

Planning with Insurance Company Trusts

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice as of November 2023 all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients



Important Information

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Learning Objectives

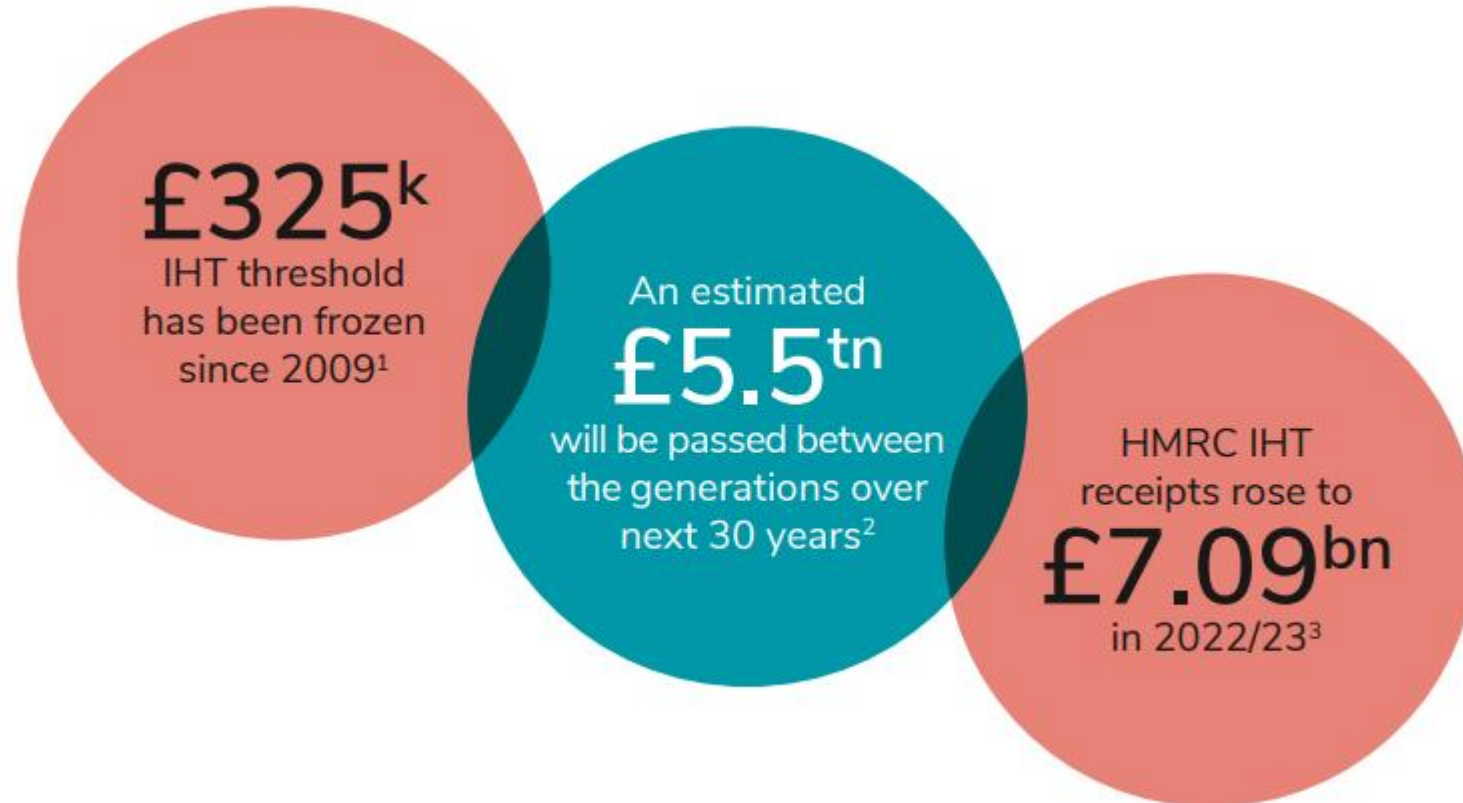
By the end of this session you will be able to:

Explain the mechanics of using standard insurance company trusts

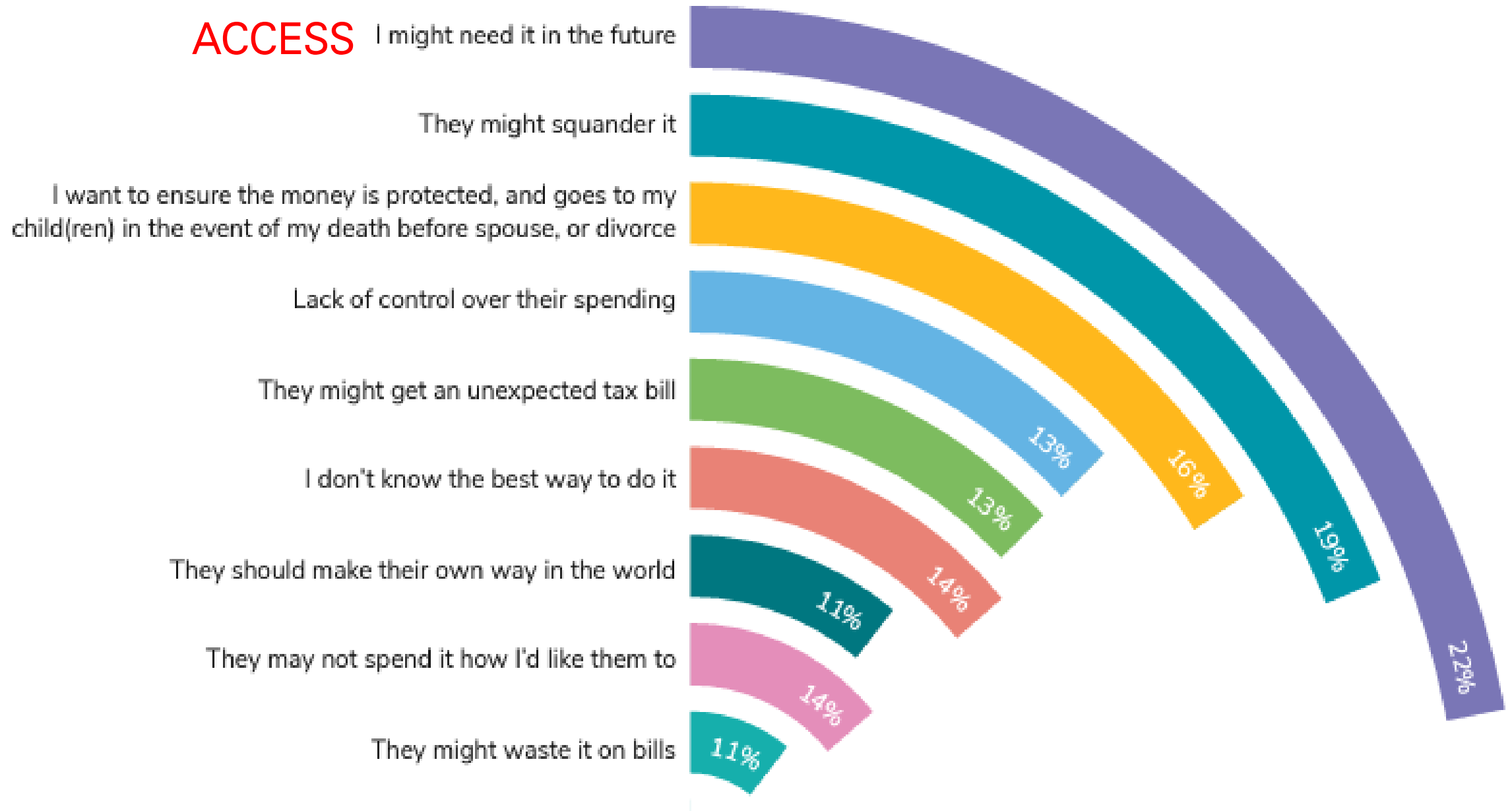
Describe the taxation of gifts made into trust

