Quilter

Our Lifestyle Trust

A flexible way to help clients achieve a balance between access to capital, inheritance tax planning and control over the distribution of assets.

For use with a Collective Investment Bond.
For financial advisers only.

Contents

Glossary

Available nil-rate band – The value of the nil-rate band minus any previous chargeable lifetime transfers made by the Settlor in the last 7 years.

Bare trust – 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.

Beneficiary – Someone who will or may benefit from a trust fund.

Chargeable event – A liability to income tax may arise if a chargeable event occurs. A chargeable event for a non-qualifying policy arises on:

a) death of the relevant life assured,

b) partial withdrawals across a whole policy or bond which exceed the 5% per annum allowance,

c) maturity or cash-in of a policy.

Chargeable lifetime transfer – A transfer of value which is made by an individual and is not an exempt or potentially exempt transfer. If the transfer exceeds the available nil-rate band of the transferor then a charge of 20% on the excess is payable. A transfer into a discretionary trust is a chargeable lifetime transfer.

Discretionary trust – A trust that your client, the Settlor, creates by means of a gift and to which beneficiaries can be added. The trustees use their discretion to decide who may benefit from the trust and when. The beneficiaries cannot demand benefits from the trustees.

Estate – All the assets that a person owns, in full or part, at the time of their death.

Exit charge – If an 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%.

Nil-rate band – The value of an individual's estate that is not chargeable to UK inheritance tax (IHT). The amount is set by the Government and is currently £325,000, which is frozen until 2028.

Periodic charge – Every ten years the value of the trust, less the available nil-rate band, will be assessed for IHT at a maximum rate of 6%.

Policy Fund – A group of individual policies which the Settlor has asked to be entitled to at a pre-defined future date – the Vesting Date.

Potentially Exempt Transfer (PET) – Some gifts are considered as PETs and are not liable to immediate IHT. These can be outright gifts, or gifts into bare trusts. After seven years the PET will fall outside your client's estate for IHT purposes. However, should your client die within seven years, the PET will become chargeable and IHT will be due at 40%* on the gift amount after deduction of any available nil-rate band.

** Taper relief may reduce the tax due.*

Second schedule – The Lifestyle Trust deed is a document which includes four sections known as 'schedules', in which the provisions of the trust and its management are detailed. The Second Schedule is where the Settlor specifies the future entitlements they will receive and when they will be able to access them.

Settlor – The Settlor is the person or persons who sets up the initial investment. The Settlor(s) transfers the ownership of the assets to their chosen trustees.

Trustee(s) – The person/people/firm to whom the Settlor transfers the trust assets and who administer the trust.

Vesting Date – The date on which the Settlor becomes entitled to a Policy Fund.

Introducing the Lifestyle Trust

This brochure describes how a Lifestyle Trust can provide tax-efficient benefits for your clients and those they care about.

Flexibility

The Lifestyle Trust is designed to help clients achieve their required balance between access to capital, inheritance tax planning and control over the eventual distribution of assets, whilst giving them a certain amount of flexibility in the future.

Access

The Lifestyle Trust allows your clients access to their wealth by taking payments on pre-determined dates – or to defer or waive those payments if they decide they don't need the money when the payment becomes available.

Quilter

We are part of Quilter plc, a leading wealth management business, helping to create prosperity for the generations of today and tomorrow. Quilter plc manages more than 101.4 billion of assets (as at 30 September 2023). It has an adviser and customer offering spanning financial advice, investment platforms, multi-asset investment solutions and discretionary fund management.

Quilter enables financial advisers to deliver the very best service to clients and their families, to help them achieve their financial goals. We offer a comprehensive range of products and investments through our award-winning online investment platform, which is known for its intuitive user experience that makes online processes quick and easy.

Our products and services are designed to support any adviser business model, and we are always evolving them to meet the changing needs of advisers and customers.

Our range of investment products includes the Collective Investment Bond.

What is a trust?

A trust allows an individual ('the Settlor'), to transfer money out of their estate ('the gift') and entrust it to 'the trustees' they have chosen. This gift becomes the 'trust fund'. The responsibility of the trustees is to manage the trust fund for the benefit of 'the beneficiaries'.

