Quilter

A guide to investment for trustees

This guide is designed to highlight some of the key aspects of investment for trustees.

Trusts are a complex area. For more detailed information about trusts, you should consult a financial or legal adviser.

Technical terms highlighted in bold text in this document are explained in the glossary on page 18.

Quilter has taken the utmost care in the creation of this document but does not accept liability for any loss resulting from action taken or refrained from being taken due to the information in this or any related document.

There are many types of trusts available and this guide provides an overview of the role of the trustee and looks at the main types of trusts available. It does not consider, for example, special trusts or pension trusts.

We regularly update our literature; you or your financial adviser can confirm that this March 2023 version is the latest by checking the literature library on our website ***quilter.com***

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Introduction

There are many considerations for trustees and their financial advisers when considering the investment strategy of a trust.

These include:

- the financial objectives of the trust
- the tax status of the trust and its beneficiaries
- the permissible investments available to the trustees
- the legal requirements of the trust provisions.

Each area needs to be considered in isolation as well as part of a bigger picture.

We have focused on these key areas but would stress that advice is required in all aspects of trust planning and trust management, and this guide is not fully exhaustive of all the issues, risks and opportunities.

Trustee Act 2000

The Trustee Act 2000 (the Act) was introduced to improve and update the existing provisions which had become increasingly complex and out of date. The changes mean trustees are required to be more proactive in the running of the trust and seek advice where required.

The Act came into force on 1 February 2001 in England and Wales only. Since 29 July 2002 it has also become applicable in Northern Ireland. The Charities and Trustee Investment (Scotland) Act 2005 applies in Scotland and although there are some differences, the general principles are broadly similar. Similar legislation applies in the Isle of Man under the Trustee Act 2001.

The previous Act, the Trustee Investments Act 1961, imposed limitations on the differing types of investment that trustees could select. Now trustees can make an investment of any kind, as if they were absolutely entitled to the trust assets. This power is subject to any restrictions imposed in the trust deed.

The Act also introduced the need for any investment selected to satisfy **the standard investment criteria**: this is basically a combination of suitability and diversification (see page 7). The fundamental principle for trustees to consider is whether by acquiring or retaining any investment they are able to properly discharge their duties under the Act with regards to its suitability, the need for diversification and taking advice at outset and at review.

To complement these less restrictive investment powers, the Act facilitates more effective trust administration.

For example, the trustees can delegate certain decision-making functions that do not relate to the distribution of trust assets or the appointment/dismissal of trustees. These fiduciary powers (i.e., powers to administer the trust) include, where appropriate, delegating the management of investments to an agent, such as a **discretionary fund manager**. Such a situation would require the trustees to give written guidance to the agent on how the investment management should be exercised in the best interests of the beneficiaries. This would include the desired balance between capital growth and income, any ethical considerations, asset allocation, risk profile, investment term, use of tax exemptions and reliefs and easy access to an appropriate level of cash.

Trustees are not liable for acts or defaults of an agent unless they, the trustees, have failed in their duty of care in the selection of such an agent.

The Act also states that professional trustees, agents, nominees, custodians and investment advisers can receive payment for their work even if there is no specific clause in the trust allowing this. Similarly, expenses properly incurred when acting on behalf of the trust can be reimbursed.

The trustees can delegate certain decision-making functions that do not relate to the distribution of trust assets or the appointment/dismissal of trustees.

The statutory duty of care

In order to ensure that trustees exercise the wider powers given to them in a responsible manner, a statutory duty of care was created under the Act.

The duty states that a trustee must always exercise such care and skill as is reasonable in the circumstances. In particular, a trustee who has special knowledge or experience is expected to use it in their capacity as trustee. A higher standard of care will therefore be required from a professional trustee.

It is, however, possible for the duty of care to be excluded or modified by the trust instrument.

Whilst this statutory duty replaces any common law duty of care that may have previously applied, trustees remain subject to the existing fundamental duties, such as acting in the best interests of all beneficiaries, avoiding any conflict of interest and complying with the terms of the trust.

The 'standard investment criteria'

Trustees must not only make sure that any investment is suitable for the trust but also consider, where appropriate, the need for diversification of investments.

The suitability of different types of investments as trust assets will be gauged by numerous factors. As well as their individual qualities in providing growth and income for a trust, tax efficiency and low-cost administration are important issues, as both can enhance returns to beneficiaries. Investment bonds and collective investments can often provide a suitable way to invest indirectly in stocks and shares, although other assets may offer suitable alternatives.

