

## Your guide to inheritance tax and trusts



# Introduction

*This guide is designed to give you a basic understanding of inheritance tax (IHT) and the issues you might face. It looks at various ways you could reduce your IHT liability, in order to pass on as much wealth as possible.*

This guide addresses the main arrangements available to individuals through Quilter. The suitability of these arrangements will depend on your personal circumstances and there may be alternative arrangements that are more suited to your needs – which is why Quilter always recommends that you speak to your financial adviser before making any decisions.

Successful IHT planning should be a continual process, rather than a one-off exercise. Therefore, it is important that you regularly review any IHT arrangements you have made with your financial adviser.

The technical nature of IHT and trust planning means that there may be a number of terms used in this brochure with which you're unfamiliar. To help, we've included a glossary of these terms on pages 28-29. Your financial adviser will also be able to provide further support if you need it.

**Need additional help reading documents?** Information about alternative formats available is on page 31.

We regularly update our literature. You can confirm that this August 2023 version is the latest by checking the literature library on our website at [quilter.com](https://www.quilter.com)

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# What is inheritance tax?

*Inheritance tax (IHT) is a tax charged on your estate when you die.*

Your estate is essentially everything you own. Your main residence, cars, jewellery and every item on your mantelpiece. It also includes any cash or investments you hold, though some may be exempt – for example, money held in a UK registered pension scheme is usually exempt from IHT.

On your death, your legal personal representatives ('LPRs' – the people appointed to manage your affairs on death) submit a report of the total value of your estate to HM Revenue & Customs (HMRC). The rate of IHT is 40%. However, you won't pay this on the whole estate. Every individual has access to a nil-rate band where no IHT is payable. Some may also benefit from an additional nil-rate band, known as the 'residence nil-rate band' (see below). Only if the value of your estate exceeds these nil-rate bands is the excess taxable.

## The nil-rate band (NRB)

This is a band of up to £325,000 available to all individuals, which can be used to reduce your taxable estate.

The amount may be reduced if you have made gifts within seven years before your death.

You may also have additional NRB transferred to you if you have been predeceased by a spouse or civil partner (see below).

## The residence nil-rate band (RNRB)

The first £175,000 of the value of your main residence will be free of IHT if you leave it to your 'direct descendants', this includes children and grandchildren.

The RNRB may be lost or reduced if the value of your estate exceeds £2 million, the value of your main residence is less than £175,000, or you do not have direct descendants (or do not wish to leave your property to them). Your financial adviser will be able to help you understand whether the RNRB can apply to you.

You may also have additional RNRB transferred to you if you have been predeceased by a spouse or civil partner (see below).

## Transferring nil-rate bands to your spouse or civil partner

Anything you leave to your UK-domiciled spouse or civil partner is free from IHT at the time of your death and will not use the NRB or RNRB. However, keep in mind those assets now form part of their estate and may be subject to IHT on their death.

To help with this, any NRB and RNRB you don't use is transferred to your surviving spouse or civil partner for use on their death. This currently gives a potential total NRB of £1 million when combined.

For more information about IHT, please go to [www.gov.uk/inheritance-tax](https://www.gov.uk/inheritance-tax)

# Why is IHT planning important?

*IHT planning is about deciding how your assets will be distributed, whilst ensuring it's done in the most efficient way possible.*



## *Reducing inheritance tax*

Both NRBs are currently frozen. The NRB has been set at £325,000 since 2009 whilst the RNRB has been £175,000 since 2020. Both will be frozen until at least April 2028. In the meantime, the value of your estate has likely increased, in particular because of a steady increase in house prices during this period. £7.1 billion was collected in IHT receipts by HMRC in the 2022/23 tax year, representing a 52% increase over the previous seven years.

By taking action today, you can help combat the effects of the frozen NRBs, reducing your estate's IHT liability and helping ensure as much of your wealth as possible is distributed to those you care about.



## *Peace of mind*

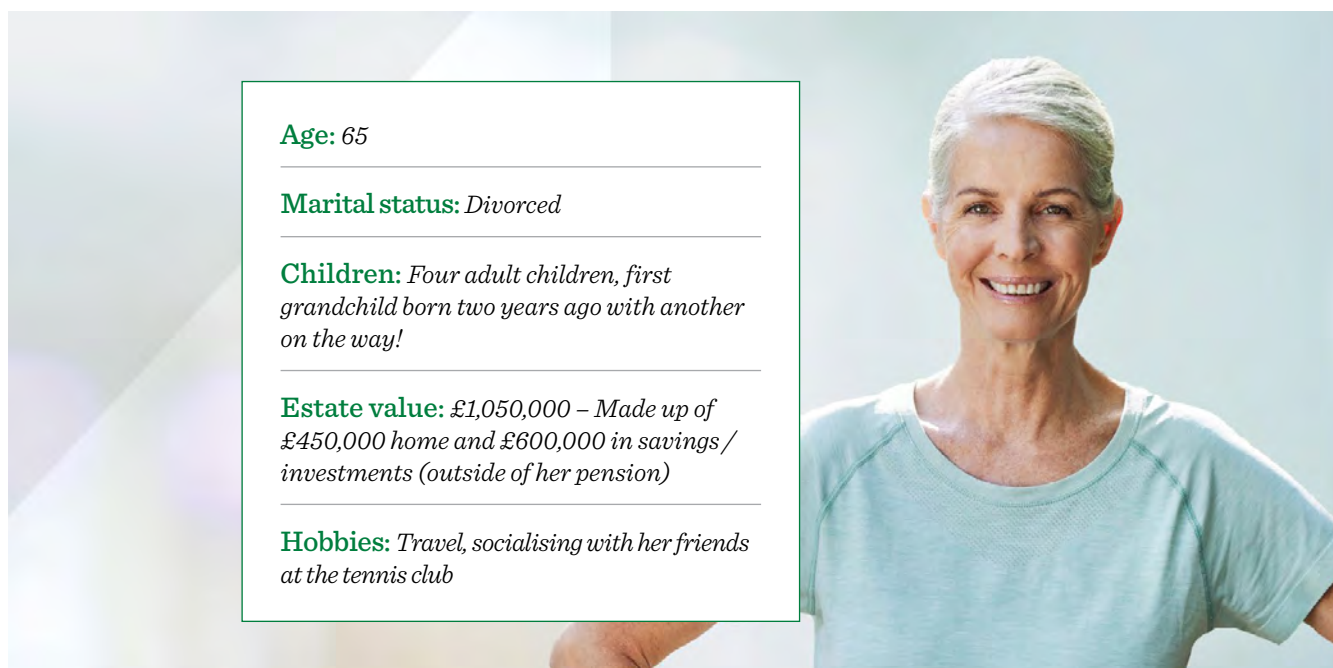
Whilst IHT efficiency is important, it's not all about tax. Estate planning gives you the opportunity to ensure the people you want to benefit from your estate actually do. Making use of trusts provides an opportunity to set aside assets for your chosen beneficiaries. Page 17 and onwards explores how different types of trusts can offer flexibility in defining your beneficiaries, how and when they'll benefit – giving you the option to see them enjoy the benefits during your lifetime. Ensuring you have a Will in place is also essential. A Will defines how assets in your estate at death will be distributed. Not having a Will can mean your estate bypasses your intended beneficiaries. Pages 10-12 cover this in further detail.





