



Loan Trusts Unlocked: A  
flexible IHT strategy for clients  
needing access to capital



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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.

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# Learning objectives

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

Describe the structure of a loan trust, including the inheritance tax benefits they can provide

Explain how to effectively administer a loan trust, including managing chargeable gains both during the settlor's lifetime and on death

Evaluate client circumstances to determine the suitability of a loan trust as part of a comprehensive IHT mitigation strategy

# Its not all about the autumn budget changes...

Surplus  
income

House  
prices

Investment  
performance

Inheritances

Its not all about the autumn budget changes...

Surplus  
income

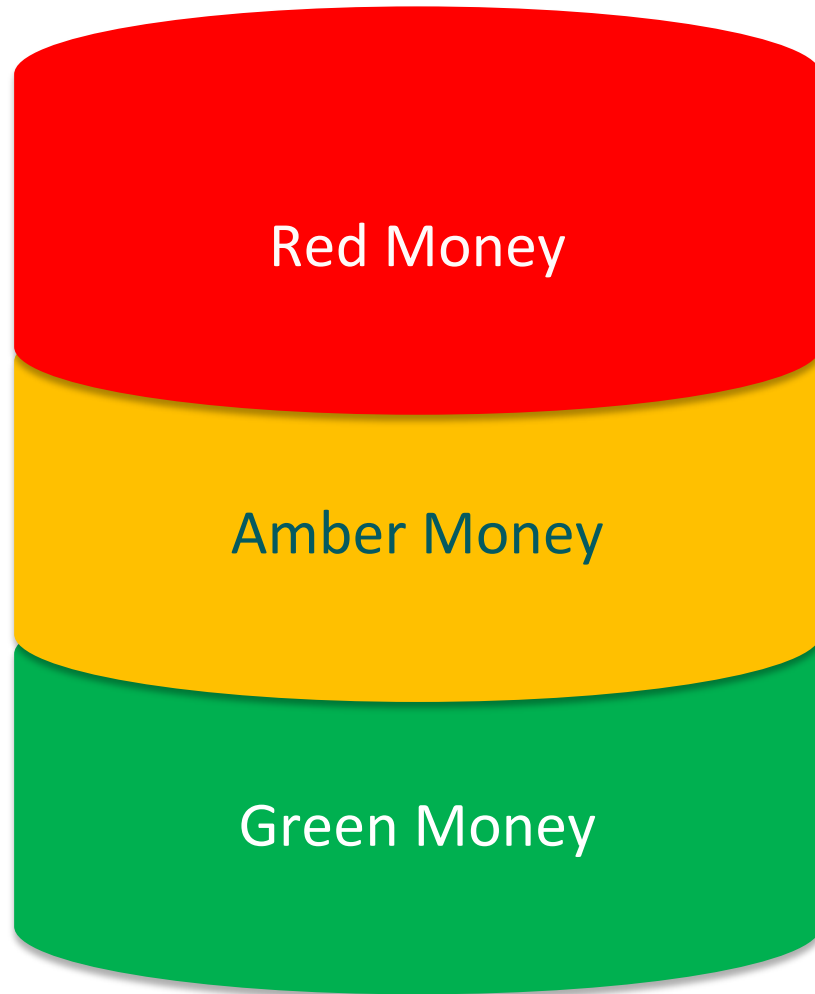
Revenue

NRB frozen since 2009/10  
RNRB frozen since 2020/21  
NRB/RNRB frozen until 2030

