Trust School
Lesson 6 - IHT Top Trumps: Assessing IHT mitigation strategies

This content is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice. The impact of any taxation (and any tax reliefs) depends on individual circumstances.

Where content includes case studies or examples these are for illustration purposes and are not recommending a specific course of action.

Past performance is not a reliable indicator of future performance. The value of an investment can go down as well as up and your client may get back less than they've paid in.

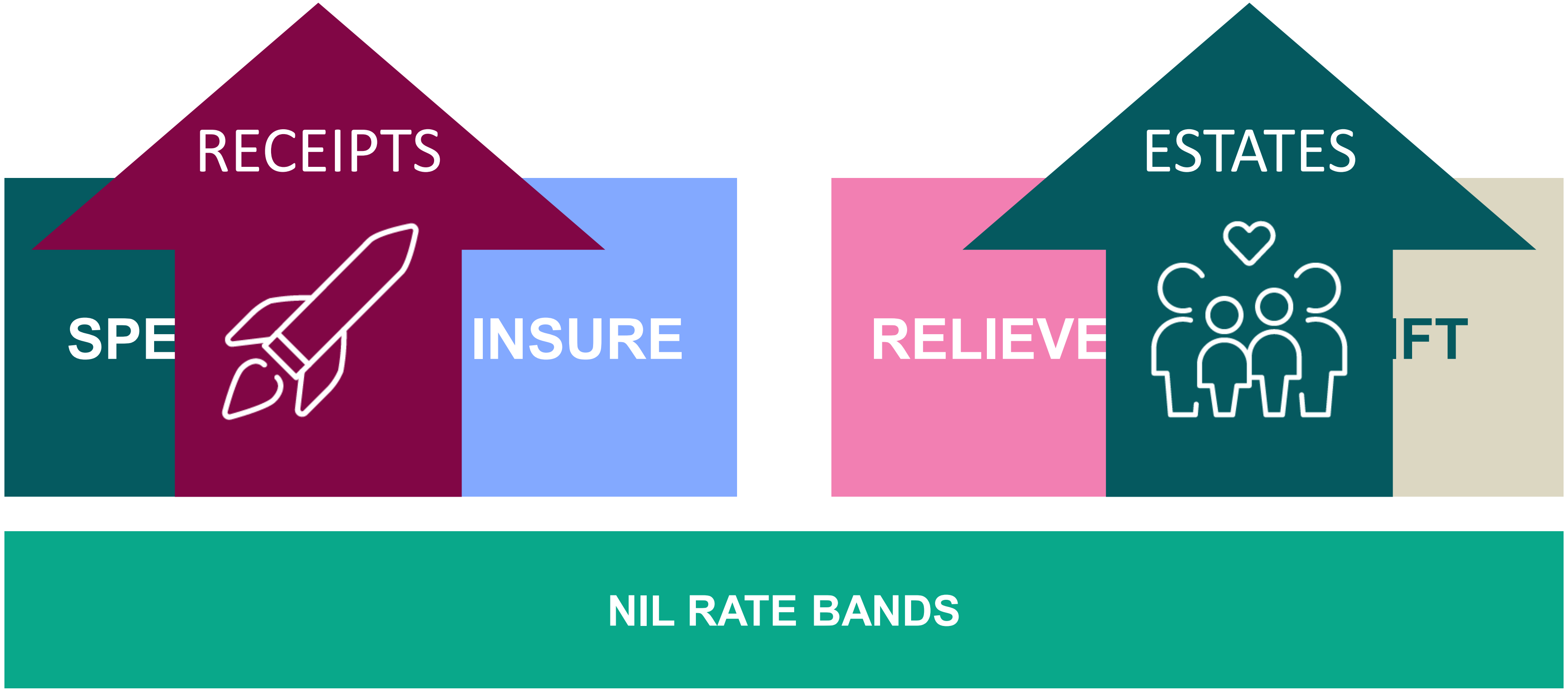
Learning Objectives

By the end of this session, you will be able to:

- Apply the use of trusts confidently as part of an integrated IHT strategy
- Compare trusts with alternative IHT solutions on a like for like basis
- Balance tax efficiency with control, flexibility and client objectives
- Articulate the pros and cons of each solution to clients and trustees

IHT landscape

The building blocks



3 Key Pillars

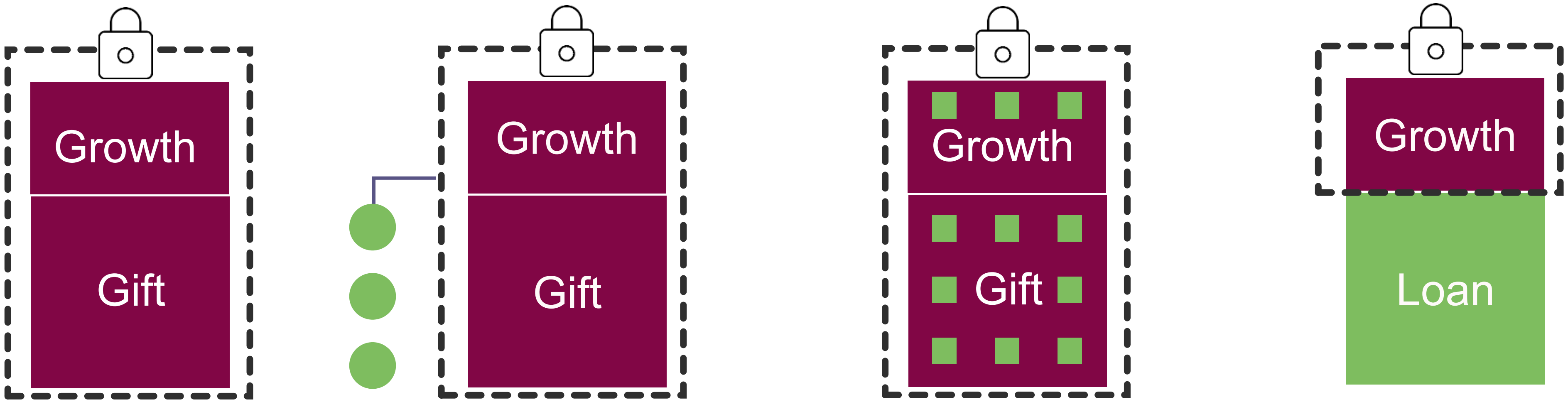
Foundations of any IHT plan

Access

Control

Tax

Insurance company trusts



	Gift Trust	Discounted Gift Trust	Reversionary Interest Trust	Loan Trust
Settlor access	None	Fixed payments	Reversions	Loan only
IHT treatment	PET/CLT	PET / CLT (discount)	CLT (no discount)	No Pet/CLT
Beneficiary Access	Total	Limited	Total (trustee discretion)	Growth only

Whole of life

WOL Policy

IHT liability

Premiums paid by settlor are gifts

If not exempt, premiums are CLTs or PETs

Can you get it?

How much are you insuring?

Put it in trust!

Lapse risk

Business Relief

Unquoted

AIM

100% relief (£2.5m limit per individual)
50% relief for qualifying assets over the limit

50% relief

- Accessible (subject to liquidity)
- 2 years to qualify
- Doesn't leave your estate
- Investment risk
- Only qualifies on death

Some assumptions

… or I'll be here all day.

