# A creative approach to inheritance tax planning

Prudence Inheritance Bond

Prudence Inheritance Bond is a discounted gift plan with a difference. In common with a standard discounted gift trust you are entitled to a regular payment. It offers effective inheritance tax planning, which may include an immediate reduction in the value of your estate for inheritance tax purposes. The value of your investment can go down as well as up, so you might get back less than you put in.

The value of any investment and any income taken from it can go down as well as up, so you might get back less than you put in. Your beneficiaries may not get back the full amount of your original investment.

**The unique design of Prudence Inheritance Bond also gives you three distinct features:**

1. A natural income stream
2. The option to save this natural income for future use
3. Potential income tax benefits

## 1. Natural income

Prudence Inheritance Bond is designed to give you access to the income that is naturally generated from your investment. This means that the natural income available to you will not eat into your beneficiaries' inheritance.

Your money goes into the Prudence Inheritance Bond Capital Fund, which is split between equities and fixed interest investments. It's aim is to provide income with the potential for capital growth.

The natural income isn't fixed – it can go up or down. However, the fund is managed in a way that aims to keep the payments fairly steady over time.

The value may fluctuate and is therefore not guaranteed. Your beneficiaries may not get back the full amount of your original investment.

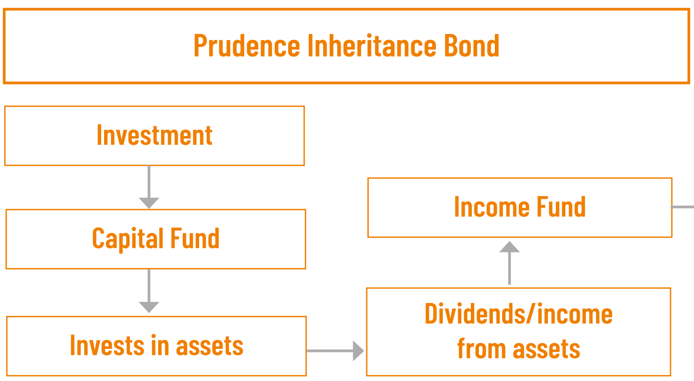
## 2. Keeping back something for the future

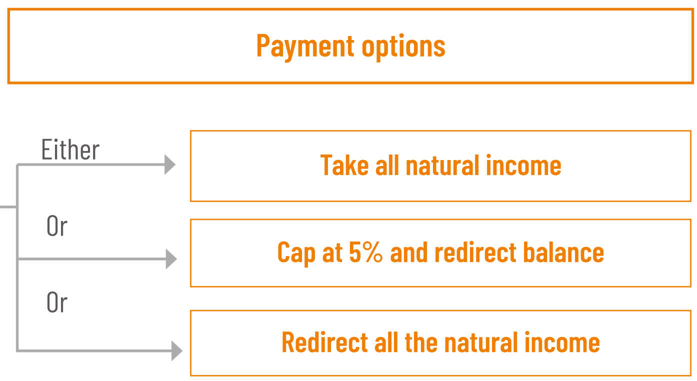
Rather than take all the natural income from your investment, you've two other options:

- To cap your regular payments at 5% a year of your initial investment in the endowment plan (to avoid any immediate tax by using the 5% tax-deferred allowance)
- To save up all the natural income for the future

Any of the natural income you don't take can be redirected into a choice of investment funds. You can take this money later, through regular or one-off withdrawals. You can also change your payment option at any time.

Any redirected natural income that remains in the plan will be part of your estate and may attract inheritance tax.



## 3. Potential income tax benefits

When you die, the plan will end and the money in trust will be available to your beneficiaries. At this point, an ordinary onshore investment bond is likely to give rise to an income tax charge if you pay tax in excess of basic rate.

With Prudence Inheritance Bond, an income tax charge could arise if total payments taken and/or the value of any reinvested income exceeds the investment in the endowment plan – and then it would be only on the difference.

To see how this works, let's take an example of £200,000 invested into an ordinary onshore bond in a standard discounted gift trust and the same amount invested in Prudence Inheritance Bond.

Please note that this is just an example to show how the tax might apply. To keep it simple, it doesn't include the effect of any charges on neither bond or any potential inheritance tax charges. The tax on an onshore bond is assumed to be 20% and ignores any potential loss of personal allowance. It assumes that both contracts provide a regular payment of 5%, although the actual payments from Prudence Inheritance Bond can fluctuate. It doesn't relate to any individual and should not be taken as advice or a recommendation. You should consider your own circumstances fully in conjunction with your Financial Adviser.

**Assumptions**

- Initial investment of £200,000*
- Death occurs after 15 years
- Total payments taken: £150,000
- Growth rate on capital: 1% p.a. (based on 6% p.a. less 5% income taken)

| | Ordinary bond in a standard discounted gift trust | Prudence Inheritance Bond |
|---|---|---|
| Amount in trust at death | £232,194 | £232,194 |
| Surrender value immediately before death | £232,194 | Nil |
| PLUS<br>Payments taken | £150,000<br>£382,194 | £150,000<br>£150,000 |
| LESS<br>Premium paid<br>Gain | £200,000<br>£182,194 | £200,000<br>Nil |
| Tax on gain at 20% (higher rate minus basic rate) | £36,439 | Nil |
| Amount in trust after tax | £195,755 | £232,194 |

* In practice, for Prudence Inheritance Bond, the 5% tax-deferred allowance applies only to the investment into the endowment plan, which is 99% of the total investment.

So, in this example, using Prudence Inheritance Bond would mean an extra £36,439 staying in the trust for your beneficiaries instead of going to the taxman – on top of any inheritance tax saving.

Prudence Inheritance Bond offers both an absolute trust and a discretionary trust, so you can choose whichever better suits your own circumstances. For more information, please speak to your Financial Adviser.

You might need to pay tax depending on your circumstances and the options you choose. Tax rules can also change in the future.

Full terms and conditions of Prudence Inheritance Bond are available from your Financial Adviser.





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