The WAY Loan Inheritor Plan

Factsheet

WAY Investment Services

The WAY Loan Inheritor Plan allows a settlor, who does not want to make a lifetime gift, to reduce their IHT liability gradually and still retain access to their original investment capital. Future investment growth on the capital is, however, held in a family trust for the settlor's beneficiaries.

Key details of the WAY Loan Inheritor Plan

Minimum lump sum investment	£100,000
Maximum investment	No maximum.
Trust description	Flexible interest in possession trust.
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 with the objective of capital growth, which is likely to result in no net investment income generated, maximising CGT efficiency and simplifying 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 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.
Initial IHT treatment	No gift has been made for IHT; the outstanding loan remains an asset of the estate but future investment growth is immediately outside.
Can the settlor or their spouse/civil partner be a trustee?	No. A professional trustee service is appointed by WAY at outset.
Access to capital for settlor?	Yes. The settlor retains full access to the original capital, which is in the form of an interest free loan, repayable on demand to the trustees. The settlor can request repayment in part/full at any time. Once it is fully repaid, the settlor is not entitled to receive any further payments from the trustees.
Trust income	Any trust income, if generated, 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.
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 provided they do not jeopardise their ability to repay the settlor's loan.

Continued overleaf

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Factsheet (continued)

Income Tax position of the settlor	Whilst the loan remains unpaid, the trust is settlor-interested and all trust income will be 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 and the loan remains outstanding.
CGT position of 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, loan repayments made to the settlor and appointing capital to beneficiaries.
CGT position of a beneficiary	Holdover relief can usually be claimed to defer CGT when investments are transferred to a beneficiary, who can then 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. The value of the trust fund will be reduced by the amount of any outstanding loan to the settlor at that time. Loan repayments to the settlor and loans made to beneficiaries do not attract an exit charge.
Death of a beneficiary	No IHT implications for the trust.
Death of the settlor	Any unpaid loan forms part of the deceased's estate and may be called in by the personal representatives, depending on the terms of the will. However, 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.

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

Please note

WAY Investment Services does not offer investment or tax advice and can accept no liability for any actions based on the contents of this publication. Information in this document is based on WAY Group's understanding of the law and HMRC practice as at March 2019. Every care has been taken to ensure that the material is correct. Legislation and taxation could change in the future.

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Plato Nominee & Investment Administration Service

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