This is for UK advisers – feel free to show it to your clients.

Pru
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A guide to the Loan Trust

Your questions answered

Why use a loan trust?

In today's world, it is becoming harder and harder to be a generous parent or grandparent.

Being able to pass on capital (your 'estate') to your children and grandchildren is a natural instinct. But this has to be balanced against your need to access that capital during your lifetime.

Loan trusts are for those who want to carry out Inheritance Tax (IHT) planning but can't quite give up access to their capital. Using a loan trust allows you to access your original capital at any point but the growth will not be included in your estate for IHT purposes.

You can see how IHT might affect you in the table below.

It's worth remembering that the value of your house may form part of your estate. For many people, this may be what pushes them over the IHT threshold.

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 2029/30.	

There is also a Residence NRB (RNRB), which is an extra NRB available in addition to the general NRB if certain conditions are met. Broadly, it's available if your estate includes your home and it's left to children or other direct descendants. The RNRB is currently £175,000 and will be maintained at that level up to and including tax year 2029/30. The amount of RNRB that is due starts to be withdrawn where the value of the estate immediately before death exceeds the £2m taper threshold.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. You should speak to your financial adviser about this.

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

Prudential's Loan Trust has been designed to bring a potentially tax-effective solution within your reach in a simple manner.

There are two types available – absolute loan trusts and discretionary loan trusts. When you set up either of these, there is no transfer of value for IHT purposes as there is no gift, just a loan.

The value of investments is not guaranteed and can go down as well as up. You and/or the beneficiaries of the trust, could get back less than invested.

Important note

It's possible that the Government and HM Revenue & Customs may propose future changes to the taxation treatment of arrangements such as the loan trust. Prudential and Prudential International accept no responsibility or liability for the effect of such changes.

What is the loan trust?

The loan trust is an alternative to giving away capital for good

How the loan trust works is explained in detail on page 5. Briefly, what happens is that you create a trust, for the benefit of your beneficiaries, and nominate the trustees (including yourself). You make a loan to the trustees, which is invested.

As any capital growth on the investment is part of the trust fund, it doesn't form part of your estate. Any part of the loan that isn't repaid and spent will remain an asset of your estate for IHT purposes.

What benefits can the loan trust offer you?

The loan trust provides you with access to your original capital sum. You can claim back the balance of your outstanding loan at any time you require it. This can be as one lump sum, occasional sums or regular repayments of the loan. This should help take care of worries about unforeseen circumstances. You can't take back more than the total amount you have loaned.

The loan trust won't create any immediate IHT charge, although any unrepaid balance of the loan remains part of your estate for IHT purposes. You can decide what should happen to any amount of the loan that is unrepaid at your death. You may wish to gift some or all of any outstanding loan to the trust fund during your lifetime. This has an IHT impact. Please speak to your financial adviser for further information.

Your investment options

There are three investment options.

- The Prudential Investment Plan offers a wide range of funds and flexible charging options.
- Prudential International Investment Bond also offers a choice of unit-linked funds.
- International Portfolio Bond offers a wide range of funds including access to the PruFund range of funds. The investment will be managed by Prudential or Prudential International. Funds are managed by various asset management companies of Prudential around the world.

International Portfolio Bond and Prudential International Investment Bond are international bonds, which offer tax-efficient growth. There is no tax deducted from the funds available other than withholding tax, which may apply to the income from some assets within the funds.

Further information on your investment choices is given in the guides for the each of the bonds available.

How the loan trust works

The Loan Trust works like this

You set up the trust by appointing trustees, including yourself, and making an interest-free loan to them of the capital that you wish to invest. The loan is repayable on demand.

The trustees invest this capital in one or more of the single premium investment bonds mentioned on page 4. These bonds can be set up in different ways and we strongly recommend that trustees refer to their financial adviser when considering the options available.

You can demand the balance of your outstanding loan at any time you need it. This can be as one lump sum, occasional sums or regular repayments. Your repayments are funded by the trustees making withdrawals from the bond. Each withdrawal acts as a partial repayment of your loan.

Withdrawals can continue until your loan has been repaid to you in full. You can currently receive up to 5% each year of the amount invested into the bond without creating an immediate income tax liability. This 5% allowance is available until you have received the full amount of the original investment (that is, your loan).

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 an Absolute trust or a Discretionary loan trust has been chosen. You should seek appropriate advice.

Once your loan has been completely repaid, you cannot receive any further payments.

Any growth on the capital invested is held outside your estate

Whether you take any repayments or not, any growth on the capital invested is held outside your estate. Please do remember that the value of investments can go down as well as up. You, and/or the beneficiaries of the trust, could get back less than invested.