## Say hello to Katherine

Katherine's example shows us the importance of IHT planning.



Katherine is retiring soon following a successful career as a GP. She's proud of her savings and investments but is concerned her hard work will all be 'undone' if she doesn't have a plan for mitigating IHT. She has a Will in place, which names her four children as equal beneficiaries of her estate.

### How much IHT will Katherine pay if she does nothing?

If Katherine takes no action, she is effectively *choosing* to pay IHT. Her beneficiaries will be faced with a 40% tax bill on the value of all assets above the available nil-rate band (NRB) and residence nil-rate band (RNRB). They may even have to sell assets, such as the family home, to pay the bill. In Katherine's particular case, it also means HMRC will be the biggest beneficiary of her estate!

- ▶ Her taxable estate is £550,000, after the deduction of £325,000 NRB and £175,000 RNRB (£500,000 total).
- ▶ £1,050,000 - £500,000 = £550,000.
- ▶ Taxed at 40%, that's an IHT bill of £220,000.
- ▶ After IHT is deducted, the balance of her estate is £830,000.
- ▶ When divided equally between her four children they each get £207,500.

**HMRC receives £12,500 more than any of her children, becoming the largest beneficiary of her estate!**

## Will IHT apply to me?

*IHT applies where the value of your estate exceeds your available nil-rate bands.*

The first step in answering this question is to work out the total value of your estate. The table opposite will help you calculate this. You'll then need to identify which NRBs will be available on your death. As outlined on page 3, the NRB is currently £325,000 but may differ if you've made gifts in the last seven years. The RNRB is £175,000 but may not be available if you do not own your home, own your home but do not leave it to direct descendants, or have an estate valued over £2 million. For both NRB and RNRB you may be entitled to unused bands transferred by your spouse or civil partner.

If the value of your estate exceeds your available NRB and RNRB then you should consider IHT planning solutions – though we strongly recommend speaking to your financial adviser first.

**Remember, the value of your estate will change over time, so even if it's just on, or below, the threshold now it may be over it in a year's time. If your property increases in value, or your investments grow, these could quickly put you above the threshold, so it is important to review the value of your estate regularly. You should also consider making use of the allowance available to you, see page 13 for details.**



## Calculating your potential IHT liability

Assets	Estimated value
Value of main home	£
Other properties, business property/land	£
Car(s), boat, etc.	£
Household contents and personal effects	£
Bank and building society accounts	£
Investments (stocks and shares, bonds, offshore accounts, ISAs)	£
Life insurance policies (if not under trust)	£
Pensions lump sum (if not under trust)	£
Other assets, including previous gifts in the last seven years*	£
<i>Subtotal</i>	£
<b>Less any liabilities:</b>	
Mortgage(s)	£
Loans, hire purchase, credit cards	£
<i>Subtotal</i>	£
<b>Calculating your IHT liability</b>	
Subtract available nil-rate bands, taking into account any transferable unused allowance from deceased spouse or civil partner and any residence nil-rate band available to you	-£
Subtract any exemptions**	-£
Balance	£
X 40% (potential liability)	

\*See page 13. \*\*Some assets may not be subject to IHT, such as those that qualify for 100% business relief or agricultural property relief. These reliefs are outside the scope of this guide. Your financial adviser will be able to help you identify if these reliefs apply.

**If your balance is positive and you do nothing to mitigate your IHT liability, you may be liable to pay 40% IHT on this amount.**

## What would my IHT liability be?

The following table shows how much tax your non-exempt beneficiaries or executors would have to pay, assuming both your NRB and RNRBs are available in full and you do nothing to reduce your IHT liability.

Estate value	Amount taxable	IHT payable at 40%
£400,000	£0	£0
£500,000	£0	£0
£600,000	£100,000	£40,000
£700,000	£200,000	£80,000
£800,000	£300,000	£120,000
£900,000	£400,000	£160,000
£1,000,000	£500,000	£200,000

*This calculation is for the purpose of illustration only. Your financial adviser will be able to provide you with a complete picture of your IHT liability.*

**There are steps you can take to help reduce your IHT bill, as detailed on the following pages.**

# How can I reduce my IHT bill?

*The main approach to IHT mitigation is to reduce the value of your estate over a number of years. The smaller your estate when you die, the less your IHT bill is likely to be.*

There are many approaches to reducing your IHT liability, such as those outlined below. Some are more complex than others and some may not be suitable for you, so it is always important to get professional financial advice.



Whilst many of the options above are covered in the following pages, you should speak to your financial adviser about other options that may be suitable for you.







Scotland and Northern Ireland use different terminology for describing the process of administering an estate on death. However, the general principles involved remain the same.

## Wills

### *Writing a Will and keeping it up to date is an essential part of IHT planning*

Many people wrongly believe that their whole estate will automatically go to their spouse/civil partner when they die. However, this only applies if a Will has been drawn up that provides for this to happen.

Writing a Will means you can specify exactly how you would like your assets to be distributed after your death and allows you to name your Legal Personal Representatives (LPRs) as well as the guardians for your minor children. It can also be used to reduce your tax bill.

Even if you have a Will, it must be up to date and reflect your wishes, assets and current tax position. Marriage, civil partnership, divorce or dissolution can all have an impact on an existing Will.

If a person dies without having made a Will, then they are said to have died 'intestate'. In such cases, a variety of problems can arise, such as:

- ▶ assets being distributed to individuals according to the intestacy rules (as described on page 12) rather than to those chosen by the deceased
- ▶ possible delays in the settling of a deceased's affairs, which could prove distressing for a surviving spouse/civil partner or other members of the family
- ▶ an avoidable IHT bill being incurred.