In selecting suitable investments, the trustees will also be required to consider the beneficiaries' position in respect of those that can benefit today (such as those with an interest in possession) versus those that may benefit in the future.

The size of the trust fund will be relevant as far as diversification is concerned.

Additionally, trustees are obliged to review the trust portfolio from time to time and consider whether the investments still satisfy the standard investment criteria, and therefore whether they should be altered in any way.

The duty to obtain 'proper advice'

Before making or changing an investment, trustees have a duty to obtain and consider proper advice from somebody who they reasonably believe to be qualified and competent to give such advice on investment matters. The only exception to this requirement is where the trustees are certain that it is unnecessary (e.g., the trustees possess the necessary skills and knowledge) or uneconomical (e.g., the amount to be invested is very small) to take advice.

In most instances, trustees will need to take advice, especially where there is no existing experience or knowledge in these areas.

Types of trusts

A trust usually comes into existence in one of two ways – either it is a settlement created by an individual during their lifetime or it is a trust created on death by a will or by intestacy rules. Intestacy is when someone dies without having made a valid will. In such cases, a statutory trust is imposed so that the rights of those entitled to benefit from the estate of the deceased person can be safeguarded.

Trusts are created for various reasons. These include the control of gifted assets, i.e., who might receive them and when, or to reduce potential tax liabilities.

Generally a trust will provide for one of the following:

- the beneficiaries to have an absolute right to income and capital – see bare trust on page 10
- the beneficiaries to have an entitlement to income only
- the beneficiaries to have a right to income but the trustees to have the power to advance capital to them, or
- the trustees to have discretion over whether they pay income or capital to any beneficiary.

It is vital to understand the type of trust you are a trustee of and what the trust allows you to do before attempting to decide on an investment solution.

There are special provisions for trusts created on death under a Will, which include:

- Age 18 to 25 trusts
- Trusts for Bereaved Minors
- Immediate post death interest trusts

Each has special tax considerations which are not covered in this guide. Please speak to your legal or financial adviser about these arrangements.

The most frequently encountered trusts are:

- *Bare (sometimes known as absolute)*
- *Interest in possession*
- *Discretionary*

Under a **bare trust**, assets are held by the trustees for one or more named beneficiaries, usually minors, who are absolutely and unconditionally entitled to any income arising and the capital. The trustees usually hold the assets on behalf of the beneficiaries until they are legally entitled, and able, to receive it.

Under an **interest in possession trust,** one or more named beneficiaries have an immediate right to income (i.e., an interest in possession) and any income arising within the trust is taxed as their own. Under such trusts, a beneficiary's interest can sometimes be changed in favour of someone else, either by the trustees or automatically on the death of the beneficiary.

Under a **discretionary trust**, the payment of income and capital is at the complete discretion of the trustees. There are often no named beneficiaries. Beneficiaries will be selected from one or more classes specified in the trust wording (for example, 'my grandchildren' would take account of existing grandchildren and those unborn at the time the trust was established).

No beneficiary is absolutely entitled to any of the trust fund and as such it does not form part of any one beneficiary's estate. This may provide a level of protection of the trust assets against wasteful beneficiaries or third-party claims from non-beneficiaries.

Taxation of trusts

The tax treatment of holding an investment within the trust in question may be a major influence on the trustees' choice.

There have been considerable changes in trust taxation in recent years, notably the changes to capital gains tax (CGT) annual exempt amount in 2022, the changes to the inheritance tax (IHT) treatment of trusts introduced in 2006 and the revised treatment of dividends from April 2016.

Trustees of express trusts (trusts created formally by someone using a written deed) must register the trust using the HMRC Trust Registration Service. All affected trusts must be registered by 1 September 2022. The register must be updated each year the trust has a UK tax liability.

Regarding self-assessment, trustees generally have to complete HMRC form SA900 each tax year. Trustees are assessed for tax in their capacity as trustees, not as individuals. Trustees do not have any income tax Personal Allowance and the CGT exemption is usually one half of that available to an individual.

The rates of tax payable depend upon the nature of the trust. Moreover, there are **anti-avoidance rules** which may mean that the settlor (the person who created the trust) may be taxed instead of the beneficiary or trustees, where income and gains arise inside the trust.

