Offshore solutions

Friends Provident International

Capital Access Trust

Case study

Henry

- 48 years of age
- Divorced
- Well-known actor enjoying success in the West End
- One daughter who is in her final year at university
- Henry's wealth includes a four-bedroom period cottage in the New Forest, a flat in South Kensington and a portfolio of shares.

Henry has recently updated his will following his divorce, and was somewhat shocked to discover, whilst talking to his Independent Financial Adviser (IFA), the extent of his liability to Inheritance Tax (IHT).

Following a comprehensive fact find, the IFA presented Henry with a detailed report, and a number of recommendations. Henry has agreed to invest into an offshore bond as suggested, putting the bond into trust for the benefit of his daughter and any future grandchildren.

Whilst Henry agreed with all of the IFA's recommendations, he is reluctant, at this stage, to part with a large portion of his capital. He is, however, prepared to gift some of his assets away for the benefit of his daughter and to make a start at reducing the IHT liability. On that basis, the IFA suggested the merits of a Discretionary Capital Access Trust, which is a split trust, and part of a Friends Provident International offshore bond.

The benefit of the Discretionary Capital Access Trust for Henry is that he can decide at outset the amount of capital he wants to gift away, and the amount he wants to retain for himself. As it is a discretionary trust, the gifted portion of the trust will be a Chargeable Lifetime Transfer (CLT), and will be outside of his estate providing he survives seven years from the date of the gift.

The gifted portion of the trust will be for the benefit of the beneficiaries, (which will not include Henry) as will all the growth on the investment. The investment growth will be outside of Henry's estate immediately for IHT purposes.

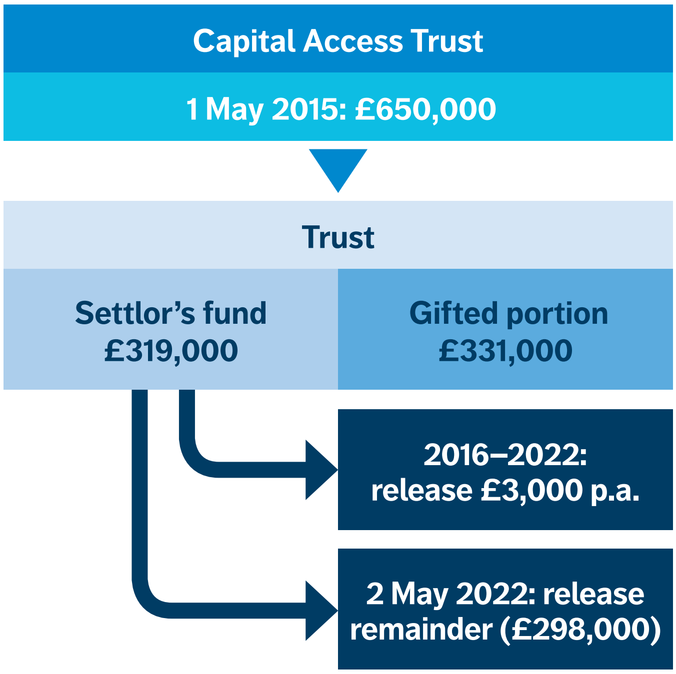
He will be advised to keep the gifted portion of the trust to below his Nil Rate Band (NRB) (and unused annual allowance) to avoid the lifetime IHT charge. The NRB is the amount of a person's estate on which there is no charge to IHT. The retained portion of the trust will be an absolute trust for Henry's own benefit and will not be considered a CLT.

He can, if he wishes, draw down and spend the retained portion using the tax-deferred withdrawals from the offshore investment bond. What's more, he can take up to 5% of the original capital each year for the number of years his retained portion will allow. Any withdrawals made using the 5% tax-deferred allowance, over 20 years, are based on the original premium and not the capital gifted or retained. For example, if Henry retains 50% of the investment for himself, he will be able to withdraw 5% each year of the original capital for 10 years (i.e. 10% each year of his retained portion).

Another benefit for Henry will be the flexibility to gift his retained portion to the beneficiaries over a number of years if he needs to reduce his estate further. This can be done effectively using the annual exemption and his new NRB after the initial seven year period has passed (see example below.)

Example

In 2014 Henry invests £650,000 into a Discretionary Capital Access Trust, which is part of a Friends Provident International offshore bond. He gifts £331,000, which is a CLT but no tax is payable (the NRB of £325,000, plus £3,000 annual allowance and £3,000 unused annual allowance from last year). The remainder (£319,000) is an absolute trust (not chargeable) for the benefit of Henry. He passes (by way of a deed of release) an amount equal to the annual exemption (£3,000) each year (for seven years) to the trustees for the benefit of the beneficiaries. After seven years he releases the remainder of the fund to the trustees, which will be within his NRB.



Get in touch

To find out more about how a Capital Access Trust could benefit your clients, please call us on **+44 1624 821153** or email us at: **alt@fpiom.com**

About Friends Provident International

We are a leading financial services provider, with a reputation for trust, commitment and integrity, offering financial solutions to customers throughout their lives.

Friends Provident International has over 35 years of international experience in offshore savings and investments.

Important Information

This document is intended for general information purposes only and does not constitute legal or financial advice. It is based on our understanding of current UK legislation and HMRC practice as at January 2016 and may be subject to change in the future. Whilst every care has been taken to ensure the accuracy of this document, Friends Provident International Limited cannot accept any liability to any party for loss or damage caused by errors or omissions. No part of this document may be reproduced without prior approval from Friends Provident International Limited.

Investment involves risk. Full considered advice is necessary, which Friends Provident International cannot offer on an individual basis. Past performance should not be viewed as a reliable guide of future performance. Fund prices may go up and down depending upon underlying investment performance, and the value of your investment cannot be guaranteed. Investments held within a fund may not be denominated in the currency of that fund and the value of those assets can go up and down simply because of movements in currency exchange rates.

All policyholders will receive the protection of the Life Assurance (Compensation of Policyholders) Regulations 1991 of the Isle of Man, wherever their place of residence.

Investors should be aware that specific investor protection and compensation schemes that may exist in relation to collective investments and deposit accounts are unlikely to apply in the event of failure of such an investment held within insurance contracts.

We do not condone tax evasion and our products and services may not be used for evading your tax liabilities.

Complaints we cannot settle can be referred to the Financial Services Ombudsman Scheme for the Isle of Man.

Some telephone communications with the Company are recorded and may be randomly monitored.

Legal Interpretation

Each policy is governed by and shall be construed in accordance with the laws of the Isle of Man.

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