

# FAMILY LEGACY BOND

A SUMMARY  
FOR  
FINANCIAL  
ADVISERS



A WEALTH *of* DIFFERENCE

utmost<sup>™</sup>  
WEALTH SOLUTIONS



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Utmost Wealth Solutions is the  
brand name used by a number  
of Utmost companies.

The Family Legacy Bond is issued by  
Utmost International Isle of Man Limited.

This product is only available  
to customers of NFU Mutual Select  
Investments Limited (MSIL).

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# BEFORE YOU BEGIN

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This guide should be read together with the **Family Legacy Bond Product Guide, Key Features Document, Guide to Charges** and **Fund List & Fund Specific Risks** document. A recommendation to invest should not be made on the basis of this document alone.

You should use this information together with other supporting literature to prepare a recommendation for your client along with any applicable disclosure documents and a client **Personal Illustration** showing the product charges.

## TO HELP YOUR UNDERSTANDING

The Family Legacy Bond is referred to as the 'bond' throughout this guide. The bond means the product that is issued to your client and the series of identical policy segments it contains.

The type of trust chosen determines whether the applicant is referred to as a 'Settlor' (Discretionary Trust) or 'Donor' (Absolute Trust).

Throughout this guide words in the singular shall include the plural and vice versa.



The information in this guide is based on our interpretation of current law and taxation practice in the Isle of Man and the UK as at **1 May 2021**. Tax rules can change and are subject to individual circumstances.

**Personal Illustrations** and any other applicable disclosure documents can be obtained from [www.utmostinternational.com](http://www.utmostinternational.com) for advisers who are registered online users, or from us on request.

# WHAT IS THE FAMILY LEGACY BOND?

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The Family Legacy Bond is a combination of an international single premium capital redemption bond and a discounted gift trust.





This product has been designed to mitigate your client's potential liability to UK Inheritance Tax (IHT), whilst providing them with an 'income' in the form of regular withdrawals of capital.

#### WHO IS THE FAMILY LEGACY BOND SUITABLE FOR?

The Family Legacy Bond may be suitable for a single applicant, or joint applicants who are married or in a registered civil partnership, and:

- › Who are UK domiciled
- › Have a potential liability to UK IHT which they want to reduce
- › Have £100,000 or more to invest without requiring access to their capital in the future, but still need to retain an 'income'
- › Want to provide for their loved ones in the future
- › Are over 50 years of age but are 89 or under (or are rated to be 89 years of age or under by our underwriters) at the time the bond is established.

This product may be suitable for clients who are concerned that they may not survive the required time frame to make other IHT strategies, such as outright gifting, work.

#### WHO IS THE FAMILY LEGACY BOND NOT SUITABLE FOR?

The Family Legacy Bond is not suitable if:

- › Your client has no other form of savings or income. Once the bond has been set up, it cannot be surrendered, assigned or 'income' amended in any way during their lifetime
- › Your client is likely to survive a length of time by the end of which they would have received their capital back in full. If your client selects 5% withdrawals per year and lives for 20 years then, assuming there are still monies remaining in the trust, each subsequent withdrawal will create a chargeable event which may give rise to an income tax charge.

#### HOW COULD THE FAMILY LEGACY BOND HELP YOUR CLIENTS?

- › It can provide the potential for an immediate reduction in the value of their gift into trust for IHT purposes (the 'discount')
- › It provides an 'income' from the bond in the form of withdrawals of capital, without creating a Gift With Reservation of Benefit
- › They retain the right to the 'income' throughout their lifetime, or until the bond value falls to zero
- › 5% of the premium value can be withdrawn per year on a tax-deferred basis. Therefore, if the 'income' taken from the bond does not exceed this amount then there is no immediate charge to income tax
- › It provides the potential for their entire gift to fall outside their estate if they live for more than seven years after their bond has started
- › Any growth in the bond will be immediately outside their estate for IHT purposes
- › It provides a choice of trusts to suit different family circumstances, preferences and tax positions
- › It provides potentially tax-efficient options for the distribution of any remaining value in the trust to the beneficiaries.



