CLIENT GUIDE

WAY Investment Services

WAY Flexible Inheritor Plan

Flexible wealth preservation for you and your loved ones

For UK Investors only

The Flexible Inheritor Plan - passing family wealth into the right hands at the right time with minimal IHT

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Important information

The purpose of this brochure is to help you understand the Flexible Inheritor Plan and how it works. Keep it safe for future reference. If you require further explanation of any point, please contact us or your financial adviser for more information.

The Flexible Inheritor Plan is a trust-based investment. WAY Investment Services (WAY) cannot give financial advice and investors must therefore rely on the recommendations of their financial adviser(s) or their own judgement on whether such an arrangement is appropriate for their individual circumstances.

Throughout this brochure, it is assumed that the investor is domiciled and resident in the UK and the Trust is regarded as UK resident for tax purposes. The contents are based on WAY's understanding of current law and HM Revenue & Customs (HMRC) practice, which can change at any time.

Any investments held within the trusts that WAY provides are regulated by the Financial Conduct Authority however our range of trusts and associated services are not.

Inheritance Tax and the gifting dilemma

You work hard, pay taxes, save for your future, buy your own house and want to give your children and grandchildren a good start in life, only to find that your assets are taxable again on death. Inheritance Tax (IHT) can have a serious impact on your estate and can substantially reduce the amount of your wealth passing to beneficiaries.

Fortunately, by planning ahead, there are tried and trusted ways whereby you can reduce the IHT payable on your death but without jeopardising your current and future financial security.

A very effective way of reducing your taxable estate for IHT is to make significant gifts during your lifetime.

For example, a gift of £100,000 to your son or daughter would mean a fall in your potential IHT bill of £40,000 if you subsequently survive seven years.

However, most people cannot afford to make a sizeable gift because they may want some access to the capital in the future or require an income from it. Sadly if you continue to enjoy any benefit from or access to it, the gift will normally be regarded as a 'gift with reservation' and the gift would be ineffective for IHT mitigation.

In any event, you may not feel comfortable about making a large outright gift as this involves losing control of the capital and how it is used. What happens if the recipient becomes bankrupt or gets divorced? What if the intended beneficiary is a young child or, possibly, a spendthrift?

Perhaps you would prefer to make a single one-off gift for the benefit of all your children, grandchildren and great-grandchildren so that your wealth can cascade down to future generations of your family.

Where flexibility and control are important factors, the WAY Flexible Inheritor Plan can provide an effective solution.

What is a trust?

Using trusts for wealth preservation

Trust-based IHT mitigation plans are designed to reduce the value of your taxable estate for IHT whilst facilitating future access to capital but without infringing on the gifts with reservation rules. In addition, trusts can preserve your capital for future use by your children and the next generations in an IHT efficient manner.

A trust is a legal arrangement where you (the settlor) transfer the ownership of assets to a group of people (the trustees) that you appoint to hold and administer for the benefit of your chosen beneficiaries. The assets now held in the trust are referred to as the trust fund. The legal document setting out the terms of the trust is called the trust deed.

A trust can therefore allow you to make a gift without physically handing over the capital to your intended beneficiaries. A trust can also ensure that the capital remains within your family. Furthermore, since a trust can last for up to 125 years, it can continue after your death.

Of even greater benefit, certain trusts, like the **WAY Flexible Inheritor Trust,** can also permit you some access to capital without infringing the gift with reservation rules.

The trustees must manage the trust fund in the best interests of the beneficiaries and in accordance with the trust deed. Being a trustee is therefore an important responsibility.

Most gifts into trust are 'chargeable lifetime transfers' for IHT and, as a result, are potentially liable to an immediate IHT charge. However, no IHT will be due if the value of the gift and any other similar gifts you have made in the last seven years, are within the nil rate band. Then if you survive the gift by seven years, it will fall out of your estate for IHT.

The importance of flexibility

Flexibility is another highly important ingredient in providing you with peace of mind. As we all know, life can change without warning so being tied up in a rigid planning strategy is not recommended. We all have concerns about what may happen in later life. Apart from ensuring that your financial security is not compromised in any way, your IHT planning should be sufficiently flexible to cater for any future changes in your personal circumstances (perhaps an occasional need to boost retirement income or assistance in paying for long term care). You may also want the ability to use the capital concerned for providing financial support to your children and grandchildren whilst you are alive.

What is the WAY Flexible Inheritor Plan?

The Plan involves you purchasing unit trusts and OEICs in your own name and then transferring (ie gifting) these to a WAY Flexible Inheritor Trust for your chosen beneficiaries.

