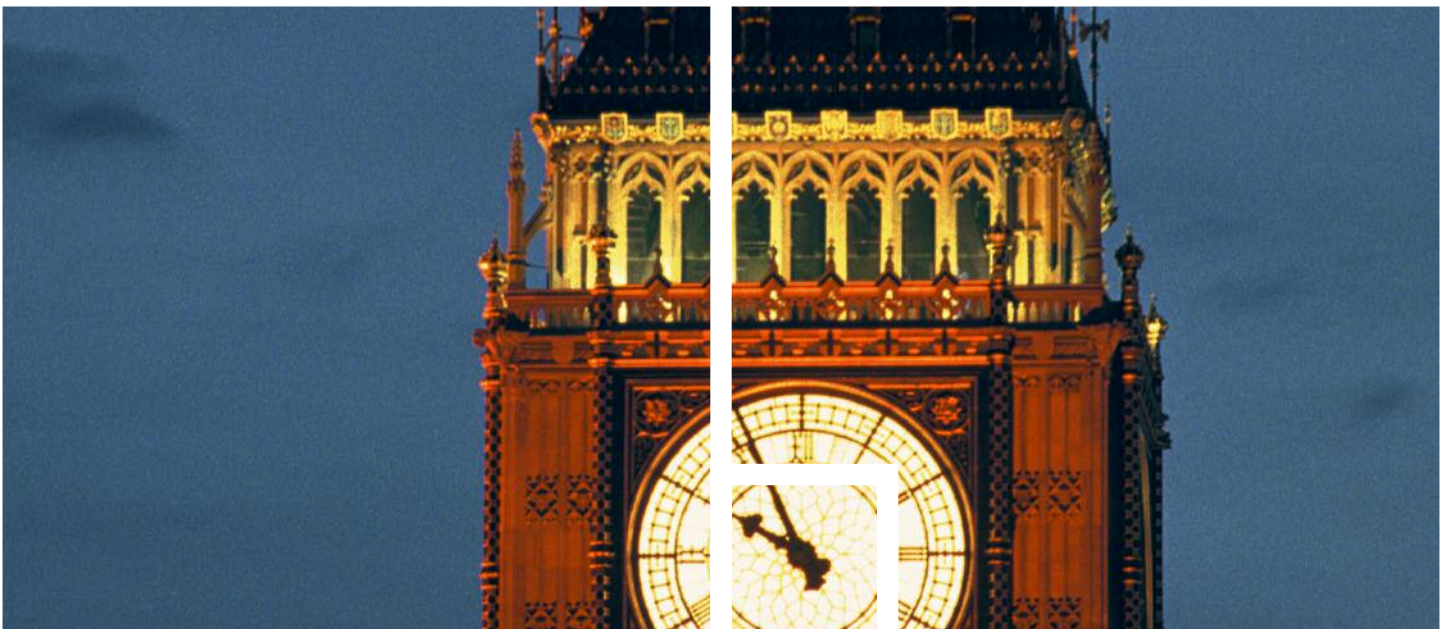




# The WAY Inheritor Loan Plan



A simple strategy for moving value out of your taxable estate whilst protecting your future security



# 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 future capital gains (on managed investment portfolios) via the **WAY Inheritor Loan 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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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 Inheritor Loan Plan

The **WAY Inheritor Loan Plan** is a flexible strategy for investing amounts of any size within a managed portfolio of collective funds whilst taking vital steps to protect one's wealth from future Inheritance Tax liabilities.

## How the WAY Inheritor Loan Plan Works

The investor decides how much he/she can afford to invest in a new portfolio on the Ascentric platform and then loans that sum into a newly-settled trust specially formulated for this purpose.

This loan is subject to a formal agreement which specifies that it is interest-free and repayable upon demand. The agreement also states that repayment can be made by any combination of variable regular and single repayments and that, at the request of the lender (the Settlor) such repayments may be made 'in specie'. Repayments made 'in specie' may be kept and accumulated, passed on in part or in full to children or grandchildren or simply cashed in for value.