The 'income' payments will reduce the value of the bond. It is important that the 'income' is spent or it will fall back into the estate when calculating IHT.

The value of the bond can fall as well as rise. Your client's trustees may get back less than originally invested.

# THE FAMILY LEGACY BOND LIFE CYCLE

## DURING YOUR CLIENT'S LIFETIME

Your client retains the absolute right to regular withdrawals of capital ('income') from the bond for the duration of their lifetime,

or until the value of the bond falls to zero, but is excluded from benefiting from the capital in the trust in any other way.

- › The amount and frequency of 'income' payments are chosen by your client at the start of the bond and cannot be amended once the bond is established
- › 'Income' payments are taken as withdrawals of capital from the bond and, provided they are spent, will be removed from your client's estate for IHT purposes
- › Any investment growth is immediately outside your client's estate for IHT purposes
- › The trust fund is held for the benefit of the beneficiaries
- › The initial transfer into trust (the 'gift'), in other words the premium paid less the notional value of the Grantee's Fund (the 'discount'), creates either a Potentially Exempt Transfer (PET) or a Chargeable Lifetime Transfer (CLT), depending on the type of trust chosen. See page 7 for more information.

## ON YOUR CLIENT'S DEATH

- › 'Income' payments will stop, unless it is a joint application, in which case 'income' payments will continue until the death of both applicants.
- › The trustees can retain or distribute part or all of any remaining trust fund to the beneficiaries.



In the case of joint applications the trust fund can only be distributed to the beneficiaries after the death of both applicants.

## AFTER YOUR CLIENT'S DEATH

- › Under a Discretionary Trust, the trustees will choose whether to distribute the trust fund to the beneficiaries through assignment or surrender, or retain the bond within the trust until some time in the future.
- › Under an Absolute Trust, the trustees must usually distribute any beneficiaries' entitlements on request after they reach age 18.

# TRUST ARRANGEMENTS

A discounted gift trust is structured in such a way as to provide a discount (reduction) in the value of your client's 'gift' into trust for IHT purposes.

## WHAT IS A DISCOUNTED GIFT TRUST?

The amount of a 'discount' is the estimated present value of the 'income' your client has selected to be paid. This value is primarily affected by your client's age and state of health which is why underwriting is required.

The 'discount' valuation also depends on other factors, such as the amount and frequency of 'income' payments and the interest rate (prescribed by HMRC for this purpose) at the time the bond is taken out.

The balance of the investment, after deducting the value of the 'discount', is known as the Residuary Fund. This is the value of the gift, for IHT purposes, at the start of the bond. The tax treatment of the Residuary Fund will depend on the type of trust selected.

## WHAT ARE THE TRUST OPTIONS?

The Family Legacy Bond can be set up as either a Discretionary Trust version or an Absolute Trust version.

The main differences between these two types of trust are:

- › **A Discretionary Trust** gives the trustees a discretionary power of appointment. This means they can choose who will benefit from the categories of potential beneficiaries outlined in the trust deed, and how much they will receive from the trust fund. This flexibility allows the trustees to adapt to changing family circumstances when making distributions. A gift into a Discretionary Trust is treated as a Chargeable Lifetime Transfer (CLT) for IHT purposes
- › **An Absolute Trust** allows the Donor to name the beneficiaries who will definitely benefit from the trust and in what proportion. This means that the beneficiaries and their share of the Residuary Fund is fixed at outset and cannot be changed. A gift into an Absolute Trust is treated as a Potentially Exempt Transfer (PET).

## TAKING OUT BOTH AN ABSOLUTE AND A DISCRETIONARY FAMILY LEGACY BOND

In some cases you may be considering advising your clients to take out both an Absolute and a Discretionary Family Legacy Bond. Utmost International Isle of Man Limited can facilitate the application of two Family Legacy Bonds using one application form.

It is important to note that the order in which CLTs and PETs are made can, in certain circumstances, have an important effect on future IHT liabilities.

If both forms of transfer are being made around the same time, it may be best to make the CLT at least a day before the PET. If the PET is made before the CLT and death occurs within seven years, the PET will become chargeable and will affect not only the amount of charge on the CLT, but also the subsequent 10 yearly anniversary (periodic) and exit charges in respect of the trust created by the CLT.

