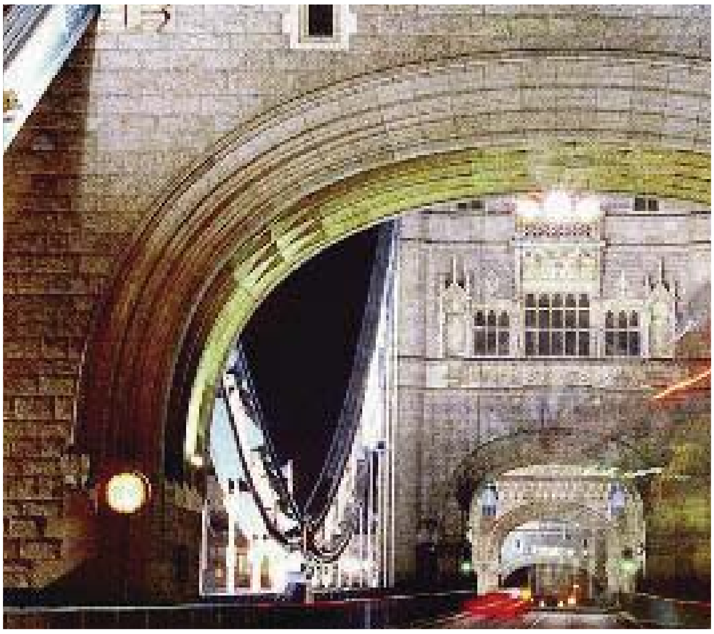
The WAY Estate Transfer Plan



A 'PET' based strategy for mitigating Inheritance Tax whilst retaining access to funds

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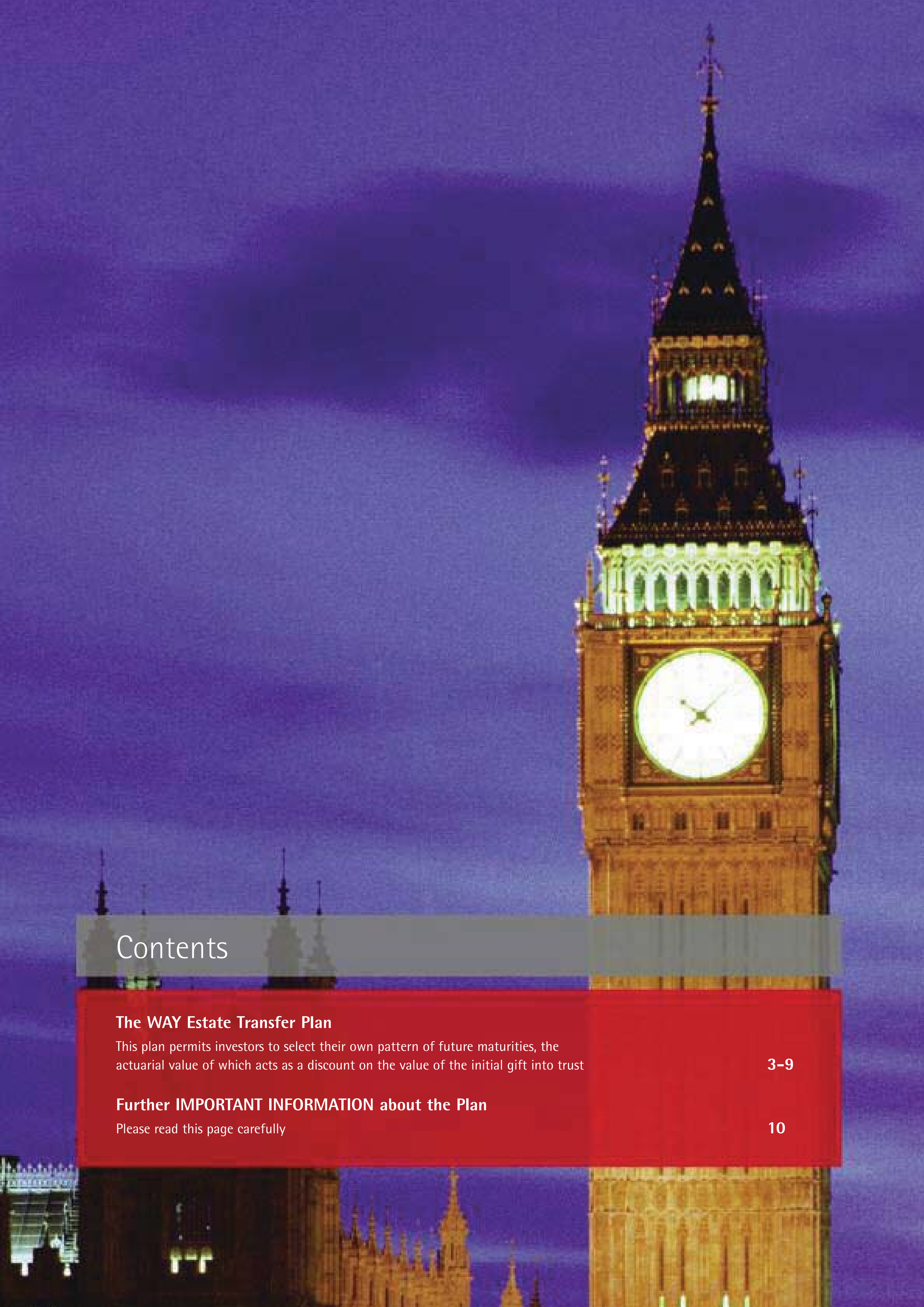

