Webinar

What's the right trust for reducing IHT?

Tim Field – Regional Account Manager (Tim.field@canadalife.co.uk)

Cathy Russell FPFS TEP – Tax and Estate Planning Consultant

12th May 2020

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Housekeeping

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CPD certificates
- Issued within next two weeks
- Sent to registered email address

Recording will be made available
- Speak to Tim if you would like a link

Questions
- Chat box is available for follow-up

Downloads – ask Tim for:
- Copy of slides
- Choosing the right trust
- Guide to estate planning solutions

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Learning objectives

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After this webinar you will understand the different trusts which allow the settlor access to some of the trust monies

We will consider the following trust solutions

- Gift and loan trusts
- Discounted gift trusts
- Flexible reversionary trusts

For each of these trusts we will consider the

- Objectives
- Structure
- Advantages and disadvantages

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Access v inheritance tax efficiency

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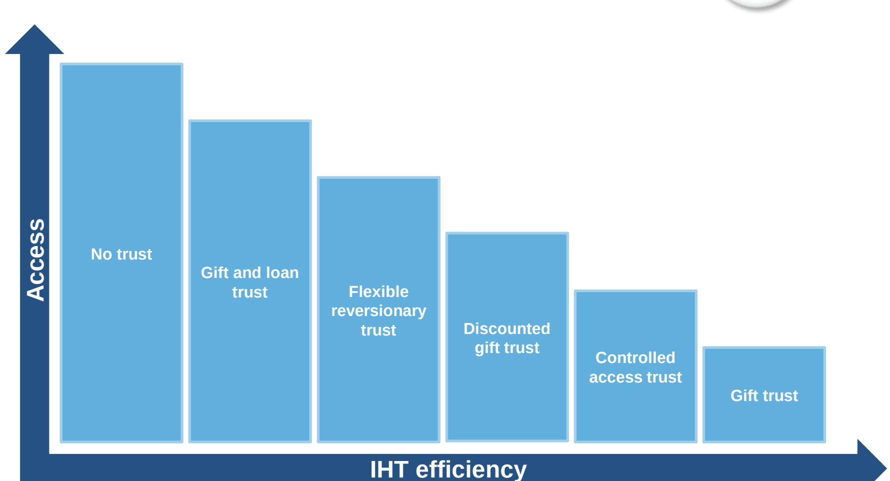

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Probability of surviving 7 years

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Age attained	Male	Female
60	95.7%	97.1%
65	93.8%	95.5%
70	90.2%	92.7%
75	82.8%	87.2%
80	68.3%	76.2%
85	44.9%	55.4%

These figures use the mortality basis as prescribed by HMRC for retained rights calculations as at April 2019.

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Commonly used trusts

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Gift and loan trust

Discounted gift trust

Flexible reversionary trust

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Gift and loan trust – process

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Client makes an initial gift of £10

↓

Trust names beneficiaries and additional trustees

↓

Loan agreement completed, including repayment requirements

↓

Loan amount passed to trustees who invest in an investment bond

↓

Trustees make withdrawals to meet loan repayments

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Gift and loan trust - objectives

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Cap the inheritance tax (IHT) on amount invested

Investor retains access of investment

For growth to accrue outside of investor's estate

For growth to pass to beneficiaries free of IHT

- Less periodic and exit charges if any

Security for investor:

- The right to capital repayments
- Free of immediate personal liability to income tax and capital gains tax (5% withdrawals)

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Gift and loan trust - example

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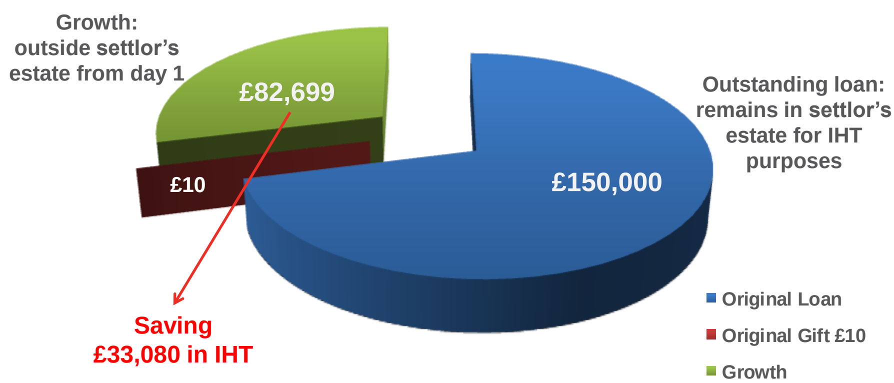
£150,000 investment:
after 9 years
assuming 5% pa growth and no loan repayments have been made



