES





Appendix 1

Is investment advice for companies different to advising individuals?

Protection

Are bonds or OEICs best?

Are non-UK bonds better for companies than UK bonds?

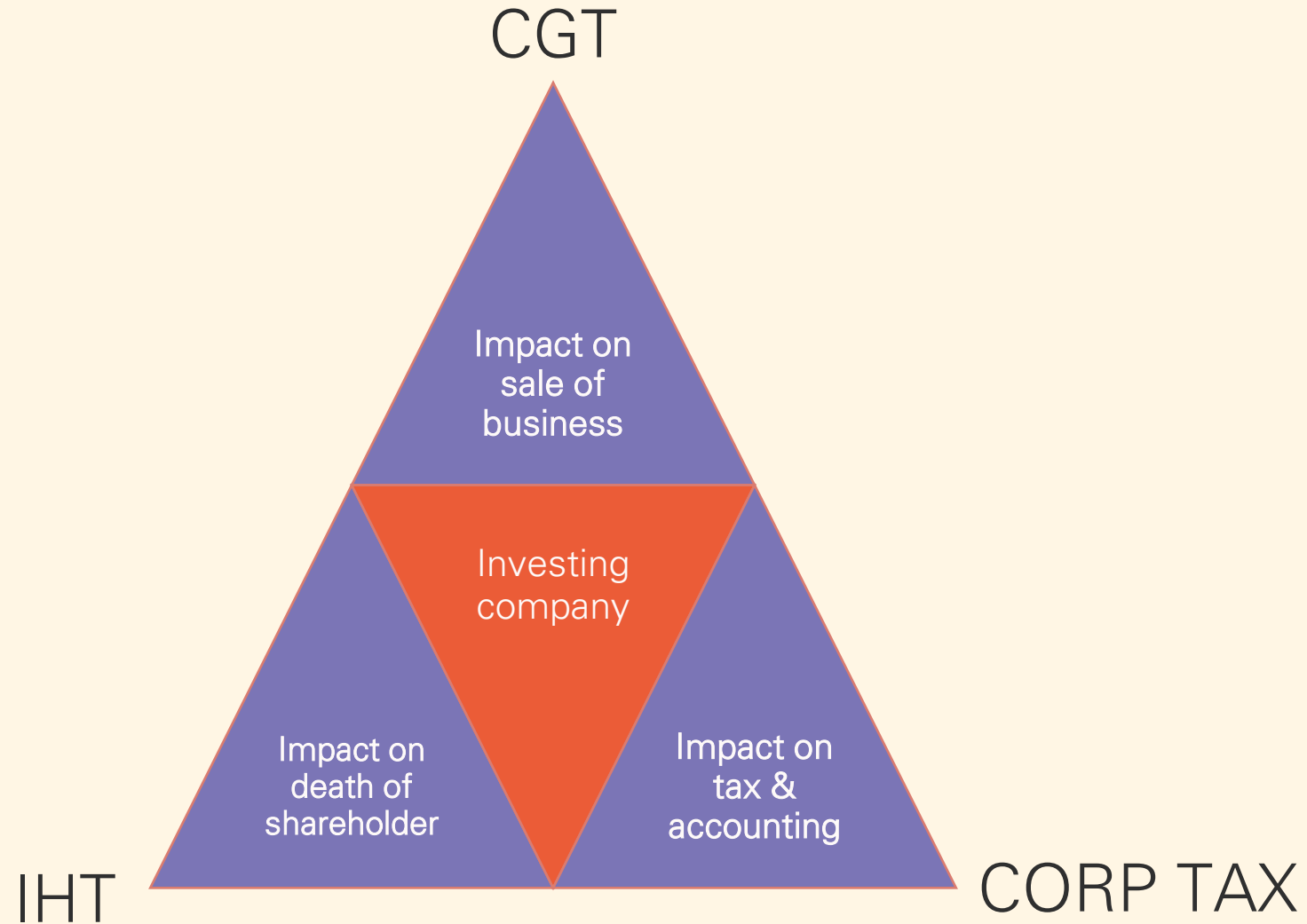
What impact do the corporation tax changes have on company investments?

Would you not be better extracting profits and investing personally?