Identify the financial planning outcomes trusts can deliver for your clients

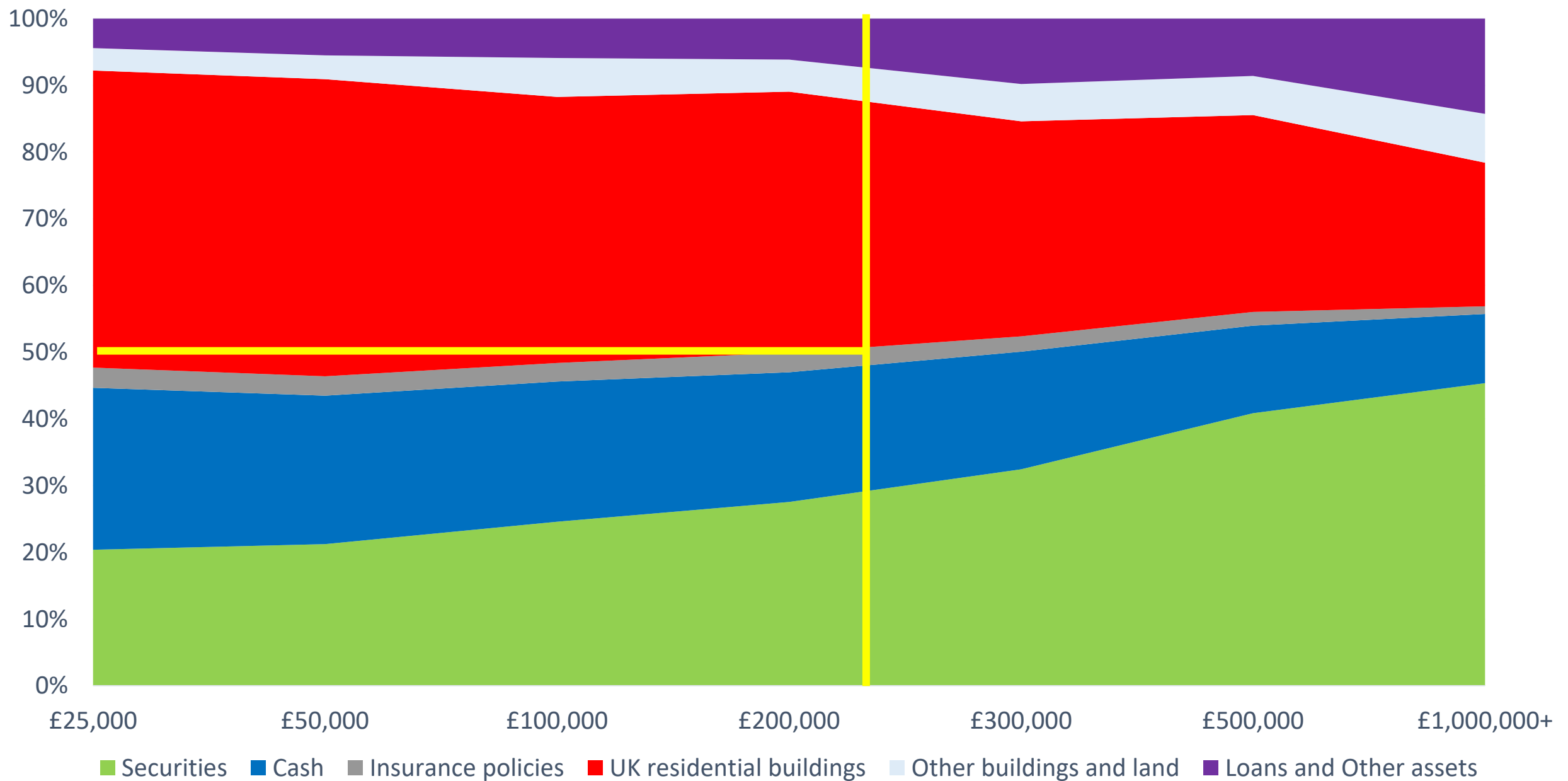
Inheritance Tax

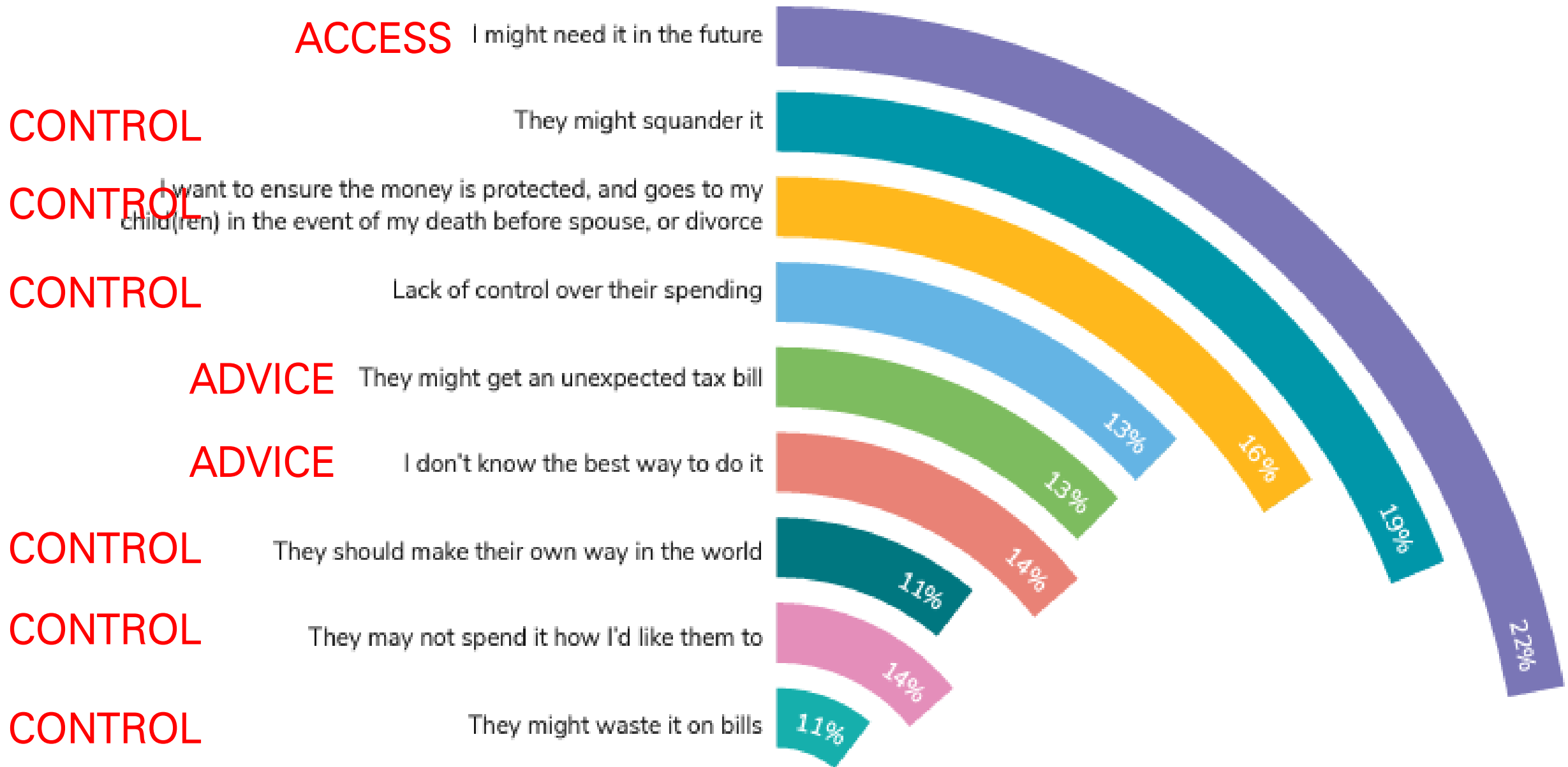


ACCESS I might need it in the future



Composition of estates by tax liability (2020/21)