### *How might your Will affect your IHT liability?*

How you choose to distribute your estate in your Will can affect if, and when, the NRB and RNRB can be used. This in turn will affect how much IHT will be paid by your estate.

For example, if you leave your entire estate to your surviving spouse or civil partner then there will be no IHT payable on your death and your NRB and RNRB will be transferred to the survivor to be used on their death. This means the survivor may have up to £1 million (2 x £325,000 and 2 x £175,000) available to them. Though this could increase or decrease if the UK government changes the bands in the future or if the estate does not qualify for the RNRB.

Whilst this approach is suitable for some, it may not be suitable for everyone. For example, if you were already a widow or widower of a previous marriage or civil partnership, you may already have access to their transferred unused NRB and RNRB. There is a limit to how much transferred NRB and RNRB can be used by a person (currently an extra £325,000 NRB and £175,000 RNRB), so if your current spouse or civil partner transfers more to you, some bands may go to waste. For this reason, some people may choose to make bequests to beneficiaries, other than their spouse or civil partner, in order to use the bands, rather than transfer them.





### *How your Will can affect the residence nil-rate band (RNRB)*

The RNRB is available to your executors for use on your main residence. However, there are some important restrictions you need to know about, including:

- ▶ If the value of the property (after deducting any outstanding mortgage) is less than £175,000, then the amount of RNRB will be lower.
- ▶ The property must be left to your 'direct descendants'. This covers children, grandchildren or great-grandchildren and includes adopted, fostered or stepchildren. If you do not have any direct descendants, or do but don't wish them to benefit, then the RNRB will not be available.
- ▶ The property must be one that was your main residence and therefore excludes investment properties.
- ▶ If you sell or downsize your property, then your estate may still be able to claim the RNRB on other assets in your estate left to your direct descendants.
- ▶ If your property passes to a discretionary trust, then the RNRB cannot be used – even if your direct descendants are the beneficiaries of the trust.
- ▶ If you do not use the RNRB, it can be transferred to a spouse or civil partner for use on their death. However, all the same restrictions apply to their estate.
- ▶ When seeking support in drafting your Will, it is vitally important that you ask your legal adviser how your Will impacts the availability of the RNRB.

Whilst ideally your Will would be as IHT efficient as possible, it can be a balancing act between how you wish your estate to be distributed and the various IHT allowances and rules. Your financial or legal adviser will be able to help you identify your goals and how best to write your Will to achieve them.



# What if I don't write a Will?

*If someone dies without making a valid Will, then they're said to have died 'intestate'. The table below outlines the different intestacy rules that apply across the UK, to determine who would benefit from your estate. Ask yourself, "Who would miss out if I died intestate?"*

Scenario	England and Wales	Scotland	Northern Ireland
<b>Not married or in a civil partnership, no children or grandchildren</b>	In order of preference: <ul style="list-style-type: none"> <li>- Parents</li> <li>- Siblings</li> <li>- Children of siblings</li> <li>- Step siblings</li> <li>- Children of step siblings</li> <li>- Grandparents</li> <li>- Parent's siblings</li> <li>- Children of parent's siblings</li> <li>- Parent's step siblings</li> <li>- Children of parent's step siblings</li> <li>- The Crown (or Duchy of Lancaster or the Duke of Cornwall).</li> </ul>	In order of preference: <ul style="list-style-type: none"> <li>- Parents and siblings</li> </ul> The estate is divided into two halves. One part is divided equally between the parents and the other part is divided equally between the siblings. If there are no parents, then the siblings receive that part and vice versa. If there are neither parents nor siblings: <ul style="list-style-type: none"> <li>- Aunts and uncles</li> <li>- Children of aunts and uncles</li> <li>- Grandparents</li> <li>- Siblings of grandparents</li> <li>- Remoter ancestors, generation by generation</li> <li>- The Crown.</li> </ul>	In order of preference: <ul style="list-style-type: none"> <li>- Parents</li> <li>- Siblings</li> <li>- Children of siblings</li> <li>- Grandparents</li> <li>- Parent's siblings</li> <li>- Children of parent's siblings</li> <li>- Parent's step siblings</li> <li>- Children of parent's step siblings</li> <li>- The Crown (or Duchy of Lancaster or the Duke of Cornwall).</li> </ul>
<b>Married or in a civil partnership, no children</b>	Surviving spouse/civil partner takes the whole estate.	Surviving spouse/civil partner takes the whole estate.  However, if there are surviving parents or siblings of the deceased, then their entitlement is reduced.	Surviving spouse takes the whole estate but must survive the deceased by 28 days.  However, if there are surviving parents or siblings of the deceased, then their entitlement is reduced.
<b>Not married or in a civil partnership, but with children</b>	Estate is split equally between all living children.	Estate is split equally between all living children.	Estate is split equally between all living children.
<b>Married or in a civil partnership, with children</b>	Surviving spouse/civil partner gets: <ul style="list-style-type: none"> <li>- £270,000</li> <li>- All personal possessions</li> <li>- 1/2 of the remaining estate.</li> </ul> The remaining 1/2 split between the children of the deceased.	Surviving spouse/civil partner gets: <ul style="list-style-type: none"> <li>- The house up to a value of £473,000</li> <li>- Furniture up to £29,000</li> <li>- Up to £50,000 cash</li> <li>- 1/3 of any remaining estate.</li> </ul> The remaining 2/3 is split between the children of the deceased.	If the spouse/civil partner survives the deceased by 28 days, they get: <ul style="list-style-type: none"> <li>- Assets and property up to £250,000</li> <li>- All personal possessions</li> <li>- 1/3 of the remaining estate.</li> </ul> The remaining 2/3 is split between the children of the deceased.

## Who will manage my estate?

Writing a Will can help those you leave behind more than you'd think. It allows you to appoint the persons who will be responsible for administering the estate. If you die intestate, it's the person most 'entitled' under the intestacy rules who has the job. There may be more than one person who meets this description, which can lead to disagreement over who takes on the role. Alternatively, the person most entitled may be someone who is unwilling or incapable of fulfilling the role. Whoever takes on the role will need to track down any other beneficiaries of your estate, which may include distant relatives – adding further delays. In short, not leaving a Will can cause unnecessary stress at an already difficult time.