The HMRC website outlines trustees' full reporting and record-keeping obligations. Please see ***www.gov.uk/trusts-taxes/trustees-tax-responsibilities***

A trust will generally receive income in the form of savings and dividend income. Depending on the type of trust, the way income and dividends are taxed will differ. A trust may also make capital gains. These are taxed differently according to the type of trust. Where trustees realise gains, they have a capital gains tax allowance of £3,000 in the 23/24 tax year, (reducing to £1,500 in the 24/25 tax year) which is half of the exemption for individuals. Where an individual creates more than one trust, this allowance is split between these trusts subject to a minimum of £600 per trust (£300 from 24/25).

Bare trusts

Income tax - (where the beneficiary is an adult)

Where the beneficiary is an adult, he or she is responsible under self-assessment to report trust income and gains to HMRC, whether received by the beneficiary or retained by the trustees for further investment.

Income tax- (where the beneficiary is a minor)

Where the trust is created by anyone other than a living parent (see page 15), all income is taxed as the child's, even if it is not paid to them. Where appropriate, tax deducted can be reclaimed by either the appropriate adult or trustees.

Where the trust is created by a living parent, there are **anti-avoidance rules** that apply if the income (per parent per child) exceeds £100 gross each year. This means that tax will be assessed on the parent, even if the income is retained or paid to the beneficiary, and declared on their self-assessment.

Capital gains tax - (where the beneficiary is a minor or adult)

Any gains realised by the trustees are assessed for tax on the beneficiary so that their full annual CGT allowance (£6,000 in the 23/24 tax year, reducing to £3,000 in the 24/25 tax year) can be used. The **anti-avoidance rules** do not apply to capital gains.

Inheritance tax - (where the beneficiary is a minor or adult)

The value of the trust fund becomes part of the beneficiary's estate and the transfer by the settlor is either an exempt or **potentially exempt transfer** (i.e., a gift).

If the minor beneficiary of a bare trust dies, the beneficiary's parents (if alive) will inherit their estate under the intestacy rules, as a minor cannot make a will.

The beneficiary of an IIP trust is treated as having received interest and dividends rather than just 'trust income'.

Interest in possession (IIP) trusts

Income tax (i.e., the beneficiary is entitled to income arising inside the trust)

Trust income is taxed on the trustees at basic rate (20% on interest and 8.75% for dividends). The trustees must then distribute the income to the beneficiary. When the beneficiary receives the income, they are also taxable. However, they receive a tax credit equivalent to the tax paid by the trustees. This is then used to offset their own personal liability to income tax.

Unlike income from discretionary trusts, income from an IIP trust does not lose its 'identity'. The beneficiary of an IIP trust is treated as having received interest and dividends rather than just 'trust income'. This means they can use their dividend allowance, personal savings allowance and 0% starting rate band to reduce their liability to income tax. Where the income falls within these or their personal allowance, the beneficiary can reclaim the tax paid by the trustees. Where the income exceeds these allowances/bands, the income will be taxable at the beneficiary's marginal rate:

Basic rate tax payers:

20% (interest)

8.75% (dividends)

Higher rate tax payers:

40% (interest)

33.75% (dividends)

Additional rate tax payers:

45% (interest)

39.35% (dividends)

However, the beneficiary will use the tax credit from the trustees to reduce that liability.

For example: A beneficiary receives interest with 20% deducted by the trustees. A basic rate tax payer will have no further liability. A higher rate tax payer will pay an extra 20% and an additional rate tax payer will pay 25%.

The trustees could choose to mandate the income payments directly to the beneficiary. This way, they do not need to submit a trustee tax return unless they have other liabilities (such as capital gains tax). The beneficiary will receive the income gross and will need to pay the applicable rate of tax.

Capital gains tax (CGT)

After allowing for the trustees' annual CGT exemption, any gain is taxed at 20% (28% for property gains).

If the trust capital passes absolutely to named beneficiaries following the death of an interest in possession beneficiary (provided that beneficiary had a **qualifying interest in possession**), no liability to CGT arises and the new beneficiaries will receive the assets at a revised base cost (i.e., the value at date of death of the previous IIP trust beneficiary). This will be based on the market value of the assets at the time.

If an IIP trust beneficiary dies and their interest continues on to a new beneficiary under the trust provisions, this revised value basis, as above, will also apply. However, if the interest of a beneficiary ceases during their lifetime and other beneficiaries become absolutely entitled to the trust funds, the change of entitlement is considered to be a 'disposal' for CGT purposes, with any tax liability belonging to the trustees.