The dilemma

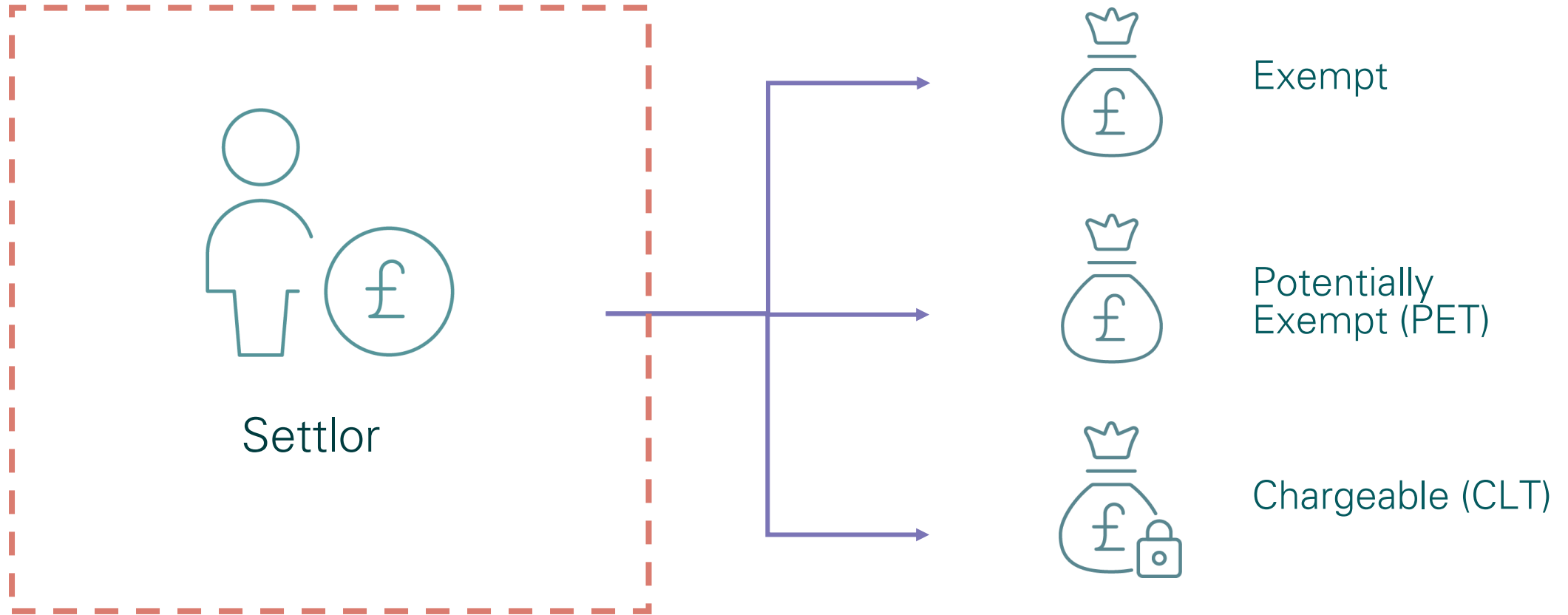


CONTROL

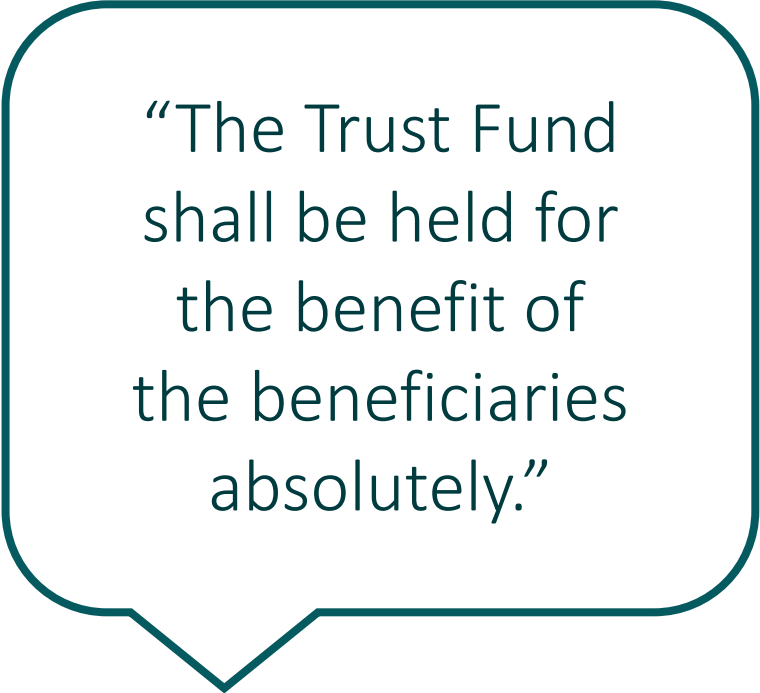


PERSONAL
ACCESS

Lump sum gifting



Absolute Trusts

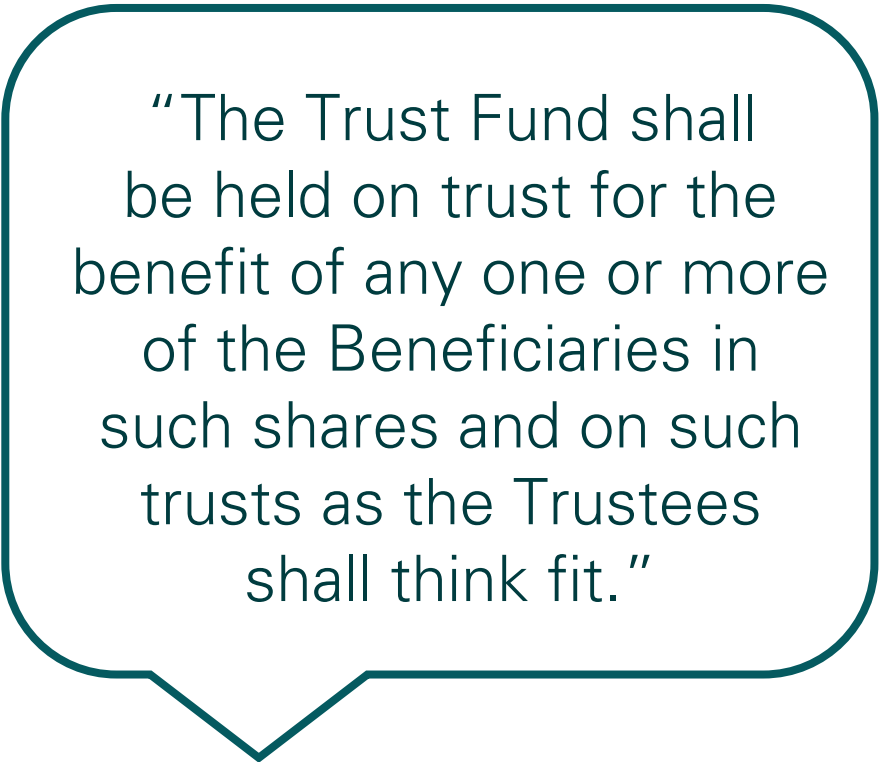


“The Trust Fund shall be held for the benefit of the beneficiaries absolutely.”