Investment  
performance

Services

# Access is key



Expect to be unused and will have IHT  
and / or income tax liability

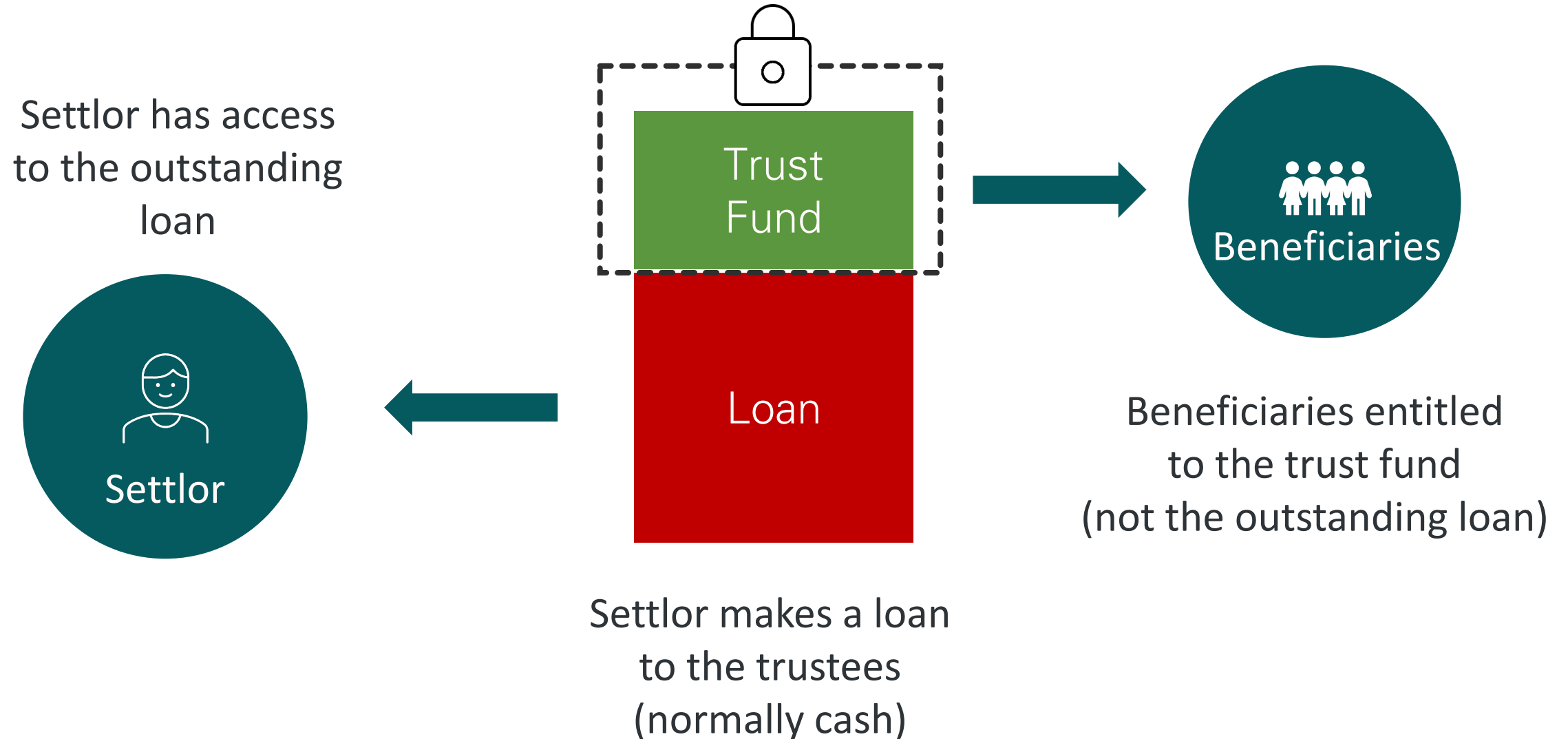
May be required to meet own needs

Expected to be used to meet needs



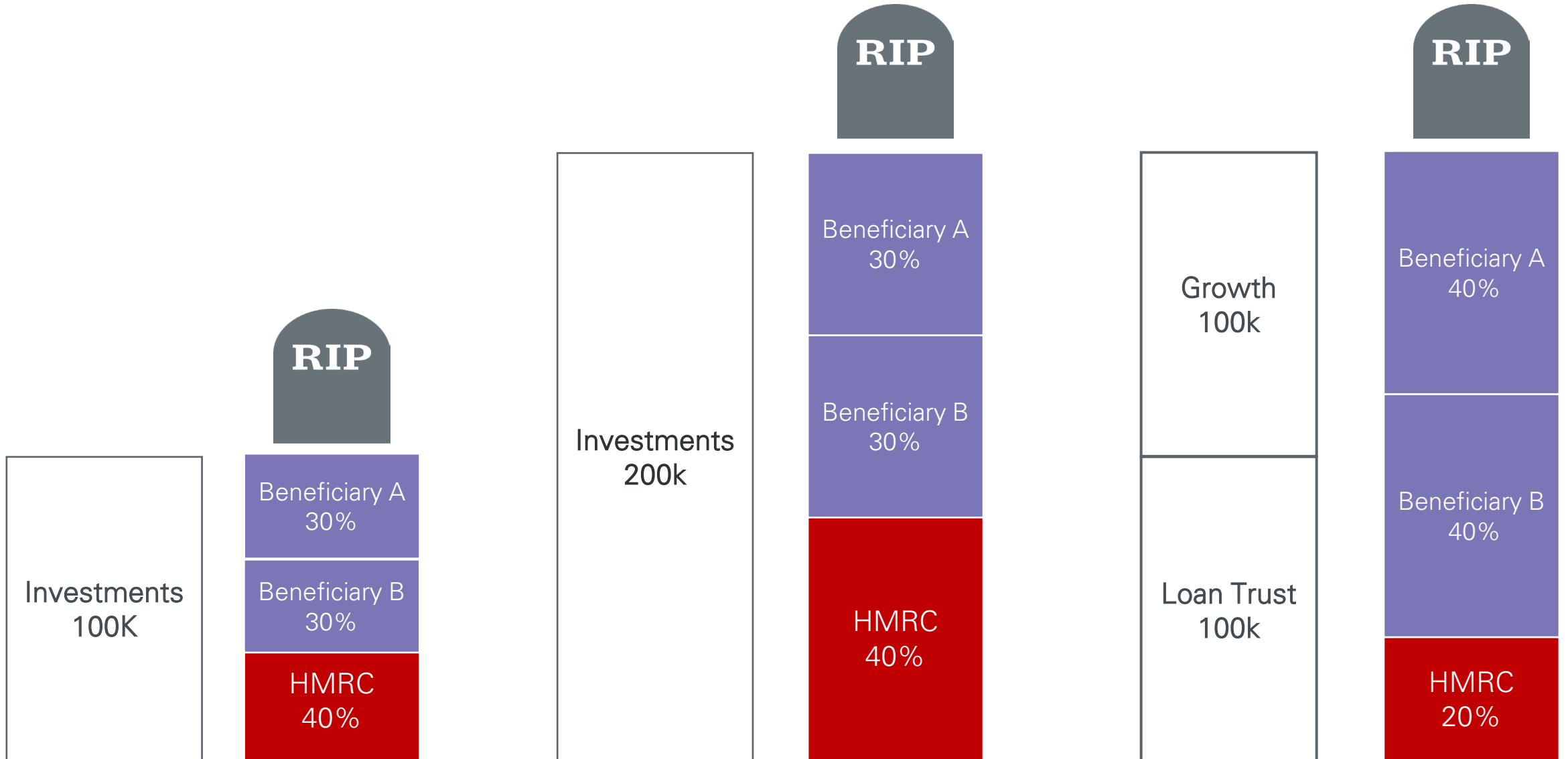
How can a loan trust help?

# What is a Loan Trust?





# Reducing HMRC's slice of the estate



# The Loan

- Forms part of the settlor's estate for IHT
- Interest free
- Repayable on demand
- Regular or ad hoc withdrawals to settlor
- Trustees personally liable if they can't repay only if they have been fraudulent/negligent



