Pru
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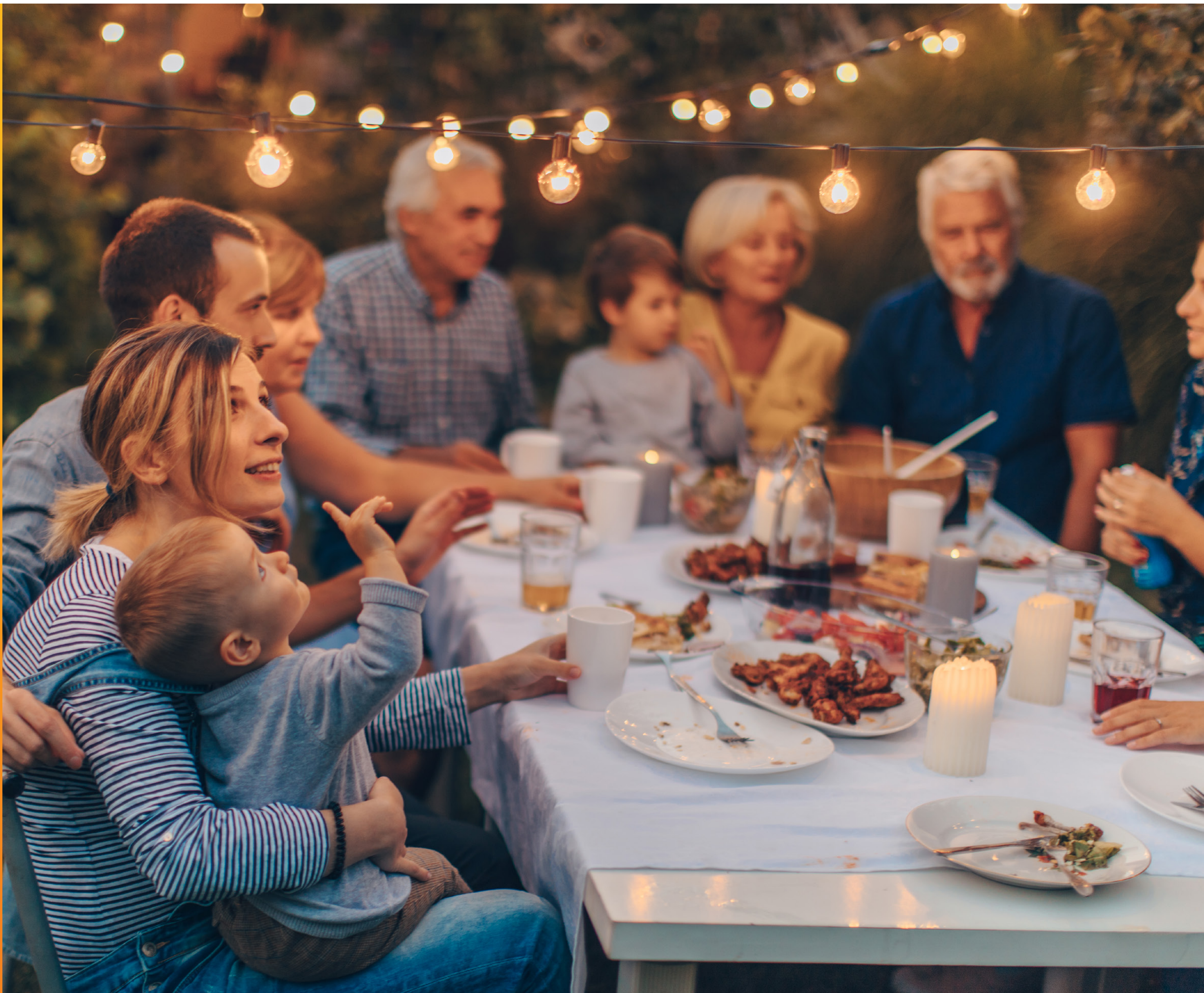
Your guide to Trusts

From Prudential and Prudential International



Important notes

This guide is designed to help you understand the different trusts available from Pru and Prudential International and what they can offer.

However, it's important that you speak to an adviser before deciding which is the right trust for you, for a number of reasons:

- These trusts won't be suitable in all cases and other forms of tax and trust planning may be more suitable in individual circumstances.
- Creating a trust can have taxation as well as legal consequences.
- Trustees must understand their various duties and responsibilities in accordance with the trust provisions. If a trustee is found to have acted in breach of their trustee duties they can be personally liable for any loss incurred.
- Situations that may involve international or cross-border legal and taxation issues can be extremely complex.
- Tax and trust law can be open to differing interpretations.
- When using an investment bond in conjunction with a Pru or Prudential International trust, there may be a liability to income tax when a chargeable event occurs. There are different types of chargeable event so it's important to understand when they occur and who'll be liable for any tax payment, which can be different depending on the type of trust used.

You should speak to your financial adviser for advice relevant to your own circumstances.

The value of investments can go down as well as up, so you and/or the beneficiaries of the trust might not get back the amount you put in.

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

Why use a trust?

