EVOLUTION
SUITABILITY PARAGRAPHS

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utmost™
WEALTH SOLUTIONS

1. REASONS TO CHOOSE A BOND

Investment bonds generally aim to produce mid to long term growth (meaning five to ten years or longer), generating a long term return with the main benefits including:

› Segmentation of policies

› Tax free switches within the bond

› Ease of assignments

› Non-income producing asset

› Tax-efficient withdrawals

› Top slicing relief

› Time apportioned reduction

1.1 SEGMENTATION OF POLICIES

For flexibility and tax-efficient management, your bond will be set up as a series of individual policy segments, rather than just one policy. We have discussed how this can help with your objective of investing for tax efficiency as it enables you to surrender individual policy segments from your bond, or assign policy segments prior to surrender to reduce the amount of tax payable.

The bond can be set up with between 60 and 9,999 segments provided the minimum amount of £500 for each segment is met. We have therefore set up your bond with [insert number of segments] segments for tax efficiency.

1.2 TAX FREE SWITCHES WITHIN THE BOND

Investing in a bond enables you to benefit from the fact that the bond provider (Utmost Limited) is the beneficial owner of the assets for tax purposes. This means that any switches between the funds linked to your bond will not be liable for tax. If you were to invest directly into funds/stocks, a capital gains tax charge could occur each time a purchase or sale takes place if the net gains in a tax year exceed your annual capital gains tax exemption. We have discussed how this ability for you to change the assets linked to your bond may be beneficial for you given your current circumstances.

Please note that any gains on the bond will be taxed when a chargeable event occurs and this process simply allows taxation to be deferred until a more appropriate time for you. Tax rules can change and are subject to individual circumstances.

1.3 ASSIGNMENTS

A bond, or individual policy segments within a bond, can be assigned to another individual who is 18 or over and legally capable. This can help with your tax planning at a time that suits you. Provided the assignment is not for consideration (i.e. the bond is not exchanged for money or money's worth) this is not considered a chargeable event and the person who receives the bond, or policy segment(s) is then assessed to tax on the bond at their marginal rate of income tax when subsequent chargeable events occur.

Any such assignment to an individual other than your spouse/registered civil partner would generally be a potentially exempt transfer (PET) and may still be included in the calculation of your estate for inheritance tax purposes, if you do not survive 7 years from the date of the assignment. An assignment to your spouse/registered civil partner would normally be covered by the spousal exemption for inheritance tax purposes.

The ability to assign the bond, or policy segments, to others may be beneficial as it can help to lower any potential tax liability. For example, it could allow you to retain full control over the bond throughout the investment period and then perhaps utilise your spouse's, or adult child's, personal income tax allowance and marginal tax rates at the point of surrender, which may be lower than your own.

1.4 NON-INCOME PRODUCING ASSET

A bond is a non-income producing asset, meaning any annual gains do not need to be declared on your tax return until a chargeable event occurs. As a result, a bond is a potentially tax-efficient method for deferring UK income tax liabilities.

1.5 FEWER AND EASIER ADMINISTRATION REQUIREMENTS

Using a bond can facilitate easier administration than holding a direct portfolio of investments, as a bond provides a simple holding structure where the bond's performance can be linked to a variety of collective investment schemes. This makes managing and tracking the performance of your investment(s) much easier as they are all in one place. As the bond is a non-income producing asset it also removes the necessity to include any gains under the bond on your annual tax return unless there is a chargeable event.

1.6 TAX-EFFICIENT WITHDRAWALS

Every year you are entitled to take 5% of your initial premium (and any subsequent premiums) without incurring a chargeable event. This is referred to as the 5% annual tax deferred entitlement and this can be very useful if you are looking to make withdrawals of capital without incurring an immediate charge to income tax.

Tax rules can change and are subject to individual circumstances.

1.7 TOP SLICING RELIEF

If your other taxable income is below the higher, or additional, rate income tax threshold, top slicing relief may reduce your liability to the higher rate or additional rate tax if a chargeable event occurs. To calculate any higher rate or additional rate tax payable under the top slicing relief provisions, the chargeable gain is divided by the number of complete years from the start of the bond, or the last chargeable event, which gives the 'average gain' from that period. If you have held the bond for a number of years without a chargeable event occurring top-slicing relief can therefore be used to reduce the amount of tax payable on your gain.

1.8 TIME APPORTIONED REDUCTION

If you spend time overseas the gain on your bond can be reduced by a fraction; referred to as a time apportioned reduction. This fraction is broadly calculated by looking at the number of days you were not resident in the UK and dividing this by the number of days your bond has been in force. This can be useful if you are resident overseas and intend to return to the UK, whilst still retaining your bond. The fraction allows for any potential gains to be reduced to account for the time you spent overseas. Furthermore, if your bond is assigned to your spouse or civil partner then their period of overseas residence can be used to determine the number of foreign days.

Tax rules can change and are subject to individual circumstances.