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A simple and effective solution to two of life's most challenging dilemmas for the individual with substantial investment assets.

Many individuals spend a lifetime accumulating substantial investment assets. Most do this for two very good reasons: to ensure they will have an adequate income in retirement, and to guarantee their own and their family's financial security. Having built up the value of their investments, the question arises as to:

1. how can one most effectively convert a growth portfolio into an efficient source of rising income, and

2. is there a means of ensuring any residual value ultimately finds its way to your chosen beneficiaries in a tax efficient manner?

Isle of Man Assurance Ltd (trading as IOMA Life) and WAY Investment Services have pleasure in introducing the **WAY Estate Transfer Plan** Inheritance Tax (IHT) mitigation arrangement. This Plan was launched in response to the measures contained in the 2006 Budget which changed the IHT treatment of hitherto more conventional Interest-in-Possession trusts which make them less attractive as a mitigation vehicle. In reality WAY continues to believe that its WAY Flexible Inheritor Plan will remain the core mitigation vehicle for many investors because of its inherent flexibility going forwards. However the **WAY Flexible Inheritor Plan**, which is not described within this brochure, can only be used tax effectively for amounts within the donor's existing Nil Rate Band (NRB) for Inheritance Tax purposes. Many investors have estates which are very many times greater than the current NRB and they may need/wish to mitigate the related potential Inheritance Tax.

The **WAY Estate Transfer Plan** utilises an absolute trust to hold value for future beneficiaries and as a result the gift of that value qualifies as a Potentially Exempt Transfer (PET) and not a chargeable transfer. Chargeable transfers are (practically) limited to the NRB. However, there is no limit to the size of a PET. This means that investors can remove any amount of financial assets from their estates over the seven year period after which PETs fall out of account for IHT purposes.

There would be no need of such a plan if the donor was happy to give up all rights to the gift they were making. In fact most people wish to retain at least an income from their accumulated capital and this is where the **WAY Estate Transfer Plan** comes into its own. The donor's access to 'income', in the form of maturing mini-policies, is established at the outset. This is done in advance and once stipulated is then fixed for the duration of the Plan. However, the precise profile of this stream of maturities is decided by the donor to best match his or her own anticipated requirements. Because the schedule of maturities is then fixed it will have a deemed value, based on the donor's likely life expectation. This value will form the 'discount' on the value of the funds invested/gifted into the Plan at inception.

The **WAY Estate Transfer Plan** utilises a series of single premium endowment policies offered by IOMA Life linked to one or more collective investment funds.

This particular strategy offers investors a number of benefits which are described in detail in the following pages.

The WAY Estate Transfer Plan

The WAY Estate Transfer Plan is a strategy for investing via collective investment funds whilst taking vital steps to protect one's wealth from future Inheritance Tax liabilities via a discounted PET.

Potentially Exempt Transfers - PETs

The WAY Estate Transfer Plan can reduce Inheritance Tax by utilising the Potentially Exempt Transfer (PET) rules but without denying the donor ongoing access to the gifted funds.