# Control



Beneficiaries fixed at outset

Beneficiaries can access at age 18\*

Trust fund is in beneficiaries' estate

Classes of potential beneficiaries

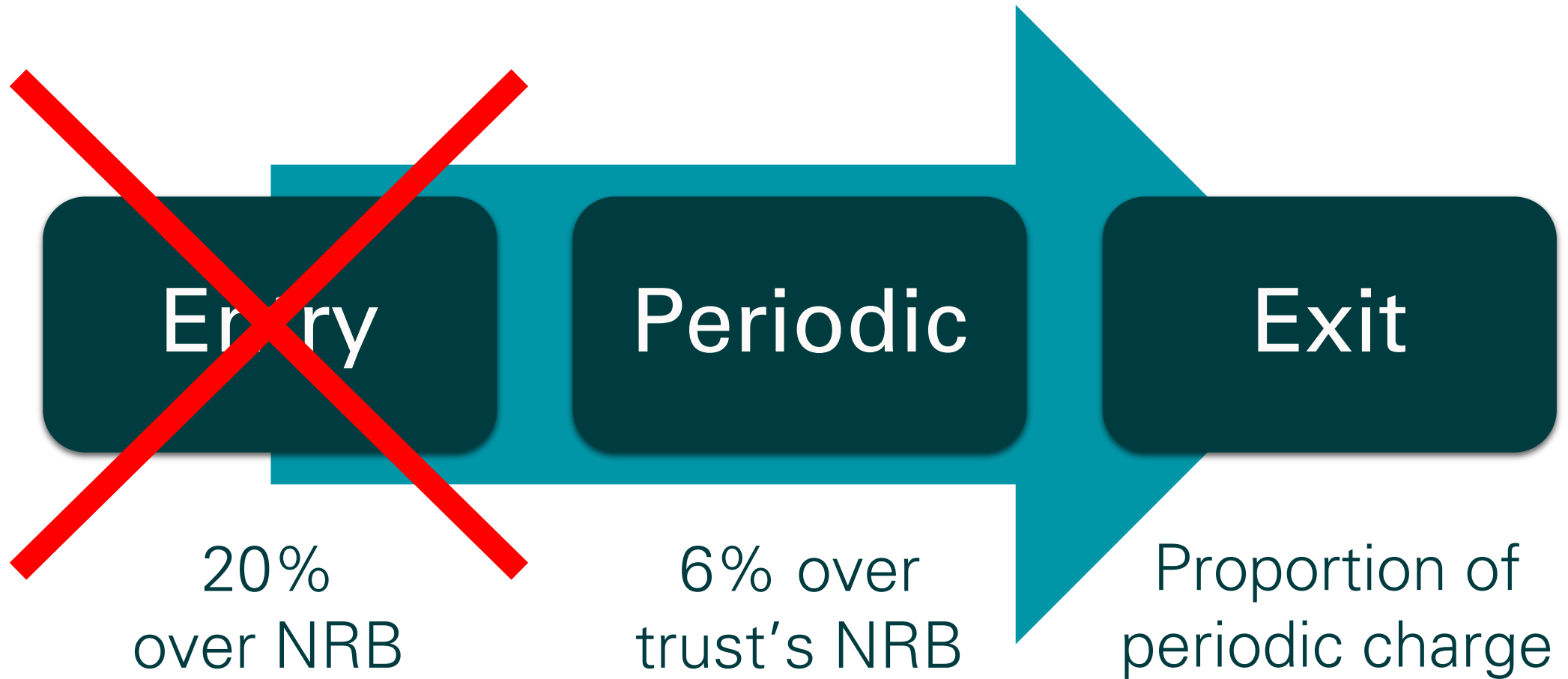
Trustees have control over distribution

Not in beneficiaries' estate

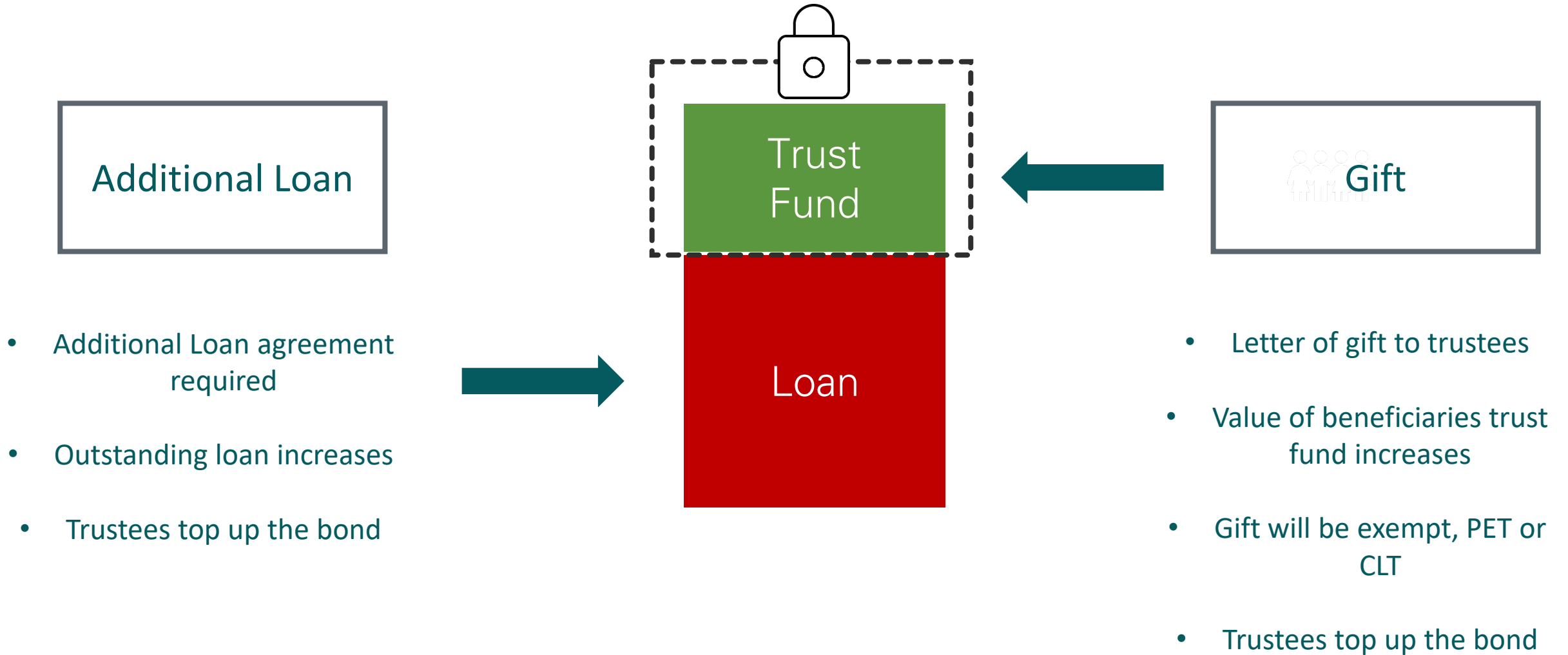
Subject to relevant property regime

\*Trustees need to be able to repay loan on demand

# Relevant property regime and Loan Trusts



# Adding to a loan trust



# Loan Trust case study

# Amber money – I might need it/like having it

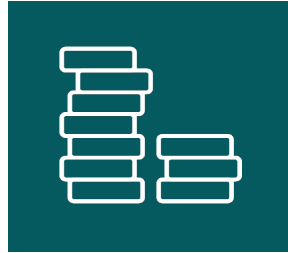


- Janice is a widow aged 67
- Assets in excess of her nil rate bands so has an IHT liability.
- Although very unlikely she needs access to all her assets Janice has spent her lifetime accumulating wealth and doesn't want to make any large gifts at this stage in her life
- Janice has 2 children, Adam and Evie who will inherit everything on her death
- Janice wants control over her assets at this point in time

# Case study - Janice



Main residence  
£500,000



Cash  
£50,000



ISAs  
£500,000



Other investments  
£500,000

Estate assets	£1,550,000
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LESS

Nil Rate Bands	£650,000
RNRBs	£350,000

EQUALS

Taxable estate	£550,000
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IHT liability	$£550,000 \times 40\% = £220,000$
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# Case study - Janice



Main residence  
£500,000



Cash



Expenditure £ 39,000 p.a.

EVERYTHING IN THIS CASE STUDY GROWS AT 5% P.A.

£ 11,000 p.a.