- Beneficiaries fixed at outset
- Beneficiaries have access at age 18
- Forms part of beneficiaries estate
- PET unlimited

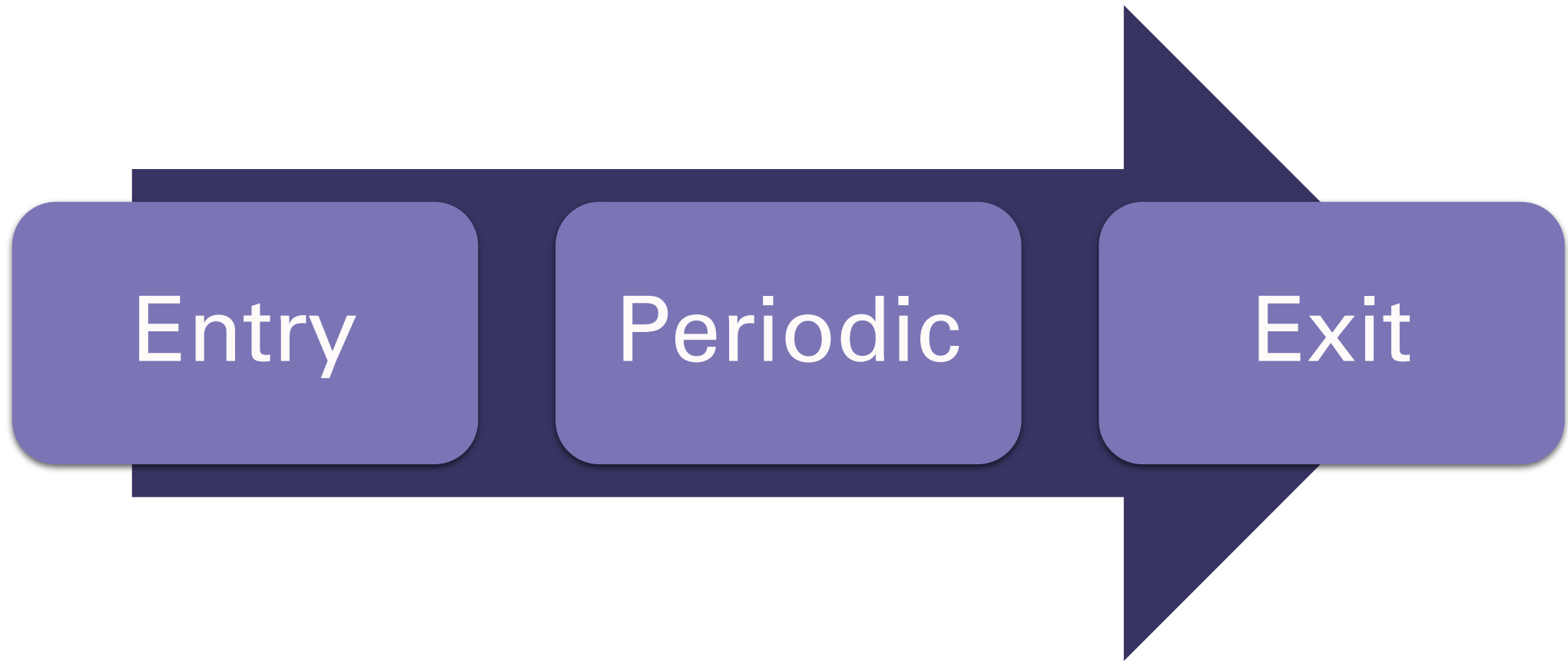
Discretionary Trusts

- Potential beneficiaries
- Trustees have control
- Does not form part of beneficiaries estate
- CLT (restrictive)



“The Trust Fund shall be held on trust for the benefit of any one or more of the Beneficiaries in such shares and on such trusts as the Trustees shall think fit.”

The “Relevant Property Regime”



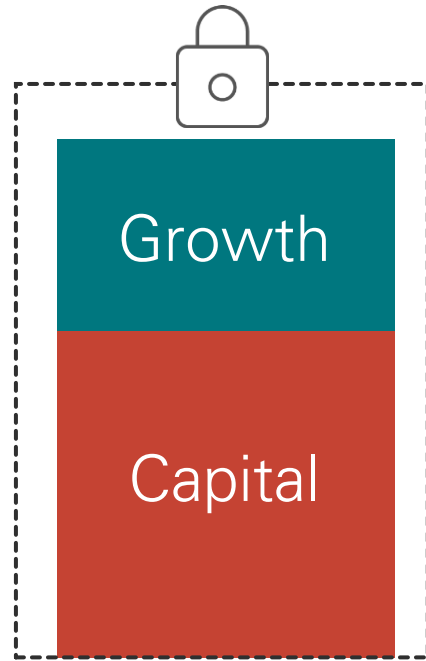
The Big Three

- Insurance company trusts

Gift Trust – no access required



Settlor



Trust

7 Year PET or
CLT

Gift Trust

5 things you need to know

1

Set up will be
PET or CLT

2

Suitable for new
or existing
bonds

3

Top ups
possible (check
the deed)

4

Settlor(s) can't
benefit at all

Gift Trust

5 things you need to know

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Set up will be
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or existing
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Top ups
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Settlor(s) can't
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5

Beneficiaries
can benefit
from day one

Periodic Charge – what's the tax applied to?

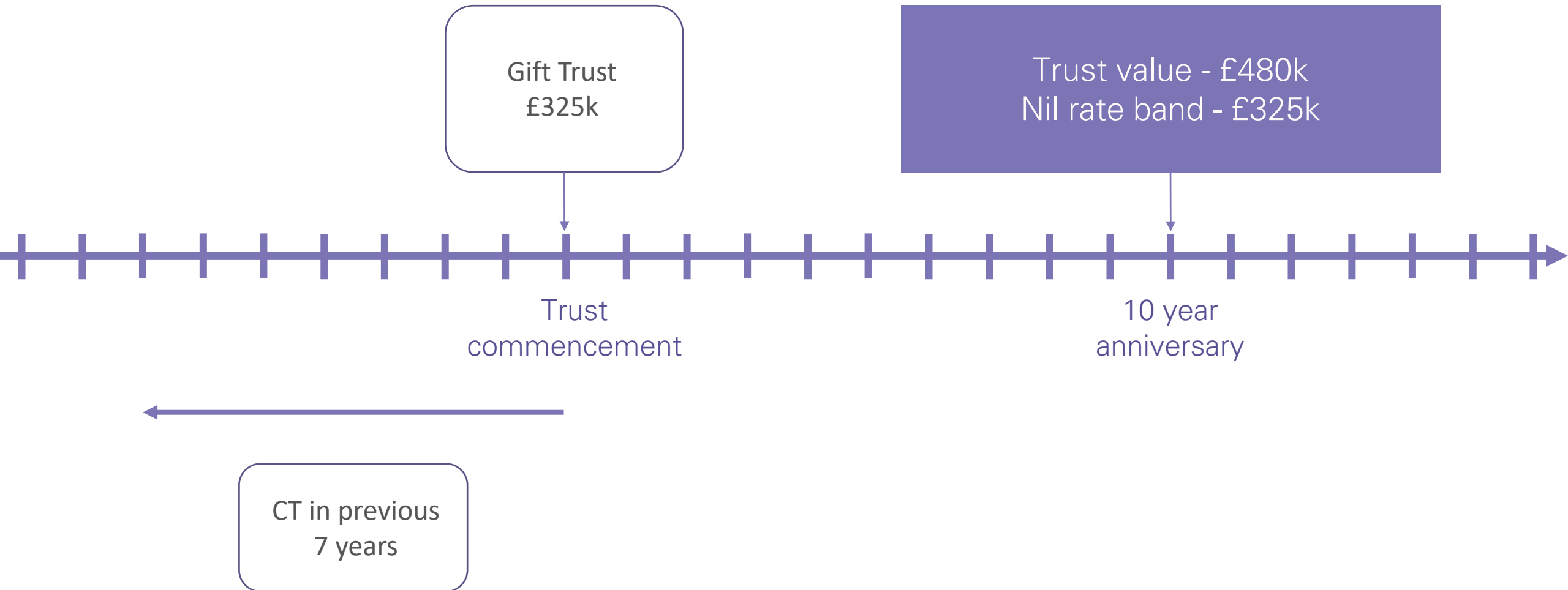
GIFT
TRUST

Full value
of the trust



Qualifying BPR/APR assets are ignored for the periodic charge

Periodic Charge



Periodic charge – simple calculation

Value of trust fund the day before the 10 year anniversary

£480,000

PLUS

Value of related settlements
(commenced on same day or added to on same day)