BR spectrum

£ £ £ £

Planning with same amount of money

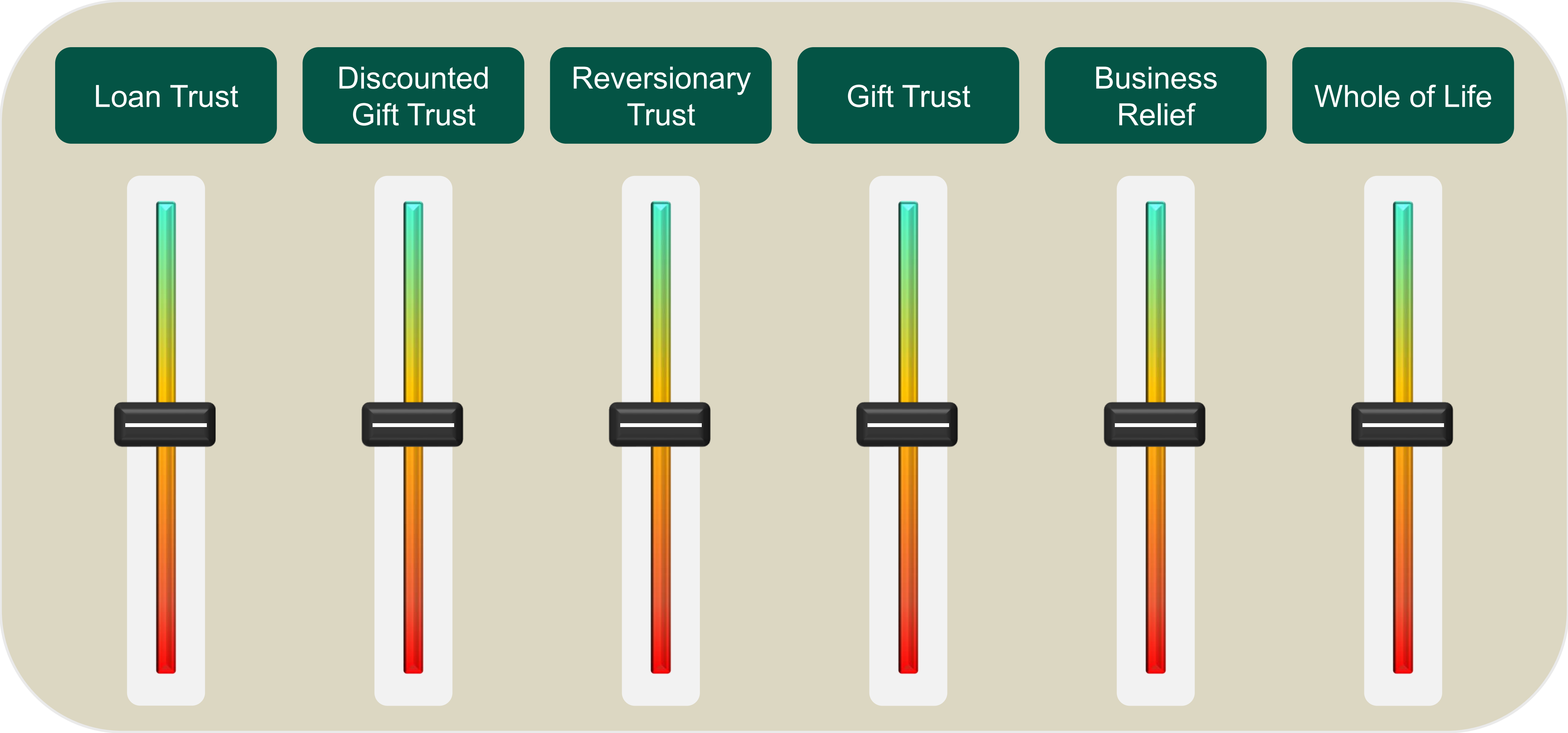
WOL not unit linked

Discretionary not Absolute

Outright gifts not an option

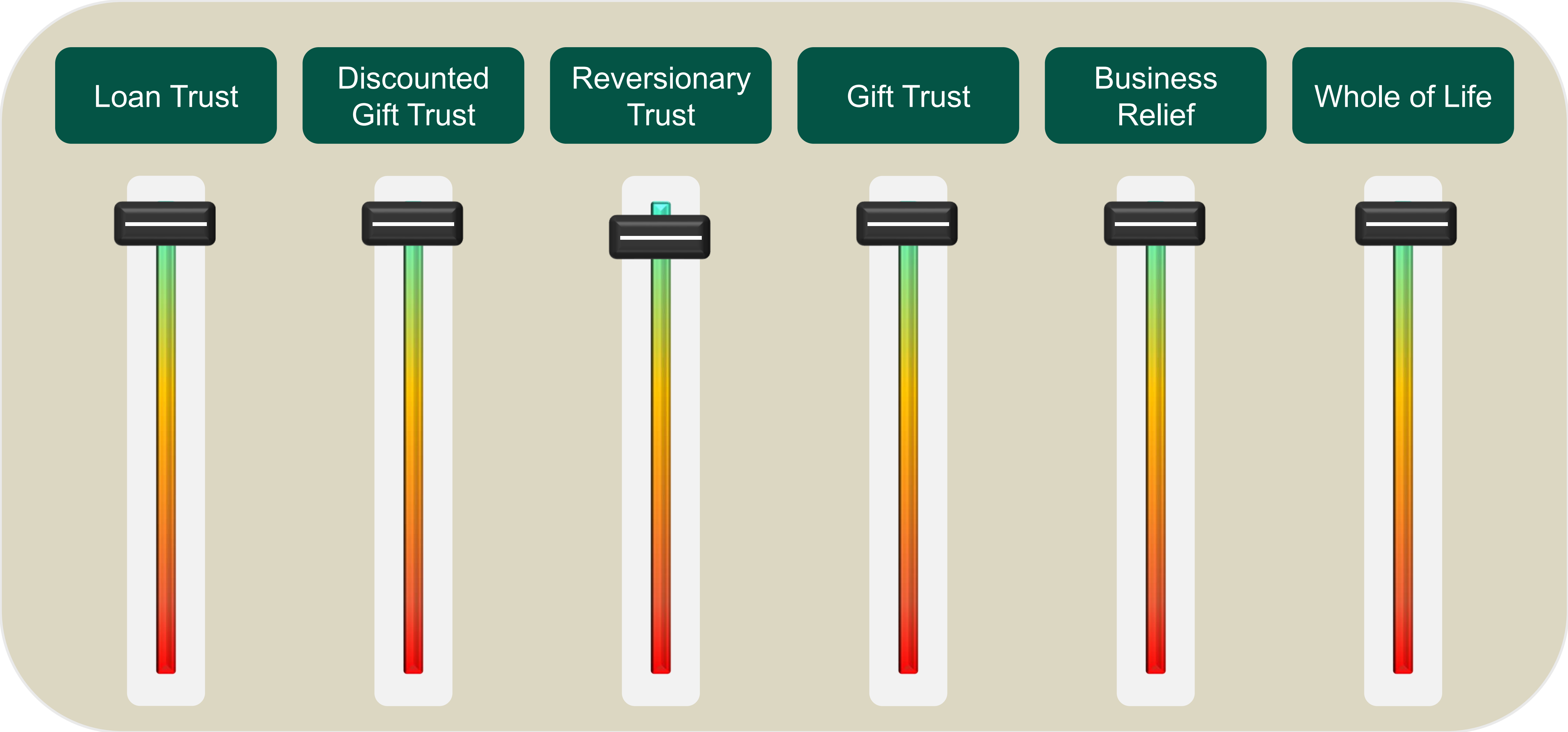
Control

How much control does settlor have