If made earlier the PET will also be deemed to use up any available IHT annual exemptions in priority to the CLT, despite not being immediately chargeable to IHT. This could result in the ability to place less in the Discretionary Trust without an immediate IHT charge arising.



If your client applies for both an Absolute Trust and Discretionary Trust, using one application form, the minimum investment is £200,000 (£100,000 per trust). In these circumstances, we will issue two separate bonds and each bond will have its own set of charges.

It is important to remember that the person establishing the trust cannot be a beneficiary, or benefit in any way from the trust that they have created.

# TRUSTS AND TAXATION

## ABSOLUTE TRUST

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Using an Absolute Trust, the discounted gift into trust represented by the Residuary Fund is a Potentially Exempt Transfer (PET) for the purposes of IHT.

Provided the Donor lives for more than seven years after their bond has started, this PET will not be included in their estate for the purposes of calculating their IHT liability.

If the Donor applies jointly with a spouse or a registered civil partner for an Absolute Trust, each gift will be valued in direct proportion to the 'open market' value of their individual retained 'income' rights. The gift value for each Donor will be shown on their Personal Illustration and Certificate of Valuation.

If the Donor (or either Donor in the case of joint applications) dies within seven years of the start date of the bond, the PET will become chargeable to IHT. The amount of IHT payable will depend on the size of the nil rate band (NRB) at the time of death and whether other chargeable transfers have been made by the Donor. Taper relief may reduce the amount of IHT payable depending on when the Donor (or either Donor in the case of joint applications) died and the size of the PET.

The value of the PET is determined at the start and is not impacted by future withdrawals or investment growth, meaning all future investment growth is outside your client's estate for IHT purposes.

It also means that a combination of withdrawals and poor investment performance could lead to a situation where the value of the bond is lower than the PET. If this happened, and death occurred within the first seven years, the value of your client's 'gift' for IHT purposes would be higher than the actual value of the bond.

If the bond is written on a joint basis, and one of your clients dies within the first seven years, IHT will become payable on that individual's share of the joint gift if it is not covered by their available NRB. As the bond cannot be surrendered until the second death, it is important to ensure that there are some other assets available to pay any IHT which may become payable at that time.

In addition, your client's representatives cannot insist that the trustees meet any IHT payable on your client's estate from the proceeds of the bond.

### WHAT HAPPENS IF AN ABSOLUTE BENEFICIARY DIES BEFORE THE DONOR?

If a beneficiary of the Absolute Trust dies, their share of the trust fund will be included in their own estate for IHT purposes and their rights to the Residuary Fund will be held by their personal representatives (PR's). However, funds cannot be released to those PR's until after the death of the Donor (and their spouse or civil partner in the case of joint applications).

### WHAT HAPPENS IF AN ABSOLUTE BENEFICIARY DIES WITHOUT A WILL?

Your client should be aware of the implications of choosing absolute beneficiaries who do not have a will. Beneficiaries of the Absolute Trust cannot be changed and, if they die having not made a will, their share may be subject to the laws of intestacy. The following is particularly important if they are considering appointing minor beneficiaries who are unable to make a will.

The laws of intestacy, under section 46 of the Administration of Estates Act 1925, define how the residuary estate of the deceased will be distributed in the event that they have not made a will. On the death of a beneficiary under an Absolute Trust, their share of the trust will be included in their residuary estate. If the deceased beneficiary was not married and had no children, their residuary estate will be distributed in a specified order which includes parents, brothers and sisters and other family members.

If the beneficiary died intestate before the Donor, their relationship to the Donor and their own personal circumstances could mean that some or all of that beneficiary's share of the trust fund comes back into your client's estate.

Under these circumstances IHT would be potentially due on any amount that is deemed to fall back within their estate.



## DISCRETIONARY TRUSTS

Using a Discretionary Trust, the discounted gift into trust represented by the Residuary Fund is a Chargeable Lifetime Transfer (CLT) for the purposes of IHT.