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Repayments taken and spent

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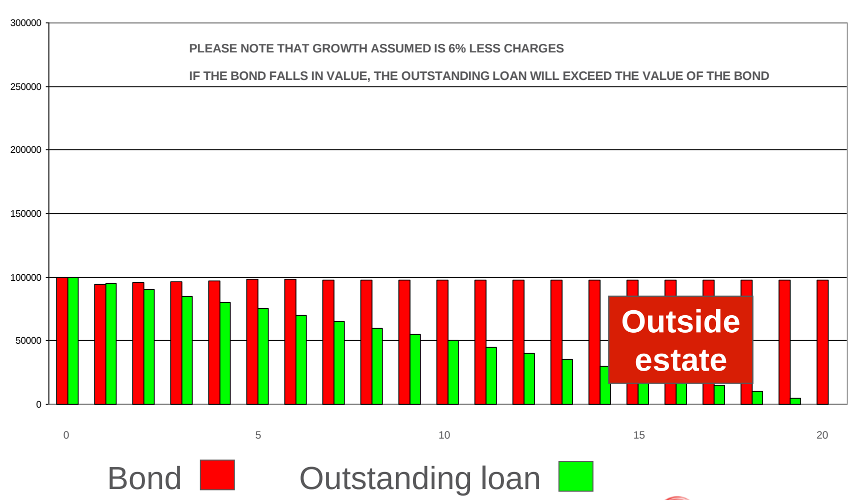

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Repayments not taken

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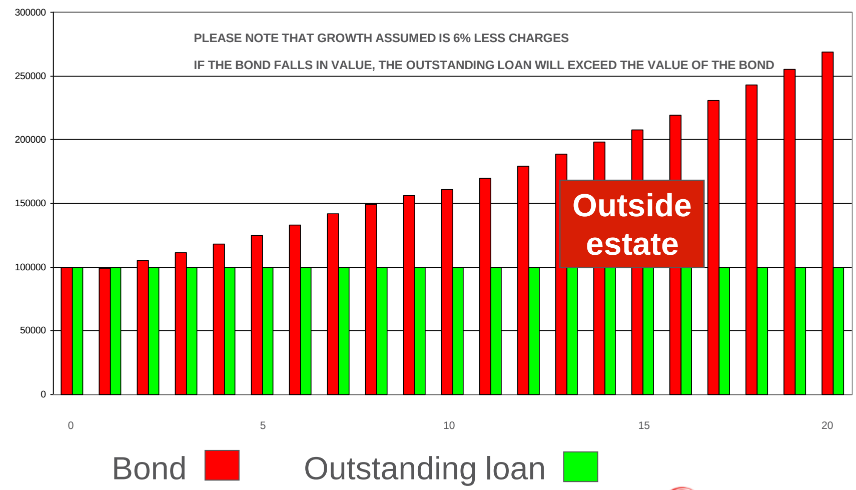

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Advantages of gift and loan trust

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Loan to trustees is interest-free

Access to regular loan repayments

- Such as 20 years via 5% allowance

Loan can be accessed at any time and on demand

Growth is outside investor's estate from day one

- Free of IHT

Investment bond can be on a capital redemption basis (international only) or a life assurance basis (international/onshore)

Discretionary trust

- Trustees have control over who benefits from trust
- Trust assets won't form part of beneficiaries' estate

Ability to waive the loan

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Disadvantages of gift and loan trust

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- Transaction is not a gift – it is a loan to the trustees
- Outstanding loan remains in the estate for IHT
- Total repayments must never exceed original loan
- Withdrawals above accumulated 5% triggers chargeable event – income tax may apply
- Repayment of loan – on demand – may trigger chargeable event
- Investor's early death may not achieve much IHT mitigation