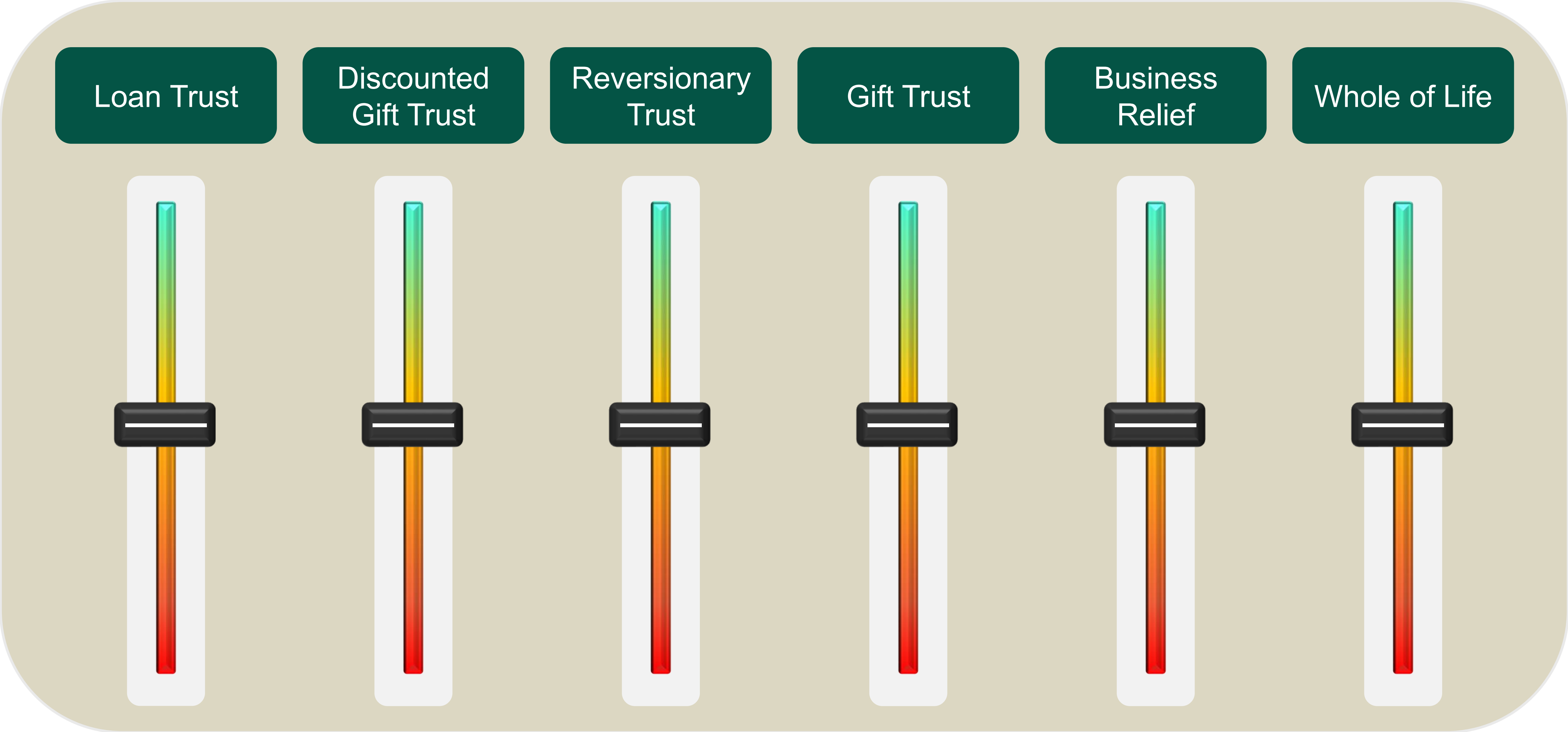
Control

How much control does settlor have



Settlor access

Availability of capital for settlor



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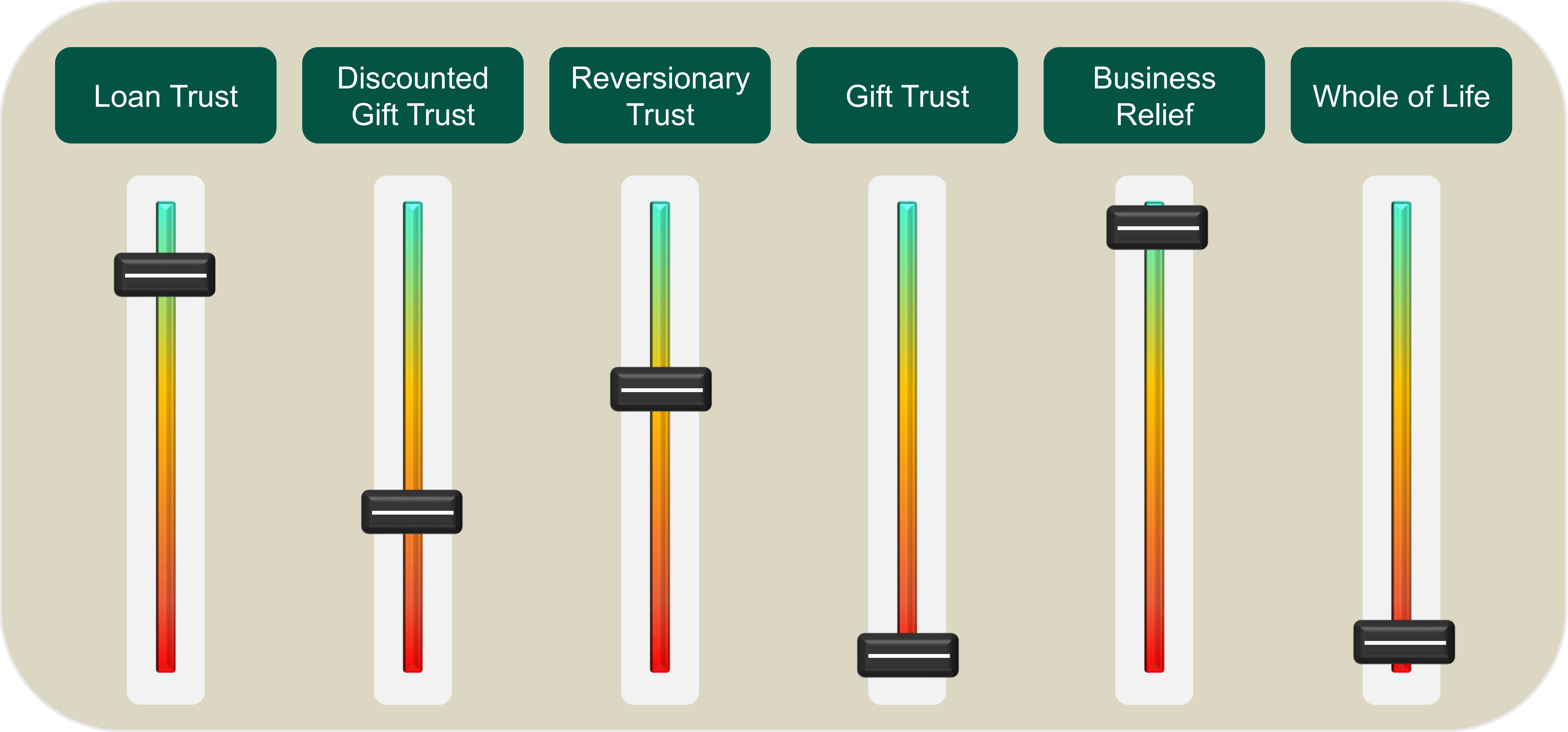
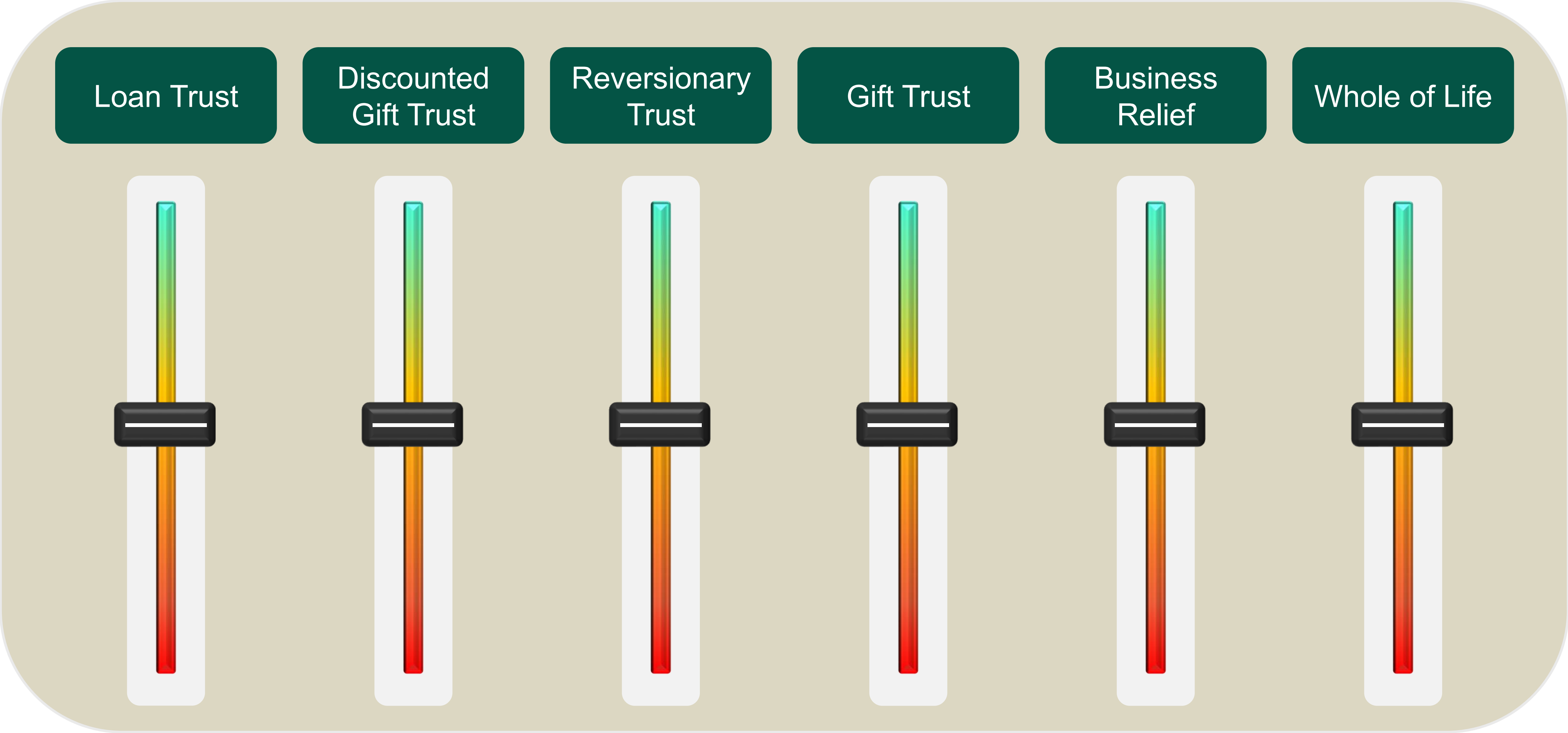