## Progressive IHT Benefits

This version of the Inheritor Plan does not involve making any lifetime gifts, but instead ensures that all future portfolio gains arise outside the Settlor's taxable estate. The trustees' indebtedness to the Settlor will diminish if loan repayments are made, whilst the overall trust assets will potentially increase in value. The balance of increasing asset value, less reducing outstanding loan, thereby accumulates outside the Settlor's taxable estate for the benefit of beneficiaries.

## The Settlor

Because the Settlor has an interest in the trust (via any outstanding loan) 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. The trustees are the tax point for Capital Gains Tax both during the lifetime and after the death of the Settlor. The trustees have their own annual exemption, leaving the Settlor's annual exemption available for any gains realised elsewhere.

Any loan outstanding at the date of the Settlor's death will form part of the Settlor's taxable estate for Inheritance Tax.

## Family Flexibility built in

The Plan uses an Interest-in-Possession trust to enable Settlers to direct trust income and capital to their chosen and named beneficiaries in stated proportions.

The plan offers sufficient flexibility to add further potential beneficiaries to a second appointed class to reflect real life changes in an increasingly uncertain world and to vary beneficiaries' interests. Any future changes to beneficiaries' interests will have no personal IHT implications for any of the beneficiaries.

The trustees will take account of the 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 Loan Plan, allows the trustees to make payments to the Settlor (constituted as loan repayments) as well as to beneficiaries (as appointments), to cover any contingency requirements of the Settlor and his or her family.

The trustees must, however, exercise great care in making appointments to beneficiaries so that they do not distribute assets which will later be needed to make further loan repayments to the Settlor.

## The Beneficiaries

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 design of the plan is such that over time the value of the trust may grow at a faster rate than the value of any actual loan repayments to the Settlor. Any net increase in value will occur outside the Settlor's estate for Inheritance Tax purposes.

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 loan repayments to the Settlor and any distribution of trust assets to the named beneficiaries. Any liability will be net of the trustees' annual exemption.

## The Mechanics

The investor makes an interest-free loan to the trustees of a newly-settled loan trust. The funds are used to establish a portfolio on the Ascentric platform, comprising suitable holdings of collective funds.

Under the terms of the loan agreement, the Settlor may specify the manner in which he/she would like to be repaid. This will often be by means of regular monthly cash payments directly from Ascentric plus any other occasional repayments either in cash or via 'in specie' transfers of units. The Settlor has total flexibility in requesting repayment until such time as 100% of the loan has been repaid.

The trustees of the WAY Inheritor Loan Trust are obliged (by the loan agreement) to respond to the Settlor's repayment requests and arrange for cash or 'in specie' repayments to be made so long as there is any loan outstanding.