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Commonly used trusts

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Gift and loan trust

Discounted gift trust

Flexible reversionary trust

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Discounted gift trust

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Structure can vary by provider

- Based on legal advice

Investment bond

- Single or joint donors/settlors
- Life assurance or capital redemption basis
- Payments to donor(s)/settlor(s) fixed at outset

Bond is assigned into a bespoke trust

- Bare or discretionary
  - Potentially exempt transfer or chargeable lifetime transfer
- Underwriting to establish the settlor's life expectancy
  - Based on age and state of health of each settlor

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Discounted gift trust - objectives

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Client wants to make a gift but retain an income

Ability to invest more than the nil rate band without triggering an immediate 20% IHT liability

Immediate potential IHT saving – the discount

Future growth outside of donor's estate

Growth passes to beneficiaries free of donor's IHT

Whole amount passes to beneficiaries free of donor's IHT if donor survives seven years

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Discounted gift trust - example

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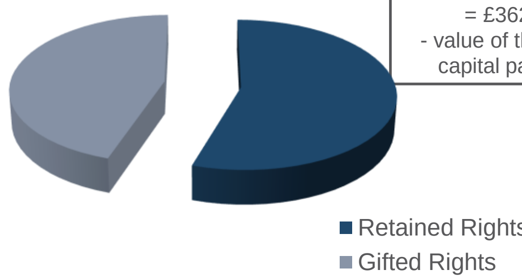
Client invests £600,000 into an investment bond

Yearly withdrawals of £27,000

Discount of 55%

"retained rights"
55% discount
= £362,600
- value of the regular capital payments

"gifted rights"
for beneficiaries
- value of gift for IHT purposes is £237,400*



* Potentially exempt transfer (PET) or Chargeable lifetime transfer (CLT)

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Advantages of discounted gift trust

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Investment can be greater than nil rate band

Benefit from an immediate reduction in the value of the donor's estate, if a discount has been agreed

Investment growth is available on the whole investment

Any growth immediately falls outside the donor's estate for IHT purposes from day one

Whole gift is outside donor's estate after seven years

Fixed regular capital payments for life (or until fund exhausted)

Discretionary trust

- Trustees have control over who benefits from trust
- Trust assets won't form part of beneficiaries' estate

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Disadvantages of discounted gift trust

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Full underwriting required at outset to determine ‘discount’
Inflexible as withdrawals cannot be altered
Withdrawals, where unspent, will accumulate in estate
Donor cannot access residual fund from the trust
Beneficiaries can only access trust after death of donor(s)
The bond cannot be surrendered during the donor’s lifetime

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Commonly used trusts

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Gift and loan trust

Discounted gift trust

Flexible reversionary trusts

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Flexible reversionary trust - objectives

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Emphasis on IHT mitigation

Provides payments to the settlor, only if required

Allows payments to beneficiaries during settlor's lifetime

Allows appointments to beneficiaries during settlor's lifetime

Can remove future growth from settlor's estate (if maturities not taken)

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Wealth Preservation Account

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International investment bonds

Held in the Wealth Preservation Trust

- Flexible Reversionary Trust
- Discretionary version only
- Chargeable lifetime transfer

Series of single premium life policies

Policies have specific terms

Maturities on policy anniversaries

Maturity dates can be deferred

- So it cannot be a capital redemption bond

Maturity proceeds revert to the settlor

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Wealth Preservation Trust

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Best of both worlds!

- more IHT efficiency than the gift & loan trust
- more flexibility than the discounted gift trust

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Initial trust: custody trust of legal title

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Wealth Preservation Trust

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Second trust: settlement of equitable rights

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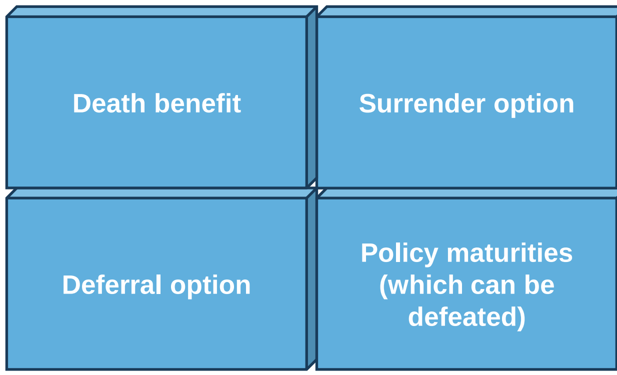

