

# TERMS AND CONDITIONS of the WAY Inheritor Plans

The WAY Inheritor Plans are a range of strategies for utilising investment in the WAY Portfolio Trusts in a tax efficient manner.

There are six versions of the WAY Inheritor Plan:

1. **The WAY Flexible Inheritor Plan**
2. **The WAY Flexible Inheritor Bond Plan**
3. **The WAY Discounted Inheritor Plan**
4. **The WAY Discounted Inheritor Bond Plan**
5. **The WAY “Gifts from Income” Inheritor Plan**
6. **The WAY “Gifts from Income” Inheritor Bond Plan**

## The Objectives of the Strategies

All six Plans offer the prospect of mitigating Inheritance Tax (IHT).

**The Process by which this is achieved** is via gifts of invested OEIC shares, unit trust units or offshore bond policies into a specially devised flexible Interest in Possession trust. This normally occurs on the following business day after the initial investment is made (unless delayed by cancellation rights on the plan). The trust deed specifies that the gifted shares/units/policies are divided into a series of parcels (“Relevant Shares”) each of which are to be reverted back to the ownership of the donor on specified anniversary dates (“Relevant Dates”). The precise size and arrangement of parcels and relevant reversion dates are specified within the trust deed at the time of instituting the trust and making the gift. The donor also appoints trustees (normally two, or a trust company, and excluding the donor and the donor’s spouse) to oversee the operation of the trust. These reversions mean that the donor is not totally deprived of access to gifted trust assets. The shares/units/policies are reverted and re-registered ‘in specie’ rather than as cash realisations to protect the donor from forced encashments at unnecessarily low valuations. Any value remaining within the trust at the date of the donor’s death (non-reverted shares/units/policies) will be held by the trustees for the benefit of beneficiaries of the trust.

WAY Investment Services Limited (WIS) will write to the donor and to the first-named trustee **only** between 3 and 2 months prior to each Relevant Date. WIS will include a valuation of shares/units/policies held by the trustees, together with a note of the specific number parcel due for reversion on the imminent Relevant Date. The trustees will be asked to confirm their instructions in relation to the reversion (flexible plans only) and to sign and return a suitable transfer or assignment form to facilitate the re-registration of reverted shares/units/policies. A failure to respond to this request will not obviate an ‘effective’ or ‘deemed’ reversion of the parcel in accordance with the schedule of reversions as laid out in the original trust deed. Subject to the receipt of instructions and a signed transfer or assignment document, WIS will arrange with the registrars for the appropriate number of shares/units/policies to be re-registered into the donor’s name.

## Contributions and Gifts into WAY Inheritor Trust

Contributions are invested into one or more of the WAY Portfolio Funds, either directly into shares/units in the funds or by way of a cluster of up to 100 sub-policies in the La Mondiale Europartner (LMEP) WAY Bond - a Luxembourg domiciled unit linked whole-of-life life assurance policy. On the following business day after the initial investment is made (unless delayed by cancellation rights on the plan), the shares/ units/policies are gifted into the appropriate Inheritor Trust.

The WAY Flexible Inheritor, WAY Discounted Inheritor, WAY Flexible Inheritor Bond and WAY Discounted Inheritor Bond plans accept a single lump-sum contribution at the outset.

The WAY “Gifts from Income” Inheritor and WAY “Gifts from Income” Inheritor Bond plans accept regular annual contributions for as long as the donor chooses.

## Reversions

The reversions for all plans take place on the selected Relevant Dates, which are annual anniversaries of the settlement date of the trust (calculated from three days before the date of the settlement in the case of the WAY “Gifts from Income” Inheritor). The schedule of reversions is set at the time of application and specified in the trust deed. For lump-sum contribution plans (both flexible and discounted), the donor specifies the parcel size of each Relevant Share and its associated Relevant Date. For the Gifts from Income Inheritor, there are two set Relevant Dates on the 5th and 10th anniversaries with a 50% Relevant Share reverting on each Relevant Date. The total of all specified parcels must equal 100%.

In the **Flexible** version of the Inheritor Plans (including **Gifts from Income Inheritor**) the trustees have the right, specified within the trust deed, to reduce the level of, or omit totally, any of the prescribed reversions. Defeated reversions, or any discrete parts of them, may be deferred by the trustees who then specify future replacement reversion dates (defined within the trust deed as the Relevant Date or Dates as the case may be).

In the **Discounted** version of the Inheritor Plan the specified annual reversions **must** be actioned in full by the trustees on each Relevant Date in accordance with the schedule laid out in the trust deed. The value of this stream of potential reversions (the schedule of which is set at the outset) is retained within the donor’s estate thereby reducing the value of the original gift into trust - the gift is at a discounted value.

