

THE A&M BOND SOLUTION

BACKGROUND

Many leading tax and estate planning specialists seem to agree that lifetime IHT planning via trusts is now a poor alternative to making outright gifts. Unconditional gifts are still classed as Potentially Exempt Transfers (PETs), but few donors are happy to make outright gifts in favour of beneficiaries at age 18, preferring instead to restrict access to when the beneficiary is more mature. The widespread use over many years of Accumulation and Maintenance (A&M) Settlements is testament to this.

HMRC believe that over 50,000 A&M Settlements are currently valued at sums in excess of the IHT nil-rate band and as gifts into such trusts are now chargeable lifetime transfers for IHT purposes the case for an alternative tax-efficient vehicle is a compelling one.

The PWS A&M Bond Solution described below is backed by an Opinion from leading tax counsel.

HOW DOES THE PWS A&M BOND SOLUTION WORK?

The objective is to make PETs via the assignment of life assurance policies whilst restricting access to surrender proceeds (and/or limiting access to partial withdrawals) for a pre-determined period. This will meet the requirements of those potential donors who insist that beneficiaries must be denied access to capital until they reach an age at which they will be considered sufficiently mature to receive such capital.

- The policyholder invests into a life assurance policy with general conditions written in standard format.
- An endorsement is written into the policy schedule providing the following:
 - 1) the full surrender option is removed for a period of [x] years; and
 - 2) the tax deferred withdrawal facility of 5%pa of the original investment may be removed for the same period term (if required).
- The donor then assigns the policy either by way of outright gift or to bare trustees for a child, grandchild, relative or third party.

IHT IMPLICATIONS

- The assignment will constitute a PET when the policy is assigned to the donee.
- The value of the PET will be deemed to be the higher of i) the premiums paid, or ii) the market value of the policy.
- The suppression of surrender value is likely to reduce the market value of the policy (and thus the value of the PET) to the initial premium payment.

KEY BENEFITS

- The transfer from donor to beneficiary will constitute a PET for IHT purposes. This is not achievable via gifts into flexible trusts.
- The donor has control over the age at which the intended beneficiaries can access capital. This can be tailored to suit each donor's requirements.
- If required, the plan can allow access to cumulative tax deferred withdrawals of 5%pa of the original investment.
- The policy itself benefits from gross roll-up in respect of income and gains generated from assets held within it (save for non-reclaimable withholding taxes).
- In the event of a beneficiary dying during the period of surrender suppression, the value of the policy comprising the estate for IHT purposes is likely to be discounted.
- Multiple lives assured can be added to the policy to ensure that there is no chargeable event for income tax purposes on the death of the original policyholder or on the death of certain beneficiaries.
- The assignment of the policy to bare trustees or to an adult beneficiary is not a chargeable event for Income Tax purposes. Contrast this with the position for gifts of stocks and shares or other assets liable to Capital Gains Tax.

INVESTMENT FLEXIBILITY

Assets of the type available from major private banks and asset management institutions, including alternative investments which are only available to high

net worth investors, are generally able to be held through the PWS A & M Bond Solution.

CHARGES

The PWS A&M Bond Solution is a bespoke arrangement and so charges will be quoted on a case-by-case basis at the outset.

IMPORTANT NOTES

- **Counsel's Opinion is available on request.**
- **The value of your investment may fall as well as rise and past performance is not necessarily a guide to future investment returns.**
- **Detailed tax advice should be obtained in each case.**

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