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Second trust: settlement of equitable rights

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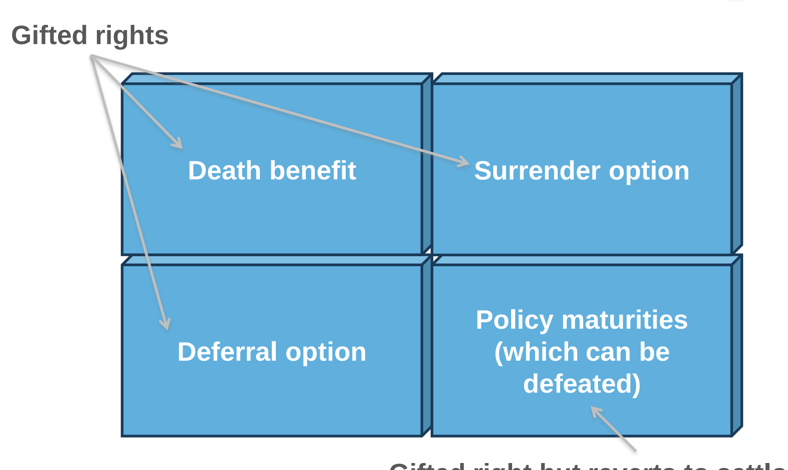

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Example structure

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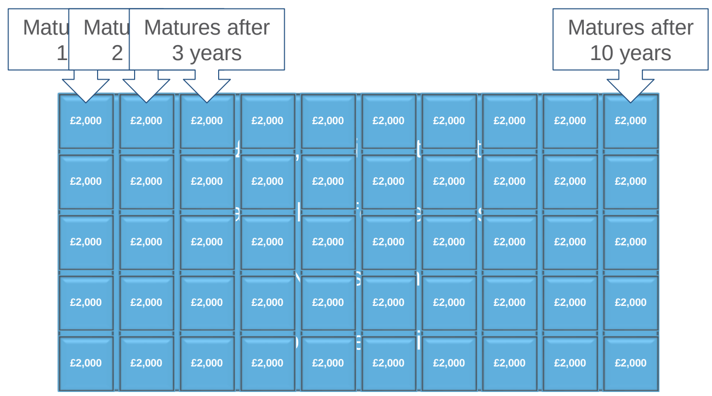

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Example structure

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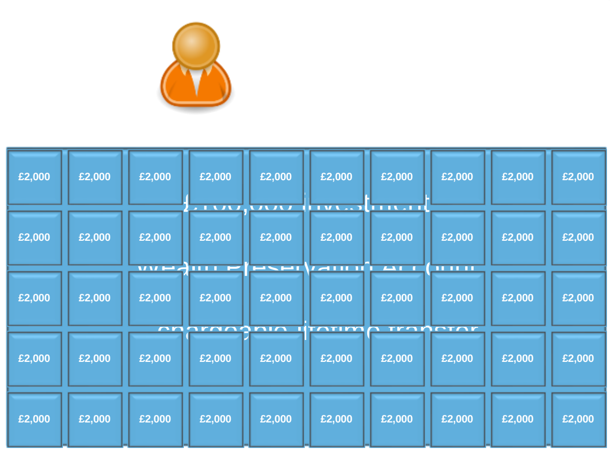

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Example structure – deferring maturities

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Settlor informs trustees that he doesn't need any benefit

Trustees defer maturities for ten years

	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
Year	1	2	3	4	5	6	7	8	9	10

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Example structure – deferring maturities

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Settlor informs trustees that he doesn't need any benefit

Trustees defer maturities for ten years

	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
Year	2	3	4	5	6	7	8	9	10	12

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Example structure – deferring maturities

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Settlor informs trustees that he doesn't need any benefit

Trustees defer maturities for ten years

	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
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	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
Year	3	4	5	6	7	8	9	10	11	12

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Example structure – deferring maturities

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Settlor informs trustees that he doesn't need any benefit

Trustees defer maturities for ten years

	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000
Year	4	5	6	7	8	9	10	11	12	13