There are two types of Plan:

1. Under our '**traditional**' arrangement, you may invest only in WAY-branded Portfolio Funds. These non-income yielding investments have been specifically designed to be held within the Plan to simplify trust administration.

2. Alternatively, our '**managed portfolio**' version allows you to invest in a portfolio of unit trusts and OEICs chosen from a wide selection of fund managers to meet the needs of the Trust.

Unit trusts and OEICs are pooled investment funds, often known as collective investments.

Both Plans are set up and administered using our Plato Nominee & Investment Administration Service. This is an online investment account, which allows investments such as unit trusts and OEICs to be bought or sold electronically and managed conveniently in one place. Investment performance can also be easily monitored and analysed. Online viewing access can therefore allow the trustees to perform their duties in an efficient manner.

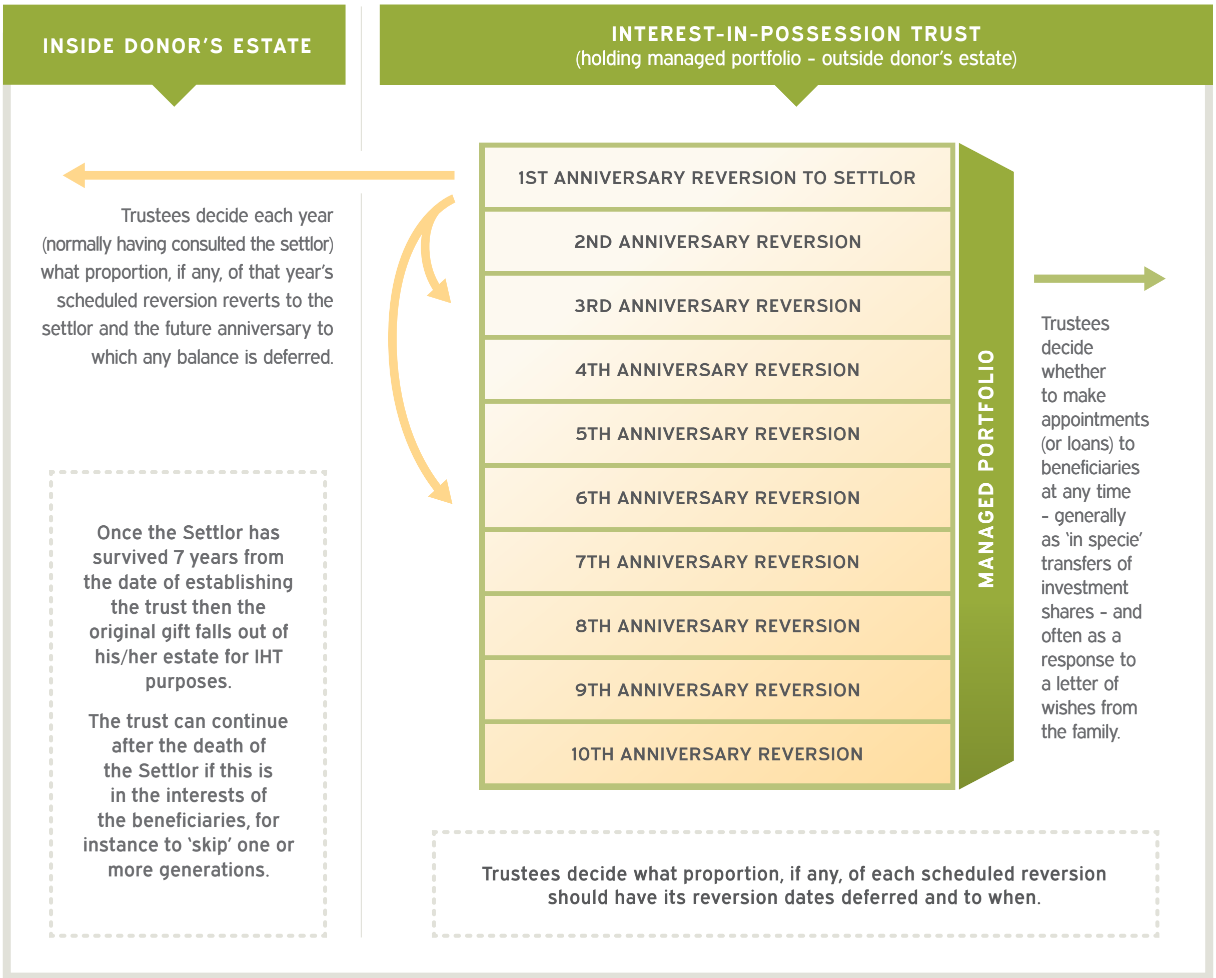
When you make the gift to establish the Trust, this will be treated as a chargeable lifetime transfer for IHT. There will be no immediate charge to IHT so long as the maximum you invest in the Plan is within your available nil rate band. Once the Trust is set up, you cannot add to your initial investment.