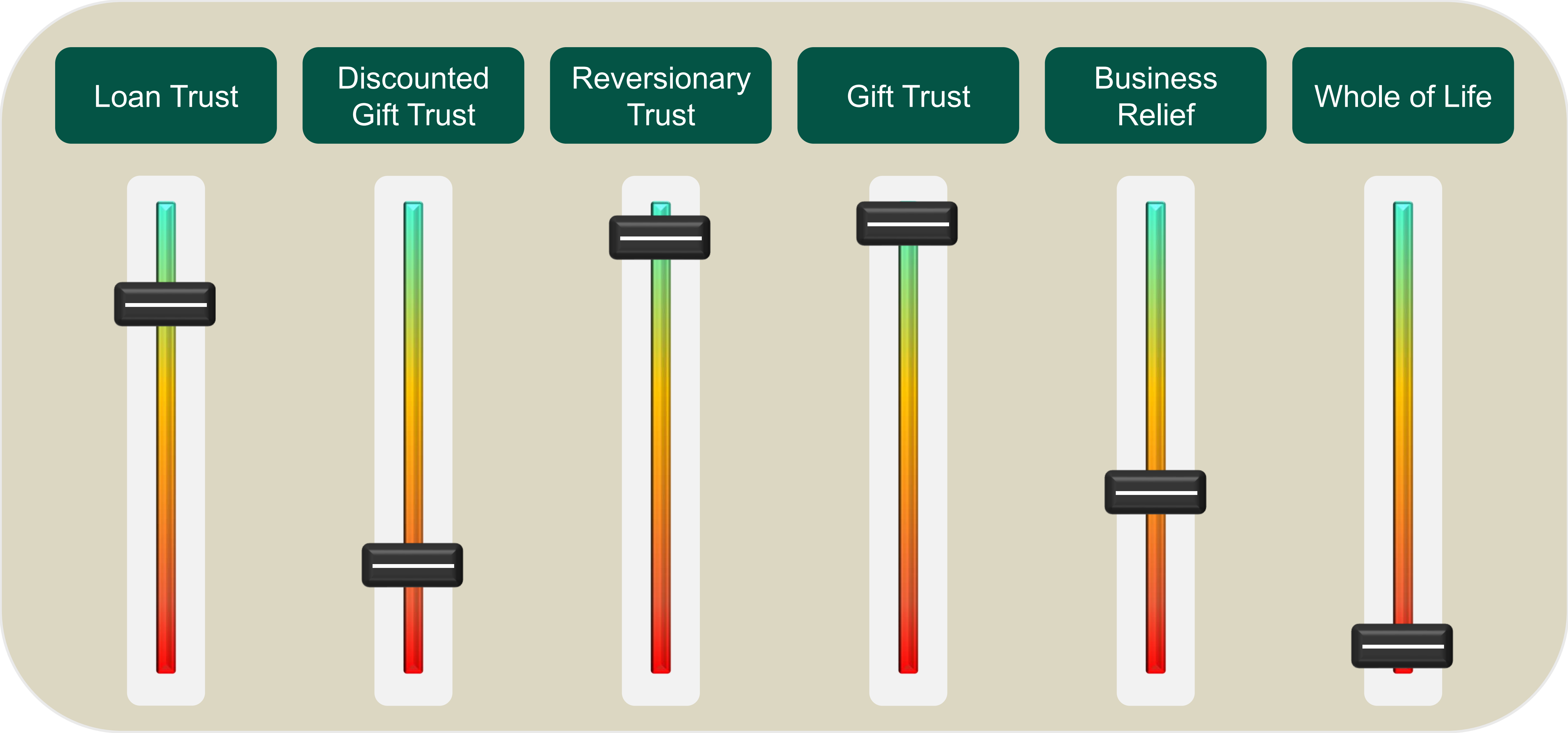
Beneficiary access

Ease of access



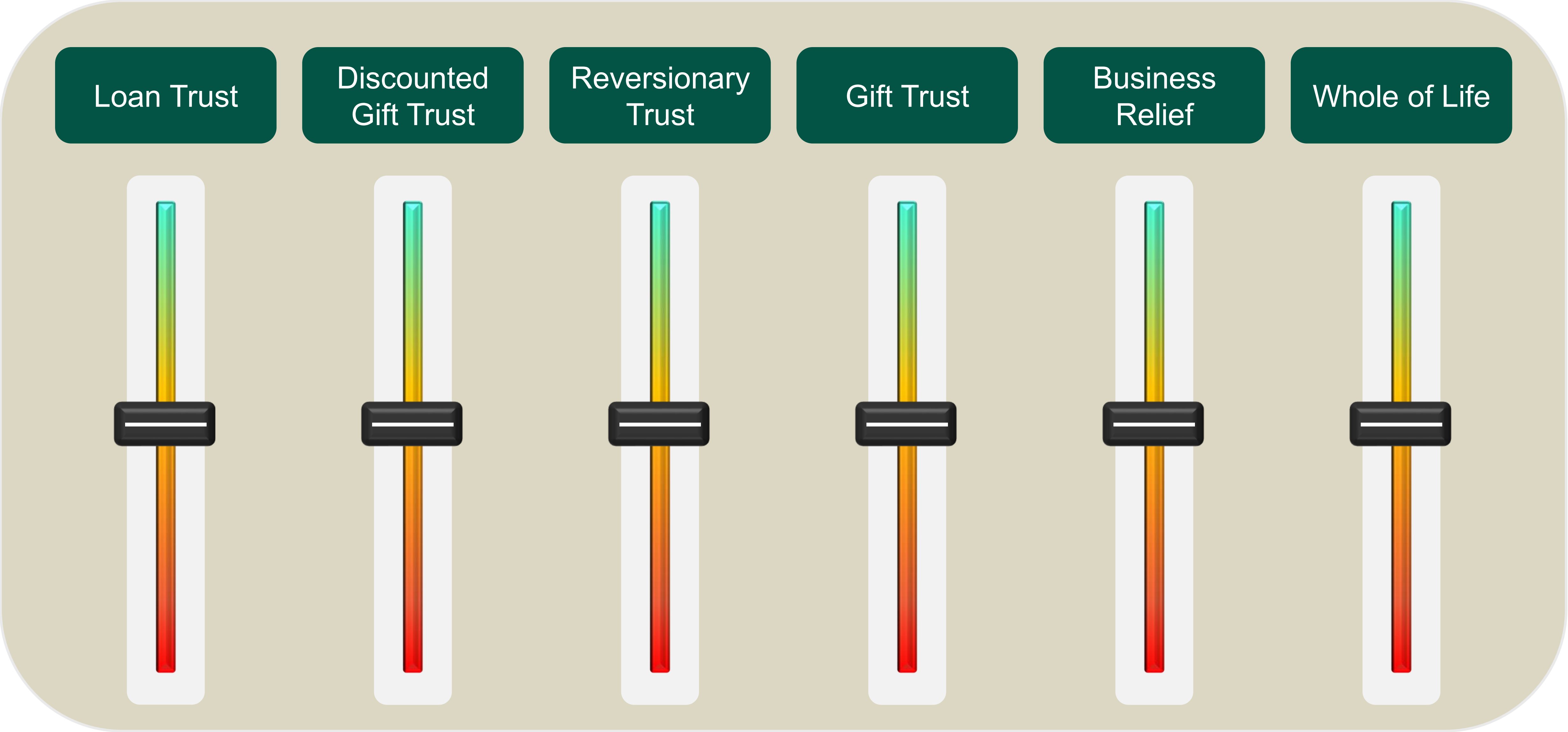
Beneficiary access

Ease of access



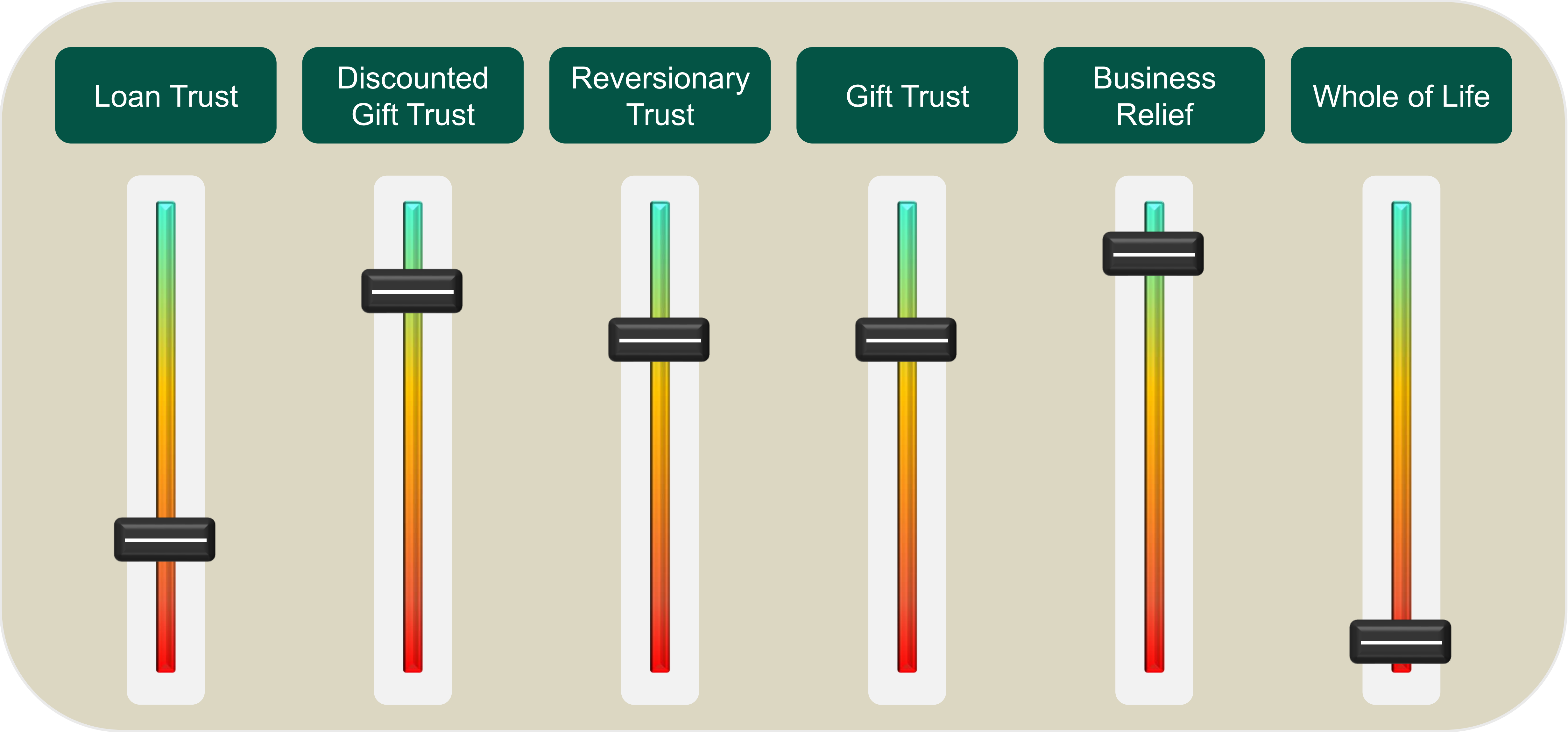
IHT impact