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Example structure – maturing policies

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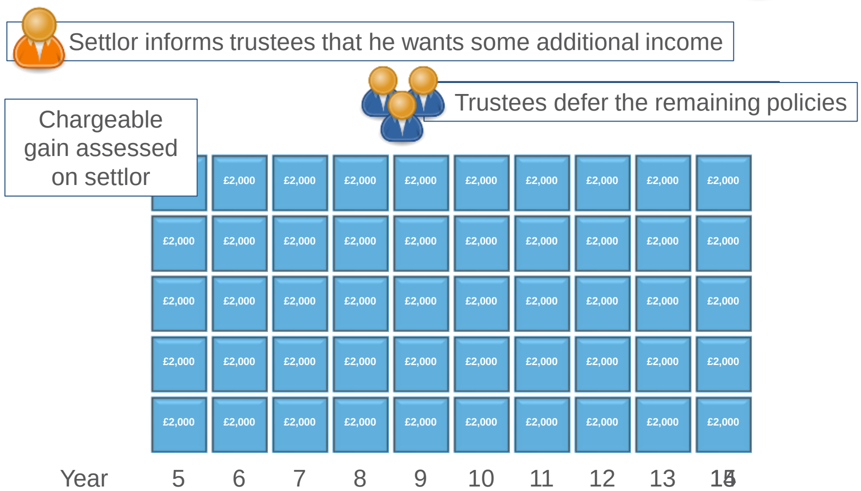

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Example structure – deferring maturities

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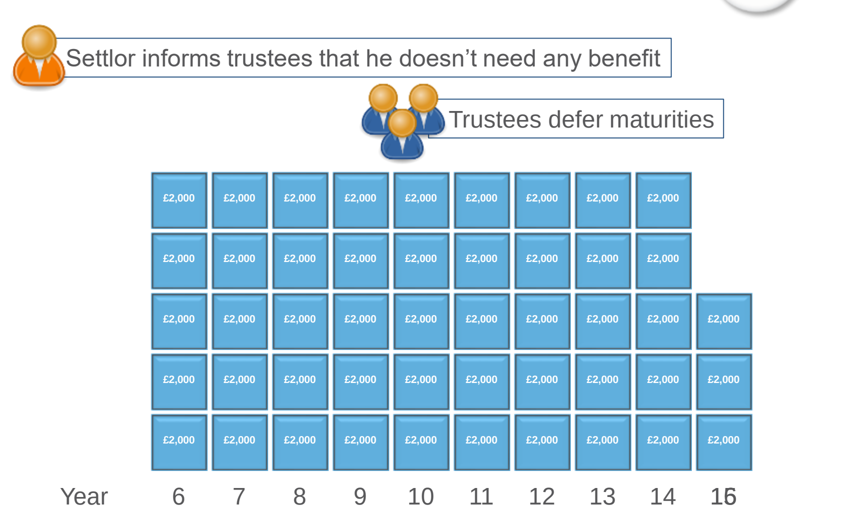

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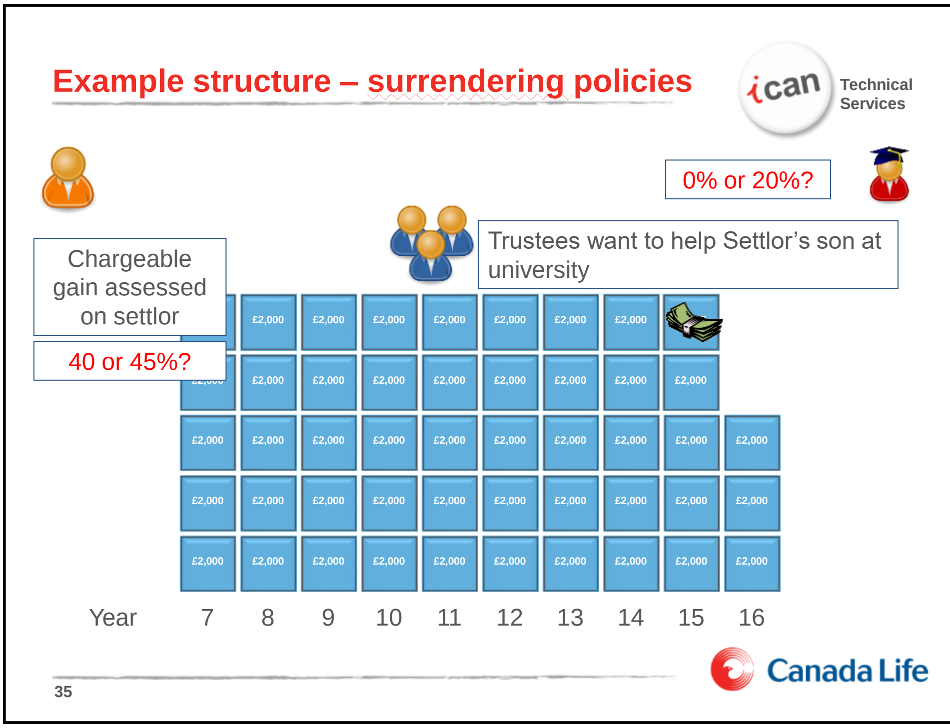

