Discounted Gift Trust Reasons Why Bare version

This document has been compiled to provide you with some information and reasons for your client which you may wish to incorporate within your recommendation letters. These sample paragraphs are for your information and consideration only. You will, of course, need to relate the sections you select to your client's own circumstances as they may not all be relevant. This wording has been produced to help you, as a financial adviser, draft your own material. We accept no responsibility for ensuring that it meets with your own regulatory requirements and you should arrange for approval in accordance with your regulator's rules within your own firm.

Aim of trust

The trust is designed to allow you to receive regular withdrawals during your lifetime and immediately reduce your inheritance tax (IHT) liability. Depending on your age and state of health, the amount liable to IHT could be significantly reduced.

If you die within seven years of creating the trust, you may be entitled to taper relief which would reduce the IHT payable. After seven years, there would be no further liability on the original investment.

We regularly update our literature.
You can confirm that this August 2022 version is the latest by checking the literature library on our website at ***platform.quilter.com***

Mitigation of UK IHT

In order to mitigate IHT, you can consider giving assets away under trust to your family. However, if an asset is to be IHT efficient, you must no longer have access to, or receive benefits from it. If benefit is reserved, the gift will be known as a gift with reservation and IHT may be due on death.

The gift into the trust is known as a potentially exempt transfer (PET). If the original owner then survives for seven years following the transfer, there will be no further IHT liability on the original gift.

Currently, only assets above the nil-rate band (NRB) – £325,000 frozen until the end of the 2025/26 tax year – and the residence nil-rate band (RNRB) where available, are liable to IHT on death. Married and civil partners* each have an allowance. (Since October 2007, you can transfer any unused IHT NRB from a late spouse, civil partner when they die.)

Unlike the Discretionary trust, investments into a Bare Trust have no immediate liability to IHT and the trust is not liable to periodic and exit charges.

Through the use of trusts and single premium investments, IHT can be reduced. The Discounted Gift Trust – Bare version, combines IHT planning with access to capital.

** As defined by the UK Civil Partnership Act 2004.*

What is a Discounted Gift Trust – Bare version?

The Discounted Gift Trust – Bare version can be used by UK resident individuals, married couples or civil partners* to provide for beneficiaries while also allowing them access to their assets by way of regular withdrawals from the trust during their lifetime(s). This type of arrangement does not create a gift with reservation and is outside the scope of the relevant property regime.

The Discounted Gift Trust – Bare version is based on a single premium investment bond – the Collective Investment Bond**, written subject to a Discounted Gift Trust. The trust works as follows.

- The trust fund (your investment) will be notionally split into two parts: the Settlor's Fund and the Residual Fund.
- The Residual Fund will be a potentially exempt transfer (PET).
- You, as the Settlor, will retain an absolute right to the Settlor's Fund but only by regular payments until your death.
- The trust will have named beneficiaries which cannot be changed who will benefit from your trust after your death.

** As defined by the UK Civil Partnership Act 2004.*

***The Settlor or Settlor's spouse or civil partner* cannot be life/lives assured.*

The Discounted Gift Trust is suitable if you have capital and a potential UK IHT liability.

It is an appropriate vehicle if you want to:

- make a substantial potentially exempt transfer
- retain a right to receive fixed regular payments during your lifetime
- benefit from a discount on the value of your gift for UK inheritance tax purposes
- provide benefits to your beneficiaries after you pass away.

Only the Residual Fund of the discounted gift will be liable to IHT. This means that the discount will potentially mean you can invest a significantly greater premium than your available NRB.

Advantages of the discounted gift scheme – bare version

The Discounted Gift Trust – Bare version is specifically designed for UK IHT planning under the current rules for potentially exempt transfers. It provides you with the opportunity to reduce your potential UK IHT liability immediately, while retaining access to a level regular payment from the capital. It will also potentially accumulate a cash sum for your chosen beneficiaries.

The Discounted Gift Trust – Bare version has the following important advantages.

- Withdrawals available in arrears on a monthly, quarterly, half-yearly or yearly basis
- Level 'income'
- Ability to defer the start date of payments to tie in with specific dates like retirement (up to 60 months from establishing the trust)
- Is available on a single or joint Settlor(s) basis
- Full underwriting
- Access to a wide range of investment funds managed by the world's leading fund managers available on Quilter's platform.
- Flexible charging structures
- Pre-owned asset tax (POAT) friendly.

Under the Discounted Gift Trust underwriting is compulsory. This is because if you were to die soon after effecting the trust, HM Revenue & Customs (HMRC) might feel justified in assuming that you were not in good health when the contract was effected. This could mean that they limit the discount accordingly.

This enables the scheme to be established with clarity around the discounts illustrated. The discounts initially quoted will be amended (if required) to reflect your state of health once the report is received. You can request that we inform you of the discount before the gift into trust is declared.

What are the risk factors?

You may not reduce your IHT liability if HMRC interprets existing legislation differently or if legislation or HMRC practice changes.

You cannot change your beneficiaries under the trust no matter what happens in the future.

You may not reduce your IHT liability if the withdrawals you receive from the trust are accumulated in your estate, as their value could be liable to UK IHT on your death.

The amount of the discount for IHT purposes may be less than you anticipated. The actual discount can only be confirmed by HMRC after your death.

Investors should be aware that the value of unit-linked contracts is not guaranteed as the prices of units may fall as well as rise.

The Financial Services Compensation Scheme acts as a safety net for customers of financial services providers. If Quilter cannot meet its liabilities, the Financial Services Compensation Scheme may arrange to transfer your policy to another insurer, provide a new policy or, if these actions are not possible, provide compensation.

This information is based on Quilter's interpretation of the legislation as at August 2022. While we believe this interpretation is correct, we cannot guarantee it. Tax relief and the tax treatment of investment funds may change in the future. The value of any tax relief will depend on the investor's financial circumstances.

Quilter cannot accept responsibility for any losses or liabilities arising from actions taken as a result of the information contained in this document.

Trust registration

A trust must register with HMRC's Trust Registration Service (TRS) if it is considered UK resident or has a UK tax liability, unless an exemption applies.

- A trust must register within 90 days of the date of the trust deed.
- The trustees must submit evidence of registration (available from the TRS) or confirm exemption from registration to Quilter within 90 days of the trust date.

Further details regarding trust registration can be found here: ***platform.quilter.com/TrustRegister***

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Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

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