If you survive the next seven years, the value of the gift will no longer form part of your estate for IHT purposes.

Under the Trust, you elect to receive a program of reversions (payments) of capital on future anniversaries if you are alive when each falls due. However, the trustees can appoint capital to beneficiaries at any time and can also postpone a forthcoming reversion to a later date, so you will not automatically receive such payments. The existence of these discretionary powers provides the flexibility of the Plan and allows the trustees to adapt it for your benefit and that of your family to cope with uncertain future circumstances.

The value of the funds will vary from day to day.
Past performance is not necessarily a guide to future investment returns.

Access to the WAY Flexible Inheritor Plan



The Plan offers many benefits, including:

- The gift will fall outside your estate for IHT after surviving 7 years.
- Investment growth occurs outside your estate.
- You may benefit from reversions subject to the trustees discretionary powers to defeat or defer any reversions to reflect the needs of all beneficiaries.
- If a reversion is not required it can be postponed by the trustees to a future date.
- The trustees can pay out or lend trust capital to any beneficiary at any time.
- The trustees can take advantage of their annual capital gains tax (CGT) exemption.
- Scope to claim CGT holdover relief when distributing trust capital to beneficiaries.

Main aspects of the Flexible Inheritor Plan

The Flexible Inheritor Plan uses a special 'flexible reversionary interest in possession trust'. Its flexible structure allows you to carry out effective IHT planning whilst enabling you to have some access to your capital and at the same time ensuring that trust assets can stay within your immediate family and easily pass down the generations.

Appointment of trustees

Neither you nor your spouse can act as a trustee. Further information on who should be appointed as a trustee and their main role can be found in the **Key Information Client Guide**.

Annual reversions

Although, under the Trust, you retain the right to receive annual reversion payments if you survive to their relevant due dates, the trustees have an overriding power to defeat or defer any part of a reversion otherwise due. When setting up the Trust, you will complete a schedule within the deed showing the size of each reversion and the trust anniversary when it becomes payable.

Each reversion is made up of a proportion of the investments you gift to the Trust. If you receive a reversion, this will be in the form of units and shares, which you can then sell. The proceeds will also include any capital growth to date. Other than having potential access to annual reversions, you have no further entitlement from the Trust.

Trust income

Any income produced by the trust investments is payable to beneficiaries that you must name in the trust deed. Their legal right to the trust income is called an 'interest in possession'. The trustees cannot subsequently change these particular beneficiaries (or their successors) or vary their share of the trust income.