Other investments  
£500,000



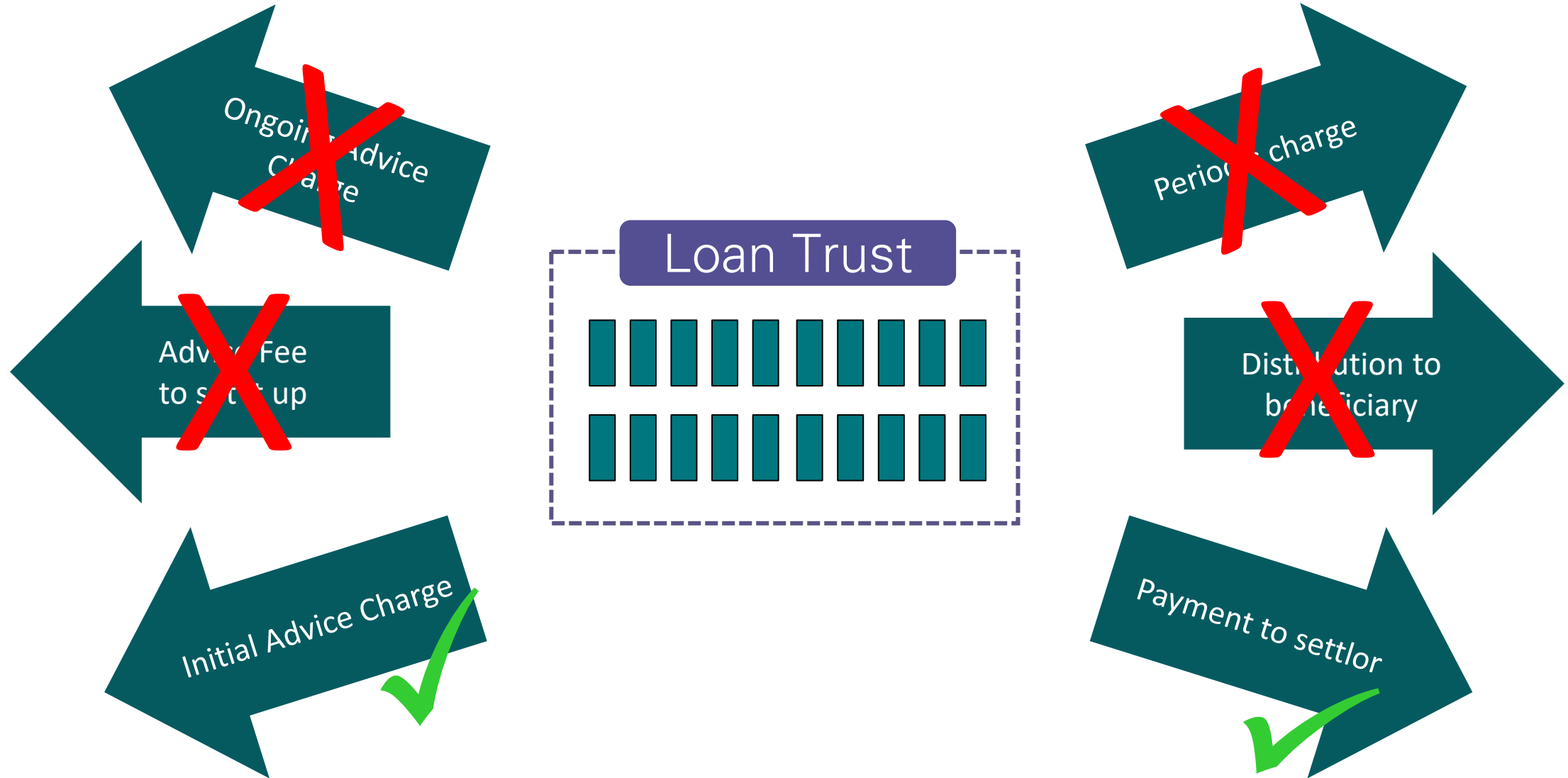
Other investments  
£500,000

Janice's adviser recommends Janice sets up

- discretionary loan trust with £700,000
- into an onshore bond
- Adam and Evie as lives assured
- Janice, Adam and Evie as trustees

# Administration of the trust

# What constitutes a loan repayment?



# Loan repayments



On the 20th August 2029 (just over 4 years since trust set up) Janice wants to go on a “trip of a lifetime” and refurbish her home.

She decides to take money from the loan trust to pay for this and asks for a loan repayment of £100,000 from the trust.