There are two main types of trust – discretionary trusts and bare trusts.

A discretionary trust, such as the Lifestyle Trust, has flexibility as to who can potentially benefit. Generally there is a class of beneficiaries specified, typically groups of people such as grandchildren or other family members. No beneficiary is entitled to any benefits until the trustees exercise their discretion to provide benefits for a particular beneficiary. The potential beneficiaries therefore have no control over if or when they might receive anything from the trust fund.

A bare trust has named beneficiaries who cannot be changed and who become absolutely entitled to the trust property at age 18. The trustees on a bare trust have no discretion over if or when the beneficiaries will receive their benefits.

For more information about trusts, please visit:

www.quilter.com/products/trust-planning/

The Lifestyle Trust

The Lifestyle Trust is a discretionary trust. It is a tax-efficient* solution for leaving wealth to future generations. Any growth on the gift into the trust is immediately outside the Settlor's estate for inheritance tax purposes and, if they survive for seven years after the gift is made, its original value will not be liable to inheritance tax.

** The value of any tax relief will depend on the client's individual circumstances and may change.*

Who is the Lifestyle Trust suitable for?

A client who:

- requires access to their gift into the trust
- requires flexibility over how they access it
- requires control over who benefits from their wealth and when
- is concerned about the IHT position of their estate and wants to take action.

How the Lifestyle Trust works

The Lifestyle Trust has been designed to reduce potential inheritance tax liability while also providing the Settlor with as much flexibility as they may require in respect of future payments from the trust fund. It is effectively split into two elements:

- The discretionary trust that lets the Settlor pass on some of their wealth tax-efficiently to their chosen beneficiaries

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- The Settlor's interest (in the form of access to a pre-agreed series of payments, (referred to as 'entitlements')).

1

Invest in a single premium bond.

The client invests in a Collective Investment Bond (CIB), which is a single premium life assurance bond from Quilter, with the intention of achieving long-term capital growth.

The CIB is made up of 1,000 identical policy segments. This allows greater flexibility and tax-efficiency when taking withdrawals. For example, an investment of £100,000 is divided across 1,000 policies, each worth £100 at outset.

Neither the Settlor nor the Settlor's spouse should be included as lives assured on the bond.

2

Transfer the bond to the trust.

Once a bond has been set up, a request is made to gift it into a Lifestyle Trust and legal ownership is transferred from the client to the trustees.

3

Specify the entitlement schedule.

At this stage the client will be required to specify how they wish the schedule of future entitlement payments to work. You should discuss with your client how best to structure this part of the trust deed, known as the 'Second Schedule'. (Please see 'The Settlor's interest in the entitlements' on page 7 and our illustrative example on page 10).

4

Consider writing a letter of wishes.

The bond then forms the trust fund. The trustees have discretion to decide whether potential beneficiaries will benefit from the trust fund and when. The Settlor can decide to complete a 'letter of wishes' addressed to the trustees to give them guidance to take into account when making future decisions about the trust. The letter of wishes is not legally binding.

Apart from their interest in the 'entitlements', the Settlor cannot benefit from the Lifestyle Trust in any other way.

The Lifestyle Trust is a discretionary trust and may be subject to periodic and exit tax charges. (Please see the glossary on page 3.)

The Settlor's interest in the entitlements

At outset, the Settlor can specify what future entitlements they will have under the trust fund and when they will receive them. The trust allows the Settlor the flexibility to determine the size of each entitlement as well as the year of entitlement. See example in the table below.

The example table below, that can be found in the second schedule of the Lifestyle Trust deed, specifies the settlor's entitlements.

Policy number(s)	Total number of policies	Year of entitlement	Policy fund
1-5	5	2025	A
6-12	7	2026	B
13-20	8	2027	C
21-24	4	2028	D
25-30	6	2029	E

Each agreed entitlement is held within the Lifestyle Trust as a series of policies in what are known as 'Policy Funds'.

The trust gives the Settlor the flexibility to adapt to changing circumstances. As their needs change, they can adapt their entitlements accordingly by delaying them or waiving them entirely.