### INHERITANCE TAX (IHT)

Provided the Settlor lives for more than seven years after their Family Legacy Bond has started, this CLT will no longer be taken into account for the purposes of calculating any IHT liability on their own personal estate.

However, Discretionary Trusts are subject to the following tax charges:

- › An immediate entry tax charge of 20% on the amount of the CLT that exceeds the NRB of £325,000 (tax year 2021/2022). The Settlor will always be required to pay the tax when using the Family Legacy Bond as explained in the adjacent column
- › A periodic charge of up to 6% payable every 10 years if at that time the value of the trust fund is over the NRB applicable at the anniversary date
- › An exit charge when capital is withdrawn from the trust based on a proportion of either the entry charge or the periodic tax charge paid at the previous 10 yearly anniversary date.

These are the main principles of the taxation of Discretionary Trusts as defined by Part III, Chapter III Inheritance Tax Act (IHTA) 1984. The following information explains the interaction of these tax charges with the Family Legacy Bond and how they affect your client.

Payments which do not represent gratuitous transfers of capital are exempt from the exit charge. The payment of costs or expenses, such as the trustees getting investment advice, should also not trigger an exit charge. However, as the payment will require the trustees to take a withdrawal, income tax charges may still occur. For more information on exit charges see page 12.

### WHEN IS IHT PAYABLE?

IHT is payable on a CLT if it, combined with any other CLTs made in the previous seven years, exceeds the NRB. For the purposes of the Family Legacy Bond, assuming that it is not written on a 'nil discount' basis, the CLT is the discounted gift as shown on your client's Personal Illustration and Certificate of Valuation and not the whole premium. In the UK tax year 2021/2022, provided the Residuary Fund does not exceed £325,000 when added to any other CLTs made in the previous seven years, no IHT will be payable.

For joint Settlers contributing equally to the investment into a Family Legacy Bond, s44(2) of IHTA states there will be two settlements and therefore two NRBs available. Each Settlor's gift will be valued in direct proportion to the 'open market' value of their individual retained 'income' rights. The gift value for each Settlor will be shown on their Personal Illustration and Certificate of Valuation.

### WHAT RATE OF IHT IS PAYABLE AND WHO PAYS THE IHT?

The rate of any immediate entry tax charge is usually 20%, if the trustees pay the IHT from the trust fund. However, no capital can be withdrawn from the Family Legacy Bond before the death of the Settlor (or both Settlers in the case of joint applications). This means that the Settlor must pay any entry charge, which results in an increased rate of 25%, as the charge will be grossed up to account for the greater reduction in the size of the Settlor's estate.

### REPORTING A CLT TO HMRC

On 6 April 2008, HMRC published regulations which amended the way chargeable transfers made on or after 6 April 2007 should be reported.

A report will not be required if the transfer is deemed to be an 'excepted transfer' and this will depend upon the asset transferred.

HMRC have confirmed that insurance linked products, whereby the trusts and policy are established at the same time, are considered to be a cash transfer. A cash transfer is considered an 'excepted transfer'. As an excepted transfer, providing the value transferred, together with the values of any previous transfers made by the transferor during the seven years preceding the transfer, does not exceed the IHT threshold, there will be no requirement to report.

This means that providing the gifted element of the bond, when added to previous chargeable transfers in the preceding seven years, does not exceed the NRB at the time of the transfer, there will be no need to report this transfer to HMRC.

All applicable forms are available from the HMRC website, [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## NIL RATE BANDS

IHT is charged at 40%<sup>1</sup> on estates worth more than the nil rate band of £325,000 (tax year 2021/2022) left by an individual on death, unless such assets are passed to a UK domiciled spouse or civil partner<sup>2</sup>.

### TRANSFERABLE NIL RATE BANDS

Currently, when an individual dies and they are married or in a civil partnership, the value of their estate can be passed to their spouse or civil partner free from any IHT liability.

In addition, when the surviving spouse or civil partner dies, any unused nil rate band (NRB) from the first spouse or civil partner can be carried forward to the estate on the second death. This would effectively double the NRB if none was previously used. If the NRB has increased by the time the second spouse or civil partner dies, the current NRB at the time of their death is used for the calculation of the total NRB.

