Quilter

Loan trust reasons why - bare version

This document suggests some of the reasons that you may wish to incorporate within your recommendation letters. You will of course need to relate these to your client's own circumstances. You are responsible for ensuring that your recommendation letters comply with the rules and guidance issued by your regulatory body. Quilter cannot accept any responsibility in this respect.

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**

Inheritance tax

In order to mitigate inheritance tax (IHT), many couples with joint estates in excess of two IHT nil-rate bands (currently 2 x £325,000 frozen until the end of the 2025/26 tax year) consider giving assets away under trust to their children. However, if an asset is to be IHT free, the couple must no longer have access to or receive benefits from it. If they retain a benefit the gift will be known as a gift with reservation (GWR) and IHT will be due.

If they retain no benefit, the asset will be known as either a 'potentially exempt transfer' or a 'chargeable lifetime transfer'. If the original owner then survives for seven years following the transfer, there will be no further IHT to pay. However, many people are not prepared to give up access to their assets.

Through the use of trusts and single premium investments, IHT can be reduced and mitigated. The Loan Trust combines IHT planning with access to capital without affecting the GWR rules or pre-owned assets tax (POAT).

How does it work?

The Loan Trust is an IHT planning arrangement specifically designed to:

- Mitigate potential IHT
- Give access to capital through regular or ad hoc tax-efficient loan repayments (where repayments do not exceed 5% a year of the original investment)
- Provide the opportunity for capital growth to be passed from the Settlor to the beneficiaries, free from IHT
- Provide a choice of bare and discretionary trusts.

Bare version

- An interest-free loan is made by the Settlor to the trustees and this amount is used by the trustees to buy an investment, known as the bond. This loan is repayable on demand, which means the Settlor keeps full access to this capital.
- The Settlor names the beneficiaries in the trust deed on creation of the trust. The beneficiaries cannot be changed, which provides certainty for the Settlor as to who will benefit from the trust fund.
- As the beneficiaries are named, their share of the trust fund forms an asset of their estate for IHT.
- When the Settlor dies, the amount of any outstanding loan remains as part of their estate and may be liable to IHT. Any growth on the loan is outside the Settlor's estate as it is held within the trust for the named beneficiaries which cannot include the Settlor. This can be passed from the Settlor to the beneficiaries free from IHT.
- The arrangement is designed to provide the Settlor with loan repayments which can be requested by the Settlor at any time. The trustees repay the loan by taking regular, ad hoc or one-off withdrawals from the bond. The Settlor is not limited in the amount they can demand for repayment providing it does not exceed the value of the outstanding loan. If the Settlor wants to make use of the 5% tax-deferred allowance, they are able to request that the trustees make regular repayments equal to 5% a year of the original investment in the bond.

- Assuming repayments are made at the rate of 5% a year, the loan will be repaid after 20 years and the remaining value of the bond will be held within the trust and will be free from IHT.
- Any loan repayments made to the Settlor, unless spent or otherwise disposed of, will remain part of the Settlor's estate and be liable for IHT.

As well as this standard approach, Quilter offers the flexibility of additional life cover on most of its bonds. The trustees can apply for additional life cover up to the value of the loan amount if the Settlor is the sole life assured. This benefit would be payable on the Settlor's death to the trustees, which would guarantee that the loan can be repaid in the event that the value of the trust fund has fallen due to market conditions.

Should the Settlor demand repayment, the trustees are personally liable for any shortfall in the trust fund if it does not meet the liability of the outstanding loan.

Summary

- IHT efficiency
- Specifically named beneficiaries who cannot be changed
- Capital growth on the original loan is immediately outside the Settlor's estate
- Access to original capital by repayment of the loan on demand
- Repayment of the loan can be on a regular or ad hoc basis
- Option for the trustees to apply for additional life cover on the Settlor's life to insure against any shortfall in the value of the trust fund on the death of the Settlor.
- Choice of bond investments
- GWR and POAT friendly.

This document is based on Quilter's interpretation of the law and HM Revenue & Customs practice as at August 2022. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of your client's investments may fall as well as rise and they may not get back what they put in.

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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