There have been no payments from the trust and the bond is now worth £850,854

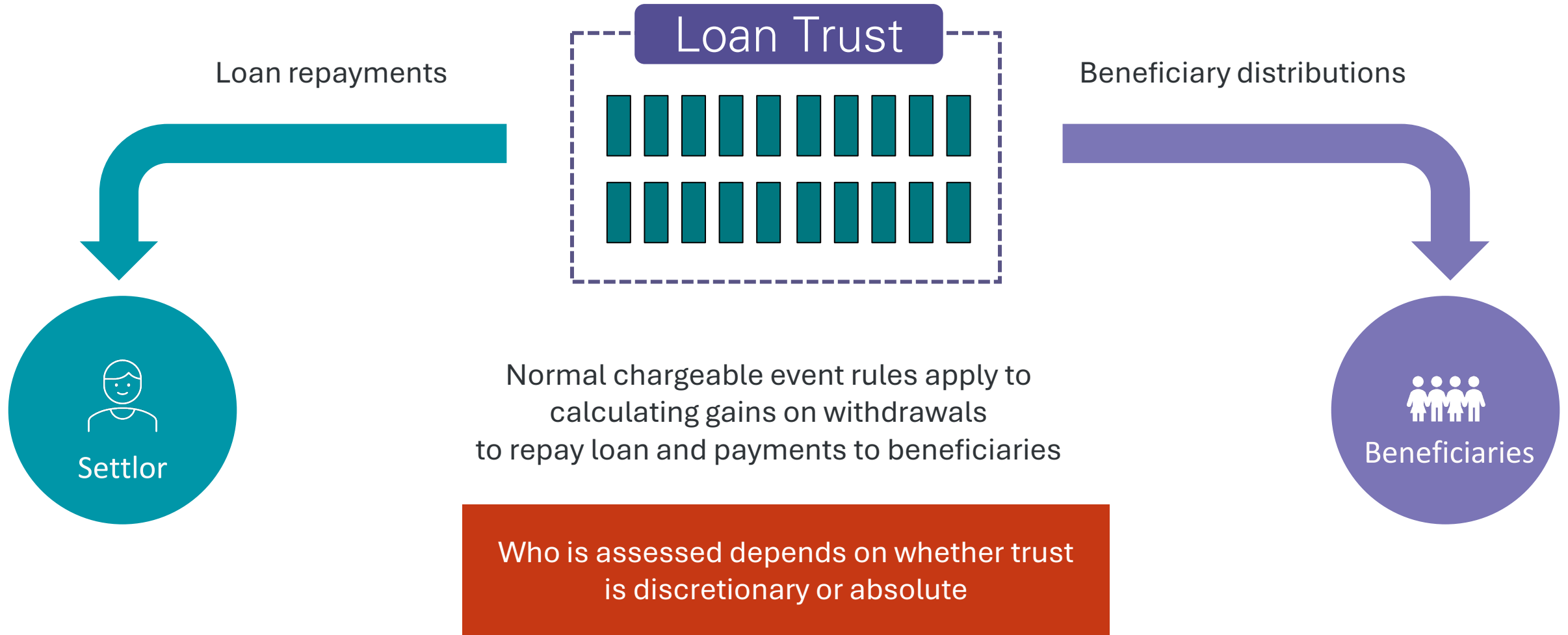
# Loan repayment - £100,000



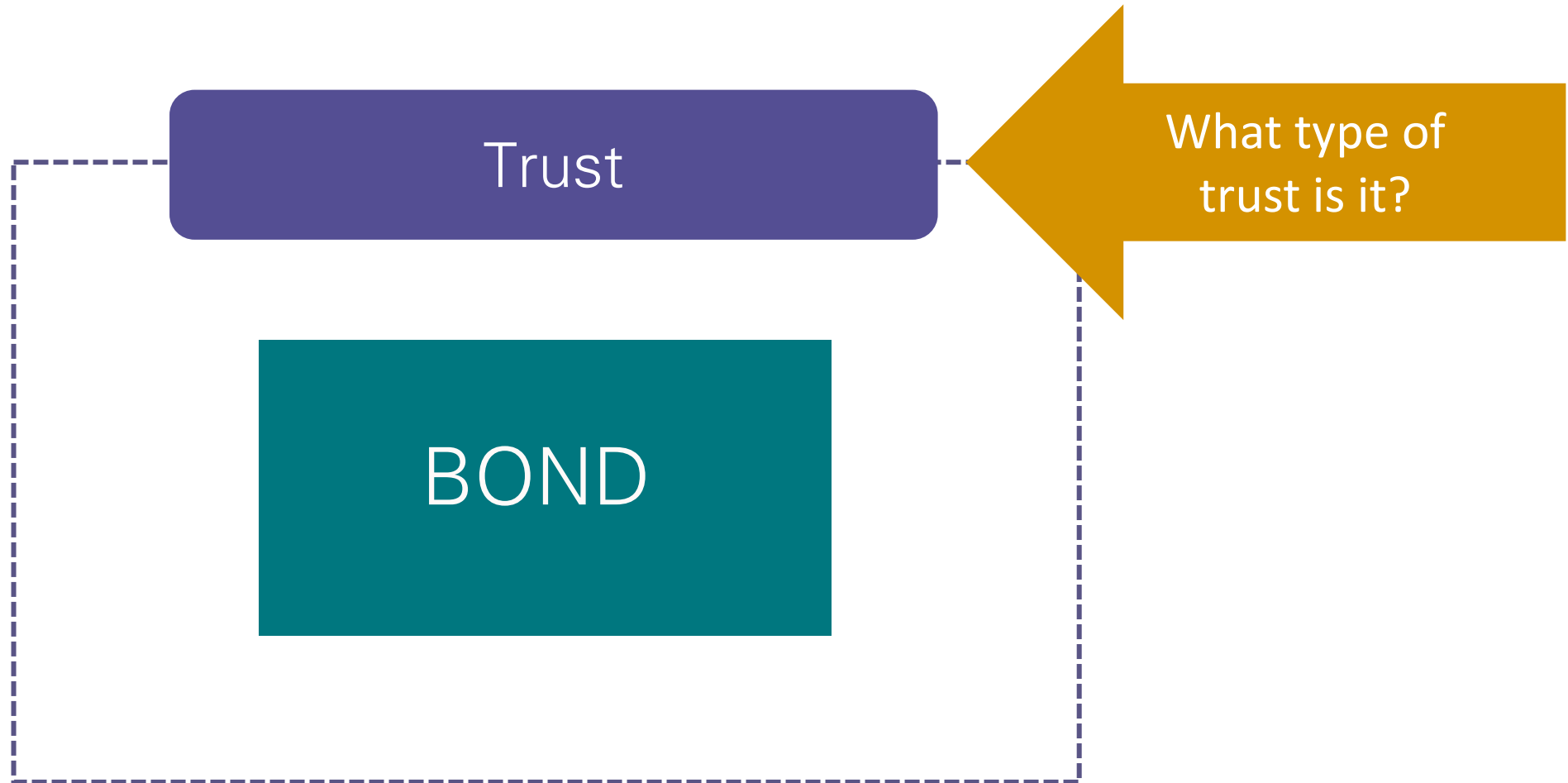
## Options for loan repayment

1. Partial withdrawal across segments