## The Mechanics

The donor invests into a WAY Inheritor Plan. All purchased shares/units/policies are registered in the donor’s name. The donor completes and submits Inheritor Trust deed documentation (each plan has a bespoke deed) and signed stock transfer/ policy assignment forms at the time of application. The donor specifies within the deed both the funds into which the investment is made and a schedule of annual reversions (percentile amounts and dates) which will apply. The deed also appoints trustees. The donor then gifts the shares/units/policies into his/her bespoke Inheritor Trust on the following business day after the initial investment is made (unless delayed by cancellation rights on the plan). For direct investment into shares/units, the gifted shares/units are re-registered by WAY into the trustees’ names. For the offshore bond versions, policies are assigned by LMEP into the ownership of the trustees. WIS will date the trust deed with the effective date of transfer, and for the share/unit versions of the plan insert details of the numbers of shares/units making up the gift, and then return the original deed to the first-named trustee, retaining a copy for WIS’ records. WIS will also complete the number of shares/units (in words and in figures), to be transferred into trust, on the signed stock transfer form/s.

Ahead of each Relevant Date, WIS contacts the trustees, as detailed above, to remind them of the need to submit appropriate stock transfer / policy assignment form/s to effect that reversion of shares/units/policies back to the donor. In the case of the Flexible Plan the trustees will also be asked to specify how many shares/units/policies are to be reverted and full details of any shares/units/policies to be deferred, including revised reversion dates. Subject to the submission of completed stock transfer / policy assignment forms, WIS will arrange for the appropriate number of originally “gifted” shares/units/policies to be re-registered / reassigned in the name of the donor as soon as convenient after the reversion date.

## RISKS

### What are the risk factors?

You should note that tax legislation may change from time to time and the value of any tax relief depends on your individual circumstances. The information contained within this document is based on WIS’ understanding of current law and Inland Revenue practice and cannot be guaranteed. You should rely on your own tax advice.

You should note that the price of shares/units, and the income from them, can go down as well as up as a result of changes in the value of the underlying securities and currency movements. You or your trustees may not get back the amount originally invested. Past performance is not necessarily a guide to future investment returns.

These Terms & Conditions should be read in conjunction with the Key Features for the WAY Portfolio Funds / LMEP WAY Investment Bond. Other risks associated with this investment are shown in those documents.

### What is the minimum investment?

The minimum total investment into a lump sum WAY Inheritor Plan is normally £100,000. The minimum annual investment into the WAY “Gifts from Income” Inheritor Plan is £5,000. The Investment must be in a maximum of two WAY portfolio funds. At its absolute discretion, WIS may vary the minimum investment level.

### Further Important Information

Investment within the WAY Inheritor Plan may be made in any of the WAY Portfolio Unit Trusts. Key Features Documents are readily available for all WAY Portfolio Unit Trusts, which give further important information about each fund, including charges and expenses and the cost of advice. Each Inheritor Plan is bespoke to the individual donor and his/her selection of Plan type as well as to the detailed schedule of reversions. It is therefore not practicable to

provide a representative example of how an individual Plan may operate in practice. Investors must therefore rely on Key Features Documents for information on individual funds, together with the brochure for the WAY Inheritor Plans.

#### **Provision of Medical Evidence**

WIS takes no responsibility for collecting medical evidence regarding the state of health of investors using the WAY Discounted Inheritor Plans. It is recommended that investors in these versions of the Plan obtain a full medical reference from their GP or other medical practitioner (which should be signed and dated) which is then permanently retained with the original Plan and Trust documentation. This may be useful for the trustees to establish with the Capital Taxes Office that the donor was in good health at the time of initiating the Plan. Any medical reference, and any information supplied to a GP for this purpose, is the sole responsibility of the investor.

#### **What happens if/when the Donor dies?**

In accordance with the Inheritor Trust deed, reversions to the donor cease upon his/her death. The Inheritor Trusts are designed to have a term of up to 80 years and it is anticipated that they will continue beyond the death of the donor. It is the responsibility of the executors to inform WIS of the donor's death. Transactions occurring between the date of the donor's death and WIS being so informed cannot be reversed.

For LMEP Bond version, if the donor was the sole life assured the trustees would receive the bond value in cash as the death benefit of the plan and the bond would cease. It is therefore recommended that additional lives assured are specified at the outset (e.g. the beneficiaries) so that the bond may survive the death of the donor.