NIL

LESS

Trust's Nil Rate Band*

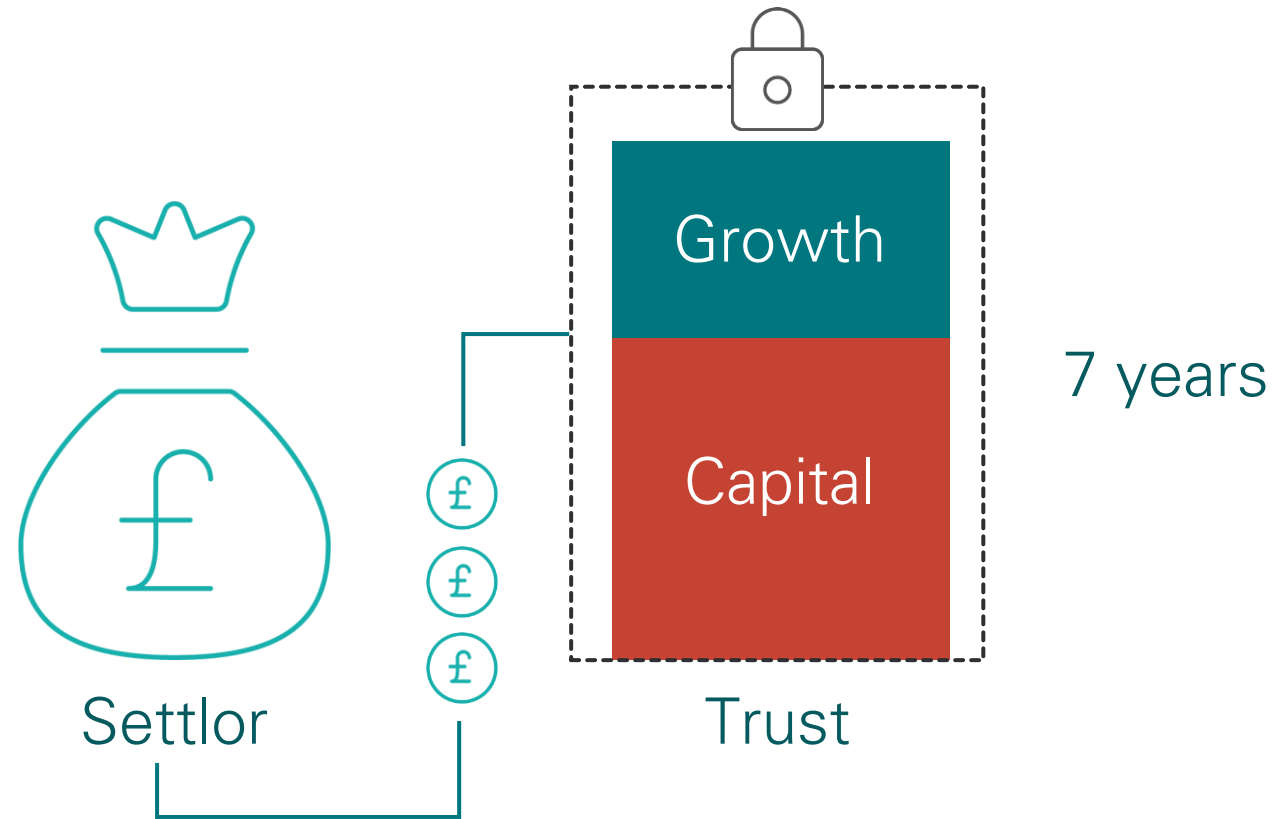
£325,000

* NRB is reduced by chargeable transfers in the 7 years before the commencement of the trust and any capital distributions subject to the exit charge in the previous 10 years.

Excess taxed at 6%

£155,000 x 6% = £9,300

DGT – regular payments required



Discounted Gift Trust

5 things you need to know

1

Generally set up
with cash and
new bond

2

PET/CLT is the
amount of the
discount gift

3

Payments to
settlor including
frequency
normally fixed at
outset

4

Payments to
beneficiaries
during settlors
lifetime not
common

5

Underwriting
will be required

Discount (broadly)

- Tom is gifting £100,000 and needs £4,000 p.a.
- Underwriters assess life expectancy to be 10 yrs
- Retained Rights – $10 \times £4,000 = £40,000$
- Discount - $£40,000 / £100,000 = 40\%$
- Transfer of Value (gift) = £60,000

Age 90 attained or rated = No Discount

Discount |

+

—

×

=

DGT discount calculator

PIB/Discounted Gift Trust - Discount Estimator tool

built by M&G

Product type ?	<input type="radio"/> DGT <input checked="" type="radio"/> PIB	Investment amount ?	<input type="text" value="£ 300000"/>
Tax basis ?	<input type="radio"/> Onshore <input checked="" type="radio"/> Offshore		
Regular withdrawal amount ?	<input type="text" value="£ 650"/>	Withdrawals frequency ?	<input type="text" value="Monthly"/>
No of settlors ?	<input type="text" value="1 Settlor"/>		
Settlor 1 age next birthday ?	<input type="text" value="70"/>		

[Reset to defaults](#) [View results](#)

Discount results

Estimated discount %

31.15%

Estimated gift

£206,550

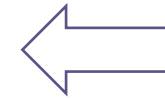
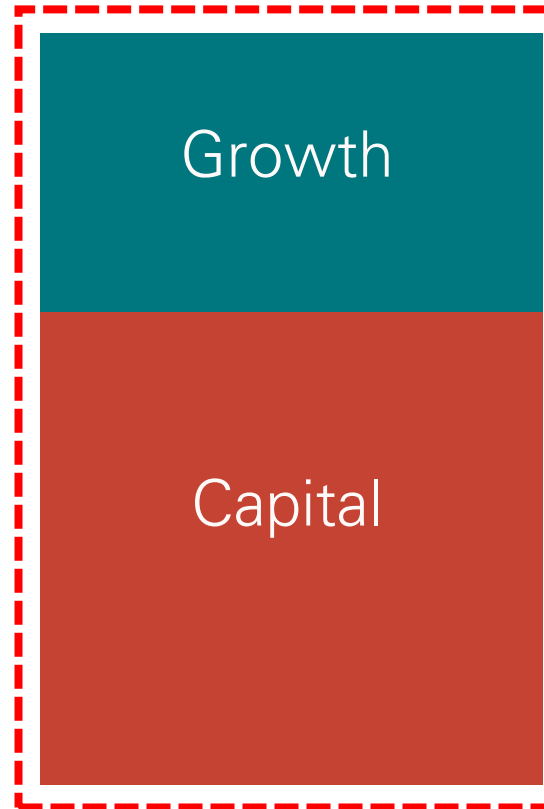
Discounted Gift Trust – single vs joint



- Lower discount
- Payments end on death
- Fund size discounts

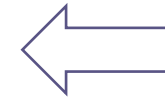
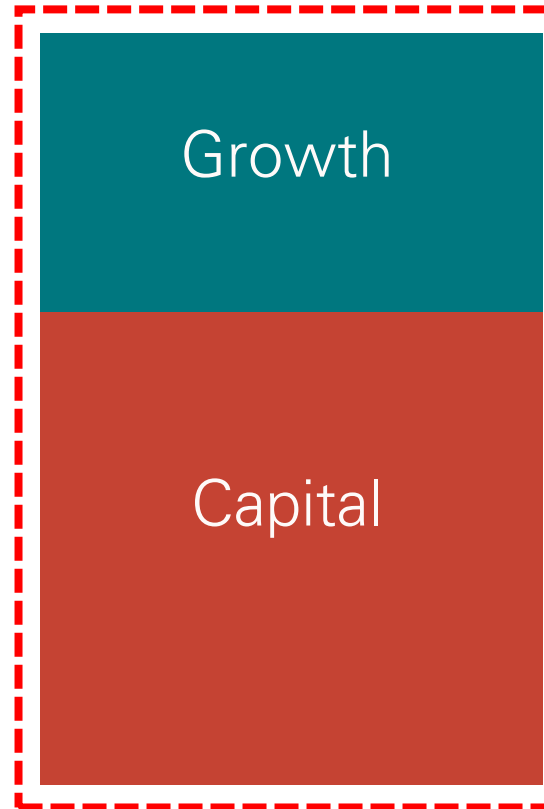
- Discount slightly higher
- Payment stream is joint tenancy