Example structure – surrendering policies
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0% or 20%?
Trustees want to help Settlor's son at university
Chargeable gain assessed on settlor
40 or 45%?
£2,000
Year 7 8 9 10 11 12 13 14 15 16
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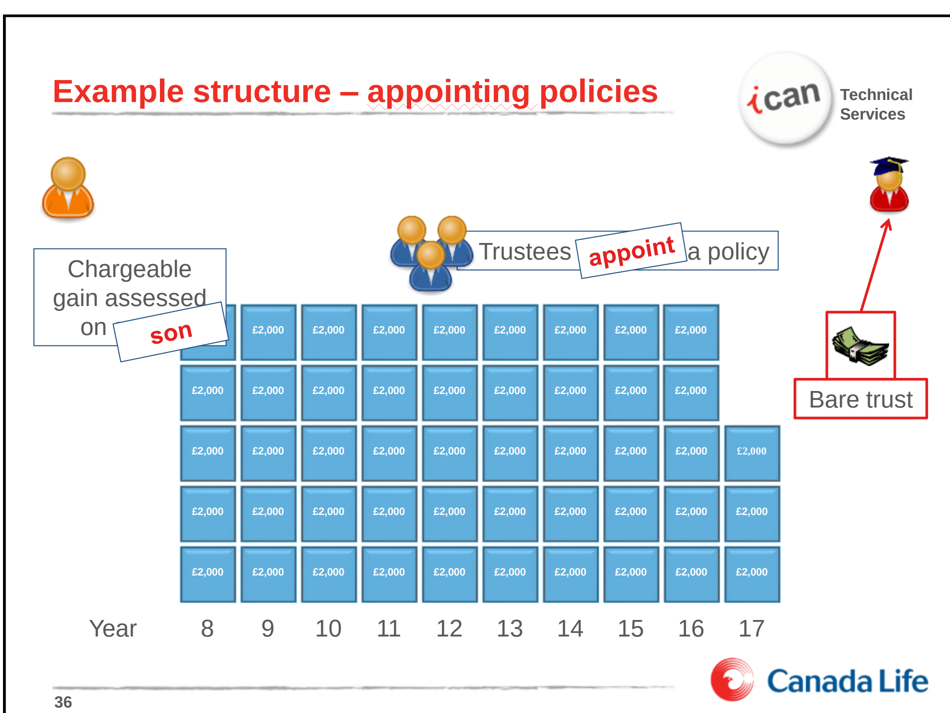