# IHT planning with lifetime gifts

*When you make a gift, you're reducing the value of your estate and therefore the amount of IHT your estate pays on your death. Some gifts are 'exempt' and the IHT saving is immediate. For all other gifts, you'll need to survive a period of seven years for the IHT saving to apply.*

## *Exempt gifts*

Let's start with exempt gifts. These are gifts which will be immediately outside your estate for IHT purposes, and therefore a useful tool for anyone who needs to reduce their IHT liability. The most commonly used exemptions are covered below:

### **Annual exemption**

You can give away up to £3,000 in each tax year, free from IHT. If the allowance is not used, then it can be carried forward a maximum of one year. This means a couple who are married or in a civil partnership could give away a combined £6,000, or £12,000 if the previous year's allowances were unused.

### **Small gift exemption**

Outright gifts of up to £250 in total can be made to any number of people in each tax year. This is the maximum gift you can make to the individual in that tax year, the exemption cannot be used as part of any larger gift or alongside another exemption.

### **Spouse/Civil partner exemption**

There is no IHT to pay on transfers between most married couples or civil partners living in the UK\*, whatever the amount. However, this gift increases the estate of the spouse or civil partner, so only serves to defer IHT until their death. That is why many couples decide to make gifts to their children or grandchildren, rather than to the surviving spouse/civil partner.

*\*For those married to a non-UK domiciled spouse/civil partner living in the UK, exemption is limited to £325,000.*

### **Marriage or civil partnership gifts exemption**

Gifts made in consideration of a marriage or civil partnership may be exempt. The availability and amount of the exemption depends on your relation to the recipient.

<i>Relationship</i>	<i>Amount of exemption</i>
Parent	Up to £5,000
Grandparents	Up to £2,500
Other	Up to £1,000

### **Normal expenditure from excess income**

Any gifts you make from your excess income may be exempt if they're a part of a pattern of gifting and making the gift does not affect your standard of living. There's no limit to this exemption. However, there are rules governing what is counted as income when calculating your surplus. Your financial adviser will be able to assist you with this process.

### **Gifts for charitable purposes**

Gifts to institutions such as UK registered charities, political parties, universities and for public benefit may also be considered exempt.

### *Non-Exempt Gifts (PETs and CLTs)*

As you can see, there are limits to the gifting exemptions available. This means if you want to gift away larger sums, you'll need to make a non-exempt gift. For these you'll need to survive a period of seven years before it is considered outside your estate. This is one of the key reasons IHT planning should be undertaken sooner rather than later.

Any non-exempt gifts you make will fall into one of two categories. HMRC will treat them as either Potentially Exempt Transfers (PETs) or Chargeable Lifetime Transfer (CLTs), depending on how you make your gift.

<i>Potentially Exempt Transfer (PET)</i>	<i>Chargeable Lifetime Transfer (CLT)</i>
<ul style="list-style-type: none"> <li>- Gifts made directly to individuals or to a bare (absolute) trust (see page 20) will be treated as a PET.</li> <li>- There's no IHT at the time you make the PET.</li> <li>- There are no restrictions to the amount you can gift as a PET, or how many PETs you can make.</li> </ul>	<ul style="list-style-type: none"> <li>- Gifts made to 'relevant property' trusts are treated as CLTs.</li> <li>- Relevant property covers a range of types of trust, but for most people that will be a discretionary trust (see page 20).</li> <li>- You can give an amount equivalent to the NRB (£325,000) in total during a rolling seven years. This may be a single gift every seven years, or spread over a series of smaller gifts.</li> <li>- You can exceed this amount, but there is an IHT charge known as the 'entry charge' if you do. The charge is 20% of the value over the available NRB.</li> <li>- If you do die within seven years of making a CLT, any entry charge you paid is used as a credit on death.</li> </ul>

We'll explore trusts in more detail from page 17 onwards.

### *Will IHT apply to my CLT/PET when I die?*

Regardless of whether your gift is a PET or CLT, your gift will be outside your estate and free from IHT, if you survive for a period of at least seven years from the date of the gift.

If you die within seven years of making your gift, then it is said to have 'failed' and becomes 'chargeable'. Firstly, failed gifts are set against your available NRB (including any transferred to you). If you have more than one failed gift, they're taken in the date order in which you made them. Gifts that fall within your available NRB have no IHT payable. However, it does mean your estate will have less NRB to offset against your other assets. Any excess over your NRB will be taxed at 40%.





### Alex's example

- Alex makes a PET of £300,000 on 1 September 2023.
- He then makes a further PET of £50,000 a year later in September 2024.
- He dies in January 2026, less than seven years after both gifts.

For simplicity, we'll assume he has a NRB of £325,000 and his gifts did not qualify for any exemptions.

- £300,000 PET in 2023 uses most of the NRB but does not exceed it. There is no IHT to pay and the remaining NRB is now  $£325,000 - £300,000 = £25,000$ .
- £50,000 PET in 2024 uses the remaining NRB and exceeds it by £25,000. This excess is taxed at 40%.  $£25,000 \times 40\% = £10,000$ .
- The NRB for the remaining estate is now £0.

As Alex died within seven years of both PETs, there was no IHT saving. Though it is worth noting that the gifts do not create any additional IHT liability either. Had he not made the gift, his estate would have the full NRB, but the £350,000 would have still been counted as an asset of his estate.

By making the gift Alex has ensured his intended beneficiary receives the money and did not need to wait for his executors to administer the estate before it could be accessed.

### Reduced IHT rate for failed PETs and CLTs

In Alex's example, his death within seven years of his PETs means there was no IHT saving. However, if he had survived at least three years from the date of the gifts then a reduced rate of IHT, known as taper relief, would have applied.

Taper relief is a reduction to the tax payable and so only applies to gifts that exceed the available NRB.

The tapered rates are:

<i>Number of years between gift and date of death</i>	<i>Effective rate of IHT on the amount over the nil-rate band (NRB)</i>
0-3	40%
3-4	32%
4-5	24%
5-6	16%
6-7	8%
7+	0%



### Alex's example

Assuming Alex made the same gifts, but died in October 2027, which is four years after the 2023 gift and three years after the 2024 gift.

- £300,000 PET in 2023 is within the £325,000 NRB and has no IHT liability – though, as before, it does reduce the NRB.
- £50,000 PET in 2024 uses the remaining NRB and exceeds it by £25,000. This time the gift was more than three years ago (but less than four), the tapered rate of 32% applies.  $£25,000 \times 32\% = £8,000$ .