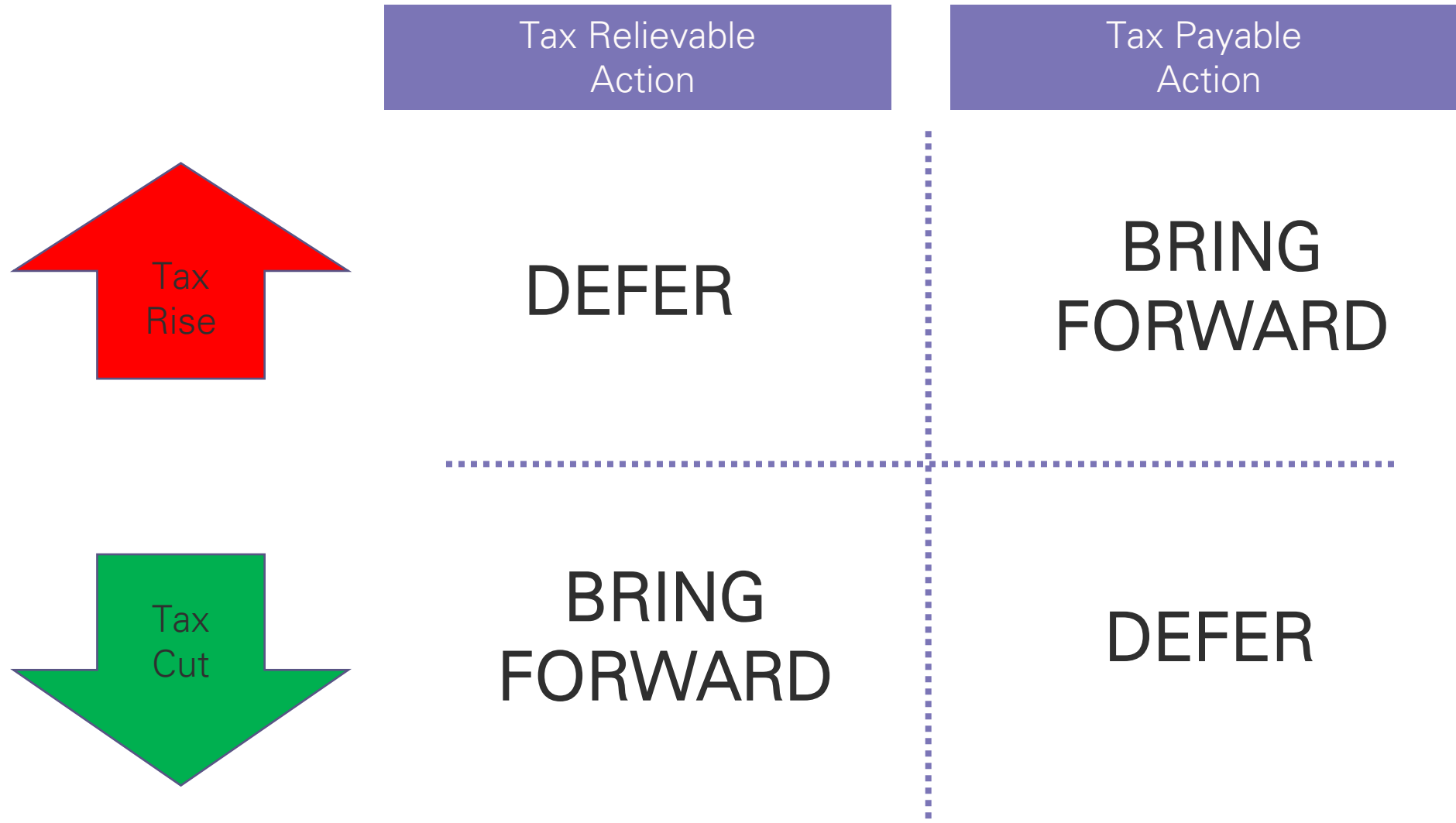
Appendix 2

Corporate investing in a low interest rate environment

Corporate Investment Tax



Tax Changes





Company held Insurance Bonds

Company held bonds

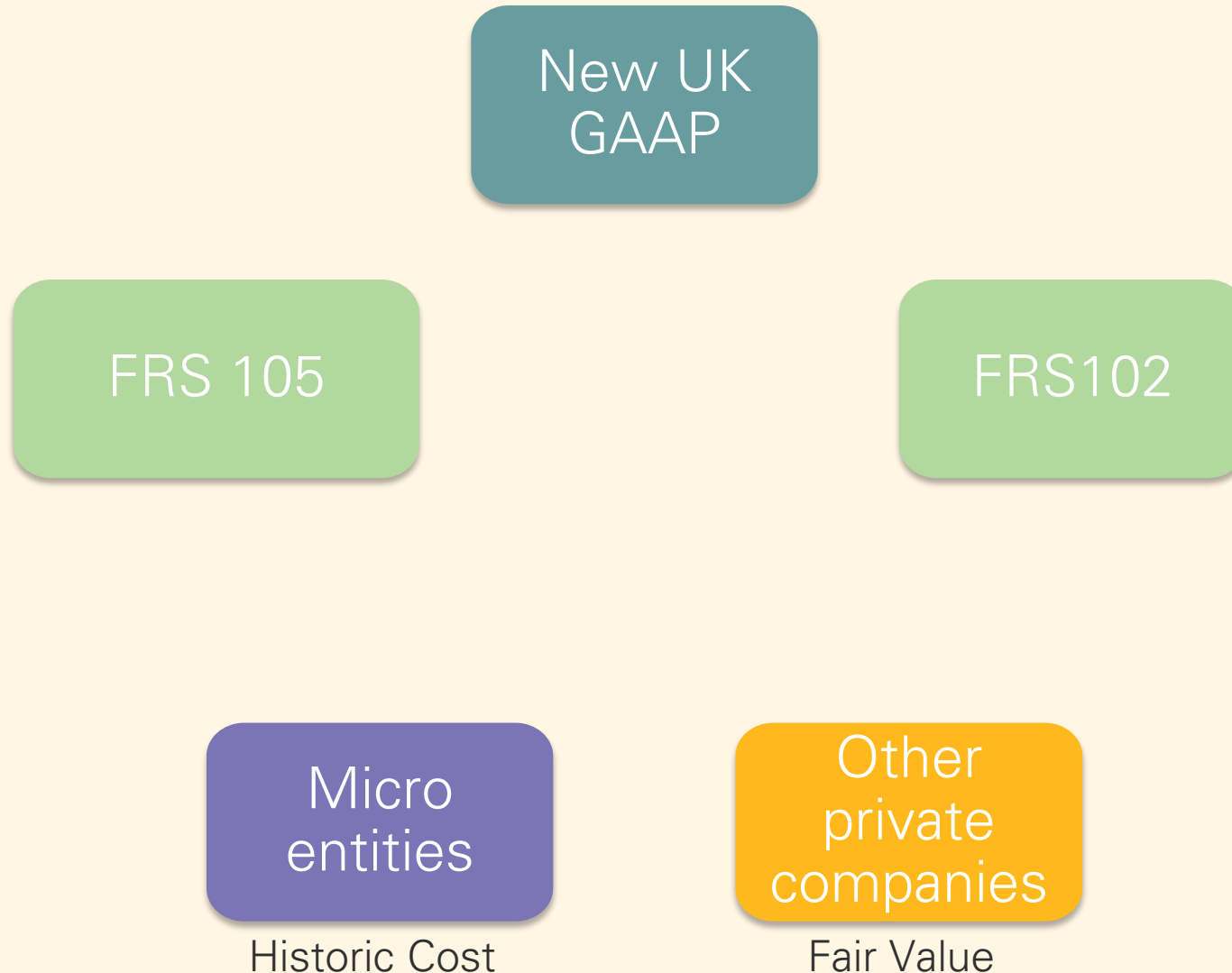
... where a company... is a party to an 'investment life insurance contract', this is treated as a loan relationship of the company. It is taxed as a creditor relationship under the loan relationships rules ... rather than under the chargeable event gain rules, with any profits or losses arising treated as non-trading credits or debits of the company.

Company held bonds

... where a company... is a party to an 'investment insurance contract', this is treated as a loan relationship of the company. It is taxed as a creditor relationship under the loan relationship rules ... rather than under the chargeable event rules. Any profits or losses arising are treated as non-trading credits or debits of the company.

!!!Forget chargeable events!!!