Example structure – appointing policies
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Trustees appoint a policy
Chargeable gain assessed on son
Bare trust
£2,000
Year 8 9 10 11 12 13 14 15 16 17
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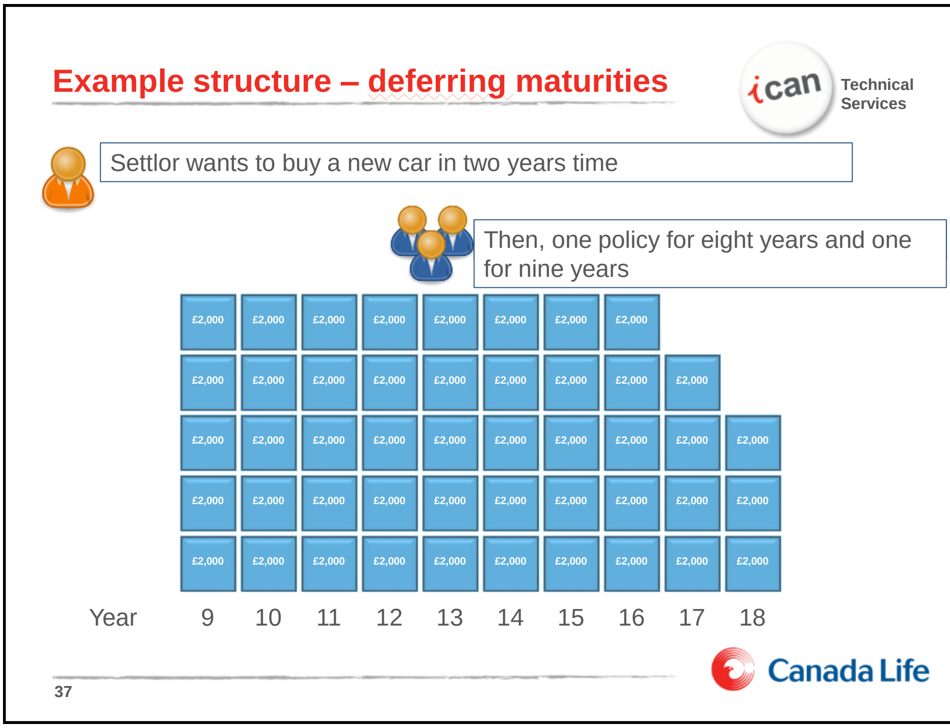
Example structure – deferring maturities
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Settlor wants to buy a new car in two years time
Then, one policy for eight years and one for nine years
Year 9 10 11 12 13 14 15 16 17 18
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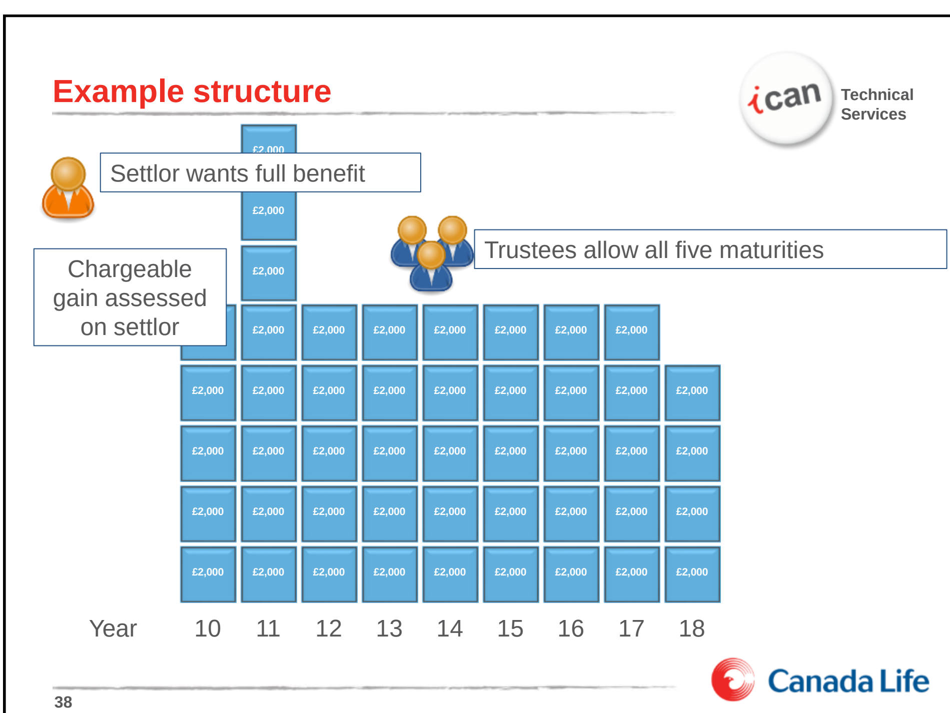
Example structure
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Settlor wants full benefit
Chargeable gain assessed on settlor
Trustees allow all five maturities
Year 10 11 12 13 14 15 16 17 18
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Example structure

