DELEGATION
SUITABILITY PARAGRAPHS

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utmost™
WEALTH SOLUTIONS

ALE PR 0008 | 06/24

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 will be set up with the maximum number of segments available for the investment amount, however you can choose any number of segments up to 9,999, provided the minimum amount of £500, US$1000 or €750 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 PanEurope dac) 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 your DFM to change the assets linked to your bond without your influence 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. 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 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 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.

2.1 POTENTIAL TAX MITIGATION

2.1.1 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.

3. REASONS WHY DELEGATION

3.1 WHAT IS DELEGATION

Delegation is an offshore, single premium life assurance or capital redemption bond, in which your investment is managed by a Discretionary Fund Manager (DFM) on a full discretionary basis.

Delegation is designed for clients who wish to have their investment managed by a DFM on a full discretionary basis but do not want to actively manage their investment. For the bond to remain a tax efficient vehicle it must not be viewed as a 'highly personalised' bond. **Delegation** achieves this by utilising the Personal Portfolio Bond (PPB) regulations in a different way to most conventional offshore bonds and enabling your **Delegation** Bond to link to a much wider range of assets.

3.1.1 Personal portfolio bond (PPB) regulations & Delegation

For the bond to remain tax efficient, it **must not** be viewed as a 'highly personalised' bond. The PPB regulations stipulate that a bond will become 'highly personalised' if it meets both of the conditions put forward by HMRC. The first condition is that the policyholder links their bond to assets which are deemed non permissible under the regulations. The second condition is that the policy provisions give the policyholder the ability to select those linked assets. Conventional bonds allow their policyholder to manage and control their bond but limit this selection to permissible assets to avoid a PPB occurring. **Delegation** does not allow the policyholder, or any connected party, to select, or influence the selection of, the linked assets.

Whilst this means you, or any connected party, cannot select, or influence the selection of, the investments linked to the bond, the chosen DFM is able to invest in a much wider range of assets compared with any other conventional offshore bond. These assets include equities and certain derivatives. **Delegation** maintains the same tax advantages as any other international bond and allows your chosen DFM to manage the investments in line with their usual portfolio management strategy.

Although you, or any connected party, cannot select the assets to which the bond is linked, you can choose, and change your investment objectives and attitude to risk. However, please be aware that each investment objective must be broad enough to enable the DFM to independently manage the account; and you especially must not refer to any specific assets within the Investment Mandate.

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 the investment mandate. For example, the policyholder may have ethical concerns that mean that they do not wish the EMC to link to certain assets. Providing these are broad they should be included in the mandate.]

3.1.2 Investment Conversion Facility

Whilst **Delegation** is designed to be used only with DFMs acting on a fully discretionary basis your circumstances can change. For example, you may wish in future to select the assets yourself, or appoint an investment adviser or DFM where you can influence and discuss the specific asset choices.

Where your bond has been in force for at least 12 months, you can write to Utmost PanEurope dac to request to use the Investment Conversion Facility.

Subject to Utmost PanEurope dac's agreement, this will then allow you to select, or influence, the future selection of assets linked to your bond.

The assets you can select following the request must be permitted assets, i.e those that are deemed permissible under the Personal Portfolio Bond (PPB) regulations as detailed in your Policy Conditions.

It is important to understand that once the Investment Conversion Facility has been triggered it cannot be reversed under any circumstances.

We have explained this feature to you.

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 **Delegation**) 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 **Delegation** 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 PanEurope dac can offer the opportunity to place your capital redemption based **Delegation** 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 and be worth over £50,000 at the time of settlement 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.]

[The adviser should make the client aware that, as the DGT required a regular 'income', we will initially retain a sufficient amount of cash in the dealing account to cover three months of known charges including the regular withdrawals. Under Delegation the cash holding cannot be controlled by the client, but we will instruct the EMC to sell down assets where necessary to pay for ongoing withdrawals and charges. Nevertheless, as some assets may not be able to be sold quickly there may be times whereby the dealing account will become overdrawn which may incur overdraft charges.]

Tax rules can change and are subject to individual circumstances.

3.5 DISCRETIONARY MANAGEMENT

Unless the investment Conversion Facility has been requested and this option has been agreed by Utmost PanEurope, **Delegation** requires you to have an appointed DFM to manage your investment and you, or any connected party, are unable to select, or influence the selection of, the linked assets. This may seem restricting to you, but it does mean that your investment will be managed by an investment specialist with expert knowledge of the market. Whilst you, or any connected party, are unable to select or influence the selection of the assets within the DFM portfolio, you can provide information in your mandate. This information will include the levels of risk you are prepared to take and any specific asset types that you would not wish them to invest in, for example for ethical reasons.

3.6 VAT DISCOUNT ON DISCRETIONARY MANAGEMENT FEES

Delegation may also offer you the benefit of lower charges for the discretionary managed service you receive. This is because the VAT position of discretionary management services is based on the VAT code of the jurisdiction where the recipient of that advice is located. Under **Delegation**, the recipient of the discretionary management services is deemed to be Utmost PanEurope and not you, the policyholder.

As Utmost PanEurope is located in Ireland, it is necessary to apply the Irish Revenue's interpretation of the VAT legislation. This legislation recognises **Delegation** as a VAT exempt Special Investment Fund, and as a result treats discretionary management services connected to the bond as within the VAT exemption in Ireland.

Please note that tax rules can change in the future and are subject to individual circumstances.

3.7 WHY UTMOST PANEUROPE DAC

Based in Dublin, Ireland, Utmost PanEurope is part of the Utmost Group and markets its products under the Utmost Wealth Solutions brand. As at 31 December 2023, the Utmost Group managed c. £62.8 billion (€72.5bn) in assets under administration for c.500,000 customers.

Please note that past performance is not a reliable indicator of future performance.

3.8 ABOUT PANEUROPE

As a jurisdiction, Ireland has been given a long-term credit rating of A1 with a 'positive' outlook by Moody's as at May 6 2022. An 'A1' rating from Moody's depicts their opinion of an institution's risk and financial stability. Further information on Moody's ratings can be found at www.moodys.com/creditratings

Utmost PanEurope dac is authorised by the Central Bank of Ireland (as their Home State regulator).

3.9 POLICYHOLDER PROTECTION

In the event that Utmost Pan Europe is unable to meet its liabilities to its policyholders, policyholders will not be able to claim under the UK Financial Services Compensation Scheme. However, a strong regulatory environment exists in Ireland which is designed to protect policyholders.

Solvency II requirements mean that in the unlikely event of insolvency of the life insurer, policyholders will have first claim in respect to the assets representing the technical reserves, provided the cost of the liquidation are met. The Central Bank of Ireland (CBI) also regulates the activities of any Irish authorised life insurer and has continuous oversight over the governance, risk management and controls through reviews and inspections. The CBI also puts in place approval processes for key individuals making sure they have the necessary skills to perform key functions.

In addition, in June 2024 Fitch, one of the top rating agencies, reaffirmed, alongside that of the other companies operating under the Utmost Wealth Solutions brand, Utmost PanEurope dac's Financial Strength (IFS) rating of, 'A+' with a Stable Outlook. The affirmation reflects the strong capitalisation and solvency of Utmost PanEurope dac as well as its stable leverage ratio.

Utmost PanEurope's liability to its policyholders is to pay the value of the bond on surrender, part-surrender, death or maturity. Policyholder liabilities are matched so that the unit value of the bond will reflect the performance of the assets you have chosen to link your bond to. So, if the unit price has fallen in a particular fund, or if the fund has a value of zero as it has gone into liquidation, this will be reflected in the bond's value and the amount paid back to you.

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