This applies to all surviving spouses and civil partners regardless of when the first death occurred.

The rules also allow any unused NRB to be transferred from more than one deceased spouse up to a limit of one additional NRB. So, if someone has survived more than one spouse, then on their death it may be possible to claim unused NRBs from more than one estate. However, the unused NRB accumulated for this purpose is limited to a maximum of the NRB in force at the relevant time (i.e. the survivor's death).



<sup>1</sup> A reduced rate of 36% applies if a person gives away at least 10% of their net estate to charity (i.e. after deductions such as the available nil rate band reliefs and exemptions). The 40% IHT rate will apply for any other estate.

<sup>2</sup> Transfers to non-domiciled spouses are subject to different rules than explained here. Changes introduced from 6 April 2013 alter the taxation of transfers to non-domiciled spouses and allow for them to opt to be treated as UK domiciled. An explanation of these rules is beyond the scope of this document.

### RESIDENCE NIL RATE BAND

Since 6 April 2017 there is an additional IHT residence nil rate band. This applies if the deceased's interest in residential property, which has been their main residence at some point and is included in their estate, is left to one or more direct descendants.

- › The value of the residence nil rate band for an estate will be the lower of:
  - a) the net value of the interest in the residential property, or
  - b) the maximum amount of the residence nil rate band

The maximum amount currently stands at £175,000 (tax year 2021/22). No increases are planned until 2026 at the earliest. It will increase in line with the UK Consumer Prices Index for subsequent years

- › Any unused residence nil rate band will be transferable to a surviving spouse or civil partner where the second spouse or civil partner dies on or after 6 April 2017 irrespective of when the first of the couple died
- › The residence nil rate band will be tapered away for estates with a net value of more than £2 million, by £1 for every £2 that the net value exceeds that amount
- › There are provisions for cases where an individual has downsized to a smaller residence or has ceased to own a residence on or after 8 July 2015.

## PRE-OWNED ASSETS TAX

The pre-owned assets tax (POAT) legislation is contained within schedule 15 of the Finance Act 2004 and provides for the payment of tax on benefits derived by the donor from settled property. Utmost International Isle of Man Limited has obtained legal opinion from Queen's Counsel and written confirmation from HMRC that the settled property is the Residuary Fund from which your client(s) is/are excluded. As such the income rights retained absolutely by your client are outside the scope of the POAT legislation and no POAT tax charge is payable by your client on the 'income' payments.

## PERIODIC CHARGE

At each ten yearly anniversary date from the start of the trust, IHT will be payable if the value of the trust fund is over the NRB at that time.

The value of the trust fund for tax purposes will be the value of the underlying bond less the value at that point of the retained 'income' rights if the Settlor is still alive at that time. The 'income' paid to the Settlor before the anniversary is not included in the valuation.

HMRC released a draft consultation paper in 2012 discussing how the periodic charges may be valued with discounted gift schemes, especially in relation to the value of the Settlor's ongoing rights at the time of any periodic charge. They considered several options to value the rights, including a requirement to re-underwrite the Settlor every 10 years. They suggest the easiest option is to allow an additional carve-out from the trust fund by 'adding years' to the Settlor's initial rated or true age. For example, assume a trust was established in 2006, when the Settlor was rated to be aged 70, the first periodic charge will occur in 2016. In 2016 the client will be rated to be aged 80 years old using

this process, and therefore the trust fund can be reduced by the relevant discount of a person aged 80. This will reduce the value of the trust fund on which the periodic charge is based. HMRC have now confirmed that this is the methodology they will adopt.

### WHAT RATE OF IHT IS PAYABLE?

The periodic tax charge is calculated as a percentage of the trust fund. This is a complex IHT calculation and it is not possible to provide a comprehensive explanation in this guide. The following is a simplified example of how to work out the periodic charge at the first 10 yearly anniversary in the tax year 2016/2017. It assumes that the Settlor is still alive and made no other CLTs in the seven years prior to taking out the Family Legacy Bond. The value of the trust fund for IHT purposes of the trust fund is £580,000, after taking account of the Settlor's future income rights.