Adviser Charges

Prudential will facilitate ongoing adviser charges for advice given to the trustees. If required, the trustees should complete the ongoing adviser charge instruction section on the bond application form.

Where Prudential facilitate payment of ongoing trustee advice, then this will be funded by withdrawals from the bond and will count against the 5% tax deferred allowance.

With regard to set up advice charges which are incurred by the settlor (ie: person setting up the trust) and facilitated by Prudential, the position is that the loan to the trustees will comprise gross funds available before advice charges. The trustee investment amount will then be the lower amount net of these set up charges. The difference should be recorded by the trustees as a loan repayment.

If the trustees decide to pay a financial adviser for ongoing advice by way of ongoing adviser charge deductions from the bond, it is possible that the deduction of adviser charges may erode the capital available for the repayment of the loan if growth on the capital is low.

Depending on the terms and conditions of the product involved, Ongoing Adviser Charges and Ad hoc Adviser Charges may reduce the ability to take withdrawals for loan repayment.

Details of the various adviser charges and how they impact the 5% allowance and product limits for withdrawals can be found in the relevant key features document.

Choice of trust

The Loan Trust offers you a choice of trust – absolute or discretionary – so you can decide which better suits your circumstances.

Absolute Trust

With the absolute Loan Trust you must select both the beneficiaries and their share of the trust fund at the time you set up the trust. The important point to remember about an absolute trust is that you cannot change the beneficiaries or their share of the trust fund once the trust has been set up.

If you are sure of how you want the trust assets to be distributed, this could be the appropriate choice for you.

All the capital growth on your investment will be immediately outside your estate. The trust itself will not be subject to any periodic or exit inheritance tax charges, but each beneficiary's share of the trust fund will be treated as forming part of their estate.

With an absolute trust, the beneficiaries can have or demand access to any proceeds of the investment growth (but not the outstanding balance of the loan) at any time after the age of majority. Part of the investment growth can be used at any time by the trustees for the benefit or maintenance of your beneficiaries.

Discretionary Trust

Under a discretionary trust, it's up to the trustees to decide who will benefit and when they will benefit from the trust fund. Providing the beneficiary is in the class of beneficiaries, the trustees can allocate funds to them.

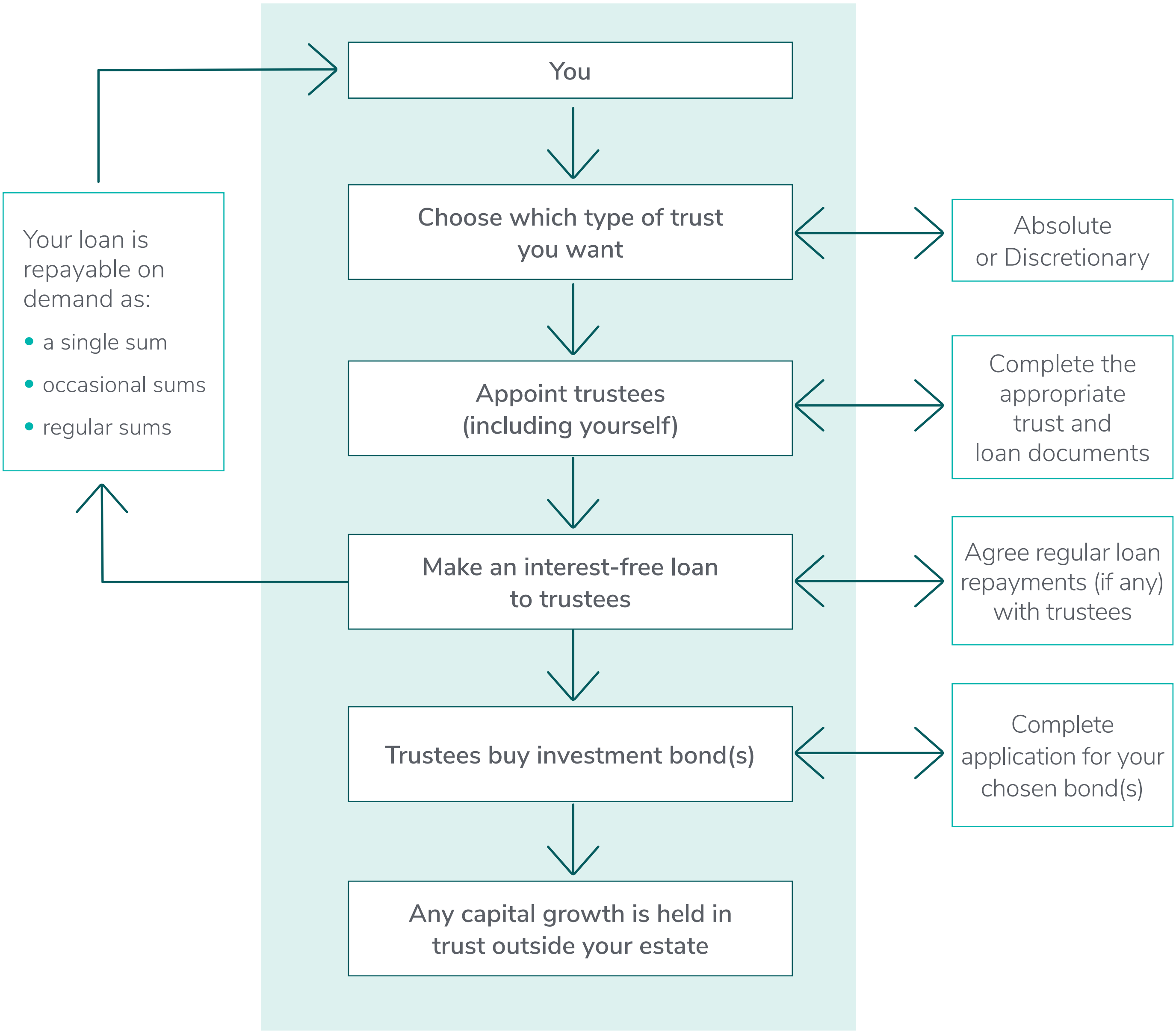
A discretionary trust is potentially subject to periodic and exit charges where applicable. Every 10 years the trust will potentially be subject to a periodic charge. This is based on the value of the trust fund, which is any capital growth on your investment, at the date of the charge. There will be tax due if the trust fund value at the 10th anniversary exceeds the nil-rate band available to the trustees at the 10th anniversary. Note that the nil-rate band is effectively reduced by any capital payments subject to exit charges in the first 10 years. Likewise, chargeable transfers made by the settlor in the 7 years prior to set up will also effectively reduced the nil-rate band.