Single v joint settlor discretionary DGTs



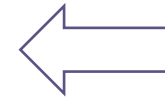
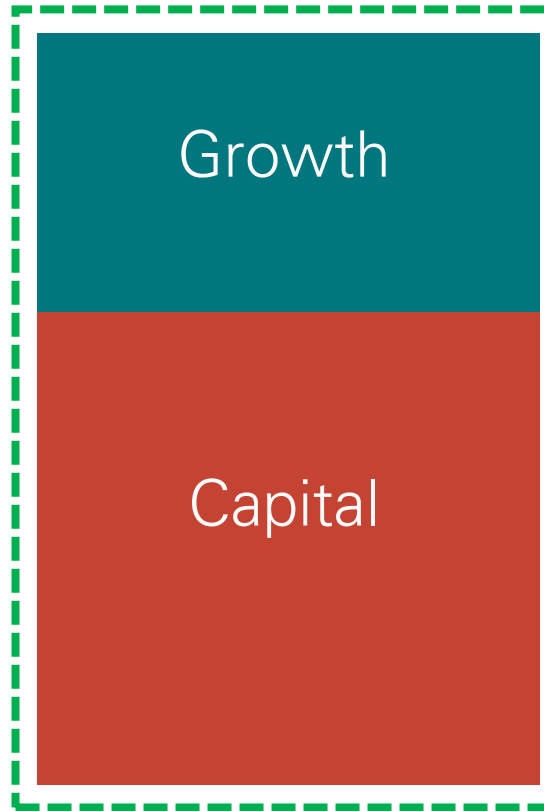
Both settlors
are excluded
as beneficiaries

Single v joint settlor discretionary DGTs



Only settlor
is excluded as
a beneficiary

Single v joint settlor discretionary DGTs



Spouse can still
be a beneficiary

Periodic Charge – what's the tax applied to?

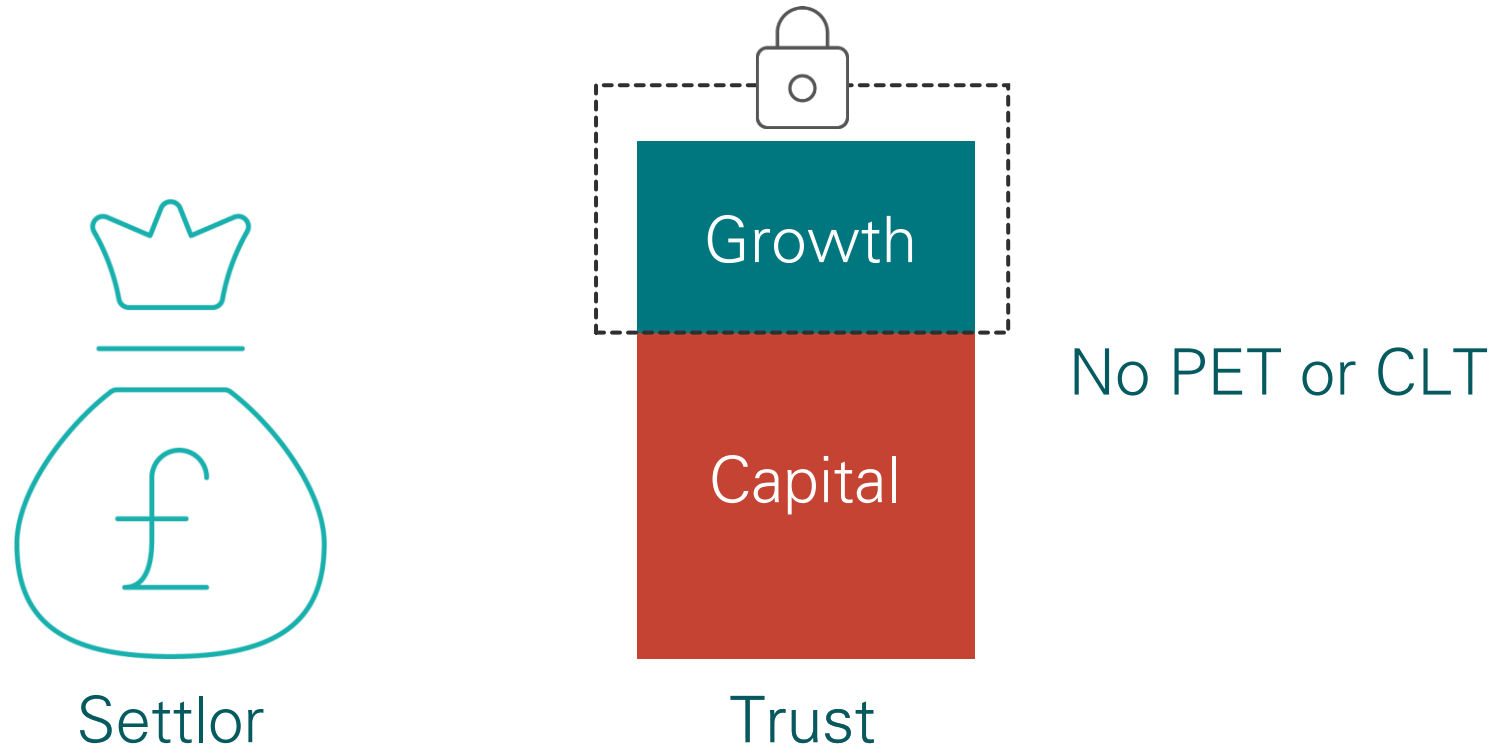
DISCOUNTED GIFT
TRUST

Discounted value
of the trust



Qualifying BPR/APR assets are ignored for the periodic charge

Loan Trust – conservative IHT planners



Loan Trust

5 things you need to know

1

Set up – no
gift, no PET or
CLT

2

Set up –
trustees need
to buy a new
bond

3

Settlor(s) only
access
outstanding
loan

4

Growth
accrues for
beneficiaries
only

5

Settlor(s) can
waive some
or all of
outstanding
loan as
desired

The Loan

- Interest free
- Repayable on demand
- Settlor can demand regular withdrawals
- Settlor can demand ad hoc repayments
- Settlor can demand the loan is repaid in full



Waiving the loan during lifetime



- The settlor can waive all or part of the loan during their lifetime
- It must be done by deed (we have one!!)
- The amount waived is either Exempt, a PET (absolute trust), or a CLT (discretionary trust)



Waiving the Annual Exemption (£3k) each year saves IHT of £1,200 p.a.

So if it's not a gift what happens on death?



- The outstanding loan forms part of the settlor's estate for IHT
- The trustees will need to repay the outstanding loan to the executors or...
- The executors can inform the trustees who the loan is now due to
- Any growth continues to be held for the beneficiaries
- If there is not enough to repay the loan the trustees may be liable.....

Waive on death?

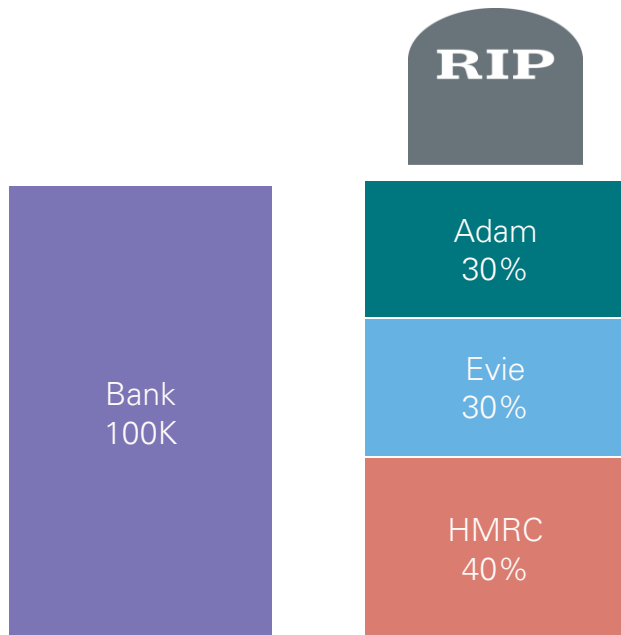
Sandi

- Sprightly widow
- £100,000 cash on deposit
- Adequate income and other assets to meet needs
- 2 children, Adam and Evie