VALUE OF TRUST FUND - NRB	£580,000 - £325,000	= £255,000
TAX ON TRUST FUND OVER NRB @ 20%	£255,000 x 20%	= £51,000
EFFECTIVE RATE OF IHT	(£51,000/£580,000) x 100	= 8.793%
PERIODIC CHARGE IS 30% OF EFFECTIVE RATE	8.793% x 30%	= 2.638%
IHT PAYABLE IS VALUE OF TRUST FUND x PERIODIC CHARGE	£580,000 x 2.638%	= £15,300*

\*This is the equivalent of 6% of the difference between the value of the trust fund and the NRB.



Any 10 yearly periodic charges cannot be paid from the trust fund under the Family Legacy Bond. The periodic charges will therefore fall upon the Settlor and will need to be paid by them.

After the death of the Settlor (or both Settlers in the case of joint applications) and if the bond continues, the trustees will be able to pay any IHT liability from the capital in the trust fund.

## EXIT CHARGES

If, at the previous ten yearly anniversary date, a periodic charge had been payable then IHT will be payable on the amount of capital that exits the trust.

### WHEN IS IHT PAYABLE?

After the death of the Settlor (or both Settlers in the case of joint applications), the trustees will be able to make withdrawals across all policy segments or surrender individual segments in order to make payments to the beneficiaries of the trust. If at the previous 10 yearly anniversary date a periodic charge had been payable then IHT will be payable on the amount of capital that exits the trust.

### WHAT RATE OF IHT IS PAYABLE AFTER TEN YEARS?

Using the periodic tax charge from the example in the table on the previous page, and assuming the whole bond is surrendered on the 15th anniversary and an amount of £640,000 is distributed to the beneficiaries, the IHT exit charge will be as follows:

EFFECTIVE RATE OF IHT AT PREVIOUS TEN YEARLY ANNIVERSARY	2.638%	
NUMBER OF QUARTERS SINCE LAST TEN YEARLY ANNIVERSARY	20	
RATE OF IHT PAYABLE ON CAPITAL LEAVING THE TRUST	$2.638 \times 20 / 40$	= 1.319%
IHT PAYABLE ON CAPITAL LEAVING THE TRUST	$£640,000 \times 1.319\%$	= £8,441.60

### REPORTING AN EXIT CHARGE TO HMRC

If the trustees pay the exit charge out of the capital in the trust fund, the chargeable amount must be grossed up. This does not have to happen if the beneficiary receiving the capital pays the IHT charge. All applicable forms are available from the HMRC website, [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## WHAT IS THE 14 YEAR TRAP?

The 14 year trap can occur when a person has made both CLTs and PETs

- › It means that, rather than having to only consider transfers made in the seven years before death, transfers made within 14 years of death could be liable to IHT. This is best illustrated using the example opposite
- › A CLT is accountable until seven complete years have elapsed from the date it was made. Whenever a chargeable transfer is made, it is assessed for IHT with any other CLTs made within the previous seven years. If having made a PET the Donor dies within seven years of its making, it too becomes a chargeable transfer subject to cumulation
- › In this example, the NRB on death is £325,000, which means that, of the failed PET, £59,000 is liable to IHT (assuming no NRB is available to claim from late spouse/civil partner)
- › If the client had made the PET one month later, the seven years would have elapsed since the CLT was made which would therefore have fallen out of account. No tax would have been paid on the transfer and the estate would have retained its full NRB.



### EXAMPLE

A client made a CLT of £234,000 on 1 September 2000. They then made a PET of £150,000 on 2 August 2007 and then died on 1 June 2014 leaving an estate valued at £312,000.

The PET has become a chargeable transfer and as it was made within seven years of the CLT they must now be cumulated, to calculate the excess on which IHT is payable over and above the NRB at the date of death.

CLT + failed PET - NRB = Excess liable to IHT  
 $£234,000 + £150,000 - £325,000 = £59,000$

The amount of tax due on the failed PET which has become a chargeable transfer is £23,600. As the gift was made between 6 and 7 years ago, IHT taper relief of 80% applies to the tax payable. This provides a final taxable amount of  $£23,600 \times 20\% = £4,720$ . In addition, the estate of the deceased has to account for the failed transfer (PET) of £150,000. The estate is now valued at £462,000 including the failed transfer.