Part of the investment growth can be used at any time by the trustees for the benefit or maintenance of your beneficiaries.

When benefits are paid out of the trust to your beneficiaries, there may be an exit charge. In the first 10 years the exit charge rate will be 0% if the initial value of the trust fund is less than the nil-rate band. Note however that chargeable transfers made by the settlor in the 7 years prior to set up will effectively reduce the nil-rate band. For exits after the first 10th anniversary, the exit charge derives from the rate used at the previous 10th anniversary charge. Repayments of your loan are not treated as 'exit' payments. The value of the trust fund is not included in the estates of your beneficiaries.

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

Setting up a loan trust



Further information

Details of the charges applicable to the bond(s) for which you apply are shown in the relevant Key Features document. We might change our charges in the future.

Your financial adviser will give you a personal illustration for each bond within your Loan Trust, together with a Key Features document describing in more detail how the chosen bond(s) work.

The value of units and any payments out from them can go down as well as up. The total returns to the trust beneficiaries and, where appropriate, to you may be less than the full amount invested.

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

Important notes

Anyone thinking of using the Loan Trust, or doing anything under the provisions of the trust, must seek and rely on the advice of a suitable tax and trust practitioner. You should seek appropriate professional advice before proceeding.

This is very important for a number of reasons.

- Where a withdrawal exceeds all or part of the available 'cumulative' 5% tax deferred allowance, income tax may be payable when repaying all or part of the outstanding loan.
- This trust will not be suitable in all cases and other forms of tax and trust planning may be more suitable in individual circumstances.
- Creating a trust has taxation as well as legal consequences.
- Once a trust has been created it cannot be revoked.
- The trustees have special duties to the Settlor and Beneficiaries and the misuse of a trust power by a trustee can make her/him personally liable for resulting losses.
- 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.

The use of the trust arrangement described in this document will trigger Trust Registration Service reporting requirements in the UK. Where the investment used is a Dublin based offshore bond then there are also reporting requirements on the Irish Register. The trustees are responsible for the registration in and reporting of these registers. More information can be found at **gov.uk/hmrc-internal-manuals/trust-registration-service-manual** and **revenue.ie/en/crbot/index.aspx**

The information in this brochure is based on our understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. Tax rules can change and the impact of taxation and any tax relief depends on your circumstances, including where you live. Every care has been taken as to accuracy, but it must be appreciated that Prudential, Prudential International and their representatives cannot accept responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of the material published in this brochure or with the use of accompanying trust instruments.

Investors must consult their own professional advisers for advice relevant for or to their own circumstances.

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