### *How could lifetime gifts help Katherine's IHT problem?*

After speaking to her financial adviser, Katherine decides she'd like to set aside £300,000 for her family. Her adviser shows her that making a gift of that size would give an IHT saving of £120,000 ( $£300,000 \times 40\%$ ) if she survived seven years from the date of the gift. Her adviser also suggests making use of exempt gifts, which will leave her estate immediately, such as annual gift exemption and the small gifts exemption. Whilst the allowances are relatively low, making use of these will provide a cumulative benefit over time.

Katherine is keen to save IHT, but is unsure about making gifts...

#### **Why might Katherine be unsure about gifting?**



##### **The need for flexibility**

Making a gift to her children directly doesn't provide any flexibility for Katherine's growing family. Whilst her children are the current beneficiaries of her estate, the arrival of her first grandchild with another one on the way reminds her that her family could grow. What if she meets someone new and wants to make provisions for her new blended family? This leaves her with the question:

**"How can I make sure this money benefits the whole family, whatever shape it takes?"**



##### **The need for access**

Katherine's adviser explains to her that to be successful in saving IHT, Katherine will not be able to access the money again. If she does, this is known as a 'gift with reservation'. Katherine is just at the start of her retirement journey. Whilst her adviser assures her she'll be 'comfortable' on her pension income, she has a desire to travel more widely than she has before; the house could do with a bit of work and she doesn't want to compromise her current sociable lifestyle. This leaves her thinking:

**"Can I afford to give this money away and not have any access in the future?"**



##### **Loss of control**

A direct gift would mean forgoing any say in how the money is managed. Whilst she trusts her children, she's worked hard for the money and doesn't want to see it go to waste. She'd like to ensure the money is invested sensibly and distributed to her beneficiaries at a time when it can be put to the best use. She wonders:

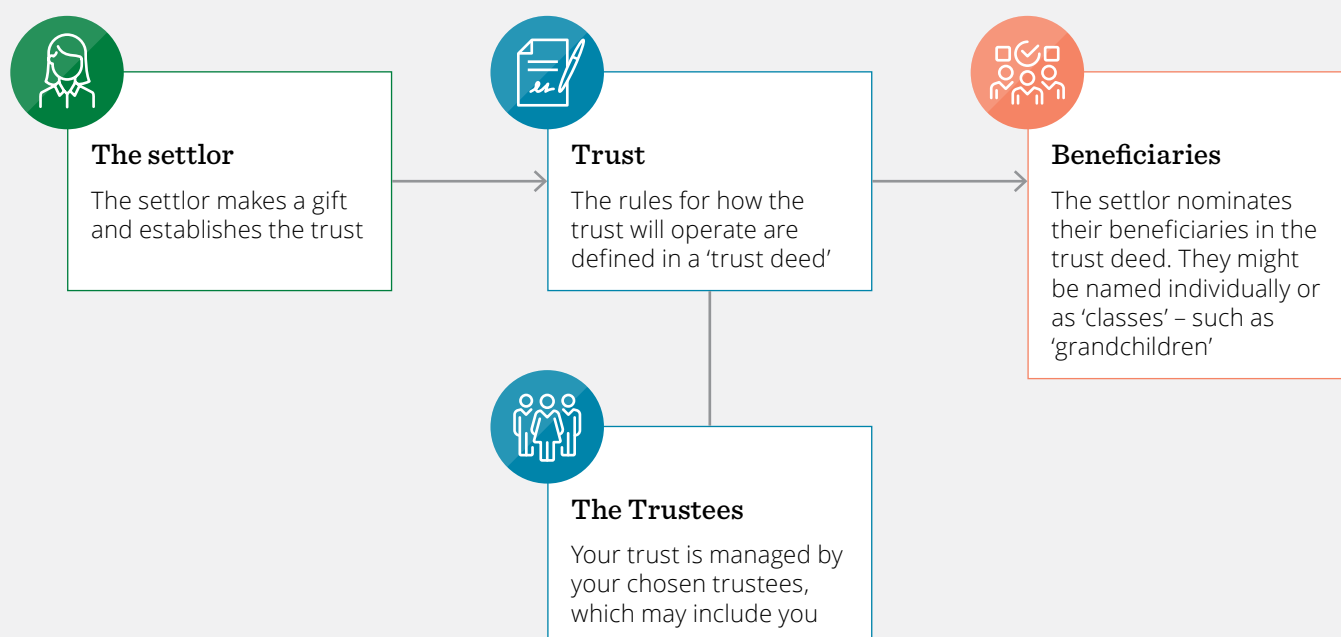
**"How can I maintain control over the gift I make?"**

**Katherine's adviser suggests making her gift through one of Quilter's trust solutions.**

# How do trusts work?

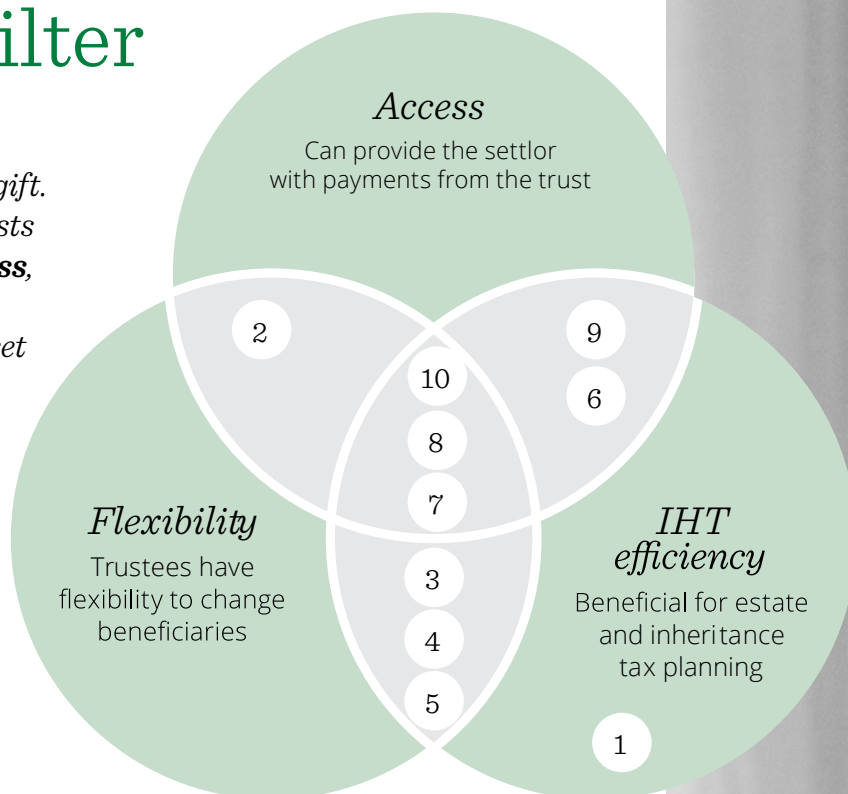
*Simply put, a trust allows you (the settlor) to entrust your assets to a group of people (the trustees). The trustees become the legal owners of the assets and manage them for the benefit of the trust's beneficiaries.*