Tax efficiency



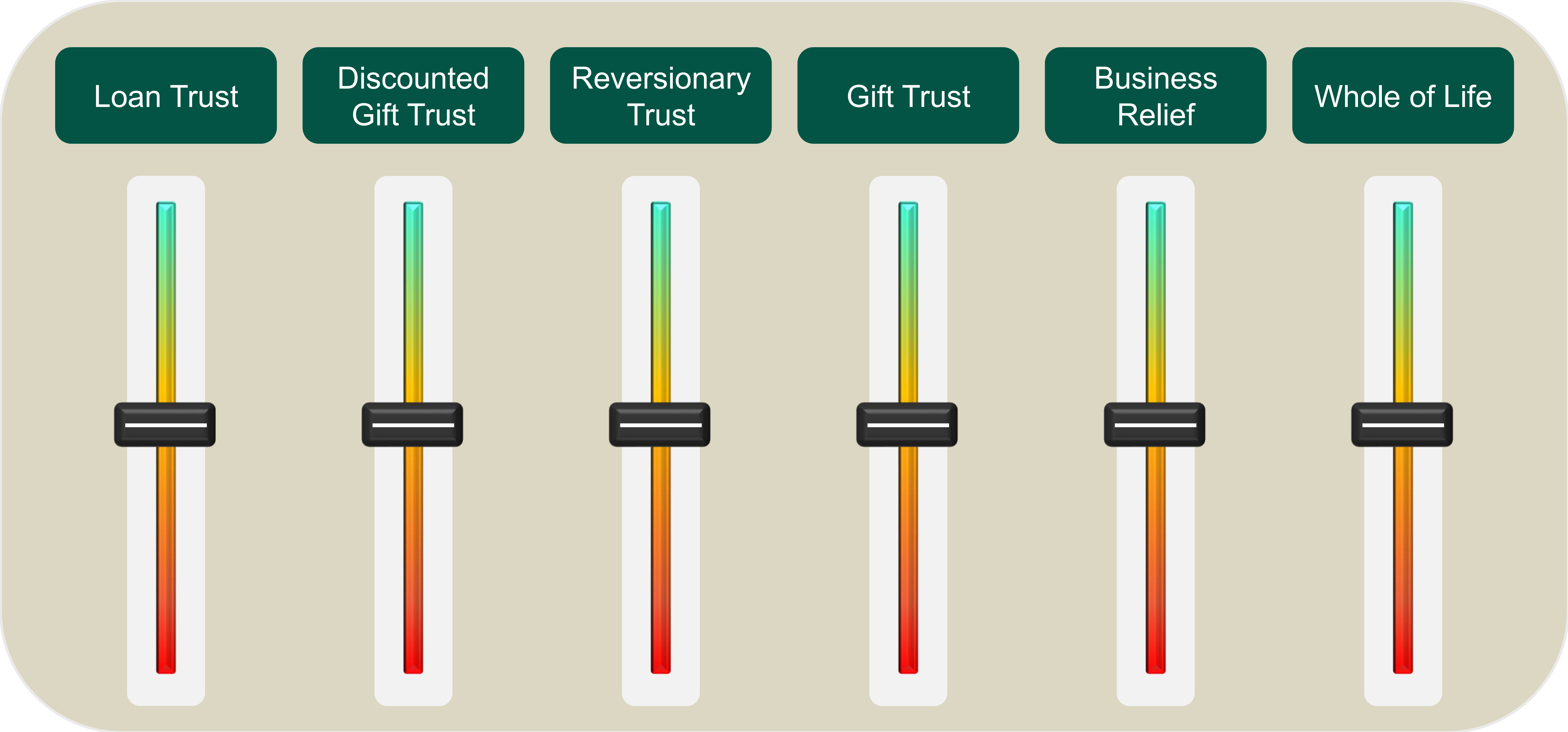
IHT impact

Tax efficiency



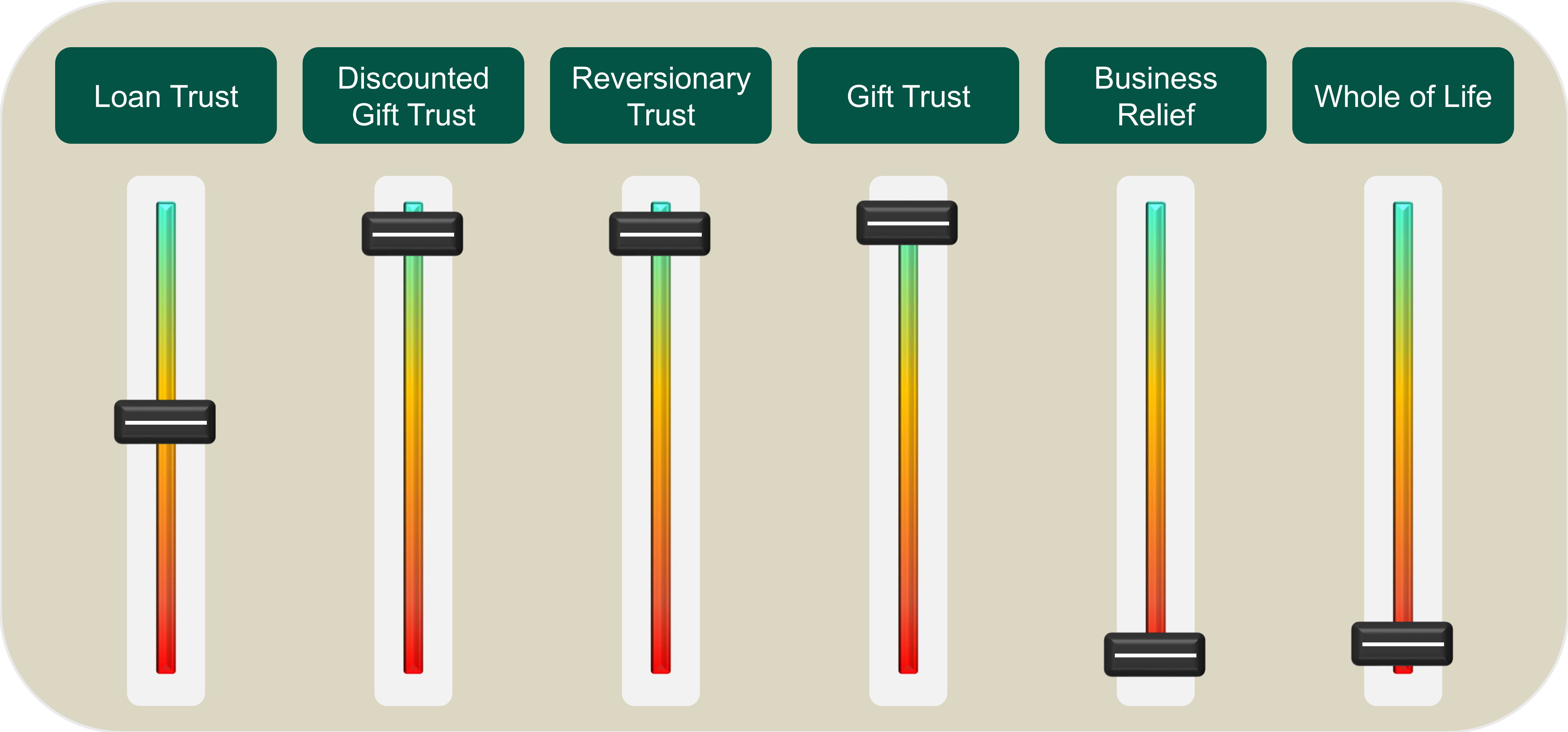
RNRB Impact

Tax efficiency



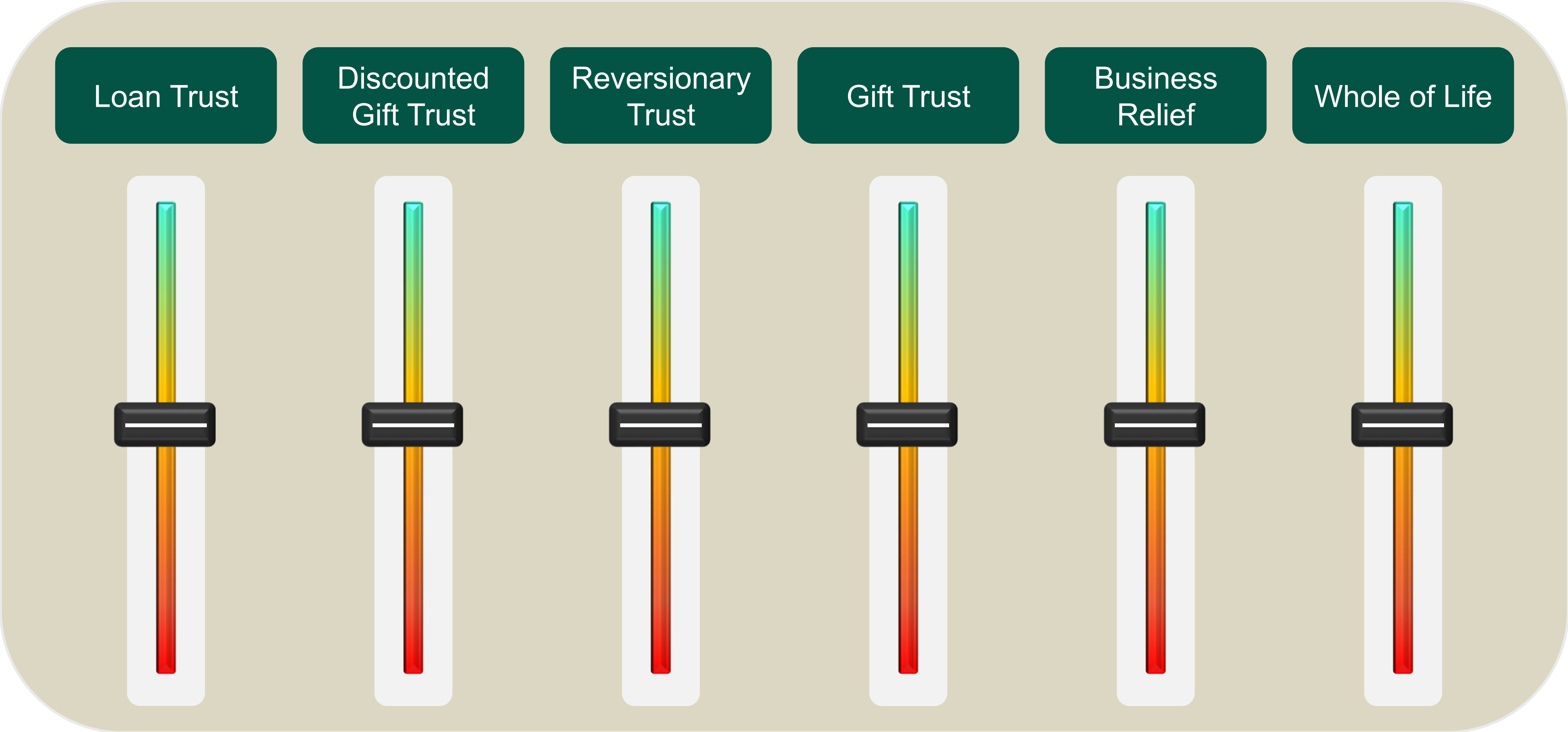