The Settlor can also choose to set up more than one Policy Fund for any year so as to increase their options in the future. For example, they could have two Policy Funds in a year, one of which they receive and another which they defer to a future date.

Entitlement options

Once the Settlor has defined the Policy Funds, they have two choices prior to the date they become entitled to receive them (the 'vesting date'):

1. Defer the vesting date.
2. Allow it to reach the vesting date.

Before the vesting date the trustees have the power to 'defeat' the Settlor's interest and appoint benefits to the beneficiaries, thereby reducing or removing the Settlor's entitlement. For example appointing policies 1-5 to one of the beneficiaries.

Once the Settlor becomes entitled to the relevant Policy Fund on the vesting date, the trustees will hold the policies in a bare trust for the Settlor.

They then have three options:

1. Decide to do nothing; in which case the policies remain invested in the name of the trustees for the benefit of the Settlor; or
2. Surrender the individual policies that make up the Policy Fund and pay the Settlor the money; or
3. Assign the individual policies that make up the Policy Fund to the Settlor. The Settlor can then re-assign the policies to a loved one or surrender the policies themselves at a later date.

Important information

Tax considerations when taking entitlements

The surrender of policies which make up a policy fund is considered a chargeable event in the UK. Any gain made on the policies surrendered are potentially liable to income tax depending on other income in the year of surrender.

The inheritance tax treatment of the Lifestyle Trust

Lump Sum Payments into the Lifestyle Trust

Assigning the ownership of the bond from the Settlor into the trust will be treated as making a gift for inheritance tax (IHT) purposes. As the trust is a discretionary trust, this will be a chargeable lifetime transfer (CLT) unless any exemptions are available to cover some of the gift.

Any CLT into the Lifestyle Trust which would cause the Settlor to exceed their available IHT nil-rate band (NRB)* must be reported to HM Revenue & Customs (HMRC). The forms are available at ***www.gov.uk/government/collections/inheritance-tax-forms***

** Available NRB is the current allowance, £325,000 (frozen until 2028) minus any CLTs made in the 7 years prior to the gift.*

When the Settlor receives their entitlement

The Lifestyle Trust is designed so there should be no IHT liability for the Settlor when they receive their entitlement to the Policy Fund. However, once the Policy Fund vesting date has passed, then the value of that Policy Fund will form part of the Settlor's estate for IHT purposes.

When the Settlor dies

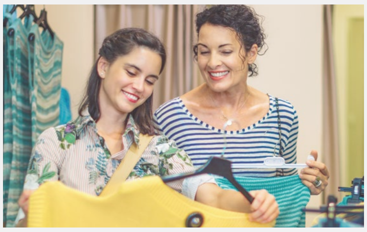
One of the conditions for receiving an entitlement to the Policy Funds is that the Settlor is alive on the date they become entitled to receive them. If not, the value of the Policy Funds that are yet to be vested will be outside the Settlor's estate for IHT purposes assuming seven years have passed since the original gift was made.

Discretionary trust taxation

Discretionary trust taxation can be complex, but in summary:

- A chargeable lifetime transfer charge may arise on setting up a trust but only if the amount being settled exceeds the Settlor's available nil-rate band
- A periodic charge may arise every 10 years; and
- An exit charge may arise when benefits leave the discretionary trust. This does not include benefits that the Settlor receives as entitlements. However, if the trustees make a payment to a discretionary beneficiary, this may be subject to this charge.

The Lifestyle Trust in action



An illustrative example

Mrs Stone is aged 55 and divorced. She is working full-time, has two children and three grandchildren.

Assets

- **House:** £800,000
- **Savings and investments:** £500,000

Income

- **Annual salary:** £100,000

Goal

- To reduce her estate and inheritance tax bill

Amount to invest

- Lump sum of £300,000. Does not require a regular income from it

Attitude

- Reluctant to gift all £300,000 as may require access in the future

Gifting history

- None

Having considered Mrs Stone's needs and attitude, her financial adviser recommends that she invests into a bond with Quilter subject to a Lifestyle Trust.

