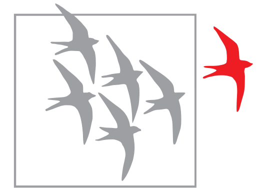
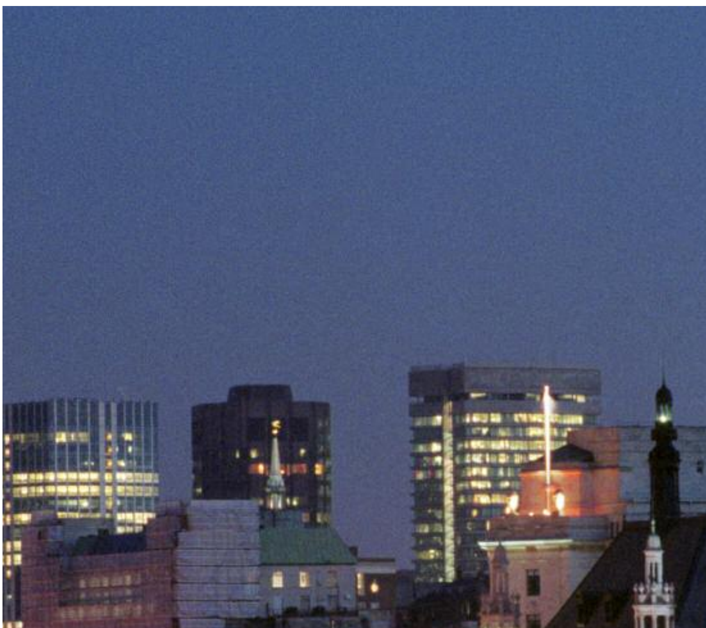
ascentric
the whole of market wrap



The WAY 'Gifts from Income' Inheritor Plan



Immediate Exemption from Inheritance Tax on Gifts out of Surplus Income whilst retaining access to funds

Introducing the WAY Inheritor Plans on Ascentric

A range of flexible trust solutions to protect family assets from Inheritance Tax.

The Government has progressively retrenched from the previous 'voluntary tax' approach so eloquently summed up by Roy Jenkins in 1986 when addressing the House of Commons - *"IHT is, broadly speaking, a voluntary levy paid by those who distrust their heirs more than they dislike the Inland Revenue"*. Moves over recent years have increasingly targeted those wishing to mitigate this tax. Meanwhile IHT on death has become an effective wealth tax aimed at depriving successful accumulators of wealth, upon whom the UK is so dependent, of the ability to pass their hard-earned and after-tax savings and investments on to their chosen heirs.

WAY Investment Services offers a range of Inheritance Tax (IHT) mitigation structures which utilise bespoke trusts to assist investors in protecting their investment portfolios from this tax. These strategies have the benefit of putting assets beyond the reach of the tax man whilst retaining flexible access for the investor (the 'Settlor' of the trusts) and his or her family. Investors with portfolios managed on the Ascentric platform can now protect those assets from IHT by utilising one or more of the WAY trusts.

WAY offers trust structures to enable investors to 'effectively' remove assets from their taxable estates in a number of ways:

- Removing capital sums which are within their available IHT Nil Rate Band allowance. Such transfers into trust will generally fall out of account once the Settlor has survived 7 years from the date of the transfer (at which point a new allowance becomes available).
- Protecting regular annual sums from surplus after-tax income which, subject to strict conditions laid down by the Inland Revenue (now part of the merged HMRC), will achieve immediate exemption from IHT.
- Ring-fencing future portfolio gains, which over long periods of time can be substantial, whilst leaving the original portfolio value available to the Settlor.

This document is an introduction to the mitigation of IHT on regular surplus after tax income via the WAY Gifts from Income Inheritor Plan. Please note that important comprehensive technical detail and tax implications of this plan are incorporated in the associated document – WAY Inheritor Terms & Conditions.

WAY Investment Services Limited

In partnership with a number of specialist investment managers, wrap platforms and selected financial intermediaries, WAY Investment Services delivers a range of services and strategies designed specifically to encompass the wide-ranging investment and financial needs of wealthy investors. WAY Investment Services is an appointed representative of WAY Fund Managers Limited which is Authorised and Regulated by the Financial Services Authority.