RNRB Impact

Tax efficiency



Investment

Investment universe



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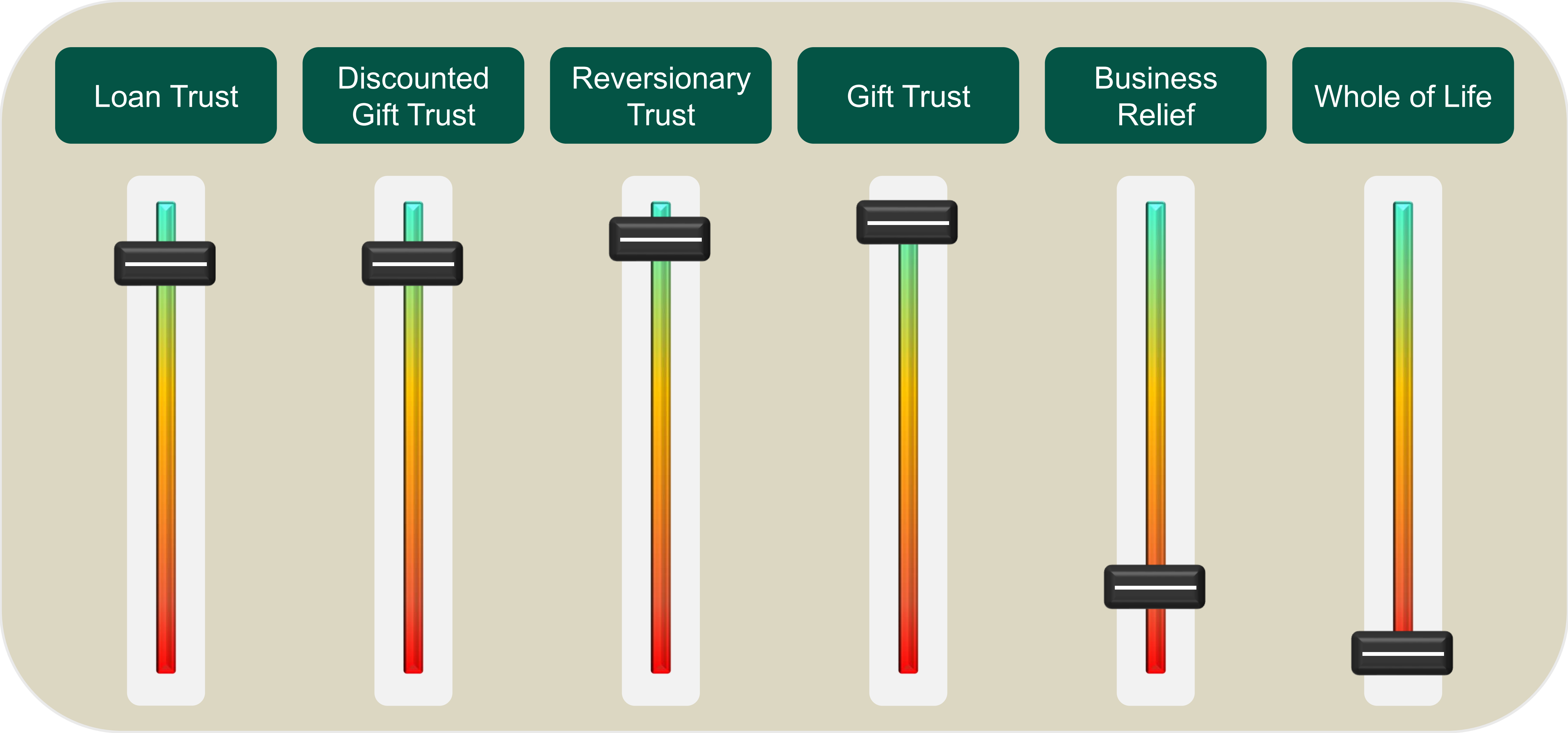
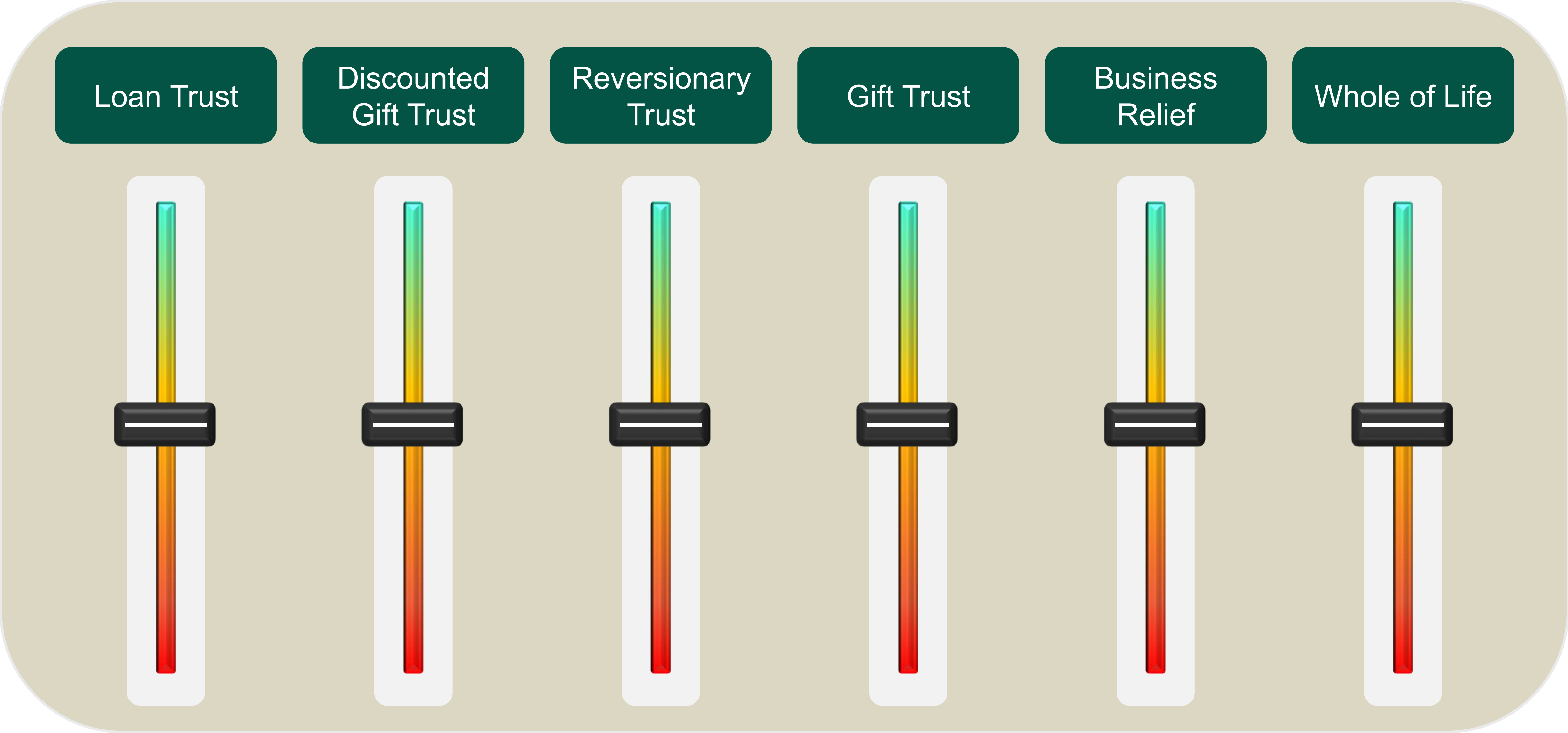