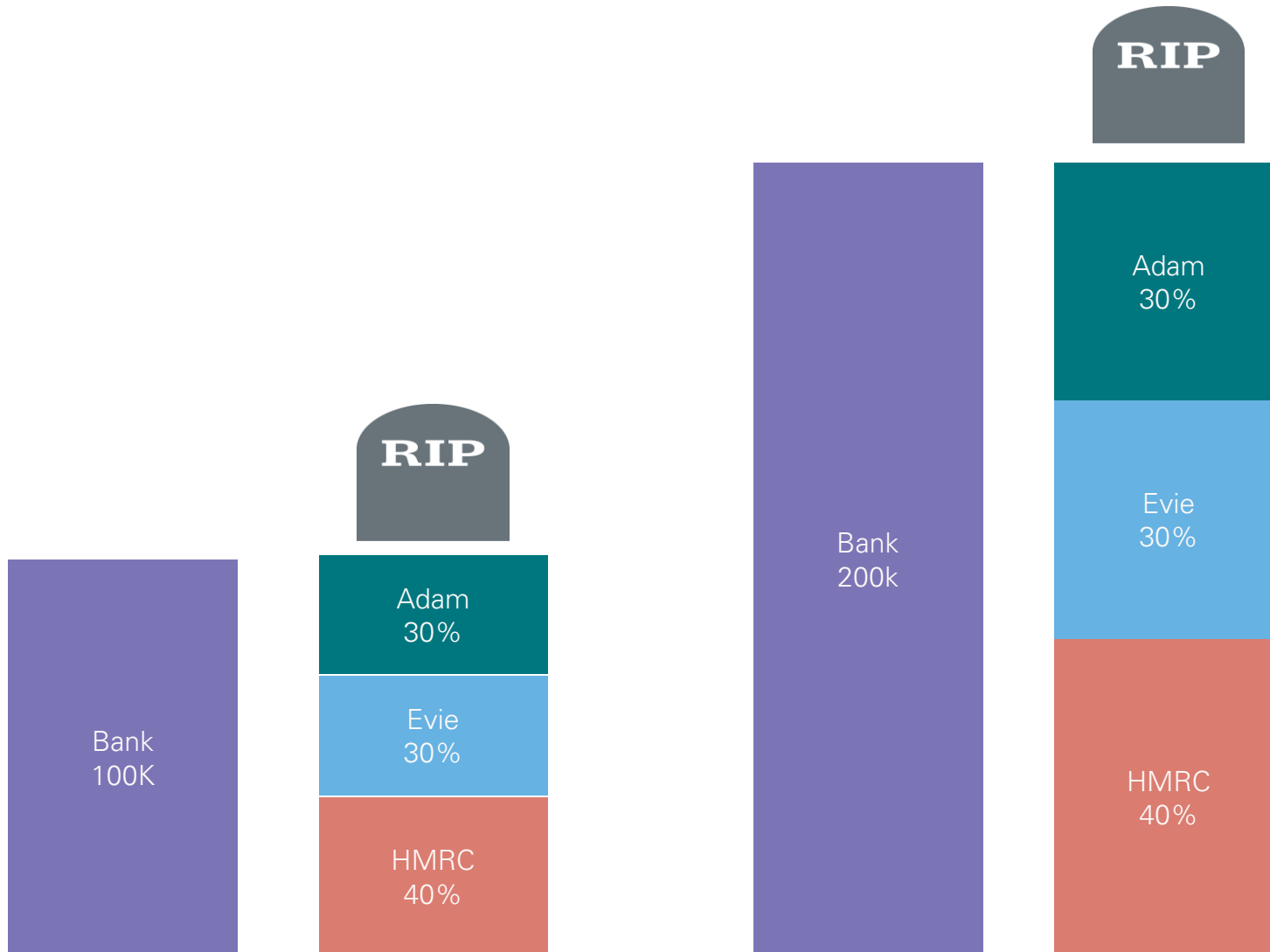
"I know I should reduce my IHT bill but we worked hard for that money and I might need it"

"Do you want your family to be the biggest beneficiary of your estate?"

Reduce HMRC's slice of the estate



Reduce HMRC's slice of the estate



Reduce HMRC's slice of the estate



Periodic Charge – what's the tax applied to?