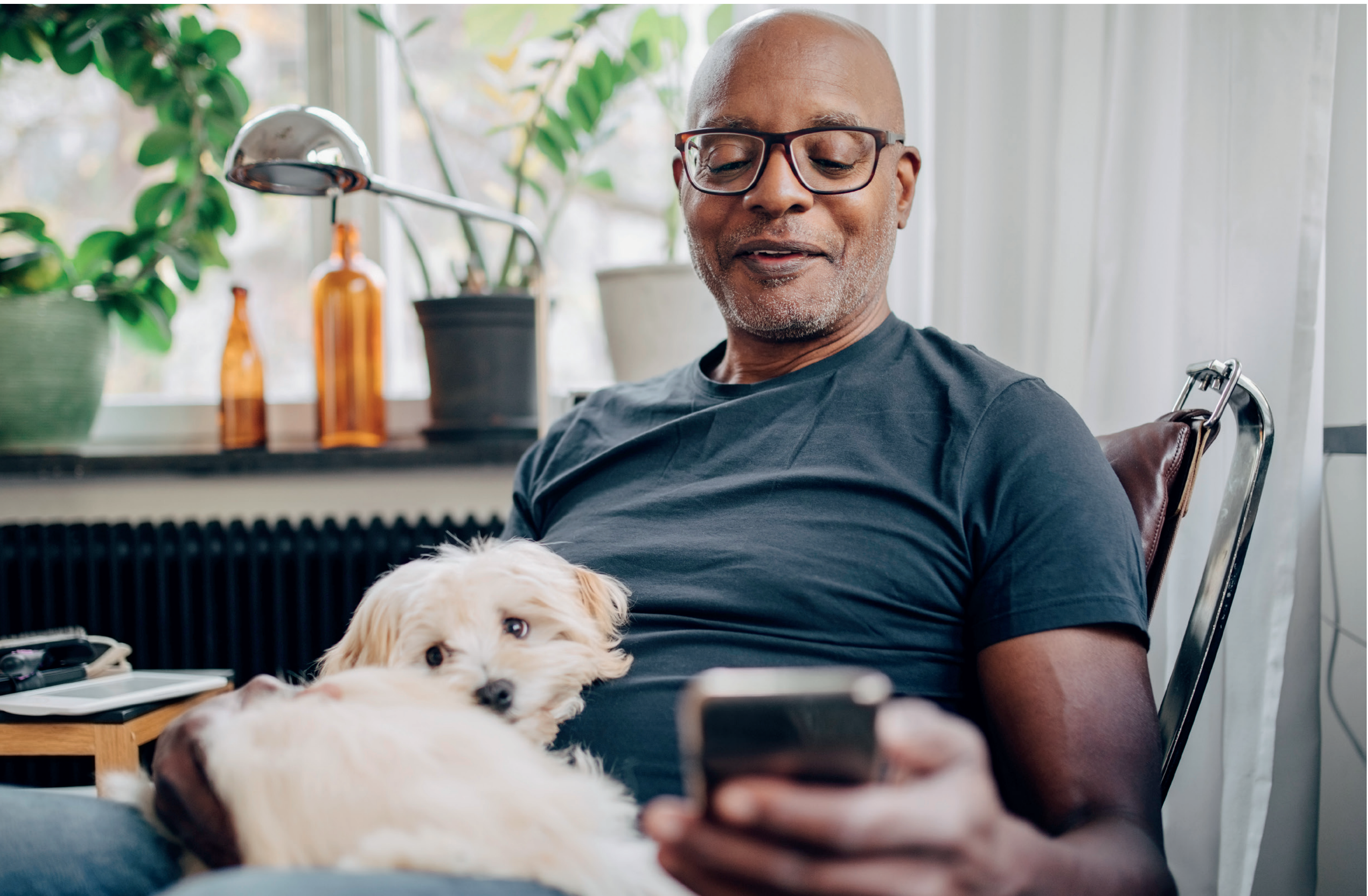
Trusts are used as a way to help manage your investments. They are set up for a number of reasons. They can be set up, for example, to control and protect family assets, or to manage assets for someone who's either too young, or too incapacitated, to handle their own affairs.

There are different types of trust, and they vary in relation to how they can be used, and how they're taxed.

We've designed this guide for you to give you information on the different trusts available from Pru and Prudential International and to help you better understand your inheritance tax planning options.

As you read through the guide, you'll notice some highlighted words or terms. You'll find more information on these in 'Some terms explained', at the end of this guide.

For more information on any of the trusts available, please speak to your financial adviser



Inheritance Tax – how it may affect you

Inheritance Tax is a tax on the estate of someone who's died.

There's normally no Inheritance Tax to pay if either:

- The value of your estate (property, money and possessions) is below the £325,000 threshold
- you leave everything above the £325,000 threshold to your spouse, civil partner, a charity or a community amateur sports club.

The standard Inheritance Tax rate is 40% and is only charged on the part of your estate that's above the threshold.

Example

You're single, with no kids, and your estate is worth £500,000 and your tax-free threshold is £325,000.

The Inheritance Tax charged will be 40% of £175,000 (£500,000 minus £325,000).

The estate can pay Inheritance Tax at a reduced rate of 36% on some assets if you leave 10% or more of the 'net value' to charity in your will. (The net value is the estate's total value minus any debts.)

To qualify for the reduction, certain conditions must be met. For more information speak to your financial adviser.

Remember, the value of your house may form part of your estate and could push you over the IHT threshold, but if you own, or previously owned, a house you might benefit from an increased IHT threshold, known as the Residence Nil Rate Band*.

Size of estate	Rate of tax
£0 – £325,000	Nil
Over £325,000	40% on excess
The Nil Rate Band (NRB) is currently £325,000 and will be maintained at that level up to and including tax year 2029/2030.	

* The Residence Nil Rate Band (RNRB) might also be available in addition to the standard NRB, if your estate includes your home and it's left to children or other direct descendants. The RNRB is currently £175,000 and will remain at that level up to and including the 2029/2030 tax year. The amount of RNRB that's due, starts to be withdrawn where the value of the estate immediately before death exceeds the £2m **taper threshold**.

There are certain conditions to be met for your estate to benefit from the RNRB – so you should speak to your financial adviser about this and for the most up to date information on IHT.

Types of trust

Depending on which trust you choose, you may have a choice to set up that trust as either **absolute** or **discretionary** – so you can decide which better suits your circumstances.

Absolute Trust

- You'll automatically be a trustee, as a settlor and for single settlors you'll need to appoint at least one additional Trustee
- Neither the beneficiaries nor their share of the trust can be changed after the trust has been set up.
- Any gift element into this type of trust, if not covered by an exemption, is a potentially exempt transfer (PET).
- There is no IHT if the settlor survives for seven years.
- There may be taper relief after three years.
- Each beneficiary's share of the trust fund is part of their estate.
- Beneficiaries with legal capacity (18 in England, Wales and Northern Ireland, and 16 in Scotland) have the right to demand their share of the trust fund at any time.