You can put all manner of assets into a trust, including cash and life assurance policies. The value of the assets you place into trust will be a gift and will be treated either as a PET or CLT, unless covered by an exemption. The value of the gift you make will usually be considered outside your estate for IHT if you survive for a period of seven years. If you die within seven years, there may still be tax to pay.



# Trust planning with Quilter

A trust allows you to take **control** of your gift. Quilter's range of trusts blends this with **access**, **flexibility** and **IHT efficiency** to help meet your needs.



## Our range of trusts

1	<b>Absolute (bare) trust</b>	A simple IHT solution where the settlor does not require access to the trust, knows who they want to leave their wealth to, and requires no future flexibility.
2	<b>Discretionary trust settlor included</b>	Provides the settlor with control and flexibility over how wealth is distributed. As the settlor is also a beneficiary, you can still benefit from your gift. However, the trust does not reduce the value of your estate.
3	<b>Discretionary trust - settlor excluded</b>	An IHT solution for settlors who do not require access to the trust and want control and flexibility over distribution of wealth.
4	<b>Best start in life trust</b>	A discretionary trust that provides the settlor with an IHT-efficient way of passing on wealth either during their lifetime or on death, and can provide tax-efficient payments for the benefit of minors (eg to pay for schooling).
5	<b>Excess income trust</b>	A discretionary trust that uses the settlor's excess income to build a nest egg for beneficiaries in the future, free of IHT.
6	<b>Discounted gift trust - bare</b>	The settlor gifts money to a trust and receives regular fixed payments for the whole of their life or until the fund runs out - no discretion to change beneficiaries.
7	<b>Discounted gift trust - discretionary</b>	The settlor gifts money to a trust and receives regular fixed payments for the whole of their life or until the fund runs out - discretion to change beneficiaries.
8	<b>Lifestyle trust</b>	A flexible solution where the settlor gifts money to a trust and has the option of taking lump sum payments at fixed points in the future.
9	<b>Loan trust - bare</b>	Provides the settlor with unrestricted access to the original capital invested, with future investment growth being outside of their estate for IHT - no discretion to change beneficiaries.
10	<b>Loan trust - discretionary</b>	Provides the settlor with unrestricted access to the original capital invested, with future investment growth being outside of their estate for IHT - discretion to change beneficiaries.







# Giving you control and flexibility

## Choose your own trustees

As the settlor, you can choose who your trustees are, as well as the rules they must follow. These details are outlined in a trust deed – the document that creates the trust. A trust deed can be drafted by your legal adviser; alternatively, you could use a packaged trust solution like the Quilter trust range (see page 18). These rules can include how the trust’s assets are invested, who has control over the appointment of new or replacement trustees, and how and when the trust’s assets are distributed to the beneficiaries. Anyone can be a trustee, as long as they’re aged 18 or over. However, the nature of the role means you should select someone you trust. Trustees have a legal duty to act with diligence and care in the management of the trust fund, and when considering the needs of the beneficiaries. You may choose to be a trustee of your trust to maintain control, though we would recommend that there is at least one other.

For further details on the role of the trustees in managing the trust fund, see our brochure ‘A guide to investment for trustees’ available [here: www.quilter.com/guide-to-investment-for-trustees](http://www.quilter.com/guide-to-investment-for-trustees)

## As flexible as you need it to be

The type of trust you choose will dictate who can benefit from it and whether that can be changed. There are many types of trust, but the most common is the discretionary and absolute (bare) trust. This table provides a quick comparison.

<i>Absolute (bare) trust</i>	<i>Discretionary trusts</i>
<ul style="list-style-type: none"> <li>- You name your beneficiaries and their share of the trust fund when the trust starts.</li> <li>- Neither you nor the trustees can alter the beneficiaries or their share once the trust has started.</li> </ul>	<ul style="list-style-type: none"> <li>- You define ‘potential’ beneficiaries by name or define them as ‘classes’. For example, ‘grandchildren’, which includes all current and future grandchildren.</li> <li>- The trustees have discretion over how and when to distribute the trust fund among the potential beneficiaries. For example, they could use the trust fund to pay school fees/university costs for one beneficiary, while making ad hoc lump sum payments to another beneficiary to fund childcare costs.</li> </ul>
<p><b>Pros:</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Gift is classed as a PET, there’s no limit to the number of PETs you can make and no immediate IHT charge.</li> <li><input checked="" type="checkbox"/> Certainty over who your beneficiaries are and their share of the gift you make.</li> <li><input checked="" type="checkbox"/> No IHT periodic or exit charges apply (see glossary).</li> </ul> <p><b>Cons:</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> No flexibility to add/change beneficiaries in the future.</li> <li><input checked="" type="checkbox"/> Beneficiaries are entitled to request payment of their share from the trustees at age 18.</li> <li><input checked="" type="checkbox"/> A beneficiary’s share may be considered in divorce and bankruptcy proceedings against them.</li> </ul>	<p><b>Pros:</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Flexibility to adapt to changing family circumstances.</li> <li><input checked="" type="checkbox"/> Flexibility to distribute as and when the trustees consider it suitable. You can provide a letter of wishes to your trustees as a guide. You can also be one of the trustees.</li> <li><input checked="" type="checkbox"/> No beneficiary can demand a share of the trust fund. This therefore offers protection against divorce or bankruptcy of the beneficiary.</li> </ul> <p><b>Cons:</b></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> May be subject to an IHT entry charge if total CLTs exceed the value equal to the NRB in a seven-year period.</li> <li><input checked="" type="checkbox"/> Potential IHT periodic (10-yearly) and exit charges (see glossary).</li> </ul>
<p><b>Gifts to this type of trust will be treated as a Potentially Exempt Transfer (PET) (see page 14)</b></p>	<p><b>Gifts to this type of trust will be treated as a Chargeable Lifetime Transfer (CLT) (see page 14)</b></p>







