# The WAY Gifts from Income Inheritor Plan Factsheet

WAY Investment Services

The WAY Gifts from Income Inheritor Plan allows the settlor to achieve immediate Inheritance Tax (IHT) savings by taking advantage of the ‘normal expenditure’ exemption to make annual gifts out of surplus net income into a family trust for their beneficiaries but still retain potential access to capital payments via reversions at specified times in the future.

**Key details of the WAY Gifts from Income Inheritor Plan**

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| **Minimum annual investment** | £10,000 a year for at least four consecutive years. |
| **Maximum investment** | No maximum provided the gift can meet ‘normal expenditure’ criteria. |
| **Trust description** | Flexible reversionary trust (interest in possession). |
| **Underlying investments** | Collectives |
| **Investment fund options** | WAY-branded Portfolio funds or the Open Architecture Managed Portfolio Service. |
| **Main features of WAY-branded Portfolio funds** | Funds of funds that are externally managed in line with a nil yield mandate and geared towards capital growth so as to maximise CGT efficiency and simplify trust administration. |
| **Main features of the Open Architecture Managed Portfolio Service** | Access to a wide range of collectives (ie unit trusts, OEICs & ETFs) available either on or acceptable to the Plato Nominee & Investment Administration Service or through investment platforms and DFMs. |
| **Single or joint settlor?** | Single settlor only. |
| **Age limits for settlor** | 18 minimum; no upper age limit. |
| **IHT treatment of gift to trust** | Immediately exempt so long as it can satisfy the statutory conditions for the exemption to apply. |
| **Can the settlor or their spouse/civil partner be a trustee?** | No. A professional trustee service is appointed by WAY at outset. |
| **Potential access for settlor to capital?** | Yes. The settlor retains the right to receive two reversions if alive on the due dates —50% of the trust capital on the 5$^{th}$ anniversary and the balance on the 10$^{th}$ anniversary — unless the trustees decide otherwise (see below). |
| **Can the reversion be defeated by trustees?** | Yes. The trustees can defer a forthcoming reversion in part or in total to a later date or appoint the capital to the beneficiaries. |
| **Any tax implications on deferral?** | No. Deferring a reversion is not a disposal for CGT. |
| **Trust income** | Any trust income remaining after deduction of trust expenses is payable to beneficiaries named by the settlor in the trust deed. |
| **Trust capital** | Held for a wide class of potential beneficiaries, who automatically include the income beneficiaries, their descendants and their respective spouses/ civil partners. The trustees have full control over who will benefit. |

Continued overleaf

# The WAY Gifts from Income Inheritor Plan Factsheet (continued)

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| **Flexibility to change beneficiaries later** | Trustees can extend the list of potential capital beneficiaries but cannot change the income beneficiaries or their entitlement. |
| **Capital payments/loans to beneficiaries** | Trustees can distribute/lend capital to the beneficiaries at any time. |
| **Income Tax position of the settlor** | Trust is settlor-interested so all trust income is taxable on the settlor. |
| **Income Tax position of the trustees** | Trustees pay tax at 7.5% on dividends received and 20% on interest. |
| **Income Tax position of the beneficiaries** | Beneficiaries receiving trust income will not be taxed on this whilst the settlor is alive. |
| **CGT position of the trustees** | Trustees pay 20% tax on gains realised in excess of their annual exemption. |
| **What counts as a disposal for CGT by the trustees?** | Selling investments, reversions made to the settlor and appointing capital to beneficiaries. |
| **CGT position of a beneficiary** | Holdover relief can usually be claimed when investments are transferred to a beneficiary, who can use their full annual CGT exemption to minimise/eliminate tax on eventual disposal. The settlor cannot claim holdover relief. |
| **IHT taxation of trust fund** | Periodic charges may apply on every 10-year anniversary and exit charges may arise whenever capital is paid to beneficiaries. Reversion payments to the settlor and loans to beneficiaries do not attract an exit charge. |
| **Death of a beneficiary** | No IHT implications for the trust. |
| **Death of the settlor** | The settlor's personal representatives will need to claim normal expenditure exemption on any gifts made in the 7 years before death as part of the probate process. Reversions now cease but the trust can continue. |
| **Pre-Owned Asset Tax (POAT) and gifts with reservation rules** | HMRC has confirmed that the Plan is not subject to these provisions. |

**For the use of investment professionals only-not for distribution to retail clients.**

**For more information please contact WAY on 01202 890895 or email: advisersupport@waygroup.co.uk.**




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