Discretionary Trust

- You'll automatically be a trustee, as a settlor and for single settlors you'll need to appoint at least one additional Trustee
- Beneficiaries can be changed and do not have a fixed share of the trust fund.
- HMRC reporting requirements may arise.
- Any gift element into this type of trust, if not covered by an exemption, is a chargeable lifetime transfer (CLT).
- IHT returns are currently required every 10 years, subject to reporting limits.
- The trust fund may be subject to 10-yearly periodic charges and proportionate exit charges.
- While in the trust, none of the trust fund will be part of a beneficiary's estate.

Please note that the above information assumes no '**related settlements**' or subsequent additions to the trust.

Reporting requirements

Some of the trust arrangements described here will trigger Trust Registration Service (TRS) reporting requirements in the UK. TRS requirements must be adhered to. Where the investment used is a Dublin-based offshore bond then there are also reporting requirements on the Irish Register. Trustees are responsible for the registration in, and reporting on, these registers. Gifts must be notified to HMRC if above the relevant limit.

Please speak to your financial adviser for more information on the tax implications and reporting requirements of the different types of trusts.

Loan Trust

The Loan Trust is an alternative to giving away capital for good. It allows you to retain access to your original capital at any time, during your lifetime. Any growth on your investment will not be included in your estate for Inheritance Tax (IHT) purposes and will be held on trust by the trustees, for your intended beneficiaries, such as children and grandchildren.

Who is it for?

Loan trusts are for those who want to carry out **Inheritance Tax** (IHT) planning but are not yet ready to give up access to their capital.

How does it work?

You appoint trustees, including yourself, and make an interest-free loan to them of the capital that you wish to invest. The loan is repayable on demand.

Trustees invest this capital in one or more of the single premium investment bonds shown under' **Your investment options**'. These can be set up in different ways and we strongly recommend that trustees refer to their financial adviser when considering the options available.

Your adviser will be able to help you set up your trust.

The value of any outstanding loan remains part of your **estate** for inheritance tax purposes.

What are the benefits?

You have access to your original capital sum (the loan), at any time, and can claim back the balance of your outstanding loan at any time as a lump sum, an occasional payment or regular repayments.

Any growth on the capital invested is held outside your **estate**.

Choice of Trust

You have options of using either Absolute or Discretionary trust when setting up the Loan trust.

Absolute – you select both the beneficiaries and their share of the trust fund at the time you set up the trust.

Discretionary – the trustees decide who'll benefit from the trust fund and when.

There's no transfer value for IHT purposes on either of these, as there's no gift, just a loan.

Your investment options

- Prudential Investment Plan
- Prudential International Investment Bond
- International Portfolio Bond

You'll find more information on each of these, on page 17.

For single or joint settlors

Single – payment into the trust must come solely from you.

Joint – payment into the trust must be from both of you, for example, a joint bank account.

Accessing your capital

When you need access to your capital, the trustees make withdrawals from the bond and each withdrawal acts as a partial repayment of your loan.

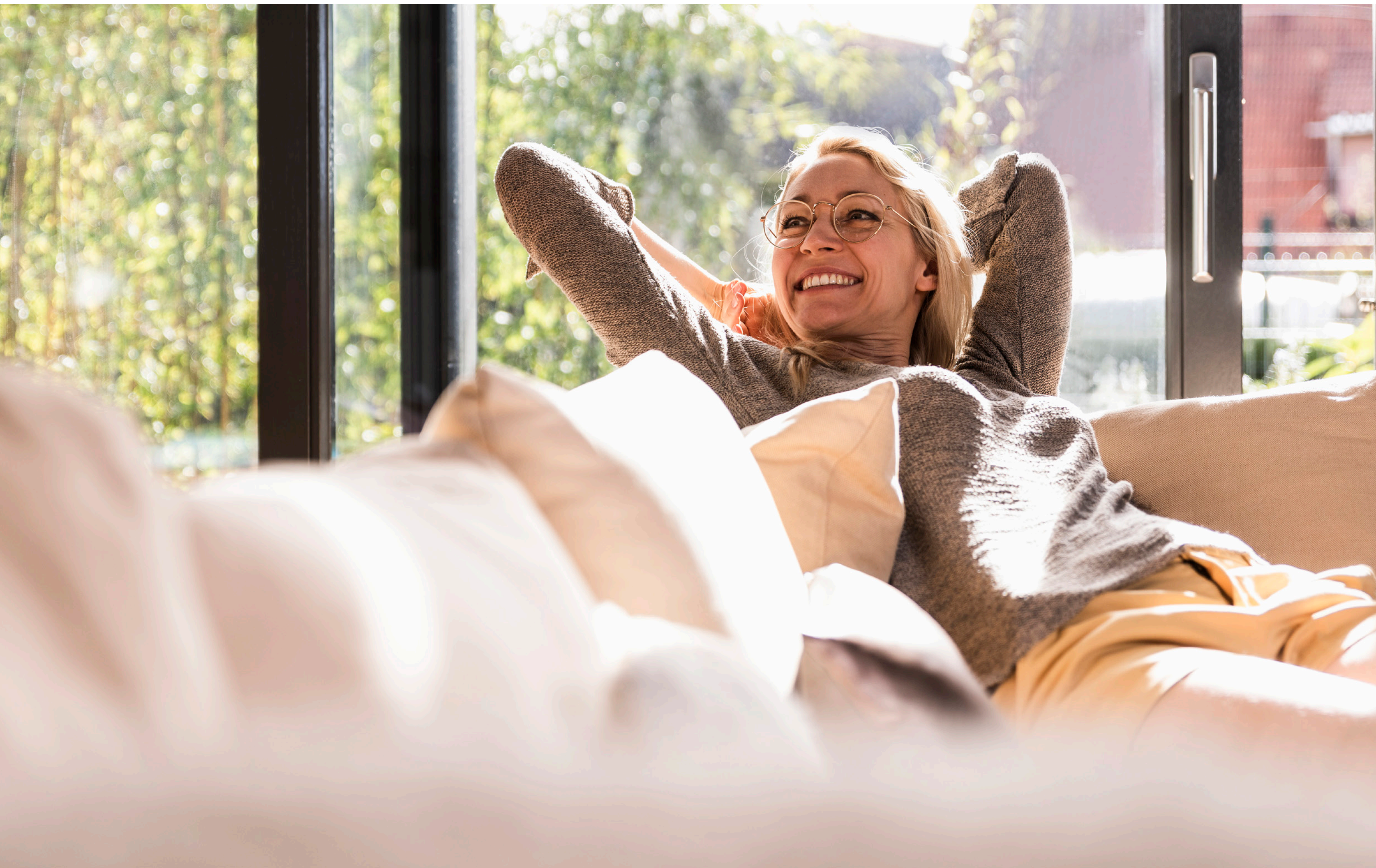
Withdrawals can continue until your loan has been repaid in full. You can receive up to 5% each year of the amount invested into the bond without creating an immediate Income Tax liability. Higher loan repayments can be made but the trustees should seek financial advice before doing so, to understand the tax implications.