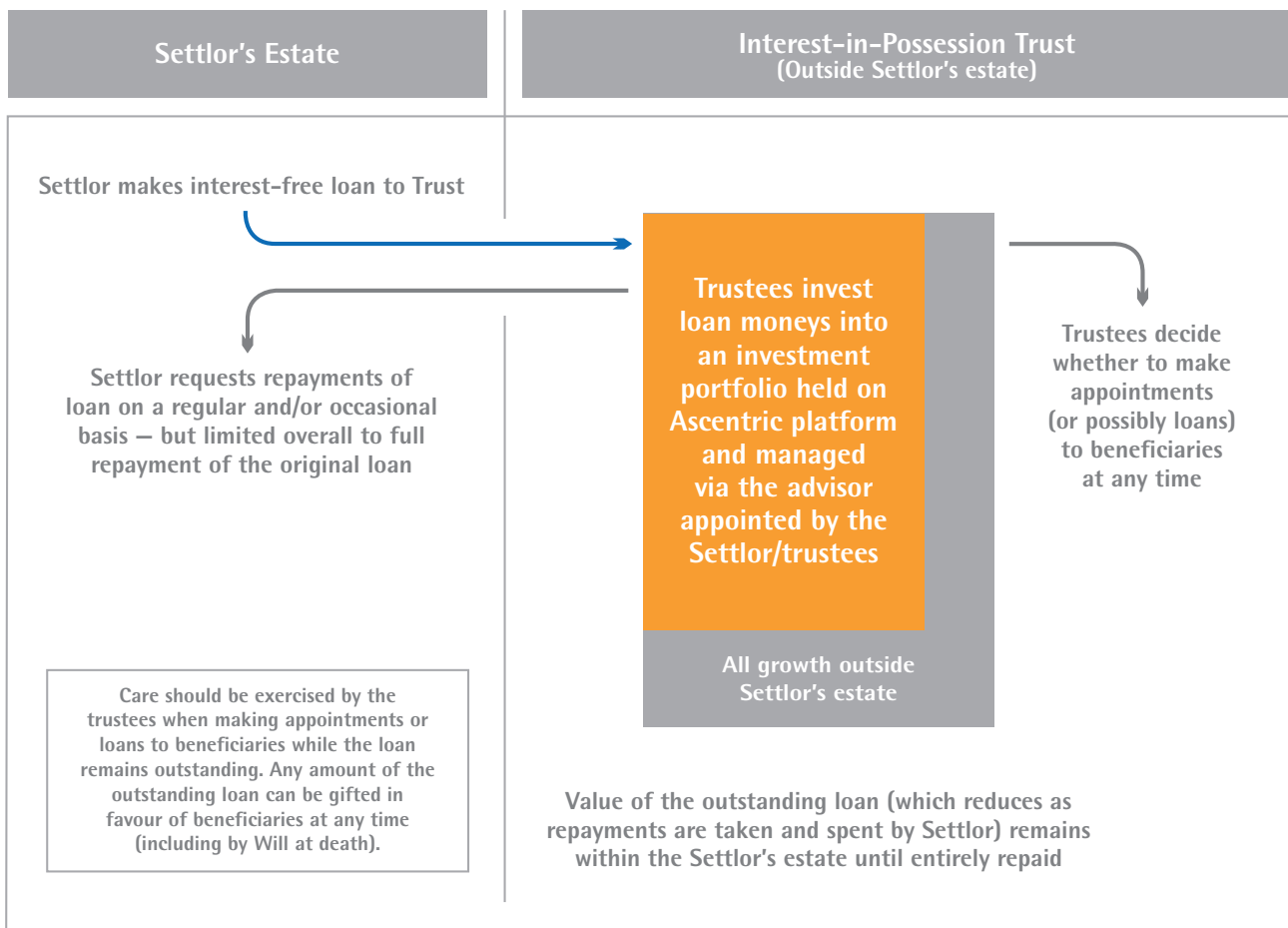
## The Benefits

Until such time as the loan by the Settlor is fully repaid the Settlor enjoys the benefit of being able to call for loan repayments from the trust at any time.

In any emergency, the trustees may also make appointments of trust assets to any one or more of the appointed class of beneficiaries so long as they do not prejudice their ability to repay any outstanding loan to the Settlor.

Notwithstanding this convenience and flexibility, the net value of assets remaining within the trust (after provision for any outstanding loan repayments) will potentially grow outside the Settlor's estate for Inheritance Tax purposes.

On the eventual demise of the Settlor, the net value remaining within the trust (net of any loan outstanding) can then pass to his/her beneficiaries.



# Further Information

## Trustees

A sophisticated trust comprising a managed portfolio ideally requires the services of a professional trustee. The default trustee for the WAY Inheritor Loan 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 a WAY Inheritor Loan Plan 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 (net of any outstanding loan from the Settlor) at each 10 year anniversary, but only if applicable, on that element of trust value in excess of the then 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 excess of the Nil Rate Band, investors might consider splitting their loans 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. **Settlers should rely on their own tax advice. The stated tax implications cannot be guaranteed.**

Loan repayments will be withdrawals of the Settlor's original investment. Depending on the rate at which repayments are taken and the growth of the assets 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:

### **WAY Investment Services Limited**

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