The trust does not oblige her to specify the names of her beneficiaries at outset so it can be used (for example) to benefit any grandchildren (current and future). It also means that she can limit her inheritance tax liability.

Setting up the Trust

The gift into trust is £300,000 which is below the nil-rate band. Therefore, there is no immediate charge to inheritance tax (under the CLT rules). Any growth will be immediately outside her estate for inheritance tax purposes. If she lives for seven years, there will be no further inheritance tax charge on her estate in respect of the £300,000 gift.

The bond, which was taken out on 6 July 2023, is segmented into 1,000 equal policies. Mrs Stone has specified in the trust documentation, how and when she wants the policies to revert to her. (See table right.)

This case study is fictional and used purely to illustrate possible real-life scenarios. The value of investments can fall as well as rise and investors may not get back what they put in. Growth figures do not include bond charges.

Policy number(s)	Total number of policies	Year of entitlement	Policy fund
1-50	50	2025	A
51-150	100	2026	B
151-200	50	2030	C

Note that not all policies need to be specified. Those that are not specified can never revert to the Settlor.

Accessing the entitlements

Mrs Stone becomes entitled to Policy Fund A (which contains policy numbers 1-50) on the anniversary date of the policy in the specified year of entitlement (i.e. 6 July 2025) as she is intending to visit Brazil at this time.

The Policy Fund is held by the trustees who choose to surrender the policies and send the proceeds to Mrs Stone.

Mrs Stone inherits some money in late 2025, and therefore would like to delay when she becomes entitled to Policy Fund B. She writes to the trustees and requests a deferral until 2033.

Mrs Stone becomes entitled to Policy Fund C (which contains 50 policies 151-200) on the anniversary date of the policy in the specified year of entitlement (i.e. 6 July 2030) as she is intending to visit Australia at this time.

After Mrs Stone's death

If Mrs Stone dies aged 85, having lived more than seven years since creating the trust and having spent all the proceeds from the Policy Funds to pay for her adventures, including Policy Fund B, the value of the trust will be outside her estate for inheritance tax (IHT) purposes.

On Mrs Stone's death, taking into account the value of the Policy Funds which have also been paid to Mrs Stone over the last 30 years, the value of the remaining investment in this scenario would be £550,000. So, compared to Mrs Stone doing no IHT planning, she has saved £550,000 x 40% = £220,000 (assuming the nil-rate band is used elsewhere).

The trustees are now free to distribute the trust fund to the potential beneficiaries at their discretion.

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: ***https://www.quilter.com/siteassets/documents/platform/guides-and-brochures/qip22888_registering_trust-guide.pdf***

Support at your fingertips

Visit ***www.quilter.com/products/trust-planning/*** for useful support materials to help your trust planning discussions with your clients; including videos, case studies, a Trust Decision Tree and Trust Form Finder.

Summary

The Lifestyle Trust could be right for your clients if they want to:

reduce their inheritance tax liabilities

leave their wealth, tax efficiently, to future generations

fund a dream holiday or perhaps their grandchildren's education, by having access to trust fund 'entitlements' at pre-determined dates

have the flexibility to defer accessing entitlements if circumstances change.

This brochure deals only with the inheritance tax applicable to the Lifestyle Trust. Other taxes such as income tax which may apply to the Collective Investment Bond are addressed in the relevant product brochure.

This document is based on Quilter's interpretation of the law and HM Revenue & Customs practice as at January 2024.

We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change. The value of any tax relief will depend on the investor's financial circumstances. Full details of the range of trusts and investment products available from Quilter can be obtained from our website or from your usual sales consultant.

Investments may fall or rise in value and your client may not get back what they put in.

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

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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.

Quilter is the trading name of Quilter Investment Platform Limited which provides an Individual Savings Account (ISA), Junior ISA (JISA) and Collective Investment Account (CIA) and Quilter Life & Pensions Limited which provides a Collective Retirement Account (CRA) and Collective Investment Bond (CIB).

Quilter Investment Platform Limited and Quilter Life & Pensions Limited are registered in England and Wales under numbers 1680071 and 4163431 respectively.

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