LOAN
TRUST

Value of the trust
Less
Outstanding loan



Qualifying BPR/APR assets are ignored for the periodic charge

Planning considerations

- Discretionary trusts

Order of gifting



Loan Trust

1st

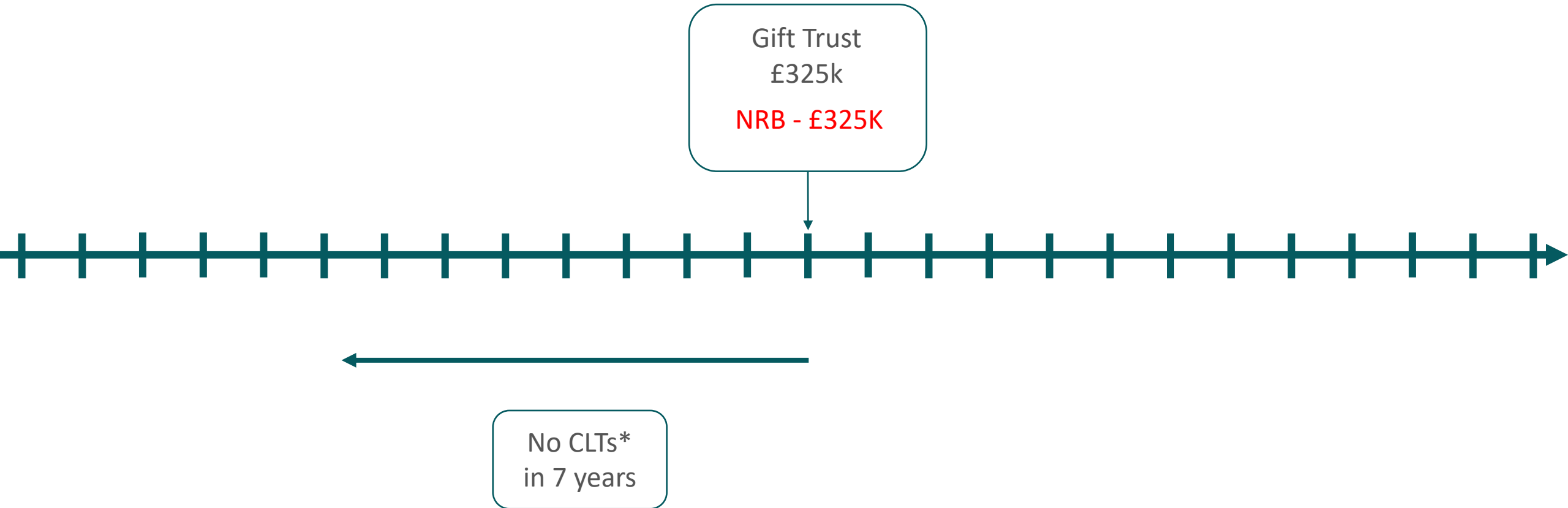
CLT

2nd

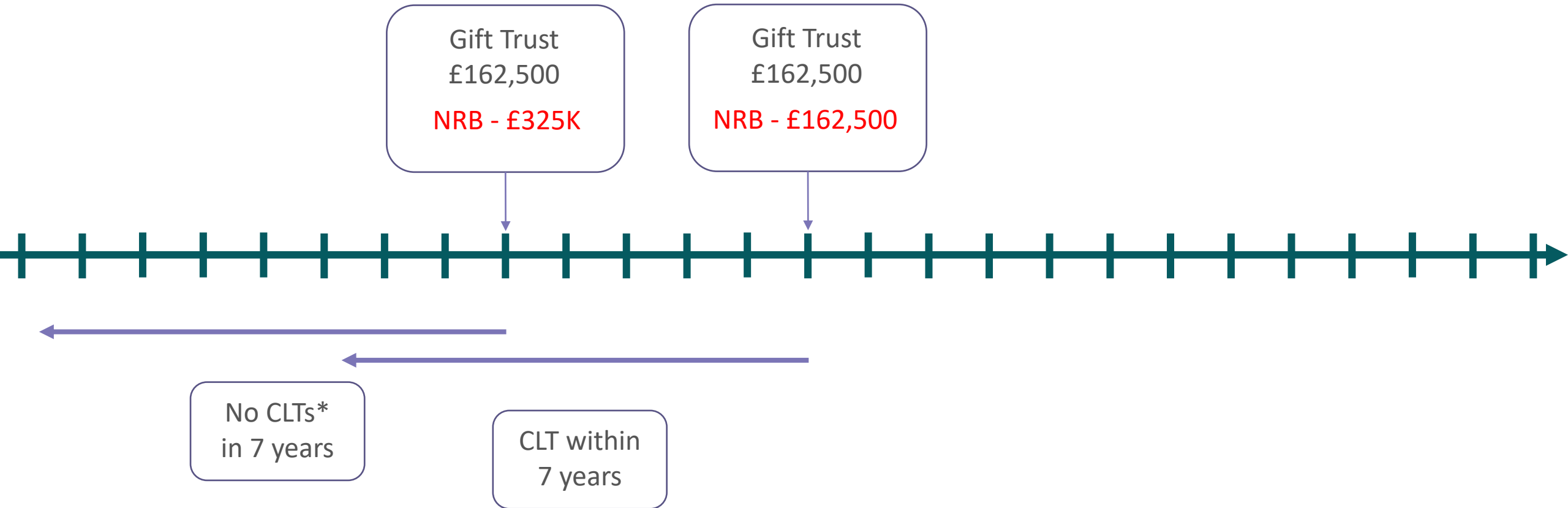
PET

3rd

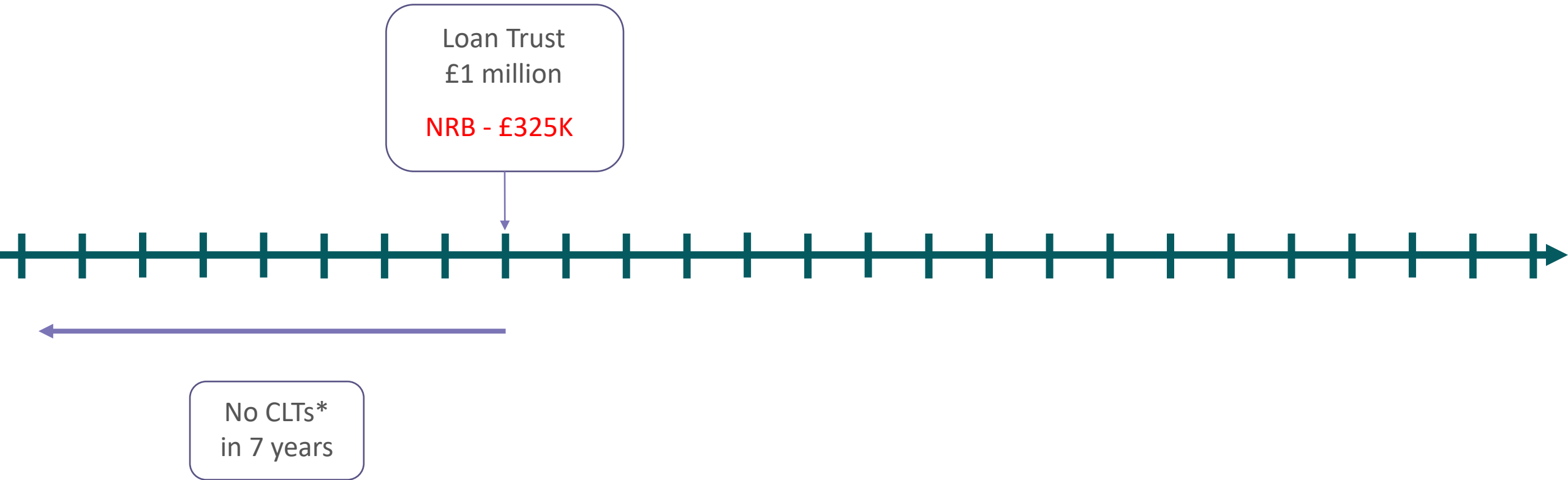
Rysaffe Principle – Multiple Trusts



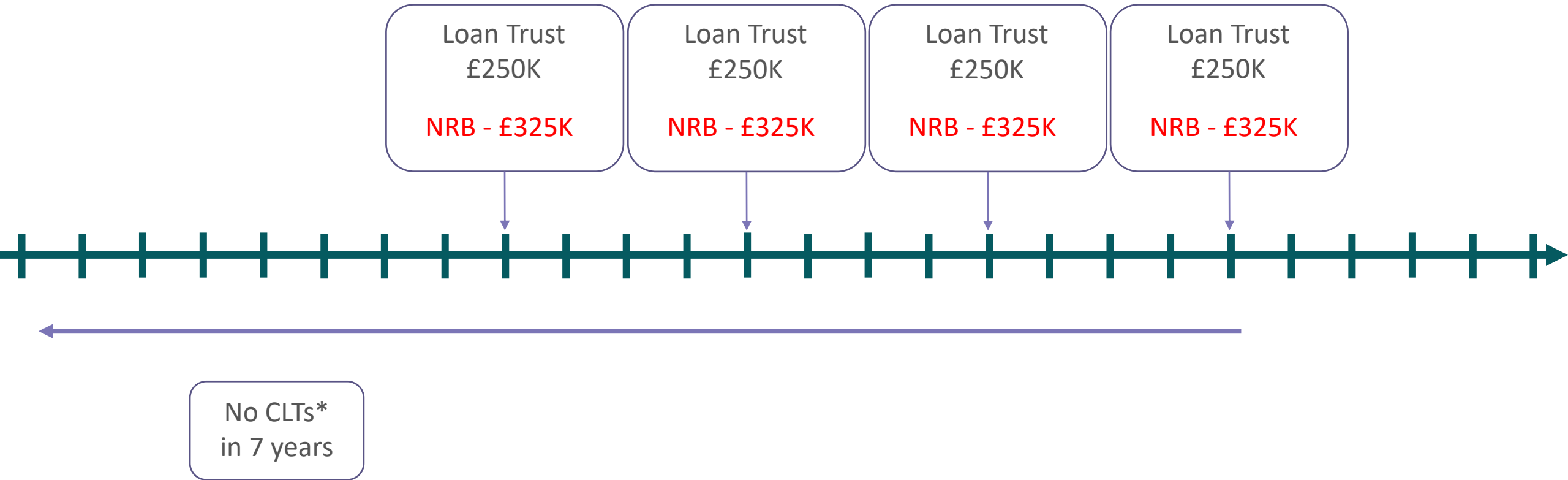
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Rysaffe Principle – Multiple Trusts



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Support



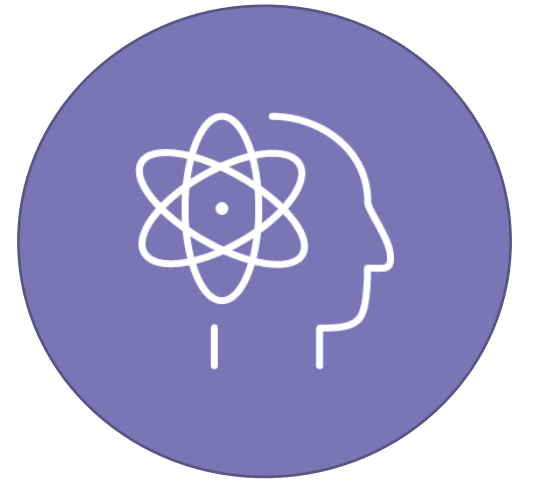
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