Outcome confidence

How likely is it to work as expected / inherent risks



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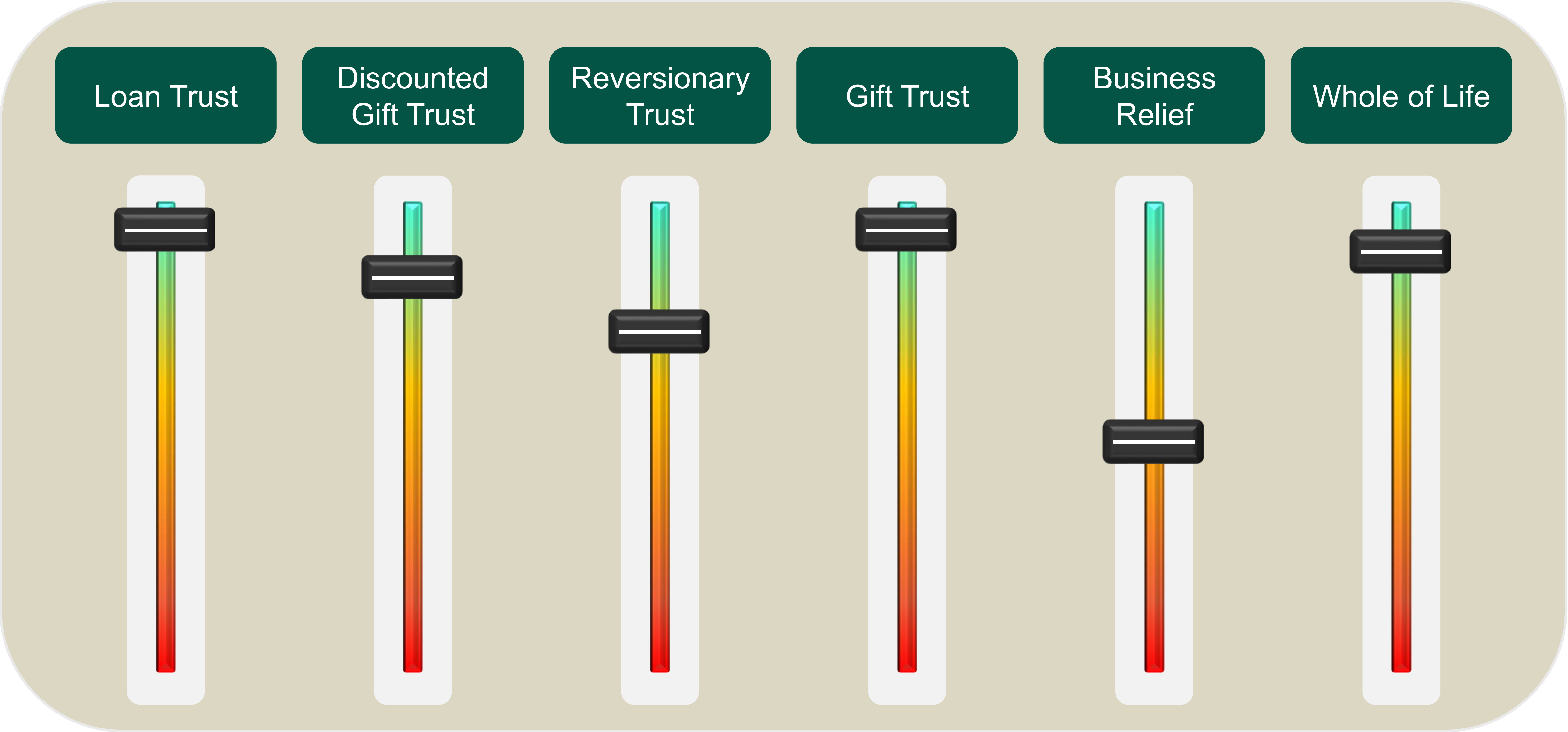
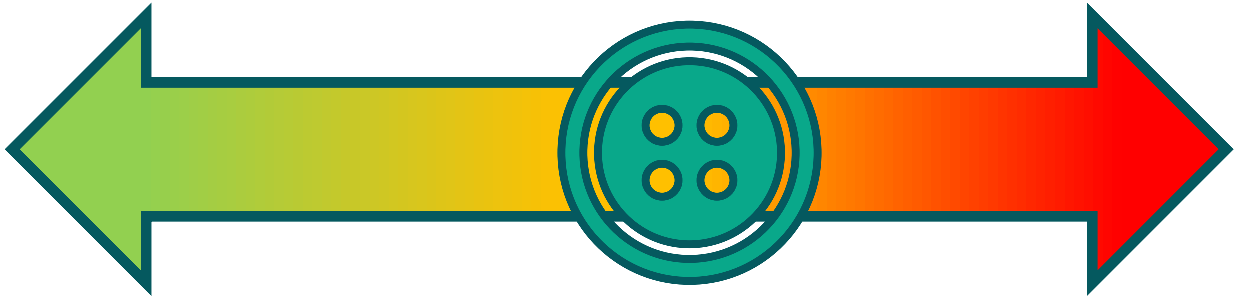


Planning matters

Balancing needs and wants...



Retirement Income
(NEED)

Fund Care
(NEED)

Increase Legacy
(WANT)

Segmentation (RAGing) of client's assets...