If at any time, you decide you no longer need the outstanding part of your loan, you can waive the loan in full or part. Any amounts waived which are not exempt, will either be a Potentially Exempt Transfer (PET) or a Chargeable Lifetime Transfer (CLT) depending on whether you've chosen an Absolute or a Discretionary loan trust. It's important you seek appropriate advice.

If your loan has been completely repaid, you can't receive any further payments.

With the Loan Trust, you need to decide what happens to any amount of the loan that remains on your death. You may wish to gift any outstanding loan to the trust fund and there's an option to accommodate this on the trust, but this does have an IHT impact. If you don't select this option the outstanding loan will be distributed in accordance with the terms of your will (or the law of intestacy if you have no will).

If you're thinking of using the Loan Trust, or doing anything under the provisions of the trust, you must seek and rely on the advice of a suitable tax and trust practitioner. You should read the 'Important notes' section on page 2.



Using the Loan Trust – an example

Catherine and David are married and in their late 60s. They have sufficient income for day to day needs but use savings for ad hoc expenditure e.g. holidays.

They've accumulated savings of approximately £350,000 which they're confident will be sufficient to maintain their lifestyle for the rest of their lives. They've a potential IHT liability which they'd like to address but aren't yet ready to make large gifts of capital as they want the security of having access to their savings. Their three children are the intended beneficiaries of their estate upon second death. There are currently no grandchildren.

Catherine and David set up a joint discretionary Loan Trust and are the initial trustees. Additional trustees can be appointed in the future.

The trust deed contains an agreement that personally they'll lend funds to the trustees (interest free and repayable on demand) so the trustees can then apply for an Insurance Bond. They decide on an appropriate loan amount and insert that figure in the trust deed. The right to repayment of the loan belongs to them jointly while they're both alive.

As they've loaned rather than gifted funds to the trustees, for IHT purposes, neither has made a Chargeable Lifetime Transfer (CLT) and any growth arising on the bond is outside their estates from day one since it accrues within the trust fund where it automatically includes their children and grandchildren but not Catherine and David. With growth accruing outside their estates, the potential IHT liability on the loaned amount has been frozen.

The outstanding loan balance remains part of their IHT estates, but further IHT savings will be made when loan repayments are taken and spent. Although they can set up a regular withdrawal facility from the bond, they decide to take ad hoc withdrawals when required. Also, the Insurance Company offers a deed to waive the loan, or chunks of it, if they decide they no longer need access to the full amount. As a discretionary trust, any amounts written off would give rise to a CLT or could be exempt if they're waiving the annual exemption of £3,000 each. The amount waived will then form part of the trust fund for the beneficiaries.

If one of them dies, the right to repayment of the loan will rest solely with the survivor and when they die, any remaining loan balance will form part of the survivor's estate for IHT purposes.

When setting up the trust deed they can choose for the loan to be cancelled on the survivor's death or for the loan balance to be repaid to the deceased's estate with the funds then distributed under the terms of the will or intestacy.

The examples in this guide are designed to represent a typical situation and don't relate to any particular individual. You shouldn't consider these examples as financial advice or a recommendation of a particular course of action. You should consider your own circumstances fully and may wish to consult a financial adviser to help you make a decision. There may be a charge for their advice.

Gift Trust

The Gift Trust allows you to gift a lump sum into trust and can be used with a new, or existing Pru or Prudential International investment bond.

Who is it for?

May be suitable for you if you wish to make an outright gift in a tax-efficient way and you don't need to access the capital, or any growth from it, in the future.

How does it work?

The Gift Trust is set up using a new or existing onshore or offshore investment bond with Pru or Prudential International. Payments can be made to beneficiaries at any time, as long as you don't benefit in any way. The trust will continue to the end of the trust period or until all the assets have been distributed.

On your death, the trust can continue or be wound up with the proceeds paid out. The proceeds from the trust may be wholly or largely free of inheritance tax.

Your adviser will be able to help you set up your trust.

What are the benefits?

Any potential growth on the investment will be outside your estate from the start and if you survive seven years, the amount gifted will also be outside of your estate for inheritance purposes.

Choice of trust

You have options of using either Absolute or Discretionary trust when setting up the Gift Trust.

Absolute – you select both the beneficiaries and their share of the trust fund at the time you set up the trust.

Discretionary – the trustees decide who'll benefit from the trust fund and when.