The failed transfer uses the first portion of the available nil rate band which means that the estate is taxed an additional £54,800 as a result. This is calculated as follows:

$(£312,000 - £175,000 \text{ [available nil rate band*]}) \times 40\% = £54,800$

\*available nil rate band is  $£325,000 - £150,000 = £175,000$

## INCOME TAX

The taxation of proceeds from the Family Legacy Bond in the UK is subject to the chargeable events legislation contained within Chapter 9 of Part 4 Income Tax (Trading and Other Income) Act 2005. How the bond is treated for income tax will depend on whether your client has selected an Absolute Trust or a Discretionary Trust.

It will also depend on whether your client, the trustees and the beneficiaries are UK resident for tax purposes when benefits are taken from the bond.



For more information, refer to the **Family Legacy Bond Product Guide**.



# THE APPLICATION PROCESS

Once you and your client have decided that a Family Legacy Bond is right for their needs and circumstances, you will need to go through the following stages with them:

# 1

## APPLY

Your client should fill in the application form and relevant trust deed with your help, ensuring all relevant sections have been completed.

# 2

## UNDERWRITING

Upon receipt of the application our underwriters will contact your client's doctor to request a General Practitioner's Report.

Once the report is received we may request further medical information/ examinations (if necessary) and complete the underwriting.

# 3

## START

The bond will start when the underwriting process has been completed, the premium has cleared in our account and all documentation and information has been received and accepted by us.

## 1. APPLY

Your client will need to complete a Family Legacy Bond Application Form and Trust Deed. If Utmost Trustee Solutions Limited is to be appointed, the separate trust deed is not required.

### APPLICATION FORM

With your help, your client should complete the **Family Legacy Bond Application Form** or the **Family Legacy Bond - Trustee Solutions Application Form** if they wish to appoint Utmost Trustee Solutions Limited as their professional trustee.

In these forms your client will:

- › State which trust option is required. If your client is applying for both types of trusts using one application form, we will issue two separate bonds and each bond will have its own set of charges
- › Complete a health and lifestyle questionnaire
- › Fill in details of their fund choices
- › Specify the amount and frequency of the regular withdrawals
- › Provide details regarding source of wealth
- › Agree with you the initial adviser charge and complete the Initial Adviser Charge section within the **Application Form**, if adviser charging is to be facilitated by us
- › Complete the applicable sections of the **Tax Information Exchange Pack**.

### TRUST DEED

Your client will need to complete either the **Absolute Trust Deed** or the **Discretionary Trust Deed**.

Using this deed they will:

- › check the trust provisions
- › appoint their trustees (including themselves if required)
- › name beneficiaries and their share of the trust fund under an Absolute Trust, or
- › review the categories of the potential beneficiaries under a Discretionary Trust.



For underwriting purposes it is important that your client completes the health and lifestyle questions, contained in the application, in full. They will also be required to sign the declaration giving us permission to contact their doctor in order to request a General Practitioner's Report (GPR).

Initial charges for advice for the Family Legacy Bond can only be paid directly to you by your client or facilitated by us prior to investment, i.e. the payment is facilitated by Utmost International Isle of Man Limited before the bond is established.

It is not possible to pay the initial charges for advice from the bond after it has been established. There may be IHT implications if adviser charges are paid outside the bond by the client for ongoing or ad-hoc advice to the trustees. Such payments would be considered transfers of value and may not be covered by any available annual IHT exemptions.

Care should be taken that the trustees do not pay for any advice given to the client after the trust is established. Such payments could create a Gift With Reservation of Benefit.

Return their completed **Application Form**, separate **Trust Deed** and any other supporting documents to us at:

**Utmost International Isle of Man Limited**  
**King Edward Bay House**  
**King Edward Road**  
**Onchan**  
**Isle of Man**  
**IM99 1NU**  
**British Isles**

## 2. UNDERWRITING

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Once we have received your client's completed application we will contact their doctor to request a GPR.