Accounting Standards



Accounting Standards

New UK
GAAP

FRS 105

FRS102

Turnover: £632,000

Employees: 10

Balance Sheet: £316,000

Two out of three
must apply

Micro
entities

Historic Cost

Other
private
companies

Fair Value

Micro Entities

Historic
cost

=

No annual
adjustment

=

Tax
deferred

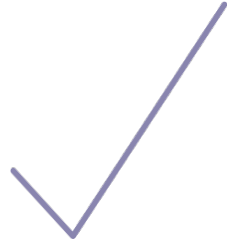
Fair Value



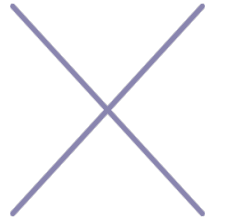
Onshore bond

20%
TAX
CREDIT

Disposals
(i.e. a 'related transaction')



Annual increases



Historic cost

Profit before gain £100,000. Bond Gain £100,000. Accounting Period 1 April to 31 March

	ONSHORE	
	2022/23	2023/24
Bond gain	£100,000	£100,000
Grossed up	£125,000	£125,000
Corporation tax	19%	26.5% *
CY due	£23,750	£33,125
Tax credit	£25,000	£25,000
CY	(£1,250)	£8,125

*wholly in marginal rate

	OFFSHORE	
	2022/23	2023/24
Bond gain	£100,000	£100,000
Grossed up	£100,000	£100,000
Corporation tax	19%	26.5% *
CY due	£19,750	£26,500
Tax credit	£0	£0
CY	£19,750	£26,500

*wholly in marginal rate

Fair value

Profit before gain £100,000. Bond Gain £100,000. Accounting Period 1 April to 31 March

	ONSHORE	
	2022/23	2023/24
Bond gain	£100,000	£100,000
Grossed up	£125,000	£125,000
Already Taxed	£100,000	£100,000
Taxable	£25,000	£25,000
Corporation tax	19%	26.5%*
CY due	£4,750	£6,625
Tax credit	£25,000	£25,000
CY	(£20,250)	(£18,375)

*wholly in marginal rate

OFFSHORE	
2022/23	2023/24
Total profit to date will all have been taxed in lower regime	Future profit will be taxed in the higher regime
No grossing up applies	