Your investment options

- Prudential Investment Plan
- Prudential International Investment Bond
- International Portfolio Bond

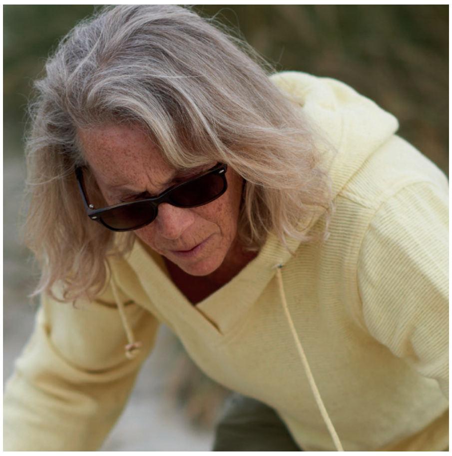
You'll find more information on each of these, on page 17.

For single or joint settlors

Single – payment into the trust must come solely from you.

Joint – payment into the trust must be from both of you, for example, a joint bank account.

Using the Gift Trust – an example



Peggy is a 65 year old widow with a potential IHT liability.

She's not made any significant gifts in the past but regularly uses her annual IHT exemption.

Peggy has earmarked £300,000 to help her grandchildren with future University costs.

She currently has four young grandchildren but wants a tax efficient solution with flexibility to also benefit any future grandchildren.

She does not require access to her capital.

As Peggy requires no personal access to the bond but requires flexibility on who will potentially benefit in the future, Peggy decides to invest £300,000 into an Offshore Capital Redemption Bond and places it into a discretionary Gift Trust.

Peggy is automatically a trustee and appoints her son and daughter as additional trustees. She can change trustees in the future if necessary. Trustee obligations under the Fourth and Fifth Money Laundering Directive are complied with.

The trust deed includes her children and grandchildren as potential beneficiaries. Any future grandchildren will automatically be potential beneficiaries.

For IHT purposes, the £300,000 gift into trust gives rise to a Chargeable Lifetime Transfer (CLT) but no lifetime tax is payable as she's comfortably within the £325,000 limit.

Peggy hasn't made any CLTs in the seven years prior to set up that would effectively reduce the Nil Rate Band available to the trustees.

The trust fund will be subject to the relevant property regime. This means a tax charge of up to 6% might arise at each 10 year anniversary or when trust capital is distributed to beneficiaries. There are scenarios when no tax is payable. Peggy accepts the possibility of tax being payable within the trust, to ensure her trustees have control over who benefits from the trust fund, and when.

For the offshore bond, no tax will be due for any income received or gains made on the investments but there may be some irrecoverable withholding tax.

There will be no income tax due unless a chargeable event arises and a gain is calculated on that event.

The Bond has no lives assured and cannot therefore pay out on the death of a (last) life assured but will instead run until maturity after 99 years, although in practice, the Bond will almost certainly be surrendered before that date. That gives the trustees greater control over the timing of a chargeable event.

Once the grandchildren are over 18 and start attending university, the trustees can assign segments to them so they can encash, with the gain falling on the appropriate beneficiary. For those under 18, the trustees may consider a deed of appointment to ensure those beneficiaries receive their share of the trust.

Under current tax rule, gains can be offset against:

- Unused personal allowance
- Unused £5,000 0% Starting Rate for savings
- Unused Personal Savings 'Allowance'

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Discounted Gift Trust

The Discounted Gift Trust is a trust that can be used where you want to gift a lump sum into trust for your beneficiaries while retaining the right to a regular payment.

Who is it for?

May be suitable for those who want the potential to reduce their IHT liability, are looking for fixed regular payments and are in reasonable health.

How does it work?

The Discounted Gift Trust is set up in conjunction with a new Pru or Prudential International investment bond.

The trustees will manage the investment, including making regular payments to you during your lifetime. Generally, payments to your intended beneficiaries will only happen after your death.

Your health may need to be assessed when setting up a Discounted Gift Trust. You'll find more information on p14.

Your adviser will be able to help you set up your trust.

Your investment options

- Prudential Investment Plan
- Prudential International Investment Bond
- International Portfolio Bond

You'll find more information on each of these, on page 17.

What are the benefits?

The Discounted Gift Trust offers:

- regular payments during your lifetime
- capital for your family or chosen beneficiaries after your death
- the potential for immediate reduction of IHT liability on your estate
- the opportunity to choose your payment level and frequency at the outset,
- a choice of investment bonds from Pru and Prudential International
- diverse investments within these bonds, helping to spread the risk

Choice of trust

You have options of using either Absolute or Discretionary trust when setting up the Discounted Gift Trust.

Absolute – you select both the beneficiaries and their share of the trust fund at the time you set up the trust.

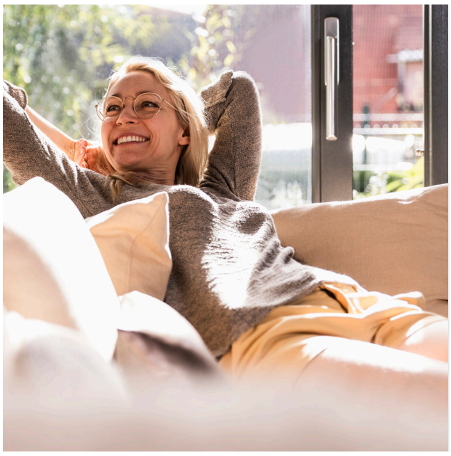
Discretionary – the trustees decide who'll benefit from the trust fund and when.

For single or joint settlors

Single – payment into the trust must come solely from you.

Joint – payment into the trust must be from both of you, for example, a joint bank account.

Using the Discounted Gift Trust – an example



Susan is a widow, aged 60. When her husband died his IHT nil-rate band was used in full so there was nothing left to transfer to his widow. Susan has an estate valued at £525,000, which is above her IHT nil-rate band of £325,000, so there is a potential IHT liability should she die. This would be charged at 40% on the £200,000 that is above the nil-rate band, giving a bill of £80,000. There is no residence nil-rate band available.