A PET is a gift made during a donor's lifetime which is totally exempt from Inheritance Tax if they survive 7 years - until which time it is 'potentially' exempt. Should the donor die within 3 years of such a gift the value is taxable in full. If death occurs between 3 and 7 years after the gift then a reduced rate applies at the following rates:

Between 3 and 4 years: 80% of full rate
Between 4 and 5 years: 60% of full rate
Between 5 and 6 years: 40% of full rate
Between 6 and 7 years: 20% of full rate

Note that this 'taper' relief will only apply on any element of gifted value in excess of the nil rate band. Any value under the nil rate band is taxed at nil and therefore cannot benefit from a tapering rate.

However, there is an immediate potential IHT benefit by using this strategy because the value of the gift (PET) is discounted for IHT purposes.

How the WAY Estate Transfer Plan Works

The investor decides how much of his/her assets should be placed within this solution and purchases a series of policies investing in one or more collective investment funds to this value. He/she then gifts the death benefit of these newly-invested policies via a specially written absolute trust (normally the assignment into trust is 35 days after the purchase) for the benefit of named beneficiaries selected by the donor. This gift constitutes a PET and the survival clock starts ticking. So long as the donor survives 7 years from the time the gift is made then any value remaining within the trust (the death benefit of any policies still to mature) will escape any Inheritance Tax which would otherwise have been payable on his/her death.

Pre-selected Maturities for the Donor

The death benefits of the policies are gifted into absolute trust for the beneficiaries. However, the donor retains ownership of any maturity values which arise during his/her lifetime.

These maturities are fixed at times and levels chosen by the donor and neither the donor nor the trustees may vary from the schedule laid down within the trust deed. As a result of the certainty that the donor will receive these maturities throughout the remainder of his or her life, the retained value of these reduces the value of the initial gift for IHT purposes - the gift is at a discounted value. The level of discount which can be applied is calculated from the equivalent actuarial age of the donor. This should be substantiated with medical reports obtained at the time of initiating the plan.

The donor can utilise funds from these maturities in lieu of traditional 'income' and/or capital withdrawals.

What does all this mean for the donor and the beneficiaries?

The Donor

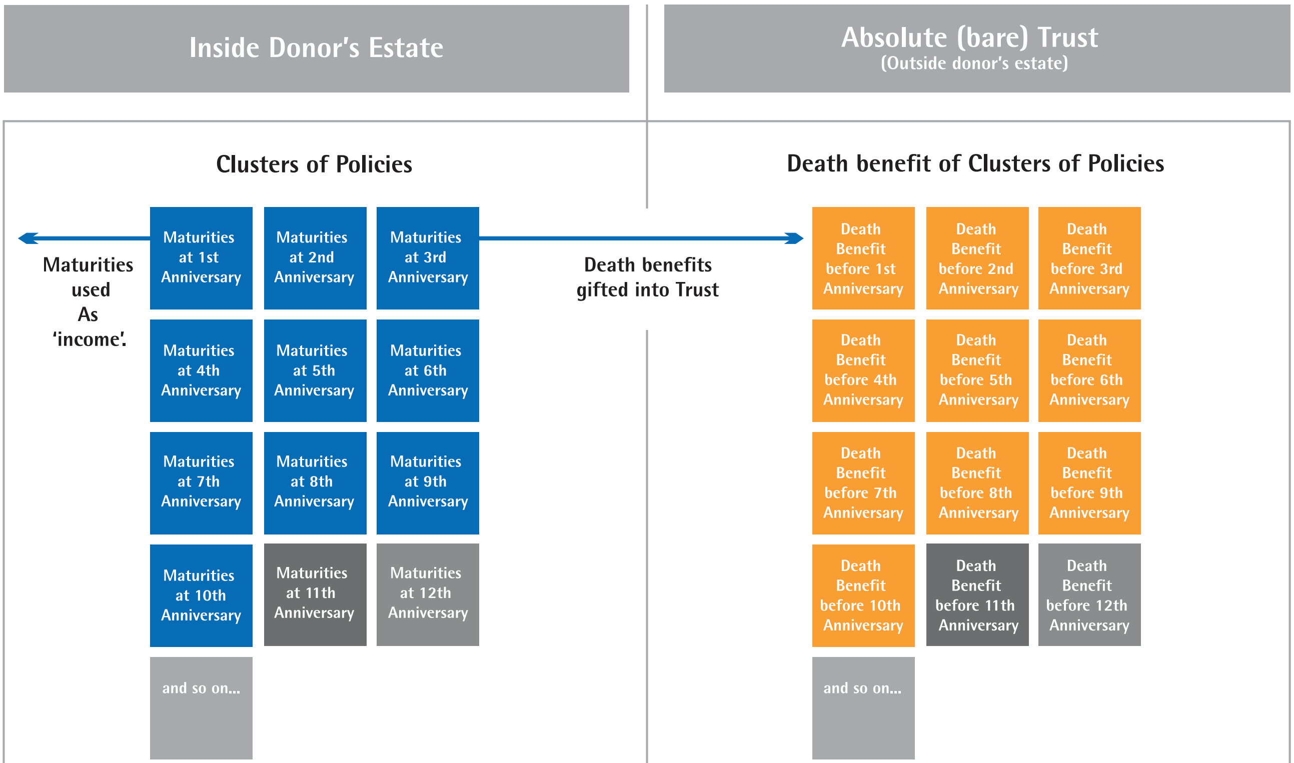
Tax efficient and potentially increasing drawings are available in the form of annual maturities. Since the donor owns the maturities he/she will be the tax point for any chargeable gains which arise.