A relief known as Hold-over Relief may apply to capital gains tax. This relief does not remove the tax but enables it to be deferred and passed on to the new beneficiary subject to certain conditions being met. Please speak to your legal or financial adviser for further information.

Inheritance tax (IHT) – trusts established before 22 March 2006 or created within a will

The 'trust' capital from which an IIP beneficiary has the right to income is treated as being owned by him or her and forms a part of their estate for IHT purposes, even if no income is arising and where there is no entitlement to capital.

Inheritance tax (IHT) – trusts established on or after 22 March 2006

The 'trust' capital from which an IIP beneficiary has the right to income is no longer treated as being owned by him or her following the Finance Act 2006 so it does not form part of their estate for IHT purposes.

The trust is now subject to the same IHT regime as a discretionary trust. **Entry**, **exit** and **periodic** IHT charges can apply, but depending on the amounts involved the tax due may be zero. No part of the trust fund is treated as belonging to a beneficiary for IHT purposes.

The initial payment by the settlor into the trust is a **chargeable lifetime transfer** (unless otherwise exempt) so there could be an immediate IHT liability at half the current IHT rates, even on a lifetime transfer.

Discretionary trusts

Trustees of discretionary trusts are charged income tax at the special trust rates, after deduction of trust expenses. Trustees may usually be able to choose to distribute savings or dividend income, or to re-invest into the trust. Dividends are taxed differently to other forms of income.

The first £1,000 of taxable income, which would otherwise be chargeable at the rate applicable to trusts (RAT), is instead chargeable at the basic rate (20%) or dividend ordinary rate (8.75%), depending on the nature of the income. This part of income is known as the standard-rate band. Where income exceeds this amount, additional tax will be due.

For a discretionary trust, the RAT for income, other than dividends, is 45%. The dividend trust rate is 39.35%.

Taxation of savings income in excess of the standard-rate band, in the hands of the trustees

Savings income is paid gross. The trustees are liable for 45% tax. The tax would be paid via the trustees' self-assessment returns.

Taxation of dividend income in excess of the standard-rate band, in the hands of the trustees

Dividends will be received gross. The dividend trust rate is 39.35%.

Taxation of dividend income distributed to, or for the benefit of, a beneficiary

The tax paid by the trustees forms part of a 'tax pool'.

The beneficiary is treated as having received income from the trust net of 45% tax. The source of the income (e.g., whether it was derived from interest or dividends) is irrelevant. The beneficiary may reclaim some tax depending on their marginal rate of income. This is funded by the tax pool.

The trustees may have to add money to the tax pool where the beneficiary's reclaim exceeds the tax already paid by the trustees.

Savings and dividend income re-invested then distributed

If income is accumulated, the net distribution (after deduction of the trustee rate of tax) will roll up within the trust. This will then become additional capital of the trust which, whether retained or distributed to beneficiaries as capital at a later date, will not be subject to income tax, but may be subject to inheritance tax charges (i.e., **exit** or **periodic** charges).

Capital gains tax (CGT)

After allowing for the trustees' annual CGT exemption, any gain is taxed at 20% (28% for property gains).

Trustees may usually be able to choose to distribute savings or dividend income, or to re-invest into the trust.

Taxation of life assurance products – investment bonds

Investment bonds are taxed under the chargeable events regime. This unique taxation regime means all gains are assessed to income tax and not capital gains tax. Additionally, the tax charge will vary depending on the circumstances of the investment. For example, where the settlor of a discretionary or IIP trust is alive and UK resident, any chargeable event is assessed on them.

Funds can be switched without gains being realised and when the trustees decide to distribute some of the trust assets, they can consider the best way from a tax perspective to realise the assets. The bond is normally established in a series of policies and this would enable the trustees to, for example, assign some of the policies to a beneficiary (aged over 18) so that the beneficiary can realise the gains and incur tax at their own rate and not that of the settlors' or trustees' if the settlors are dead.

As a non-income producing asset, year on year, there will be no liability arising to income tax which means the £100 rule mentioned on page 10 is avoided along with potential tax reporting until a chargeable event gain occurs.