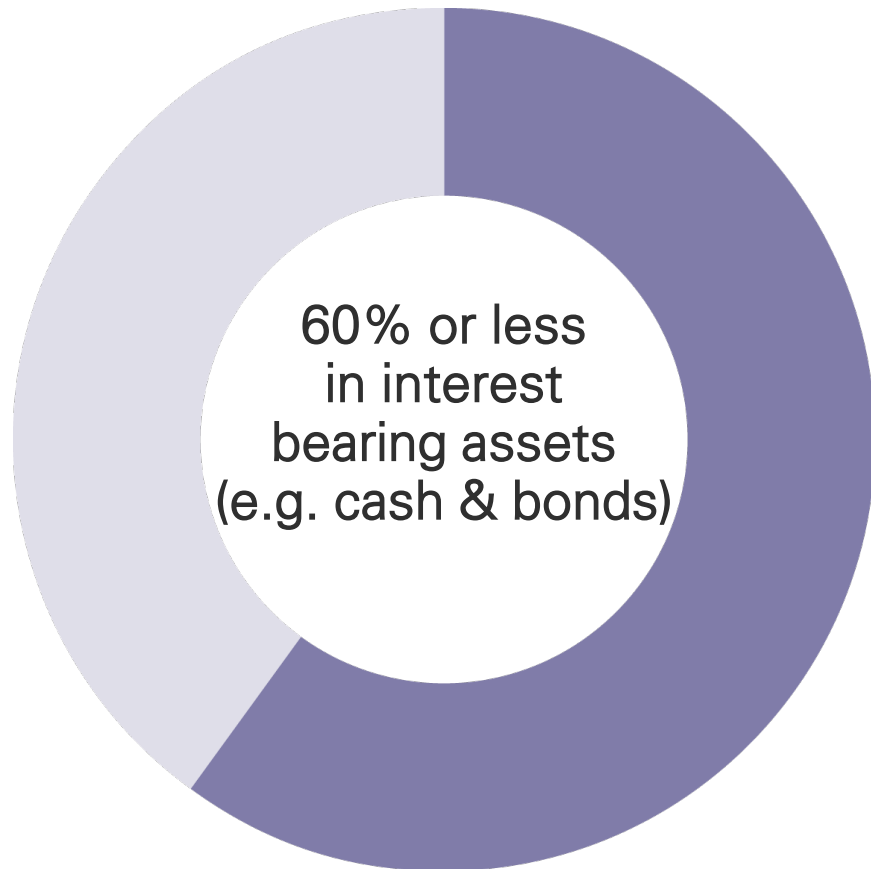
*wholly in marginal rate



Company held
OEICs

Fund tax treatment

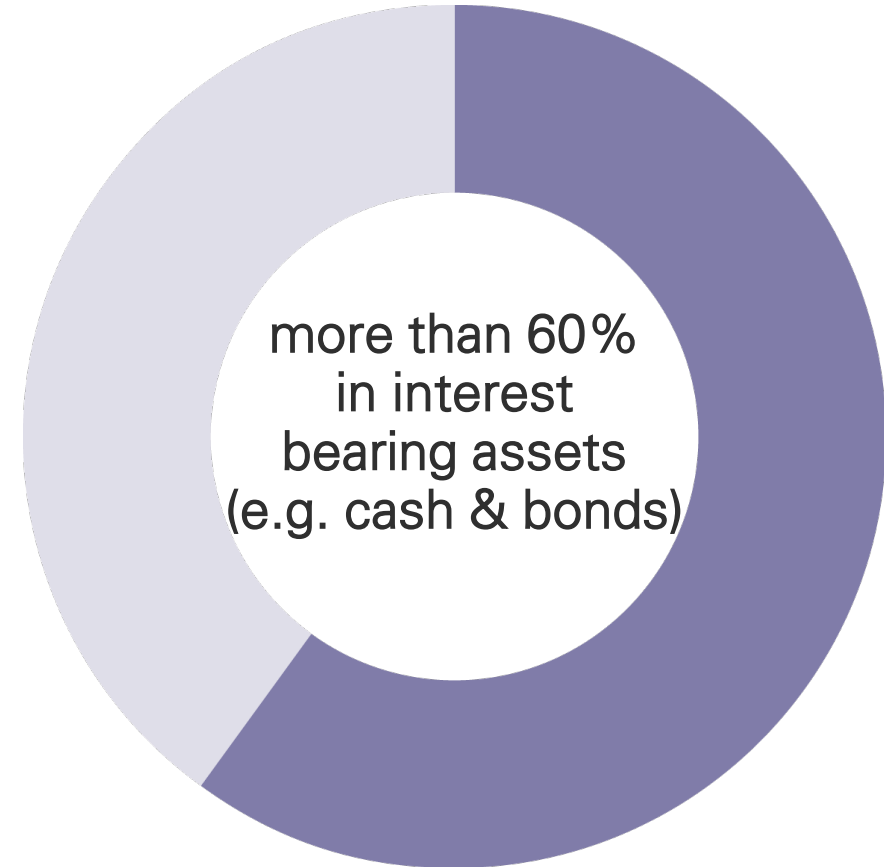
Equity



~~Dividends~~

Interest / Dividends ("streamed")

Debt



Interest

OEICs – tax treatment

	Interest	Dividends	Gains
Historic Cost			
Debt Fund	Taxed	N/A	Held at cost, taxed on disposal
Equity Fund	Taxed	Exempt	Held at cost, taxed on disposal
Fair Value			
Debt Fund	Taxed	N/A	Revalued, taxed annually
Equity Fund	Taxed	Exempt	Revalued, but taxed on disposal

Corporation Tax Transition

	Historic Cost	Fair Value
Insurance Bonds		
Onshore	Full gain carried	25% of current gain carried
Offshore	Full gain carried	No Gain Carried
OEICs		
Debt Fund	Full gain carried	No Gain Carried
Equity Fund	Full gain carried	Full gain carried

Learning Objectives

By the end of this session you will be able to:

Describe

The tax treatment of the different methods of profit extraction

Evaluate

The impact of corporation tax changes on corporate investments

Evaluate

The planning and advice considerations when advising business owners

Support



Articles



Videos



Tools & Calculators



Ask the Techs

QUESTION TIME



Thanks for your time





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