Susan currently gets payments from her capital which she relies on. However, she is happy to give away £200,000, as long as she can continue to get payments from it of £10,000 a year. So, she puts £200,000 into an investment bond under the Discounted Gift Trust and opts to have annual payments of £10,000, paid quarterly. Her chosen beneficiaries are her two children.

As Susan is in good health, the discounted value of her gift is calculated to be £82,050. As the remainder of her estate is worth £325,000, which is just covered by the current nil-rate band, it is only the discounted gift that will now be liable for IHT should she die within seven years of making the gift.

At 40%, the potential liability is £32,820 based on revised discount figure above instead of the £80,000 it was before – an immediate reduction of £47,180 based on revised figures above.

Susan's quarterly payments of £2,500 will continue to be paid for the rest of her life. At her death, the trustees can pay out the remaining capital in the investment bond to her children. Depending on what kind of trust Susan chooses,there may be some additional IHT charges, although these are likely to be much less than if she had not set up the trust.

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Discounted Gift Trust – assessing your health

Setting up a Discounted Gift Trust is slightly different to the other trusts.

When you set up the trust and decide the level and frequency of payments (which are fixed for the rest of your life), the discount to which you're eligible, depends on factors such as age and state of health.

Step 1 – Your adviser will submit a form to our Telephone Underwriting Team

Step 2 – One of the Team will contact you to arrange a suitable time to go through the health and medical questions with you (this usually takes between 15 – 60 minutes depending on your medical history)

Step 3 – After the call, we'll then review your answers and get back to your adviser with a decision or to advise if we've had to request a General Practitioner's (GP's) report.

Step 4 – Your adviser will let you know our decision and, where appropriate, discuss the offer with you.

Please note: Once we've received all the medical information we need, we'll normally get back to your financial adviser within 5 working days, with a decision.

Of course, there's no obligation to follow this underwriting process, you can still set up a Discounted Gift Trust. But you'll not be eligible for any discounts that could apply.

What to consider – when preparing for the call

- Where you'd like to take the call (you'll be asked to provide sensitive information)
- What time or time period would best suit you (you can contact your financial adviser if you need to change the time, once it's been set up)
- The type of information we'll be asking for – which includes lifestyle, what if any medical conditions you've had and in particular, the last 5 years – so it's important to have information on your medical history and any conditions to hand, along with dates and diagnoses. Our highly trained and knowledgeable Tele-underwriters will be able to help you through the process.

It's very important you answer the questions about your health honestly and to the best of your knowledge as this allows us to apply, where appropriate, any discounts which may apply and in turn, reduce the potential for IHT. If you give us any wrong or misleading information, HMRC may challenge our assessment of your health and any discount which applies, which could result in further IHT liability.

Medical Reports

Most applications will be accepted without the need for a General Practitioner's Report (medical report). If we need to request a medical report, we'll need your consent. If you want to see a copy of your medical report, you can request this. Your adviser will discuss these options with you when they take you through the Discounted Gift Trust Tele-Interview Form. We've a confidentiality policy in place which means we hold your medical information securely and access is available to authorised individuals only.

Random Sampling

It's our policy to get a random sample of medical reports from doctors to monitor the accuracy and completeness of the information we're provided. Your tax discount may be recalculated after we receive any new information.

If you've any questions, please speak to your financial adviser.

Probate Trust

The Probate Trust allows you to gift a lump sum into trust and can be used with a new, or existing Pru or Prudential International investment bond. On your death, the trustees can access the trust fund quickly, for your intended beneficiaries.

Who is it for?

May be suitable for you if you want to retain access to your investment but also want your beneficiaries to be able to access the funds after your death without the need to get a Grant of Probate on death (in respect of the bond). It provides no IHT advantages and therefore would not be suitable for individuals looking to reduce their IHT liability.

How does it work?

The trust is set up in conjunction with a new or existing Pru or Prudential International investment bond.

You have full access to the investment during your lifetime.

You choose who should benefit from the bond and to what degree – and you can change this at any time. There will need to be at least one surviving Trustee at the date of your death to avoid Probate delay.

Your adviser will help you set up your trust.

What are the benefits?

Designed to speed up the payment of policy proceeds to your beneficiaries after your death, but giving you access to the bond during your lifetime, at the trustee's discretion.

It also ensures that the proceeds of the bond are paid according to your wishes and without the need for a Will. And you have a choice of five investment products from Pru and Prudential international which give you access to a diverse range of funds.

Choice of trust

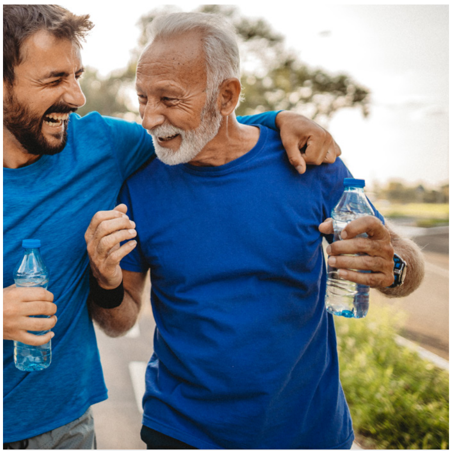
This is a Discretionary Trust where the trustees can choose to make payments to any beneficiaries within the trust, which includes yourself.

Your investment options

- Prudential Investment Plan
- Prudential International Investment Bond
- International Portfolio Bond

You'll find more information on each of these, on page 17.

Using the Probate Trust – an example



Alan is 70 and was married to Davina, who died in 2008. He then married Karen in 2015. Alan and Karen live in a house owned by Karen. Alan has owned a Prudential Investment Bond for many years (formerly owned jointly with Davina).

Alan is the sole surviving life assured. The bond is currently valued at £100,000. Alan occasionally takes withdrawals to top up his pension.

Alan and Karen have a joint current account holding £6,000. Alan has a cash ISA valued at £4,000 and a stocks and shares ISA holding of £10,000. The ISA manager has confirmed that on Alan's death it will encash the ISAs and pay the proceeds to Karen without requiring a Grant of Probate (obtaining a Grant of Probate can potentially involve lengthy delays). Pru will not allow the proceeds of a bond surrender to be paid out without one.