#### **What happens if a Trustee dies/retires?**

During his/her lifetime the donor has the power to appoint trustees. Following his/her death or retirement, then additional trustees may be appointed by the existing trustee(s) or, if none are surviving, then by order of the court. This will constitute a re-registration / re-assignment of the holding(s), which will require the submission of appropriate forms of transfer to the registrar, signed by all of the existing/surviving trustees.

#### **How much will any advice cost?**

Your financial adviser will give you details about the cost. This may be paid as a commission out of the charges on the plan, or by way of a direct fee to your adviser. The amount of any commissions paid from the plan to your adviser to cover the cost of advice will be shown in the Contract Notes, Personalised Key Features Document or letters of acknowledgement (as appropriate to the selected version) sent to you after you invest.

#### **Delay in processing an application**

Where documentation received by WIS is either incomplete or incorrect, WIS will contact the submitting financial adviser to inform them of any further documentation required. WIS may be unable to process an application before receiving the missing or corrected information. WIS will not accept any responsibility for any loss incurred by the investors or the financial adviser caused by the receipt of incomplete or incorrect documentation.

#### **TAXATION Inheritance tax**

The value of the original gift into trust constitutes a Chargeable Lifetime Transfer for IHT purposes. In the case of the Flexible version of the Plan this gift will be at full (offer) value. In the case of the discounted version the value of the gift is reduced (discounted) by the value of future reversions retained by the donor. Any growth in the Trust is free of IHT from day one. The gift of such lump-sums into the Inheritor Trust represents a Chargeable Lifetime Transfer and is assessable for IHT at the Lifetime Rate of 20% on the amount of cumulative Chargeable Transfers in the previous 7 years that are in excess of the IHT Nil Rate Band (NRB). Where the gift is within the available NRB there is no immediate charge to IHT. For the Flexible and Discounted Plans the gift will fall out of account once the donor has survived between seven and fourteen years, dependant upon any other non-exempt gifts made subsequently. From the fourth anniversary of the gift, IHT taper relief may be available.

The WAY "Gifts from Income" Inheritor and WAY "Gifts from Income" Inheritor Bond plans accept regular annual contributions. Where such regular contributions meet the requirements of the "Normal Expenditure Out of Income Rules" [IHTA 1984, s21(1)], the gifts are treated as Exempt Transfers and are not liable to IHT in the donor's account.

All versions of the Inheritor Trust are subject to periodic reviews at each ten year anniversary and assessment to exit charges when funds are appointed out to beneficiaries. A further charge to IHT could arise at these times depending on the value of the trust and the cumulative transfers.

Professional advice should be taken in relation to the taxation of trusts and the exercise of the various flexible powers vested in the trustees by the Inheritor Trust.

#### **Capital Gains Tax**

For OEIC or Unit Trust versions: It is possible that when annual reversions are made or when gifted units are sold that CGT may be payable. However, because the donor is a reversionary beneficiary of the trust, he/she will be the tax point for all such chargeable events and may therefore benefit (but only during his/her lifetime) from any unused annual CGT allowance. In time, any such realised gains will also benefit from CGT 'taper relief'. Following the death of the donor the trustees become the tax point and thereafter will normally benefit from an annual CGT allowance equivalent to one half of a personal allowance, plus any taper relief which may apply. The offshore bond versions of the plans are not assessable to CGT.

#### **Income Tax**

Any income (distributions) generated on share/units held within the trust is subject to Income tax, which is also based on the donor's tax position during his/her lifetime. For the offshore bond versions, where policies are re-assigned by way of reversion to the donor there is no immediate Chargeable Event (so long as there have been no partial surrenders). Where such policies are encashed by the donor the gains will be assessable for Income Tax in the normal way.

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#### **Cancellation Rights**

Under the Financial Services Authority's Conduct of Business Rules, cancellation rights apply where the contract was arranged through an independent intermediary, unless they hold an appropriate customer agreement with you or dealt on your behalf on an "execution only" basis.

If you are entitled to cancellation rights, we will send you a Notice of Cancellation on the next business day after your investment is made. If you wish to exercise your right to cancel you should complete and return the Notice to us within fourteen days for Unit Trust / OEIC versions, or thirty days for the LMEP Offshore Bond version, of its receipt by you (you will be deemed to have received the Notice on the second business day following investment). Your refund will be either the full amount invested or, should the buying price have fallen since the investment was acquired, the refund will be reduced by an amount equal to that fall in value.

**Please note that where cancellation rights apply, the transfer of units into trust will be delayed until those cancellation rights have expired.**

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**Information in this document is based on WIS' understanding of current law and Inland Revenue practice as at November 2006.**

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An appointed representative of WAY Fund Managers Ltd., which is authorised and regulated by the Financial Services Authority, but solely in relation to investments into WAY Fund Managers Ltd. funds and products.

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