# Giving you access

*Making a gift could help you save IHT, but what if you require access to that money in the future? Life's unpredictable, that's why some of our trusts give you the option to combine IHT efficiency with access.*

## *Can I have my gift back?*

If you make a lifetime gift directly to an individual, you'll find you can't just ask for your money back when you need it. You've relinquished control of your gift and the recipient cannot be compelled to return it. If you do make a gift on the understanding that you can ask for it to be returned in the future, HMRC would consider this to be a 'gift with reservation of benefit' (GWR). The GWR rules also apply to trusts if you include yourself as a beneficiary. If HMRC determines your gift to be a GWR, the value of that gift remains in your estate for the calculation of IHT – undoing your IHT planning.

However, there are trusts which can achieve both access and IHT efficiency...

## *Just because you cannot be a beneficiary, doesn't mean you have to forgo access altogether*

Some trusts allow you to 'carve out' certain rights from the trust fund, such as the right to a regular payment or lump sums at specified periods. It's also possible to lend your trust money, rather than gift it, that way you retain access by recalling your loan. Quilter offers trusts which do just that.

### Loan Trust

You make an interest-free loan to your chosen trustees. The trustees invest the money with the aim of generating growth.

Any investment growth is immediately outside your estate for IHT. Your loan remains within your estate and you can recall it from the trust at any time, either as ad hoc or regular payments.

Available in both discretionary and bare (absolute) versions.

For further information, see our 'Guide to your Loan Trust'.

### Lifestyle Trust

You make a gift to the trust, which will leave your estate if you survive a period of seven years.

Your trustees invest your gift. Any investment growth is immediately outside your estate.

At the time you make the gift, you define a series of 'entitlements' to portions of the trust fund to be made available to you at scheduled dates.

Ahead of the scheduled dates you can choose to defer or take the entitlements at their respective scheduled dates.

Available as a discretionary trust only.

For further information, see our 'Quilter Lifestyle Trust - client brochure'.

### Discounted Gift Trust

You make a gift to the trust, which will leave your estate if you survive a period of seven years, but some may be outside your estate immediately (the 'discount').

Your trustees invest your gift. Any investment growth is immediately outside your estate.

At the time you make the gift, you define a right to a fixed payment ('income') from the trust at monthly, quarterly, half-yearly or yearly intervals. You will receive this payment for your lifetime (or until the trust fund runs out).

HMRC's rules, on valuing the gift you made, may provide an immediate 'discount' based on your age, health and the amount of your chosen income. This discount provides an immediate IHT saving (subject to HMRC approval).

Available in both discretionary and bare (absolute) versions.

For further information, see our brochure 'The Discounted Gift Trust'.



## Where is my Quilter trust invested?

*Quilter's trusts are used alongside our Collective Investment Bond (CIB). This provides a flexible method of investing your money and offers the potential for growth over the medium to long term.*

Our bond offers a wide choice of investment options (funds), many linked to the performance of stock markets, enabling your trustees to choose funds to meet the investment needs of the trust.

Because of the way the bond is structured, it also offers the opportunity to take advantage of certain tax benefits, depending on personal circumstances and requirements.

Details of the CIB can be found in our brochures, key features documents and policy terms. These are available from our website [quilter.com](https://www.quilter.com).







*With Quilter's trust range,  
Katherine can:*

- Choose a discretionary trust, which gives the flexibility to change the beneficiaries – allowing the trust to be as flexible as she needs it for her growing family.

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- Choose a trust which can provide her access when needed. Giving her the peace of mind that IHT planning doesn't need to get in the way of her lifestyle.

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- Choose to be a trustee, giving her a say in how the trust fund is managed and when it is distributed to the beneficiaries.

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- Reduce her IHT bill by £120,000 on a gift of £300,000 – assuming she survives the seven-year period.



# What to do next

*It is essential that you and your financial adviser discuss the nature and scale of your IHT liability. To get yourself ready for that conversation, you can use the IHT calculator (page 7) as well as the following gifting history table and opening questions.*

## Opening questions

These questions are designed to prepare you for the IHT planning journey by covering the information your financial adviser is likely to need.

Consider your answer to each question and make notes if that helps. Don't worry if you cannot answer all of them, your financial adviser will be able to assist you.

**1. Do you have a Will? If yes, is it up to date?**

*(Your financial adviser may ask to see a copy)*

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**2. Have you inherited any money in the past two years? Or are you likely to receive an inheritance?**

---

**3. Do you own your main residence? If you do, are you the sole owner or is it held jointly?**

---

**4. Are you the settlor of any trusts?**

*(Include details such as date, amount of gift, type of trust)*

---

**5. Are you married/in a civil partnership, or are you planning to marry/enter into a civil partnership?**

---

**6. Are you entitled to any transferable nil-rate bands from a deceased spouse/civil partner?**

---

**7. Do you have any life assurance or critical illness policies that are not held in trust?**

---

**8. Is there anything else you'd like to discuss with your adviser?**

*For example, "I'd like to make provisions for my children or grandchildren"*

### Gifting history

Your financial adviser will need to know about any previous gifts you've made in the past 14 years. Use the table below to record any gifts you made. If you made any gifts jointly with a spouse or civil partner, then only enter your share of the total gift.

Date	Type of gift			Did an exemption apply?			Amount of exemption claimed (if known)	Other information Use this box to provide information that may be relevant, eg recipient of gift
	CLT	PET	Don't know	Yes	No	Don't know		

Use a continuation sheet if you run out of space.