Alan's Will leaves half his assets to Karen and half to his daughter Samantha, from his first marriage. Samantha has a substantial mortgage and Alan has suggested she uses her inheritance to reduce her borrowings. She agrees that's a wise strategy.

Alan's adviser has suggested that the use of a Probate Trust arrangement will let Samantha get the cash quickly – without having to incur the costs (and delays) of obtaining a Grant of Probate.

Alan duly assigns the bond to the trustees (Alan, Karen and Samantha) of a Probate Trust. Although this is a transfer of value for inheritance tax purposes, no tax will be payable, as Alan has not made any previous chargeable lifetime transfers.

Alan can access the bond to supplement his pension as required, with the trustees' consent and on Alan's death, the bond will come to an end (Alan being the last life assured). A chargeable event will occur on Alan's death and any chargeable gain will be assessed against Alan for Income Tax purposes.

As a result of using the Probate Trust, Pru will pay the proceeds of the bond directly to Karen and Samantha in such proportions as they request, avoiding the potentially lengthy delays of obtaining a Grant of Probate.

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Your investment options

There are three investment options available, depending on which trust you choose, from Pru or Prudential International.

Prudential Investment Plan	A wide range of investment funds to choose from, including our PruFund range of funds and a range of unit-linked funds.
Prudential International Investment Bond	Available from Prudential International, offering the potential for tax-efficient growth with a wide choice of unit-linked funds including Prudential Assurance Company (PAC) With-Profits funds.
International Portfolio Bond	Available from Prudential International, offering the potential for tax-efficient growth with a wide choice of funds.

Prudential Investment Plan is Prudential's onshore bond.

International Portfolio Bond and Prudential International Investment Bond are Prudential International's offshore bonds. As offshore bonds, they provide the potential for tax-efficient growth. There is no tax applied within the fund other than any irrecoverable withholding tax.

Full terms and conditions of the Prudential Investment Plan, Prudential International Investment Bond and the International Portfolio Bond are available on request.

Please remember that when investing in a bond, the value of the investment can go down as well as up. So you and/or the beneficiaries of the trust might not get back the full amount invested.

Tax rules and regulations may change in the future. This information is valid as at October 2024. Your tax position depends on your own personal circumstances.

For more information, please speak to your financial adviser.

Income tax

We have touched on Inheritance Tax throughout this guide but you also need to consider the taxation of the investments held by the trustees. In this guide the investments we are referring to are investment bonds.

Types of investment bonds

Investment bonds mainly fall into two categories, onshore and offshore. Prudential UK provide you with access to onshore investment bonds and Prudential International (based in Dublin) provides you with access to offshore investment bonds.

The main difference is their tax treatment. In high-level terms, onshore bonds are subject to UK corporation tax, which is offset by your provider, while offshore bonds are issued from outside the UK and the returns roll up gross of tax in the funds, apart from unrecoverable Withholding Tax which is deducted from interest and dividends received by the fund(s).

Certain events, also known as chargeable events, that can occur during the lifetime of an onshore or offshore investment bond may trigger a potential Income Tax liability:

- Death giving rise to benefits,
- the bond as a whole is cashed in,
- regular and one-off withdrawals, taken from the bond including any adviser charges you've asked us to take from the bond, exceed the 5% tax-deferred allowance or
- on the maturity of the bond (only applies to Capital Redemption bonds),
- transfers of legal ownership of part or all of the bond (though not gifts).

Who is liable for any income tax that arises on a chargeable event when an investment bond is held in trust depends on the type of trust and whether the trust is on an absolute or discretionary basis.

Advice should be taken but at a high level this includes;

Absolute Trusts

The beneficiary will be liable to income tax on any gains arising in most circumstances. Although there are two exceptions in which you as Settlor would be liable, which are:

- the beneficiary is your child/step-child, is a minor, not married and the gain is over £100.
- the trust is an absolute Discounted Gift Trust (DGT) and a chargeable event occurs due to the regular payments you receive from the trust.

Discretionary Trusts

You – as the settlor. If you're alive and resident in the UK when a chargeable event occurs, or it occurs in the same tax year that you die, you will be taxed as if it's part of your income.

Trustees – if you (as the settlor) are not resident in the UK or you've died in a previous tax year, the tax charge will be transferred to the trustees (to be paid from the trust, not by the trustees personally).

Beneficiaries – if the trustees are not resident in the UK, the charge will fall on any beneficiaries who are resident in the UK, when they receive money from the trust.

The impact of taxation (and any reliefs) depends on individual circumstances. The guide doesn't take into account the tax situation of other countries other than the UK, which should also be considered where appropriate.

The taxation of investment bonds can be complex. It is therefore important to seek advice to understand which type will be suitable for your circumstances and the tax implications.

Adviser charging

You'll need to pay for advice when setting up your trust.

For the avoidance of doubt, set up advice charges are the responsibility of the settlor and so the trustees do not pay these.