Ascentric – the whole of market wrap

Ascentric is an independent asset consolidation, management and valuation service for clients of selected Independent Financial Advisers. A full 'whole of market' wrap platform offering access to a comprehensive series of investment products and tax wrappers (including ISA, SIPP, SSAS and offshore bonds) as well as straightforward investment in shares, OEICs, unit trusts, bonds and cash. Ascentric is part of the Royal London Group. Authorised and Regulated by the Financial Services Authority.

The designer and trust administrator of the plan described in this document is:

WAY Investment Services Limited
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Registered in England No 3181187

WAY Investment Services Limited is a wholly owned subsidiary of WAY Group Limited and an Appointed Representative of WAY Fund Managers Limited which is Authorised and Regulated by the Financial Services Authority.

The information in this document is for guidance only and expert financial and taxation advice should be sought before making decisions on financial products. Whilst we believe the facts to be correct, we cannot assume liability for any errors or omissions.

The WAY 'Gifts from Income' Inheritor Plan

The WAY 'Gifts from Income' Inheritor Plan is a specially designed strategy for investing regular *IHT-exempt* gifts into trust within a managed portfolio of collective funds whilst retaining an interest in the trust under which the gifted assets will, subject to the exercise of powers conferred on the trustees, revert back to the Settlor.

How the Plan works

The investor calculates how much of his/her after-tax income can be safely given away each year as a regular IHT exempt gift and, via the Ascentric wrap service, purchases units in a cash fund to this value. These cash units are then gifted into a special Inheritor trust for the benefit of his/her chosen beneficiaries. Similar gifts are then made annually. The Settlor, with advice from his/her adviser, also specifies how the cash units should be re-invested once each transfer is complete (the appointed corporate trustees arrange the sale of the cash units and subsequent reinvestment).

Although the Settlor will have completely removed the gifted assets from his/her estate at the point of gift, he/she does not give up all rights to access those assets at some future time.

Capital Reversions for the Settlor

The trust is a very carefully constituted instrument in which the Settlor equally divides each annual gift into two defined 'investment parcels' which are to be reverted in the fifth and tenth years from the trust back to him or herself. Reversions are made via 'in specie' transfers of units/shares so that the Settlor may decide whether they should be kept and accumulated, passed on in part or in full to children or grandchildren or simply cashed in for value.

These 'reversions' are, however, subject to the trustees powers to wholly or partially defeat or defer them. Deferred or partially deferred reversions are then re-dated by the trustees to potentially become available later.

Because the Settlor has an interest in the trust (via future reversions) he/she is the tax point for any potential Income Tax which may arise in relation to investments held within the trust. Since the trust assets are generally invested in low or nil yielding growth funds, any such liability tends to be minimal.

Family Flexibility built in

The trustees will take account of the requirements and wishes of the Settlor on an ongoing basis via formal 'letters of wishes'. This input from the original owner of the assets, together with the trust wording within the WAY Gifts from Income Inheritor Plan, affords the trustees an exceptional degree of control over the level of actual reversions made available to the Settlor.

As a result of, and linked to, this flexibility over reversions, the trustees are granted further important powers - to lend or appoint assets out to beneficiaries if and when they think fit. This permits the trustees, normally following an expression of wishes from the Settlor, to assist family members in times of need should it ever be necessary.

Adding Beneficiaries

The trust wording includes a second class of beneficiaries (which includes the named beneficiaries plus their children and remoter issue) to whom assets may be appointed by the trustees on a discretionary basis. The trustees are empowered to add further named beneficiaries to this appointed class at any time.

The Beneficiaries

The Settlor will specify the 'interest-in-possession' beneficiaries and the proportions in which they are to benefit. Since the trust has a maximum life of 80 years there is no compulsion on the part of the trustees to pay out capital to beneficiaries at any particular time even after the death of the Settlor. Their action may well be influenced by the wishes of the Settlor (which may be recorded in a 'letter of wishes') who might, for instance, wish certain beneficiaries to have their share appointed over time rather than as a single lump sum.

The interest-in-possession beneficiaries will receive any trust income which arises, after the deduction of trust expenses, but in most cases where trust assets are invested for capital growth this will be minimal.

