

Reasons Why Lifestyle Trust

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.

The Lifestyle Trust and Collective Investment Bond (CIB) are both provided by Quilter Life & Pensions Limited.

The aim of the lifestyle trust

The trust is designed to allow you to reduce your potential UK Inheritance Tax (IHT) liability whilst also providing you with the flexibility to make withdrawals from the trust capital, which includes any growth.

If you die within seven years of creating the trust, you may be entitled to taper relief which would reduce the Inheritance Tax payable. After seven years, there would be no further IHT liability on the original investment, but the trust would continue to be subject to periodic and exit charges.

Mitigation of UK Inheritance Tax

Currently, only assets above the nil-rate band (NRB) of £325,000 (frozen until April 2028) are liable to IHT on death. Married couples and civil partners each have a NRB allowance. Since October 2007, any unused allowance from a spouse or civil partner who dies, can be transferred to the surviving partner. Since 6 April 2017, an additional NRB is also available where a residential property is left to direct descendants. This is known as the Residence Nil Rate Band (RNRB)

In order to mitigate IHT, you can consider giving assets away under trust. 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 will be due.

If benefit and access is not reserved, the asset will be known as a chargeable lifetime transfer (CLT). If the original owner then survives for seven years following the transfer, there will be no further IHT liability on the original gift. The trust however will still be subject to periodic and exit charges. Many people are not prepared to give up access to their assets.

For investments into trust over the NRB, an immediate charge to IHT would occur at 20% (half the 40% rate payable on death) on the excess above the NRB. A tax charge may also occur every 10 years at a maximum rate of 6%. Finally, an IHT liability may also arise when capital leaves the trust.

Through the use of trusts and single premium investments, IHT can be reduced. The Lifestyle Trust combines IHT planning with access to capital.

What is the lifestyle trust?

As a UK domiciled individual, you can use the Lifestyle Trust to provide for your potential beneficiaries while also being able to access your capital. This is done by requesting access to specified policies from the trust fund during your lifetime. These are known as the 'entitlements'. This type of arrangement does not create a gift with reservation as the access to policies is 'carved out' at inception i.e. the entitlements are not part of the gift.

The Lifestyle Trust contains a single premium investment bond, which is written subject to the trust. The trust process works as follows:

- 1. Invest in a bond.** To set up the trust, you first invest the amount you want to place into trust in a 'single premium bond'. The bond is a way to hold your wealth in order to potentially achieve long-term investment growth. **To ensure the gift does not fall within the gift with reservation provisions, the settlor or their spouse / civil partner should not be a life assured on the bond.**
- 2. Transfer the bond to the trust.** The bond becomes the 'trust fund' and the appointed trustee(s) take(s) full responsibility for managing and distributing it to beneficiaries. This transfer is considered a chargeable lifetime transfer (CLT) for Inheritance Tax purposes.
- 3. Specify your entitlement schedule.** At the same time as you transfer the bond to the trust, you specify a schedule of dates when you want to receive entitlements from the trust policies. Although you can't change the amount of each of these, the Lifestyle Trust gives you the flexibility to defer accessing them if you decide that you don't need an entitlement on a scheduled date.
- 4. Consider writing a letter of wishes.** You may want to write a 'letter of wishes' to the trustee(s) to give them an indication of your intentions and wishes for the way the trust fund is to be used. Although it is not legally binding, its purpose is to give the trustee(s) guidance that you would like them to take into account when making future decisions.

Once you start to receive access to the capital at pre-defined dates specified in point 3, the part of the trust fund held for your benefit will be considered within your estate for Inheritance Tax purposes.

Who is the lifestyle trust for?

The Lifestyle Trust is suitable if you have capital and a potential UK IHT liability. It is an appropriate vehicle if you:

- may require access to your gift into the trust
- would like to give your trustees the discretion to decide how and when the trust fund is distributed to beneficiaries
- are concerned about the IHT position of your estate and want to take action.

Advantages of the lifestyle trust

The Lifestyle Trust is specifically designed for UK IHT planning under the current tax rules. It provides you with the opportunity to reduce your potential UK IHT liability immediately, while retaining access to capital at pre-determined dates. It will also potentially accumulate a cash sum for your chosen beneficiaries.

The Lifestyle Trust has the following important advantages:

- ▶ you can access the trust capital on pre-determined dates
- ▶ you can choose the level of access (in the form of entitlements) which is available to you
- ▶ you can defer the dates on which capital becomes available
- ▶ you can complete a letter of wishes to the trustees to inform them who you would like to benefit from the trust fund
- ▶ you can access a wide range of investment funds managed by the world's leading fund managers
- ▶ the trust has a flexible charging structure
- ▶ it is pre-owned asset tax* (POAT) friendly.

Income tax

Taxation on chargeable event gains

Bonds are taxed under the chargeable event legislation, which means any gain on a chargeable event is assessed to income tax, rather than capital gains tax.

Chargeable events

During the period the bond is in force, there is no trustee Income Tax to pay. However, there are certain 'chargeable events' that may trigger a 'taxable gain'. A chargeable event happens when:

- ▶ you take withdrawals from your bond by partially cashing in the policies above your 5% tax deferred withdrawal allowance (5% of the premiums paid for each policy year);
- ▶ you fully cash in one or more policies in your bond;
- ▶ you fully cash in all the policies in your bond;



- ▶ the last life assured dies;
- ▶ you assign one or more policies in your bond for consideration for 'money or money's worth'.

When a chargeable event happens (with the exception of the surrender of a Policy Fund post entitlement date) this is assessable on the following people:

- ▶ Settlor, if alive and UK resident
- ▶ If settlor has passed away or non-resident, the trustees if UK resident
- ▶ If both the above are not applicable, the beneficiaries if UK resident (to the extent they benefit)

A chargeable event relating to the policies held with a Policy Fund following an entitlement date is assessable on the settlor as the sole beneficiary of the Policy Fund.

Assignment

It is possible to assign one or more policies in your bond to a potential beneficiary. Provided this is not for consideration or 'money or money's worth', a chargeable event will not occur, so there is no Income Tax liability at the time of the assignment. The beneficiary will become the legal owner of the policy/policies and if they cashed in the policies, they would be liable to tax at their highest marginal rate on any chargeable gain. Although there is no liability to Income Tax, you should consider any Inheritance Tax implications on assignment, for example 'exit charges'.

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 may not reduce your IHT liability if the capital you receive from the trust is accumulated in your estate, as its value could be liable to UK IHT on your death.
- ▶ The value of the bond 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 UK financial services providers. If Quilter Life & Pensions Limited 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 the provider's interpretation of HMRC law and practice as at December 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 Life & Pensions Limited, 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

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

platform.quilter.com

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.

Quilter is the trading name of Quilter Life & Pensions Limited which provides a Collective Retirement Account (CRA) and Collective Investment Bond (CIB).

Quilter Life & Pensions Limited is registered in England and Wales under number 4163431.

Registered Office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB, United Kingdom. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services register number 207977. VAT number 386 1301 59.

QIP 12090/19/2294/December 2022