At a glance

Type of trust beneficiary	*Income tax*	*Capital gains tax*	*Inheritance tax*
Bare*	Generally on beneficiary*	10% (18%) or 20% (28%) on beneficiary (surcharge applies on property gains)	Part of the beneficiary's estate
Interest in possession (IIP)	8.75% on dividends 20% on other savings income and non-savings income	20% (28% for property gains) on trustees	Not part of beneficiary's estate unless created on death or if by a trust created before 22 March 2006
Discretionary	First £1,000 taxed as per IIP then 39.35% on dividends and 45% on other income received.	20% (28% for property gains) on trustees	Not part of beneficiary's estate

When the trustee is liable for the tax on encashment of a life assurance policy, the trustee rate of tax is 45%.

* *Where the trust is created by the parent of the unmarried minor beneficiary, any income of £100 or more will be deemed to be taxed on the parent even if they derive no benefit from the trust and the beneficiary's personal allowance is unused. However, for CGT, the full allowance is available and any gains are assessed on the beneficiary. Although life assurance policies are normally taxed on the settlor of a trust, HMRC has clarified that any chargeable event gains under a bare trust will be assessed on the minor beneficiary and not the settlor. The parental settlement rules for income still apply.*

Anti-avoidance rules – income tax

All UK trusts are subject to anti-avoidance rules designed to prevent abuse of the tax laws. These cover situations where a settlor or their spouse has retained an interest in the trust. The definition of 'spouse' excludes a former or separated spouse and the widow(er) of the settlor. Since 5 December 2005, civil partners registered under the Civil Partnership Act 2004 are also included.

The general effect of these rules is that the trust assets will be considered as still being owned by the settlor for income tax purposes. Therefore the settlor will remain personally liable to tax at their highest rate on any income received by the trustees.

Investments which are non-income producing, for example investment bonds, can be more attractive therefore for settlors and trustees in circumstances where anti-avoidance measures are applicable.

Where a parent creates a trust for their unmarried minor, there is a danger that the settlor will be liable for tax on the income.

If trust income is used for the benefit of such a minor, for example under a discretionary trust, this can be sufficient on its own to bring the anti-avoidance rules into play.

If the trustees use their discretion to make an income payment of more than £100 to a minor of a living settlor, then the parental settlor will be liable for tax on the whole amount

If, rather than paying out the income, the trustees decide to accumulate it and then subsequently use their discretion to pay capital to such a minor, that payment will be treated as an income distribution, up to the amount of available undistributed income in the trust, and the parent settlor will still be taxed accordingly.

Wherever possible, it may be more advantageous for the income to be accumulated within the trust and capital distributions deferred until the minor becomes an adult. For this purpose, the term minor includes an adopted, step or illegitimate child.

Following the introduction of a flat rate of tax for capital gains, the **anti-avoidance legislation** relating to CGT has been repealed.

HMRC trust register

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

https://www.gov.uk/trusts-taxes/registering-a-trust

Trustee Registration

- Existing trusts must have registered by 1 September 2022 (or within 90 days of creation, if longer).
- Trusts created on or after 1 September 2022 must register within 90 days of creation.

The register must be updated within 90 days of any changes to the trust. Example - changing trustees.

Taxable Trusts

- In order to report and pay UK tax, the trust will require a Unique Taxpayer Reference (UTR)
- Trusts with a UK tax liability (such as CGT, IHT, Income) must update the register by 31st January following the end of the tax year.

Trust investments

Which investment vehicle?

Where a beneficiary has a right to receive income only, in order to satisfy the main objective of the trust and to comply with the suitability requirement of the Trustee Act 2000, the trustees would need to invest in assets that produce income. It should be noted that withdrawals from investment bonds (even within the 5% allowance) do not count as income, as investment bonds are non-income producing assets.

Even though the trustees' main concern will be to ensure income is generated, they are obliged to consider the interests of all the beneficiaries. They will therefore need to ensure a balance between income-producing and capital-appreciating assets, not only for the income beneficiaries but also for those beneficiaries ultimately entitled to the capital.

The trustees will need to decide the needs of the beneficiaries and the actual payments required.

Where beneficiaries are able to receive income or capital, the trustees' investment choice is naturally broader.

For trustees, the combination of changes to capital gains tax and UK dividend taxation has increased the complexity and cost of administering a trust. The dividend changes also mean less income is available for distribution to beneficiaries.

In addition, further tax changes are always likely.

With factors like inflation, interest rate variations and equity yields to consider, trustees need to look increasingly to tax efficiency and reduced administration costs to optimise investment returns. Use of collectives (such as OEICs) and investment bonds are very popular routes for securing a professionally managed portfolio linked to stocks and shares in a practical, cost-effective and tax-efficient way but there are other options available.