The death of the Settlor will not trigger any immediate Capital Gains Tax liability on the growth in value within the trust. However, throughout the life of the trust the trustees will need to account for CGT on any realised gains, including on the occurrence of reversions to the Settlor and distribution of any trust assets to the named beneficiaries. Any liability will be net of the trustees' annual exemption.

(Please note that appointments of assets to beneficiaries out of the trust are potentially subject to a small exit charge for IHT, but only in instances where there was an initiation charge or a periodic charge at the last 10 year point for trusts older then 10 years. Such a charge is unlikely but please refer to notes on page 4.)

The Inheritance Tax Act 1984

In IHTA 1984 Section 21 it states:

A transfer of value is an exempt transfer if, or to the extent that, it is shown -

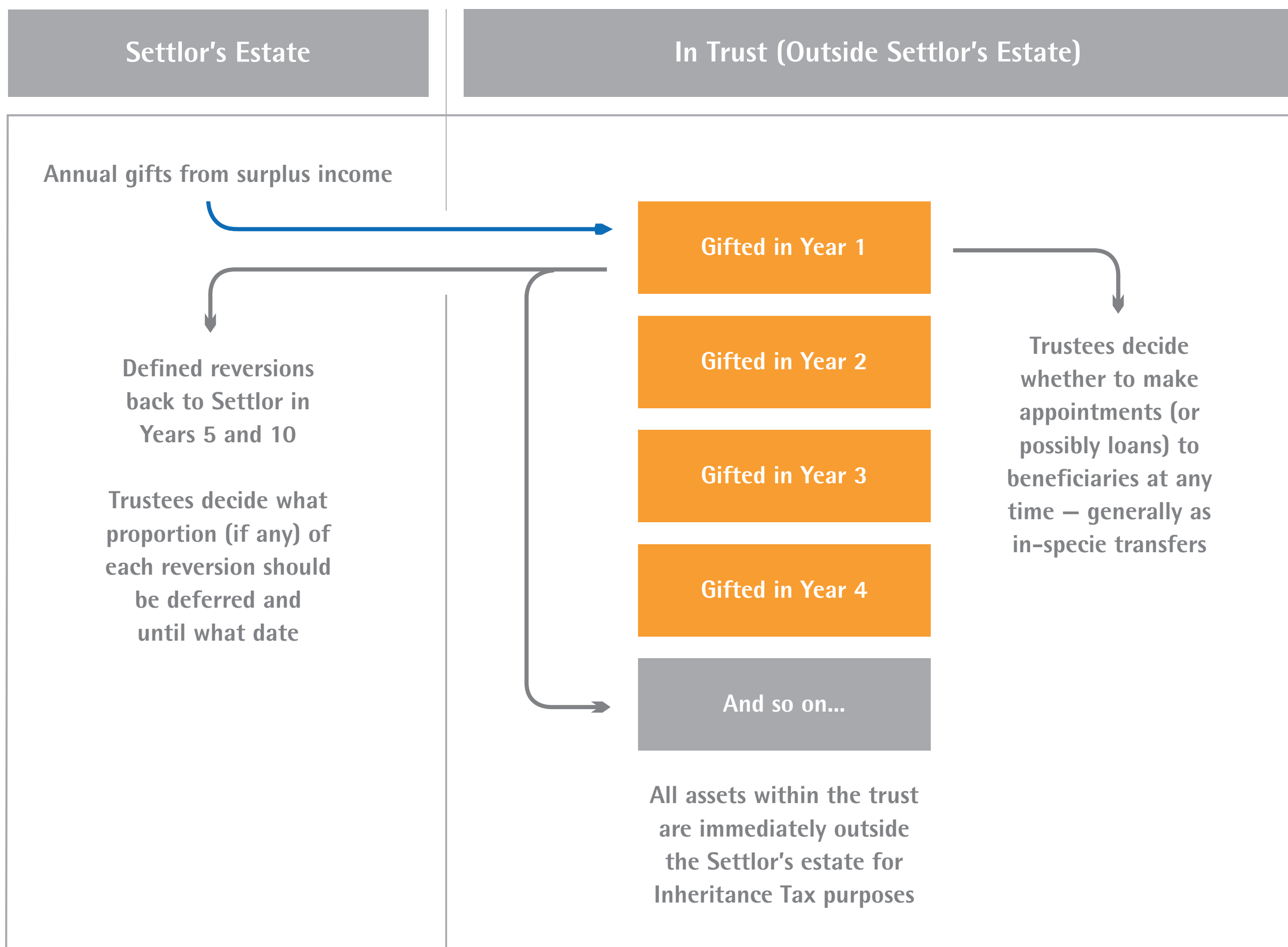
- That it was made as part of the normal expenditure of the transferor, and
- That (taking one year with another) it was made out of his income, and
- That, after allowing for all transfers of value forming part of his normal expenditure, the transferor was left with sufficient income to maintain his usual standard of living.