If the health questions in the application form are not fully completed, our underwriters may ask for further information before approaching your client's GP for a report. If the GPR does not contain sufficient information to allow our underwriters to calculate a 'discount' value for IHT purposes, we may request additional information.

In some circumstances, we may request that your client undergoes a medical examination or other test. If this is required, it is important for your client to make an appointment for the examination as soon as possible to avoid delays in the application process.

Following are the types of underwriting decisions which may be made and their effect on the application.

### STANDARD TERMS

'Standard terms' means the discount is based on your client's actual age, with no age adjustment necessary. If your client has had a birthday during the application process this will be reflected in the final decision received. Your client can proceed with the application and will receive a 'discount' to UK Inheritance Tax.

### RATED TERMS

An age adjustment means the discount is based on your client's actual age plus some additional years (the adjustment) that compensate for their current state of health. This will not affect the regular withdrawals that they have requested, but it will result in a smaller discount to UK Inheritance Tax. Your client can proceed with the application and will receive a 'discount' to UK Inheritance Tax.

### WHAT HAPPENS IF THE APPLICATION IS DECLINED?

In some circumstances, where your client is not in good health, we must decline the application. For joint applications, if one applicant is declined but the other accepted, it is possible to proceed on a single-applicant basis. If we are unable to proceed at all, any payment already received will be returned to your client, but no interest will be added.

### POSTPONED DECISIONS

In some cases we will be unable to assess your client's life expectancy at the time of application. With some health events, our underwriters will set a postponement period that must pass before we can make an underwriting decision. The postponement period allows sufficient time for any treatment to have its full effect and for any other problems to become apparent.

A postponed decision does not necessarily mean that your client cannot take out a Family Legacy Bond in future. If the application is for joint lives and one applicant is postponed and the other is accepted, it is possible to proceed on a single-applicant basis. If the application was for a single life (or it was for joint lives and your clients do not wish to proceed on a single life basis), one option is for them to wait until the postponement period has elapsed and re-apply. Your clients will be required to go through the underwriting process again. There is no guarantee that we will be able to offer your client a discount when they reapply in future and your client may still be declined.

### 3. START

Once the underwriting process has been completed, all necessary documentation has been received and your client's premium has cleared in our account, the bond will be issued. Due to current low interest rates we do not pay credit interest on premiums received prior to bond issue. No interest will be paid on any initial adviser charge we are facilitating outside of the bond.

Acceptance of medical terms for the bond is valid for three months from receipt of the underwriting terms. If the investment is not made during that time we will need to check that your client's health has not changed. Your client will need to complete a **Declaration of Health Form** if the bond is to proceed.

This form will be assessed by our underwriters and, if necessary, further information sought from your client's doctor. This form is available from us or on our website, [www.utmostinternational.com](http://www.utmostinternational.com)



Every case is different and some cases may take considerable time to underwrite, depending on your client's state of health and/or the depth of information provided. To help reduce delays in the underwriting process, ensure your client provides up to date and detailed information about their state of health.



# ONGOING SUPPORT

We are committed to providing ongoing support at all stages of the investment process.



## WEBSITE

Our website offers a range of online tools, offering you flexibility and choice as to how you do business. We understand that this is essential in today's world where access to your information should be available at any time of the day.

- › Obtain Personal Illustrations and surrender quotations
- › Access online calculators and planning tools
- › View your client's holdings and obtain valuations at any time
- › Pipeline reporting facilities allow you to see any bonds that have not yet been issued and any outstanding requirements, helping you to manage your client's application at every stage
- › View your client's policy and address details
- › Access bulk downloads.

Visit [www.utmostinternational.com](http://www.utmostinternational.com) for further details on our online services.



## SUPPORTING LITERATURE


To help you and your clients understand the Family Legacy Bond, its features and benefits, the choices and options available and some of the key processes involved in setting up the bond, we have also produced the following documents:


- › Fund List & Fund Specific Risks document
- › A Guide to the Taxation of International Portfolio Bonds
- › Family Legacy Bond Guide to Charges
- › Utmost Trustee Solutions Limited - A Guide to our Services
- › Family Legacy Bond - Key Information Document.






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