Potential investment vehicles from Quilter

Investment bonds

Investment bonds are non-income producing assets, but are subject to income tax when 'gains' are realised. They are subject to the special provisions applicable to bonds known as **chargeable event rules**. One benefit of this type of investment is that partial withdrawals up to 5% per annum of the initial contribution do not give rise to any immediate liability to income tax. Moreover they are exempt from capital gains tax. Principally, any realised gains will be assessed on the settlor of the trust if they are still alive, then assessed on the trustees or the beneficiaries depending on the type of trust and who realises the gain.

Under current rules, using a bond could reduce the frequency which the Trustees have to update the register, or remove the need to use it completely. A bond will only create a tax liability when a chargeable event occurs. Under chargeable event rules, a gain is taxable on the settlor of a discretionary trust/IIP trust during their lifetime and in the tax year of death. Only after this point would the trustees be taxable and be required to use the register.

Instead of creating any gains themselves, the trustees could consider assigning the bond to the beneficiaries to encash at their marginal rate of income tax. In this case, the trustees would only need to use the register if an inheritance tax charge applies.

Bonds are normally made as a single contribution investment and allow access to a wide range of funds.

UK authorised investment funds – collectives

These are available as a collection of funds (which can be selected to provide the appropriate mixture of income and capital appreciation with the opportunity to use the annual CGT exemption) or a fund that gives the ability to change underlying investments without CGT implications.

Using these funds means that investment vehicles can be structured to suit any trust, although they would involve more tax reporting than bonds as they produce income (dividend or interest).

Again, these are normally single contribution investments, with access to a wide range of funds.

Glossary of terms

Anti-avoidance rules	Anti-avoidance rules within taxation law are designed to close 'tax loopholes' and limit the opportunities for people to take deliberate measures to avoid tax.
Chargeable event rules	The rules under which life assurance policies are taxed. A transaction, encashing a bond which has made a gain, for example, will lead to a chargeable event and result in the issuing of a chargeable event certificate for use in preparing a tax return.
Chargeable lifetime transfer (CLT)	A transfer of value which is made by an individual and is not an exempt or potentially exempt transfer.
Discretionary fund manager	A fund manager who uses their own discretion on what assets to sell and buy, and when. Normally appointed by the client to act on their behalf.
Disposal	When you dispose of an asset, you might be selling it, giving it away, transferring or exchanging it for something else. For capital gains tax purposes, a disposal includes a 'part-disposal', which may be the disposal of part of an asset, or an interest or right in the whole or part of an asset. A disposal may give rise to a tax charge.
Entry charge	When a chargeable lifetime transfer (CLT) is created, an entry charge equivalent to half the rate payable on death (40% currently) is paid on the transfer of any value above the available nil-rate band (NRB). Previous CLTs will affect the amount of available NRB.
Exit charge	Where the entry charge or 10-yearly periodic charge has given rise to an actual payment of tax, 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% of the trust fund.
Nil-rate band	**Currently £325,000 (frozen until April 2028).**
Periodic charges	Every ten years, the value of the trust will be assessed for tax with a maximum rate of 6%.
OEICs (Open-Ended Investment Companies) and unit trusts	These are types of investment schemes in which money from individual investors is pooled together into one fund, spread across a range of different investments (otherwise known as a 'portfolio') and managed by professional fund managers. OEICs and unit trusts operate under different legal structures but work in the same way. With OEICs you buy shares and with unit trusts you buy units.
Potentially exempt transfer (PET)	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.
Qualifying interest in possession	The name of the absolute entitlement to the trust income by beneficiaries of: ▸ a trust that was created prior to 22 March 2006 and hasn't been changed to bring it into the relevant property regime; and ▸ immediate post death interest trusts.
Realised gains (or losses)	Gains can be either realised or unrealised. If you sell an asset at a profit, this is a realised gain. In other words it has been changed from a gain on paper into an actual gain. If the asset has gone up in value, but has not been sold, you have an unrealised gain. Such an asset can be described as 'pregnant with gains'. It means that gains exist but have not yet been delivered. The same also applies to losses.
Tax deducted at source	This is the tax deducted on income before you receive it.

This document is based on Quilter's interpretation of the law and HM Revenue & Customs practice as at March 2023.

We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change. Your investment may fall or rise in value and you may not get back what you put in.

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

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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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