2. REASONS WHY AN INTERNATIONAL BOND

An international investment bond is a policy of insurance issued by a company not domiciled in the United Kingdom. They are very similar to investment bonds issued in the UK, but, unlike their UK counterparts, gains within the fund roll up free of income tax and capital gains tax. The only tax to which the funds may be liable is that which is deducted at source. This is known as withholding tax and cannot be reclaimed.

International investment bonds generally aim to produce mid to long term growth (meaning five to ten years or longer). As a reminder, the benefits available to bonds in general are:

› Potential tax deferral – no personal tax liability until a chargeable event occurs;

› Fewer and easier administration requirements than holding funds directly;

› Tax-free fund switching within the bond;

› Tax deferral until a time better suited to you;

› Potential for tax-efficient assignments.

Benefits unique to international bonds:

› No tax within the life fund (apart from withholding tax) – 'gross roll up';

› Wider range of funds to choose from than under a UK bond;

› Facility to have professional investment management through an External Manager and/or Custodian (EMC) which is usually not available with a UK bond.

The value of the bond can fall as well as rise and you may get back less than the amount originally invested. Tax rules can change and are subject to individual circumstances.

POTENTIAL TAX MITIGATION

2.1 TAX TREATMENT OF A LIFE FUND

With a bond from a UK provider, the underlying funds linked to the value of your bond are subject to tax on the income and capital gains generated. However, with an international investment bond, any income and capital gains on the underlying funds are normally free of taxes. This is often referred to as 'gross roll-up'. The only tax to which the funds may be liable is that which is deducted at source and cannot be reclaimed; known as withholding tax.

Tax is only paid by the policyholder when a chargeable event occurs. Chargeable events include, but are not limited to, surrender of the bond, withdrawals in excess of the 5% annual tax deferred entitlement, or the death of the last life assured if the bond is written on a life assurance basis.

The effect of 'gross roll up' can, in certain circumstances, help you achieve greater returns than a UK equivalent bond on the basis that tax is not paid within the underlying funds until a chargeable event occurs. However, you should be aware that on an international investment bond you will still retain a liability to basic rate tax and, unlike a UK bond, there is no basic rate tax credit to offset any chargeable event liability.

2.2 WIDER RANGE OF FUNDS

An international investment bond can potentially be a useful method of investing in a variety of funds managed by professional investment managers. An international bond will typically differ from most onshore (UK) bonds in that it allows 'Open Architecture' investment. Open Architecture allows you to link the value of your bond to a wide range of permissible collective investment schemes and cash deposits which can provide additional choice.

3. REASONS WHY EVOLUTION

3.1 WHAT IS EVOLUTION

Evolution is an international, single premium investment bond designed for medium to long term investment (meaning five to ten years or longer). To increase flexibility, your bond will normally be made up of a series of 60 or more (up to a maximum of 9,999) identical policies, called segments. Each segment is a specific legal contract having its own applicable charges and right to full surrender, giving you greater flexibility.

Evolution provides you with a convenient single product structure through which you can make investments into multiple funds and cash deposits.

I have explained to you that the value of your bond can fall as well as rise and you may get back less than originally invested. [The adviser should insert here any comments regarding diversification and specific fund choices given to the policyholder].

Evolution provides you with choice and flexibility. It enables you to manage your investments tax-efficiently and all in one place.

3.2 LIFE ASSURANCE BASIS

A life assurance bond is a contract of insurance based on a single life, or multiple lives (up to a maximum of six are allowed on Evolution) and in the case of this bond, ends on the death of the last or sole life assured. When the sole or last life assured dies, the proceeds are paid out to any surviving policyholders or, if there are none, to the policyholder's personal representatives.

By selecting Evolution on a life assurance basis you can ensure that the bond will end upon the death of the last of the selected life/lives assured. For example, by selecting yourself as the sole life assured any proceeds can be paid out to your estate on your death. I have explained that there is only a nominal life assurance element provided on this product of £1 per policy segment.

We have discussed the various options and have decided that XX should be the life assured. [The adviser should state here why this selection was made citing the reasons given to the policyholder].

3.3 CAPITAL REDEMPTION BASIS

Holding your bond on a capital redemption basis means that it is a contract of insurance with similar tax treatment in the UK to life assurance policies, but with the added advantage of not needing to nominate people to be the 'lives assured'.

The capital redemption bond still has a policyholder or multiple policyholders but as the bond does not have to end on anyone's death, it is able to continue for up to 99 years, unless it is totally surrendered or the value falls below the amount needed to keep it in force. This product is therefore useful when used in association with trusts and estate planning. [The adviser may wish to include the paragraphs on DGT conversion options if this was a reason given to select the CRB version].

3.4 DISCOUNTED GIFT TRUST (DGT) CONVERSION OPTION

One of the dilemmas you may face when carrying out UK Inheritance Tax (IHT) planning is deciding how to gift money to your beneficiaries, but still retain enough 'income' to maintain your current lifestyle. Utmost can offer the opportunity to place your capital redemption based Evolution bond into a Discounted Gift Trust if you wish to reduce your exposure to IHT in the future.