The Beneficiaries

The design of the plan is such that over time the underlying investment value of the remaining death benefits may grow at a faster rate than the diminution in value by way of the annual maturities to the donor. Any net increase in the underlying value of any policies will be outside the donor's estate for Inheritance Tax purposes, regardless of the date of death.

In the event that the donor survives 7 years after making the PET then the whole of any remaining death benefits will be outside the donor's taxable estate for Inheritance Tax purposes. Within the first 7 years a discount will, subject to the health of the donor at the outset, be applied to the PET remaining within the donor's estate.

Any income tax liability on the donor's death falls on the beneficiaries as owners of the death benefits of the Plan. The income tax liability at this point will be calculated in accordance with legislation for chargeable gains on life policies, S484(1)(b) ITTOIA 2005



Each year pre-arranged policies mature in the hands of the Donor. The actuarial value of these future maturities, taking into account the life expectancy of the donor, will represent the discount from the full value of the initial gift of death benefits. Maturity dates can be extended by the donor, in advance, but any such extension will constitute a further PET. Policies are non-surrenderable.

The Absolute Trust, effectively a bare trust, holds the death benefits of all the policies within the Estate Transfer Plan. The value of any of these policies which have yet to reach their maturity dates at the time of the donor's death (the death claims), then pass to the beneficiaries free of IHT providing the donor survives 7 years.

The WAY Estate Transfer Plan

The Mechanics

The donor invests the funds available for Inheritance Tax mitigation into a series of non-surrenderable endowment policies offered by IOMA Life. These policies will in turn invest in one or more collective investment funds.

The donor specifies the term of the various policies so that they mature at periods convenient to his/her anticipated future financial requirements. The donor will have to settle any Income Tax liabilities arising only from gains on maturing policies.

At the same time the donor gifts the death benefit of all the policies into a specially drawn Absolute Trust for the benefit of named beneficiaries. The gift of these death benefits constitutes a discounted PET for Inheritance Tax purposes.

The Benefits

The donor enjoys the benefit of regular pre-arranged policy maturities to be used as 'income' or capital withdrawals. The value of these annual maturities has the potential to grow over time (if unit values grow) to offset the insidious effects of inflation.

The prescribed nature of the annual maturities means that a discount will be applied to the value of the gift (PET) for Inheritance Tax purposes. This will reduce the IHT paid should the donor not survive 7 years from the date of the gift.

Once the donor has survived 7 years, upon death the value of any remaining policies will be paid to the beneficiaries.

Please note: The donor may apply to Isle of Man Assurance to re-date any future maturity dates. This will trigger a further PET on the donor, the value of which will be a discounted value of the 'extended' policy (based on his/her then life expectancy). On request IOMA Life will, subject to the payment of a small fee, facilitate additional underwriting for maturity extensions.

The WAY Estate Transfer Plan

How is the discount calculated?

