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# THE COMPONENTS OF AN ESTATE PLANNING BOND

The Estate Planning Bond is a combination of a trust and a capital redemption bond. It is structured in a way that can immediately reduce the transfer of value for IHT purposes and provide a tax deferred income from outset. This diagram explains how the main components of the bond can achieve this:

£54.673\*

### INVESTMENT

The investment is gifted to the trustees, but the client (settlor) retains a right to be paid an 'income' (in the form of withdrawals of capital) from the bond for their lifetime. The present value of their right to 'income' (called the discount) is calculated and then deducted from the investment to produce a valuation of the gift for IHT purposes.

### BOND

Any investment growth within the bond immediately falls outside of your client's estate for IHT purposes

### GIFT

The initial transfer into trust is reduced by the discount. The resulting gift is either a Potentially Exempt Transfer (PET) or Chargeable Lifetime Transfer (CLT) depending on the trust used.

This diagram is for illustrative purposes only and should be read in conjunction with the Estate Planning Bond literature. Tax rules and legislation may change and are dependent on individual circumstances. HMRC reserves the right to challenge any individual discount.

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### INCOME

The level and frequency of income is selected at outset. Up to 5% per year is tax deferred. The income will continue until the death of the client (settlor) unless the bond value falls to zero during the settlor's lifetime.

£5,000

per year

INCOME

5%

BOND

TRUST

\*These figures are based on a 77 year old investing £100,000 and taking monthly withdrawals of capital equal to 5% (£5,000 per year) of the initial premium. They are estimations only and cannot be relied upon for a specific case.

### DISCOUNT

£45.327

The discount is the component that provides a reduction in the transfer into trust which can help mitigate IHT. Its value is based on the estimated present value of the 'income' your client is expected to receive from the bond over their lifetime. Therefore your client's age, health and required level of income determines the value of the discount.

The bond is held within a trust and can be set up on a discretionary or absolute basis.

TRUST