[Please note that the bond must be set up on a capital redemption basis, denominated in Pounds sterling, be worth over £50,000 at the time of settlement, and have been held for at least a year before it can be placed into this trust. Once placed into a Discounted Gift Trust this cannot be reversed. Your client should be made aware that underwriting will be required.]

A Discounted Gift Trust (DGT) enables you to choose a level of regular withdrawals to take from the bond for the rest of your life (or until the value of the bond is exhausted). The remaining value of the bond is then distributed to your beneficiaries after your death. This arrangement still involves making a gift and therefore the whole bond, including any growth, will be outside of your estate after 7 years. But, in addition, your right to fixed, regular withdrawals from the DGT:

› Provides you with an 'income' (as withdrawals of capital) for the rest of your life, or until the value of the bond is exhausted.

› Potential for an immediate reduction (known as the 'discount') in the value of your estate for inheritance tax purposes;

› Does not cause a gift with reservation of benefit, because, under the DGT scheme, you only have rights to regular withdrawals and cannot benefit from the trust itself.

[The adviser may want to demonstrate that the level of income is appropriate to the client on the basis it should be spent or it will remain liable to IHT. This point should be balanced with the fact the income level and frequency gives rise to the immediate discount. The client should understand that this income cannot be altered nor can the bond be surrendered or assigned during their lifetime and the adviser may want to include details of discussions around these critical points.]

Tax rules can change and are subject to individual circumstances.

3.5 IN-HOUSE TRUST COMPANY

Being a trustee can be a time-consuming and often complex role. Utmost Trustee Solutions offers competitively priced services to bonds and trusts issued by Utmost. By using Evolution we are able to make use of this comprehensive professional trustee service. We discussed how this would ease your worries with regards to picking and choosing family members to act as trustees and ensure that your trustees are not affected by incapacity through death or personal circumstances.

Utmost Trustee Solutions will provide a continuing service for as long as required until your trust is either fully distributed to your beneficiaries, or until alternative trustees are appointed. Furthermore, the professional trustee's decisions are not influenced by subjective family or personal considerations, and will keep trust records safe and secure whilst dealing with the reporting obligations required by both government and inter-government agreements.

[The company details for Utmost Trustee Solutions Limited can be found in the footer at the end of this document.]

3.6 WHY UTMOST LIMITED

Established in July 1992, the company has gone through various changes over time. In October 2016 the company became Utmost Limited, following a shareholder takeover. As at 31 December 2016, the company managed in excess of £10bn for over 30,500 clients. Their success has always been built on a commitment to providing outstanding customer service and exceptional financial products throughout an ever-changing and challenging financial landscape. Please note that these figures refer to the past and past performance is not a reliable indicator of future results.

3.7 ABOUT THE ISLE OF MAN

The Isle of Man is not part of the United Kingdom, or the EU, but is a self-governing dependant territory of the British Crown. It is an international financial centre with strict legislation to protect policyholders. As a financial jurisdiction, the Isle of Man has a Moody's rating of Aa2 with a stable outlook as at 29 Sept 2017. Further information on Moody's ratings can be found at www.moodys.com

3.8 POLICYHOLDER PROTECTION

Utmost Limited is covered by the Isle of Man Life Assurance (Compensation of Policyholders) Regulations 1991 (the 'Scheme'). This means that in the unlikely event that Utmost Limited is unable to meet its obligations, its policyholders will be protected by this Scheme. The Scheme covers individual investors and others such as trustees and corporate investors, resident in any jurisdiction. There are some exemptions that apply to the Scheme but they are limited. For example, the Scheme will not pay out to policyholders who may have been associated, directly or indirectly, with the insurer's insolvency. The Scheme Manager may also reject a claim if the claimant is protected under any comparable scheme, i.e. if they have already received compensation.

If an Isle of Man insurance company becomes insolvent, then the Scheme Manager (appointed by the Isle of Man Government, with the current scheme manager being the Isle of Man Financial Services Authority) has the authority to levy a charge of up to 2% of the value of the policyholder funds of each company covered by the Scheme. This levy is designed to meet up to 90% of the insolvent company's liability to its policyholders, where it cannot meet this itself. If such a levy is ever made, the value of your investment is likely to be reduced by an equivalent percentage. The Scheme meets up to 90% of the company's liabilities to its policyholders. The Scheme may reduce any claim if the policyholder is protected under any other compensation scheme. For further information on the Scheme, the Isle of Man Financial Service Authority's 'Questions and Answers' document can be downloaded from http://www.iomfsa.im/regulatedentities/insurance/InsuranceProtection.xml

As Utmost currently also pays into the UK Financial Services Compensation Scheme (FSCS), should the Isle of Man Scheme fail, then UK investors may be able to claim under the FSCS. This Scheme covers payments of 90% of the amount of any liabilities of Utmost under the contract. Please note that eligibility is limited for some trusts and larger companies. I will be able to provide you with further details on specific eligibility.

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