The discount applied to the gift into trust within the WAY Estate Transfer Plan is based on the value of prospective maturities remaining within the donor's estate. This is calculated actuarially, based on the profile of maturities, assumptions about market interest rates and the life expectation of the donor.

Please note that IOMA Life will provide indicative actuarial valuations based on individual circumstances. A table of likely actuarial discounts is provided for guidance purposes only. The Capital Taxes Office may challenge discounted gift values in instances where death occurs within 7 years. In such cases it will be necessary for the donor's estate/family to provide evidence of his/her state of health and/or life expectation at the time of the gift.

Provision of Medical Evidence

WAY Investment Services takes no responsibility for collecting medical evidence regarding the state of health of investors using the WAY Estate Transfer Plan. IOMA Life will, subject to the payment of a small fee, facilitate a full medical reference from the donor's GP and underwrite the information. All of this information will be held on file should there be subsequent queries from the Capital Taxes Office.

Insuring the first Seven Years

Investors in the WAY Estate Transfer Plan may choose to arrange 'inter vivos' term assurance cover for the amount of estimated IHT payable in the event of death within the first seven years. This policy may be gifted into an absolute trust for the benefit of the beneficiaries. Such cover, tailored for IHT, is readily available within the market.

Your independent professional adviser will be able to recommend whether this option is suitable for your circumstances and would then be able to research the whole of the market for suitable cover if appropriate.

Insuring for longer

Where investors wish to specify a larger set of maturities at the seventh anniversary, in order to move another Nil Rate Band's worth of assets into a more flexible arrangement (such as the WAY Flexible Inheritor Plan) then a 14 year policy may be more appropriate.

Your independent professional adviser will be able to recommend whether this option is suitable for your circumstances and would then be able to research the whole of the market for suitable cover if appropriate.

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 donor's individual circumstances. The information contained within this document is based on WAY's and IOMA Life's understanding of current law and HM Revenue and Customs practice as at November 2014. Donors should rely on their own tax advice. The stated tax implications cannot be guaranteed.

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.

Important Notice

The information contained in this document is based on IOMA Life's understanding of law and taxation practice in the Isle of Man and the UK as at November 2014. Whilst this interpretation is believed to be correct, the taxation position of the Plan in the UK, the Isle of Man and any other jurisdiction relevant to you is not guaranteed and is subject to changes in legislation. You are strongly recommended to consult a professional adviser to satisfy yourself as to your tax position.

This brochure should be read in conjunction with the Key Features Document of the WAY Estate Transfer Plan and the appropriate application form. The Policy Provisions and Policy Schedules contain the full terms of the contract, a copy of which can be obtained from IOMA Life upon request.

IOMA Life is authorised by the Isle of Man Government Insurance and Pensions Authority and its policyholders receive the protection of the Isle of Man Assurance (Compensation of Policyholders) Regulations 1991. These regulations apply to all policies issued after 5th April 1988. Holders of policies will not however be protected by the UK Financial Services Compensation Scheme should the company be unable to meet its liabilities.

Past investment performance is not necessarily a guide to future performance.

IOMA Life does not give investment advice, legal advice or tax advice and can accept no responsibility for the tax implications for any Plan/Bond owner in any jurisdiction.

The rules and regulations made by the Financial Conduct Authority under the Financial Services and Markets Act 2000 for the protection of investors may not apply to persons outside the UK.

The UK Finance Act 1998 ("the Act") contains provisions pursuant to personal portfolio bonds. Whilst every effort has been made to ensure that the Plan/Bond does not constitute a personal portfolio bond, IOMA Life is not providing any advice as to the tax implications of investing in the Plan/Bond.

The UK Finance Act 1998 further requires that, in certain circumstances, IOMA Life must disclose information concerning UK resident policyholders to HM Revenue and Customs in the UK. This disclosure may be required when an event occurs which results in a gain being realised. Disclosure will be dependent upon the amount of any gain and whether or not we are aware or believe that the policyholder was resident in the UK at the time the event occurred.

Your tax position will depend on a number of factors including your personal circumstances and you must obtain advice from your own financial adviser, both at outset, and throughout the life of your Plan/Bond. In particular you should ensure that you are able to satisfy any local tax, exchange control or insurance legislation or regulations applicable.



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