There are several caveats attached to this exemption, relating to such things as annuity purchase, but in essence the conditions stated above represent a useful summary. Translated into everyday conversational English these conditions can be described thus:

A regular gift made out of surplus after-tax income is exempt from Inheritance Tax so long as -

- It is regular - meaning that gifts are made over a number of consecutive years (normally at least 3 to 4 years)
- The gift literally comes from sources that would ordinarily be taxable as income and not capital, and
- The Settlor is able to maintain his or her usual standard of living without having to resort to capital.

Subject to these conditions there is no limit on the size of such gifts and they will automatically achieve instant exemption from IHT. If such regular exempt gifts are made in the seven years before death then IHT exemption will have to be claimed and justified against these rules retrospectively by the personal representative/s of the Settlor.



Further Information

Trustees

A sophisticated trust comprising a managed portfolio ideally requires the services of a professional trustee. The default trustee for the WAY Gifts from Income Inheritor Plan is WAY Tax and Trustee Advisory Services Limited which is able to act independently as corporate trustee of the Plan and will act in accordance with the terms of the trust and in line with the Terms of Business between it and the Settlor.

Single Investor Plans Only

The WAY Inheritor Plans are available as single Settlor plans only. This is because we passionately believe that such arrangements offer the maximum flexibility. As an example, the Inheritor Trusts empower the trustees to add further named beneficiaries to the appointed class at any time. This means that they may add a widow/er or civil partner as a beneficiary (but only) after the death of the Settlor - permitting appointments of capital or loans to be made to that person from their deceased partner's trust. This can further enhance the benefit of the plan.

Other IHT considerations

With careful planning and the use of reversions, WAY Inheritor is unlikely to incur future periodic and/or exit charges. However, even where periodic charges apply, they will be at a maximum rate of 6% every 10 years, based on trust values at each 10 year anniversary, but only if applicable, on that element of trust value in excess of the then available available Nil Rate Band. This compares favourably with the IHT death rate of 40%.

Remember also that 6% is equivalent to an annual compound charge of approximately 0.6% per annum which one would hope might be covered by the underlying performance of the trust assets.

Completing more than One Trust

When completing trusts, which within 10 years could grow in value to within the Nil Rate Band, investors might consider splitting their gifts so that each individual trust may subsequently have its own Nil Rate Band.

In this case trusts should not be established on the same days and it may be prudent to have slightly different beneficiaries (e.g. one for son, one for daughter and one for combined).

PLEASE REMEMBER

It should be noted that tax legislation may change from time to time and the value of any tax relief may depend on the Settlor's individual circumstances. The information contained within this document is based on WAY's understanding of current law and HMRC practice as at April 2009. **Settlors should rely on their own tax advice. The stated tax implications cannot be guaranteed.**

Reversions will be withdrawals of the Settlor's original investment. Depending on the rate at which reversions are taken and the growth of the Investment Parcels remaining within the trust, these 'drawings' may result in an erosion of the overall trust capital.

Past performance is not necessarily a guide to future performance. The price of units/shares and the income from them can go down as well as up as a result of changes in the value of underlying investments. Changes in rates of foreign exchange may have an adverse effect on the value of and on the income derived from an investment. International investment includes risks related to political and economic uncertainties of foreign countries, as well as currency risk. An investor may not get back the amount originally invested.

The designer and trust administrator of the plan described in this document is:

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