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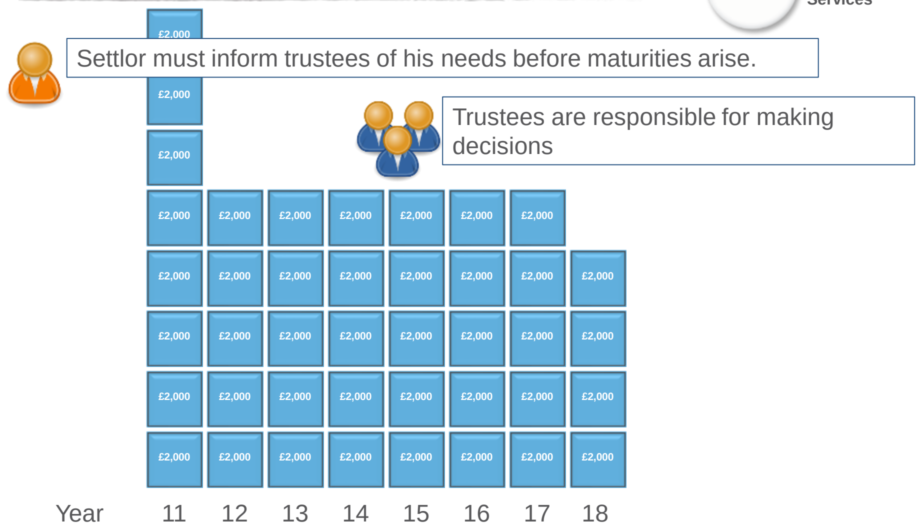

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Advantages of flexible reversionary trust

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Whole gift is outside settlor's estate after seven years

Growth is immediately outside settlor's estate

Benefits can be paid to the settlor at each maturity,
but only if required

Benefits can be paid to beneficiaries at any time

Assets within the trust won't form part of beneficiaries' estates

Policies can be appointed

Trustees have control over who benefits from trust

No underwriting required

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Disadvantages of flexible reversionary trust

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- Benefits will be exhausted should all the maturities be taken
- Any growth on the policy maturities or surrenders may be subject to an income tax charge
- Limited to the available nil rate band if 20% IHT to be avoided at outset
- Should the settlor die within seven years, the value of the gift is liable to IHT on death – no discount
- No 5% allowance available during settlor's lifetime

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Access v inheritance tax efficiency

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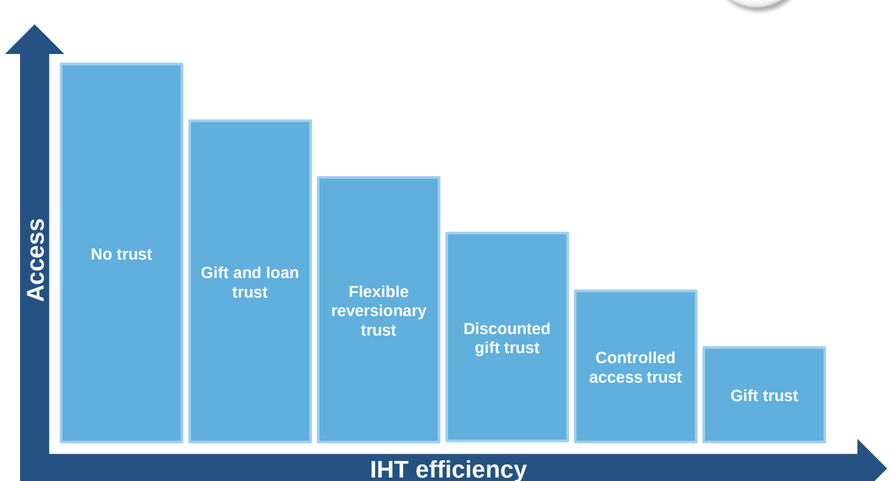

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Support for advisers

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Range of support material

- Brochures
- Newsletters
- Technical Eye
- Briefing notes
- Budget summary
- Tech-casts

Account manager

- Field-based
- Centrally-based

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- email: ican@canadalife.co.uk

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Learning objectives

Technical Services

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Important information

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