



# In full control

**The Estate Control Bond (ECB) is an offshore pooled fund private portfolio bond aimed at IHT planning. Boal & Co's Gary Boal examines how the Isle of Man Assurance bond compares to the more regimented 'straitjacket' of discounted gift trusts**

The Estate Control Bond (ECB) is an innovative offshore pooled fund private portfolio bond (PPB) from the stable of Isle of Man Assurance (IOMA).

Launched in September 2006 for investments of £75,000 and above, it is aimed exclusively at the UK IFA market and the needs of investors undertaking inheritance tax (IHT) planning.

Key competitors in this UK-centric world include larger companies such as Axa, Canada Life,

Royal Skandia, Aegon Scottish Equitable, Friends Provident, Prudential, Scottish Life and Scottish Provident. IOMA has a range of PPB products for the UK and other markets, but for the ECB the story is all about IHT mitigation.

The firm has designed its ECB in conjunction with Nick Chadwick, following the Finance Act 2006 changes which brought most trusts within the discretionary trust and the chargeable lifetime transfer (CLT) regime. The bond

is assigned on commencement into a special interest in possession trust. The death benefit and the surrender value are gifted away through the trust.

It is structured as a series of endowment policies, the terms of which are chosen by the investor to meet their future needs. Policies can be written to mature in one, five, eight or 20 years' time, for example.

## Smart structure

The clever bit is that the

maturity value of these contracts is retained by the investor. Only the surrender value and the death benefit are gifted away. This gives the investor potential access to capital at predetermined dates in the future, for example, annually.

Furthermore, maturities do not have to be taken when they fall due, so improving the settlor's flexibility and access if their need for capital changes in the future.

On each maturity date,



Gary Boal, managing director, Boal & Co

**IA KEY POINTS**

The structure offers significant flexibility, enabling settlors to gift capital but retain access to capital and growth each year until death.

On death the monies are IHT-free, provided the settlor survives for seven years.

The bond does not have to end on death. Although income tax will be payable on final encashment, the unused 5% pa withdrawals can be used to maximise tax efficiency.

Income tax is only paid by the settlor as and when they takes maturities.

Money can be advanced to beneficiaries even during the lifetime of the settlor.

the settlor's appointed trustees can decide how to distribute the maturity proceeds – in full, in part or not at all. The maturity date can be extended to achieve any deferral.

The bond is normally written on a multi-life assured basis, so it remains intact on the settlor's death. This gives the trustees the flexibility to plan encashment to optimise tax efficiency and mitigate the chargeable gain.

In IHT terminology, the initial gift into the trust is a CLT. Provided the gift (and any other CLTs in the previous seven years) is less than the IHT nil rate band, it will not be subject to the 20% CLT charge.

Maturities are not subject to an exit charge, and the value of maturities taken will not be accumulated for the purposes of calculating any potential ten-year anniversary IHT charges. Any maturity that is extended is not deemed to be a new CLT.

On death, the benefits fall into the interest in possession trust and so are outside the settlor's estate, provided the gift was more than seven years before death; if not, only the growth is outside the estate.

Other features of the trust are that it permits the trustees to pass trust assets to the nominated beneficiaries before death; policy segmentation enables this to be achieved tax efficiently. The bond may be issued as up to 100 policies, subject to a minimum of £750 per policy.

**DGT differences**

The approach taken by the ECB is different to the majority of IHT-planning products, which involve the

**IA ISLE OF MAN ASSURANCE**

Isle of Man Assurance (Ioma) is an independently owned insurance company established in the Isle of Man in 1971. The firm specialises in innovative niche products in both life and non-life business, including the Capital Redemption Bond – which made it one of the leading single premium companies in the offshore life industry in 2004-05 – and the Estate Control Bond (ECB).

IOMA writes business from the Isle of Man into a number of countries, not just the UK. Its operations are supported by sister companies including Isle of Man Financial Trust, a licensed trust services provider. All of this means the firm is well placed to manufacture and administer both bespoke insurance solutions (including highly personalised bonds and private company shares) and important complementary services to meet the specific investment and tax-planning needs of clients.

use of discounted gift trusts (DGTs).

Compared with a DGT, the bond has a number of key differences:

- ECB beneficiaries can be advanced money prior to the settlor's death if required.
- The ECB can be written with up to 10% of policies maturing each year, so giving the settlor access to annual income and capital. Maturities do not have to be taken when they fall due, giving the ability to extend the maturity date of individual policies and so change the income stream.
- Maturities are not taken into account to calculate the periodic CLT tax charge. Trustees can encash individual poli-

cies to pay the charge if required.

- On the settlor's death, the bond does not have to end. Instead, unused 5% pa withdrawals can be exploited so tax-free loans or assignment of policies can be made to beneficiaries, including any surviving spouse. The trustees can control when final encashment occurs and so when income tax liability is incurred.
- It does not hinge around the use of discounts to the estate if the settlor dies in the first seven years. There are no such discounts with the interest in possession approach due to trustees' ability to advance capital to the beneficiaries while the settlor is living.

**Charging structure**

Initial commission	Variable up to 5%
Annual commission	Variable up to 1%
Initial charge	£250,000+ = 0.5% £100,000-£249,000 = 1.25% £75,000-£99,000 = 1.75%
Annual charge	0.75%
Monthly policy charge	£7.50
Surrender penalty	None
Other charges	
Custodian fee	£50pa
Custodian dealing fee	£25 per deal
Any underlying investment charges – but custodian rebates trail fees to client up to 0.5%	

**Investment options**

The bond provides full access to the entire range of pooled fund assets permitted by the personal portfolio bond tax regime in the UK.

There are no limitations to platform-only funds or to UK-only funds, and there are no controls over how much of the bond has to be held in cash. Assets can be managed by self-selection or through a discretionary adviser, who can also provide custody.

A range of internal IOMA funds, including a sterling money market fund, is also available to policyholders and advisers. The bond does not permit investment in 'highly personalised' assets, such as individual equities or private company shares, but a range of other IOMA products is available for clients who require such investment options.

**Design and charges**

The bond has a simple, clean design that is unsupported by fund manager retrocessions. The annual management charge is 0.75% pa, applied at each quarterly valuation.

In addition, there is a monthly administration charge of £7.50. There are no dealing charges, except those levied by external third parties. Investments are subject to a establishment charge of 0.5% for premiums in excess of £250,000, 1.25% for premiums between £100,000 and £249,000, and 1.75% for premiums between £75,000 and £99,000.

These charges are clean, and well suited to fee-based advisers. For advisers requiring commission, this is provided through additional matching initial and/or annual charges. **IA**

**IA PROFILE**

Actuaries Boal & Co launched the product comparison software LifeBase Offshore in 1997. It provides analysis of offshore life products and has been used extensively by life companies. LifeBase OnLine brings LifeBase to professional IFAs. For further details, please register at [www.lifebase.co.uk](http://www.lifebase.co.uk)