Green Money

Expected to be used to meet needs

Amber Money

May be required to meet needs

Red Money

Expected to be unused with an IHT and/or Income Tax liability

Introducing

Penny

- 74-year-old widow
- Estate largely illiquid with the family home and a holiday property and some cash in her ISA
- In good health with no known health issues.
- No IHT liability at present.
- She relies on the £600,000 tax exempt beneficiary drawdown pot she inherited when her husband Leonard died.
- She draws around £18,000 a year to supplement her state pension.
- Properties earmarked for care

The inclusion of her beneficiary drawdown pot in her estate from April 2027 will see her with a 6 figure IHT liability.

Penny

Suitable?

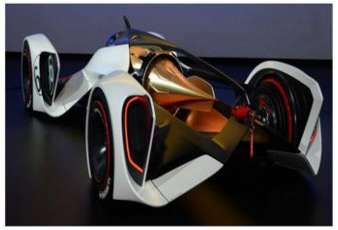
LOAN TRUST

GIFT TRUST

DISCOUNTED GIFT TRUST

REVERSIONARY TRUST

BUSINESS RELIEF



WHOLE OF LIFE

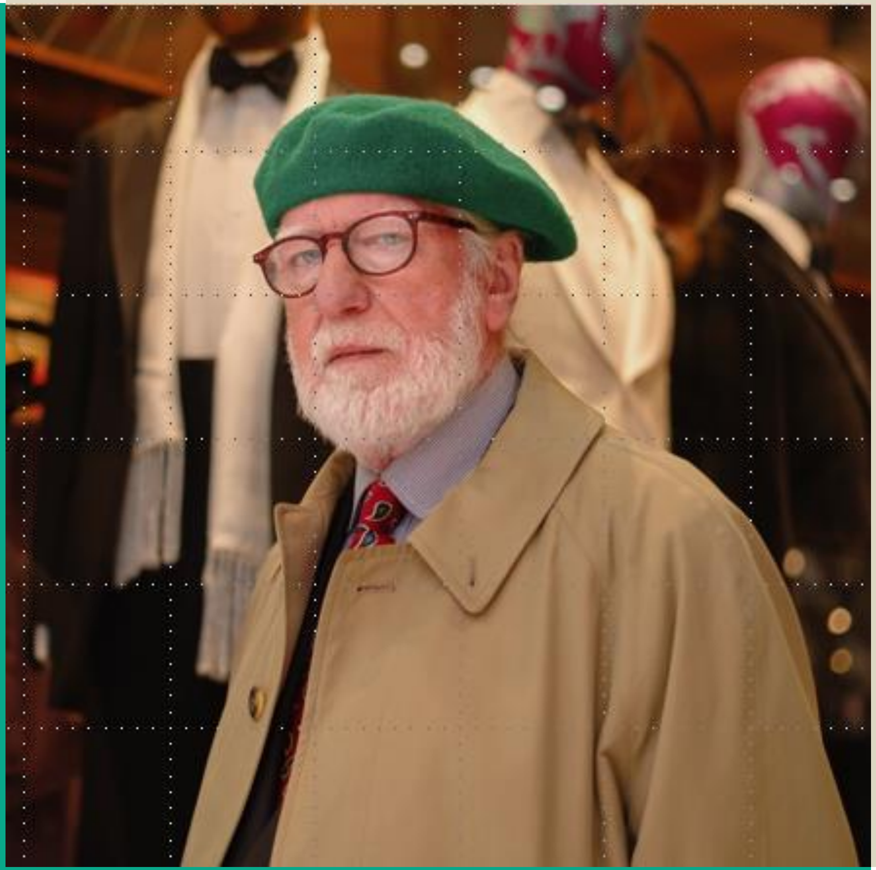
MAYBE! NO! YES! MAYBE! NO! MAYBE!

Introducing

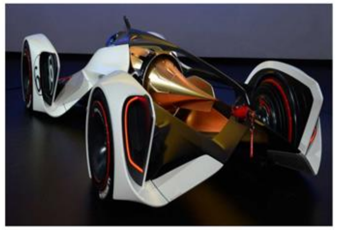
Sheldon

- 62 years old, married to Amy, with 2 children
- They started up a business to take advantage of a scientific breakthrough they made
- They received £8 million between them
- As part of the deal him and Amy will continue to consult for a further 3 years
- At this point he does not know what the future holds. But he does know that as a man of science with modest outgoings he's now set for life.
- Given his belief that science receives insufficient government funding, he would prefer to minimise his IHT liability.

I'm not sure what the future holds but I'm fairly sure I have enough for life.



Sheldon
Suitable?

LOAN TRUST	GIFT TRUST	DISCOUNTED GIFT TRUST	REVERSIONARY TRUST	BUSINESS RELIEF	WHOLE OF LIFE
					
YES!	NO!	NO!	NO!	MAYBE!	MAYBE!

Introducing

Stuart

- 70 year old widower, with several children and grandchildren
- After a long career as a Professor of Graphic Art Novels he has retired with a very good DB pension
- His house and assets have taken him into the IHT net already
- He finds it hard to spend all his pension even though he goes skiing a couple of weeks every year.
- He has accumulated around £650,000 in investments which continues to grow and add to his IHT liability

I'm quite happy I'll only need half of that but I don't want the family squandering the rest of it now if I give it to them.

Stuart

Suitable?

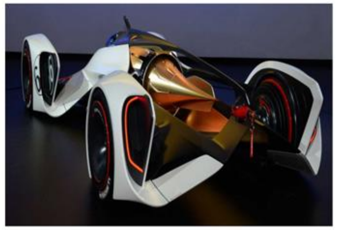
LOAN TRUST

GIFT TRUST

DISCOUNTED GIFT TRUST

REVERSIONARY TRUST

BUSINESS RELIEF



WHOLE OF LIFE

NO! YES! NO! NO! MAYBE! MAYBE!

One size fits all process?

But no one size fits all answer.

01 Establish objectives (needs & wants)

02 Model the issue – current and future

03 RAG assets – Access, needs and tax (lifetime & death)

04 Identify and exclude unsuitable options – gift spend relief insure

05 Choose suitable option from those remaining – pros/cons/modelling/trade offs

06 Implement and monitor

Mixture of solutions might be best

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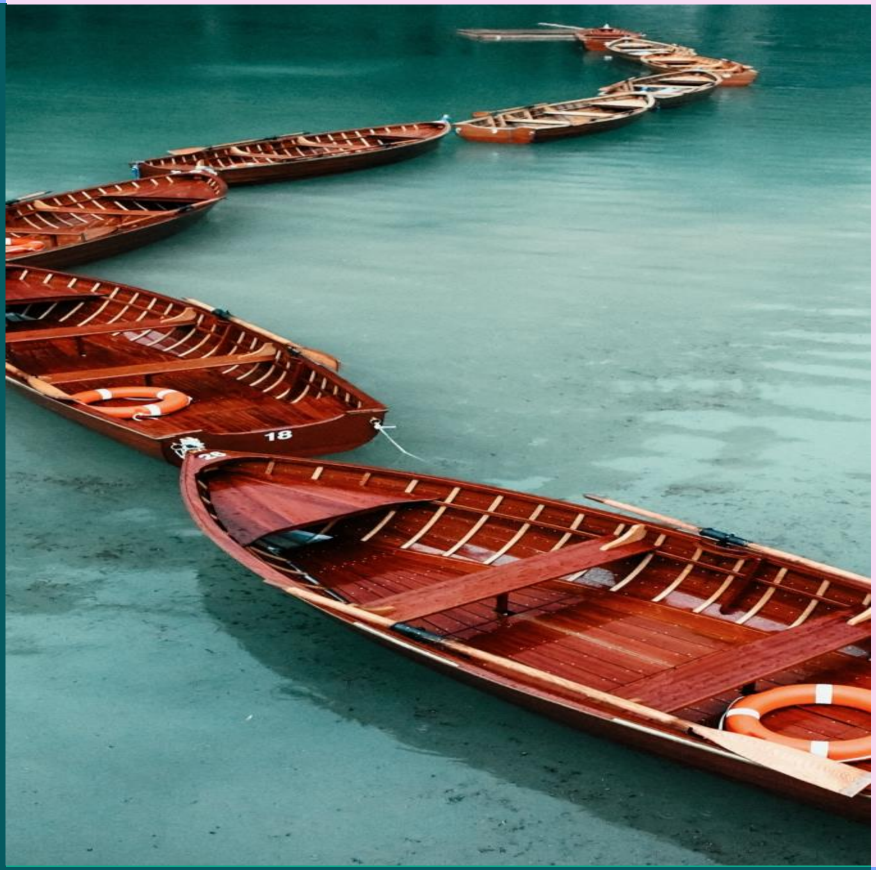
Any questions?



Thank you

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