Trust capital

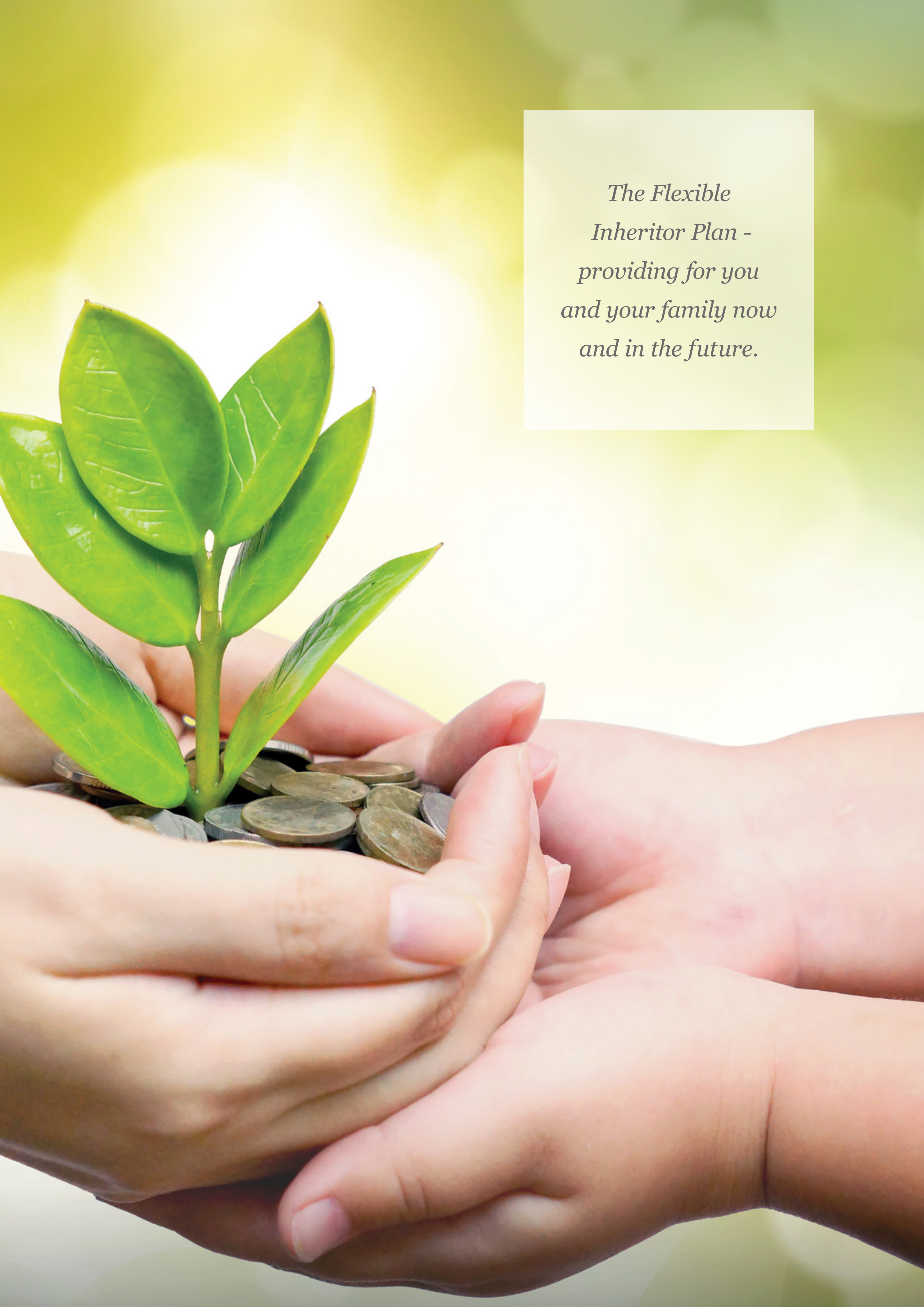
Under the terms of the Trust, the trustees hold the capital for a wide class of beneficiaries (known as the Appointed Class) and have full control over who will benefit, by how much and when. They can therefore appoint or lend capital to any beneficiary at any time.

The Appointed Class will automatically include the income beneficiaries named by you, their children, their grandchildren and so on, together with their respective spouses/civil partners. A true family trust. You also have the opportunity to include other potential capital beneficiaries when setting up the Trust and further potential beneficiaries can be added later by the trustees (to reflect new relationships and/or surviving partners).

Your spouse or civil partner <u>cannot</u> be a beneficiary whilst you are alive but can be added to the Appointed Class on your death by the trustees at their discretion.

Letter of wishes

Since the trustees will have several key decisions to make, it is suggested that you inform them, by way of a letter of wishes, on how you would like the trust fund to be used. The contents are not legally binding on the trustees but will often be very useful to them when considering the exercise of their discretionary powers. You can then update the letter if your circumstances or those of your family change in the future.


The Flexible Inheritor Plan - providing for you and your family now and in the future.

Examples of the Flexible Inheritor Plan in operation

Let's assume that you want to make a gift of £100,000 to the Plan and structure your annual reversions so that 10% of the original investment gifted will revert back to you on each anniversary of the Trust for the first ten years. (You can in practice, establish a bespoke structure to suit your individual circumstances.)

A reversion will only be made to you if you are alive on the due date and the trustees decide not to exercise their powers in favour of the beneficiaries. If your trustees decide that a forthcoming reversion payment is not required, they can simply defer it in total or in part to another anniversary date.

Before each reversion date, we will forward related paperwork to the trustees, who must decide whether they wish to postpone the reversion in full or in part to a later anniversary date. You should always inform the trustees of your own circumstances in advance of each reversion so they can take these into account. The trustees cannot bring forward the date of any future reversion.

Example 1

If, as the first anniversary approaches, the trustees make a decision to defer the reversion now due, they can allocate this to any future trust anniversary and in any proportion they wish.

They could therefore roll over the entire reversion to the next year so that, in our example, the reversion due on the second anniversary would become 20%.

Example 2

Alternatively, they could re-schedule it to the next free anniversary date so that the revised payment date of the first year reversion would now be the eleventh anniversary.

If, instead, the trustees had decided to defer, say, 50% of the reversion and thereby let you receive the balance, the revised year 2 reversion in example 1 would be 15% and that due in year 11 in example 2 would be 5%. And so on.