# Glossary of terms

<i>Bare or absolute trust</i>	A trust where the beneficiaries are named at outset and cannot be changed at any time in the future. At age 18 the beneficiary can demand their share of the trust fund.
<i>Beneficiary</i>	Someone who will or may benefit from a trust fund or Will.
<i>Chargeable lifetime transfer (CLT)</i>	A transfer of value that is made by an individual and is not an exempt or potentially exempt transfer. For example, a gift to a discretionary trust.
<i>Collective Investment Bond (CIB)</i>	A single premium investment product offered by Quilter Life & Pensions Limited.
<i>Discretionary trust</i>	A trust where the beneficiaries can be added to and the trustees use their discretion as to when and to whom benefits may be paid.
<i>Entry charge</i>	When a chargeable lifetime transfer (CLT) is created, an entry charge equivalent to half the IHT rate payable on death is paid on the transfer of any value above the available nil-rate band. Previous CLTs will affect the amount of available nil-rate band.
<i>Estate</i>	All the assets that a person owns at the time of death.
<i>Exit charge</i>	Where the IHT entry charge or 10-yearly periodic charge has given rise to a tax charge, an exit charge will be paid on any distributions made by the trustees out of the trust fund. The rate charged is dependent on the entry and 10-yearly periodic calculations but can never be greater than 6%.
<i>Gift with reservation (GWR)</i>	Assets passed from one individual to another by way of a gift, while he/she still enjoys a benefit from it. The gift will then be treated as part of the donor's estate for IHT purposes.
<i>Gifts out of normal expenditure</i>	Gifts made by an individual out of income while they are still alive, and providing they do not affect their standard of living, are classed as gifts out of normal expenditure and should be exempt from IHT.
<i>Grant of probate</i>	A certificate granted by the Courts confirming that the Will of a certain person has been proved and registered in the Court, and the administration of the deceased's estate has been granted to the personal representative proving the Will.
<i>Intestate</i>	Where a person dies without having made a Will, or where any Will made before death is invalid.
<i>Legal Personal Representative(s) (LPRs)</i>	Person(s) appointed by the Courts to administer the affairs of a deceased individual.
<i>Main residence</i>	In the context of the residence nil-rate band (RNRB). A main residence is a property either in the UK or overseas, which you used as your primary residence at some point. Your legal personal representatives may be able to claim the RNRB if your main residence is passed to your direct descendants.  If you no longer own a property, you may still be able to claim the RNRB if your main residence was sold or given away on, or after, 8 July 2015.



<i>Nil-rate band (the standard nil-rate band/NRB)</i>	The nil-rate band is the value of your estate that is not chargeable to UK inheritance tax. The amount is set by the government and is currently £325,000, which is frozen until 2028.												
<i>Periodic charge</i>	Every 10 years the value of a relevant property trust, less the available nil-rate band and previous chargeable lifetime transfers, will be assessed for tax at a maximum rate of 6%.												
<i>Potentially exempt transfer (PET)</i>	A gift made by an individual, which is not immediately liable to IHT. It only becomes chargeable if the settlor dies within seven years of making the gift. If the settlor survives for seven years then the transfer is not chargeable.												
<i>Residence nil-rate band (RNRB)</i>	The residence nil-rate band is an additional nil-rate band available to your estate if you own a property and leave this to your children (including adopted, foster or stepchildren) or grandchildren. It may also be available if you have downsized or sold your property since 8 July 2015. The amount is set by the government and is currently £175,000 and frozen until 2028.												
<i>Settlor</i>	Someone who makes a gift to a trust, for example the policyholder who transfers the policy into a trust for the benefit of another person.												
<i>Taper relief</i>	Reduction applied to the amount liable to IHT, where death occurs between three and seven years after setting up a trust or gifting away your assets. <table border="1" data-bbox="531 1061 1074 1323"> <thead> <tr> <th>Years between making a PET and dying</th> <th>Proportion of 40% inheritance tax payable</th> </tr> </thead> <tbody> <tr> <td>6-7</td> <td>20%</td> </tr> <tr> <td>5-6</td> <td>40%</td> </tr> <tr> <td>4-5</td> <td>60%</td> </tr> <tr> <td>3-4</td> <td>80%</td> </tr> <tr> <td>0-3</td> <td>100%</td> </tr> </tbody> </table>	Years between making a PET and dying	Proportion of 40% inheritance tax payable	6-7	20%	5-6	40%	4-5	60%	3-4	80%	0-3	100%
Years between making a PET and dying	Proportion of 40% inheritance tax payable												
6-7	20%												
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4-5	60%												
3-4	80%												
0-3	100%												
<i>Transferable nil-rate band</i>	The ability to use any available unused nil-rate band from the estate of a deceased spouse or civil partner up to 100% of the then current nil-rate band.												
<i>Transferable residence nil-rate band</i>	The ability to use any available unused residence nil-rate band from the estate of a deceased spouse or civil partner up to 100% of the then current residence nil-rate band.												
<i>Trust fund</i>	All assets placed in a trust.												
<i>Trustee(s)</i>	The person/people to whom the settlor transfers the trust assets and who administers the trust.												
<i>UK domicile</i>	A person whose permanent home ('domicile') is within the UK. HMRC uses domicile status to determine if, and how, inheritance tax is applied to your estate. A person usually inherits their domicile status from their parents, but may also elect to change where they are domicile or may become 'deemed' domicile after a period. Individuals who are not UK domicile are outside the scope of this guide and should seek additional advice.												
<i>Will</i>	A written declaration, made by a person, providing instructions for the distribution and administration of his/her estate after his/her death.												



## Quilter experts you can trust

*Financial decisions are some of the most important you will ever make, so when choosing where to place your long-term savings, it's important to do so through a company with solid foundations that can offer the flexibility to adapt as your investment needs change.*

We only offer our products through financial advisers, so you can be sure that when they recommend a Quilter product, they are doing so because they truly believe in it and the company behind it.

Quilter is one of the top providers of long-term savings in the UK market, with a range of well-established solutions for investments, tax and planning, pensions and protection. Our wealth of experience has earned us a reputation for excellence for our approach to product design, administration and service.

We give you and your financial adviser access to over 2,600 unique funds, as well as an extensive range of exchange traded funds and investment trusts, from over 180 different fund management houses covering the world of investment opportunities. Plus, we provide advanced support to enable you to make your financial goals achievable.

### *Quilter in the UK*

Provides a range of investment products including pensions, onshore bonds and ISAs.



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### **Access your documents conveniently online without barriers**

A screen reader will allow you to conveniently access all your Quilter documents through our online Customer Centre, or the Quilter app.

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This document is based on Quilter's interpretation of the law and HM Revenue & Customs practice as at August 2023. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

Full details of the range of trusts, investment and protection products available from Quilter can be obtained from your financial adviser.

The value of investments can fall as well as rise. Investors may get back less than they invested.

Examples in this document are entirely fictional and used for illustration purposes only.

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