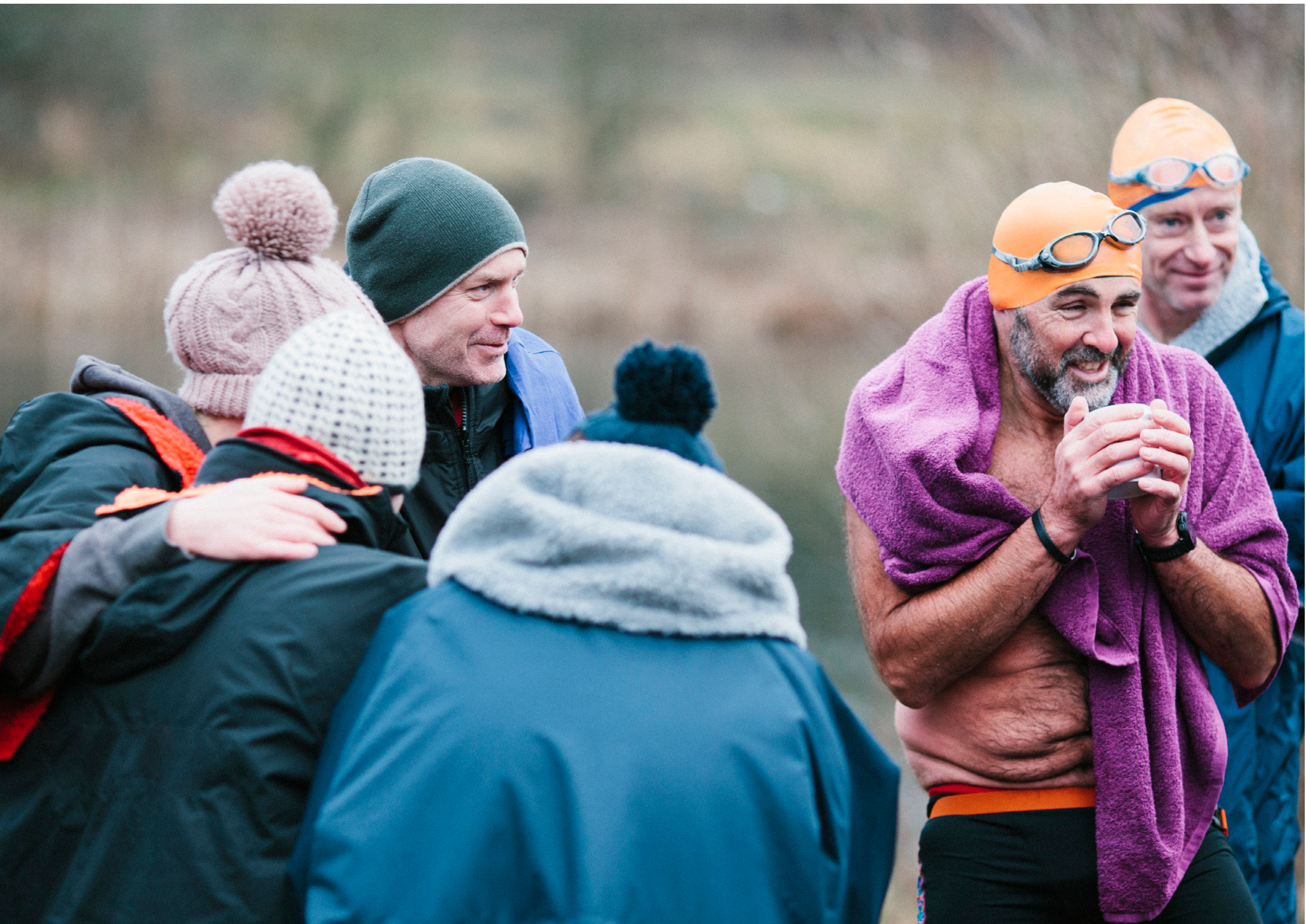
Ongoing advice charges may also apply.

Prudential can facilitate ongoing adviser charges for advice given to the trustees.

Trustees should not pay for ongoing advice given to the settlor as that could be regarded as a breach of trust, with adverse tax consequences.

Facilitating ongoing advice charges from the bond forms part of the 5% withdrawal allowance. If the 5% allowance is exceeded, a chargeable event arises, so advice should be taken to understand the tax implications.

Please discuss how you pay for your advice with your financial adviser, they'll be able to explain the different charges to you.



Trustees' duties

Depending on whether the trust is on a single or joint settlor, you will need to appoint at least one further trustee when setting up your trust. So it's important that you, or anyone you wish to appoint as a Trustee, understands what the duties and responsibilities of a trustee are.

There are a number of tasks to perform when acting as a Trustee and they can be split into these main categories:

- Duties to be performed on appointment
- Investment duties
- Protecting the interest of beneficiaries
- Keeping accounts and records
- Distributing property to beneficiaries
- Trust Registration

More information on the roles and responsibilities of trustees can be found **here**

More information

For up-to-date information on IHT please speak to your financial adviser, or visit the MoneyHelper website: **Moneyhelper.org.uk**

Some terms explained

Absolute trust
Your client must select the beneficiaries and their share of the trust fund when setting up the trust. These factors are then fixed and cannot be changed at a later date. May be suitable if your client is sure of how they would like trust assets to be distributed.

Age of majority
This is the threshold of legal adulthood as recognised or declared in law.

Beneficiaries
A person who is designated to derive advantage from something, especially a trust, will or life insurance policy.

Discretionary trust
Trustees have the discretion to make distributions to anyone from a wide class of beneficiaries. May be suitable if your client is unsure who they would like trust assets to be distributed to.

Domicile
Domicile is a legal concept and is initially decided at birth, normally as the permanent home of your father. However, as an adult, your domicile may change, for example, if you settle permanently or indefinitely in another country.

Estate
All the money and property owned by a person, especially at their death.

Funds
Funds are investments that pool together the money from many individuals. Fund managers then use it to invest in a wide range of shares and/or bonds. Each investor is issued units, which represent a portion of the holdings of the fund.

Inheritance tax (IHT)
Inheritance tax is a tax on the estate of someone who has died, including all property, possessions and money.

Related settlements
Related settlements occur where two or more trusts are set up on the same day by the same settlor.

Settlor
A person who puts assets into a trust.

Taper threshold
The residence nil rate band will gradually reduce, or taper away, for an estate worth more than £2 million, even if a home is lift to a direct descendant.

The residence nil rate band will reduce by £1 for every £2 that the estate is worth, more than the £2 million taper threshold.

Trustees
Trustees are the legal owners of assets held in a trust and it is their responsibility to deal with the assets according to the provisions set out in the trust deed, to manage the trust on a day-to-day basis and pay any tax due, and to decide how to invest or use the trust's assets.

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