If you survive seven years after setting up the Trust, the original gift (and any subsequent growth) will be outside your taxable estate for IHT purposes and your IHT bill will be reduced by £40,000. Additionally, you will still have potential access to capital via the outstanding reversions.

If you die within seven years of creating the Trust, the value of your original gift will reduce the nil rate band available for calculating the IHT due on the residue of your estate. Again any investment growth will be outside your estate.

The trustees can also exercise their discretion at any time to pay out capital or make loans to any of your beneficiaries. Reasons for doing so could include helping with the costs of university education, making a contribution towards the deposit when buying a first house or to cover unexpected and urgent property repairs.

What happens to the Plan on your death?

On your death, the reversions will stop. However, the investments can continue to be held in the Trust, which can carry on acting as a highly IHT efficient vehicle for your children and grandchildren. If appropriate, the trustees can now add your surviving spouse/civil partner as a potential beneficiary of the Trust and can make capital payments or loans to him/her. Loans to any surviving partner can further reduce the IHT finally payable on your joint estates.

Tax implications during the lifetime of the Trust

Three different taxes could potentially become payable during the lifetime of the Trust – income tax, capital gains tax and IHT. These are now considered in outline. Your financial adviser will explain the taxes in greater detail to you.

Income tax

Income received by the trustees will be assessed on you for income tax. This should not be an issue if the trust fund consists solely of the nil income producing WAY-branded portfolios as under the 'traditional' Plan.

Capital gains tax (CGT)

If the trustees sell investments or transfer capital out of the Trust (to you by way of a reversion payment or to a beneficiary), they will face a charge to CGT on any gains (ie profits) that exceed their annual exemption. However, CGT holdover relief can usually be claimed when transferring assets to a beneficiary to enable capital to be distributed in a very tax efficient manner.

Postponing a reversion does not give rise to any tax implications.

IHT

The trust fund is potentially liable to a periodic IHT charge at a reduced rate on every ten year anniversary of the Trust and whenever capital is paid out to beneficiaries. In most instances, IHT will not be payable.

Summary of the Flexible Inheritor Plan

- **A flexible IHT solution that can adapt to the changing needs of you and your family**
- **Making an effective gift for IHT that will be outside your estate after surviving seven years**
- **Retaining potential access to annual capital payments, including capital growth**
- **The trustees have flexibility and control over distribution of capital to the beneficiaries**
- **CGT efficient investments for the trustees and the beneficiaries**

Important Note

This brochure provides you with an overview of the Flexible Inheritor Plan and its role as an IHT mitigation arrangement. If you require further clarification on any point or wish to raise any questions, please speak to your financial adviser.

Please note

Information contained in this brochure is based on WAY's understanding of taxation, legislation and HM Revenue & Customs practice as at May 2019, which may change in the future. Every care has been taken to ensure the material is correct WAY does not offer investment and tax advice and can accept no liability for any actions based on the contents of this publication. The investor should seek professional legal, tax and other appropriate advice on his/her own individual circumstances before entering into a Plan.

Any investments held within the trusts that WAY Investment Services provides are regulated by the Financial Conduct Authority however its range of inheritance tax mitigation trusts and associated services are not.

Past performance is not necessarily a guide to future performance. The price of units 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.

About WAY Investment Services

WAY Investment Services ('WAY') is part of the WAY Group of companies which was founded in 1996 as an independently owned investment company offering innovative and tax-efficient solutions for UK investors. WAY launched its first wealth preservation and inheritance tax mitigation plan in 2004, and the flexibility of the plan's design made it immediately popular with estate planners.

Today WAY continues to focus on providing solutions that allow investors to pass on wealth to later generations whilst mitigating potential IHT liabilities. Importantly, access to the original investment is also possible.

About the Plato Nominee & Investment Administration Service

Plato is a nominee service which means that the units or shares in the selected investment funds are registered by Plato on behalf of the trustees. The nominee consolidates all holdings into a single account so that the account holder does not have to open their own account with each investment fund company individually.

Plato also provides an online service that allows valuations of the Inheritor Plan assets to be viewed daily by the settlor, the trustees and/or their financial adviser.

Although Plato nominees register the units/shares as the legal owner, the control over the holdings remains in the hands of the trustees (or the settlor/beneficiaries once assets have been distributed), and the beneficial ownership remains with the beneficiary(ies) subject to the terms of the trust and the trustees' discretion.

Plato is a trading name of Platform One Limited, a company registered in England No 06993268, whose registered address is Peartree Business Centre, Cobham Road, Wimborne BH21 7PT.

WAY Group has a minority shareholding in Platform One Limited.

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