2. Full surrender of segments and partial across the remainder

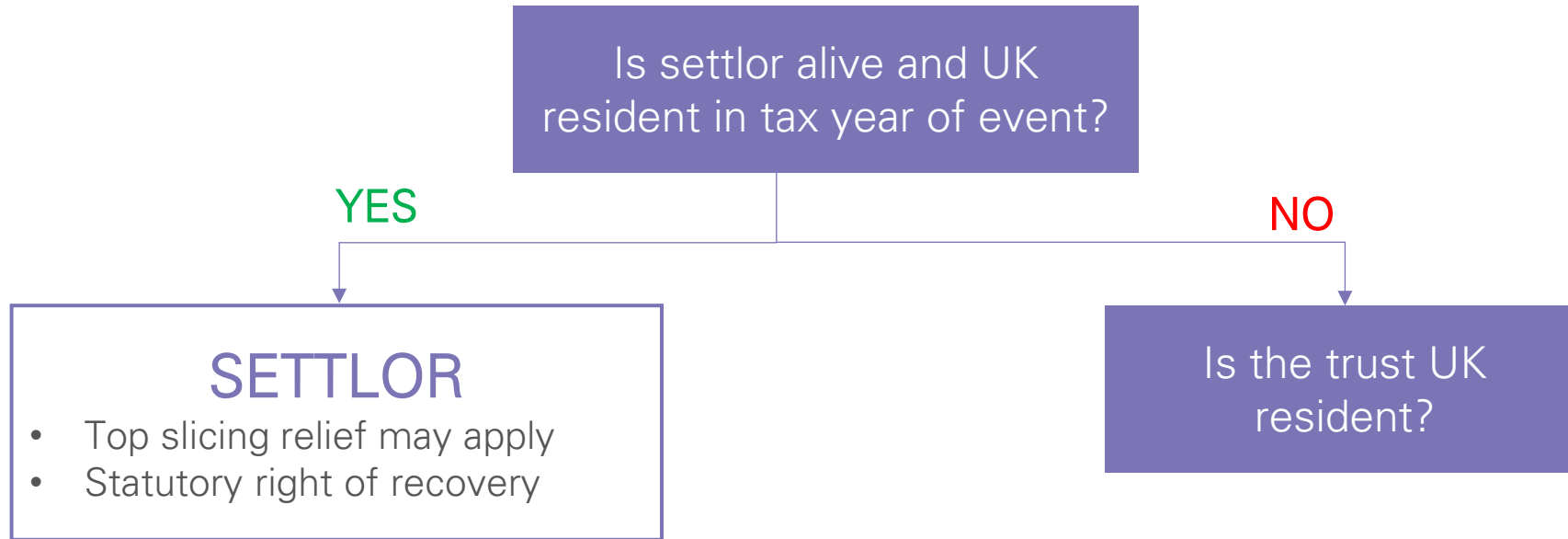
# Chargeable event implications



# Realising gains – who is liable?



# Not bare – Who is liable?





# Trust residence



All trustees are resident in the UK

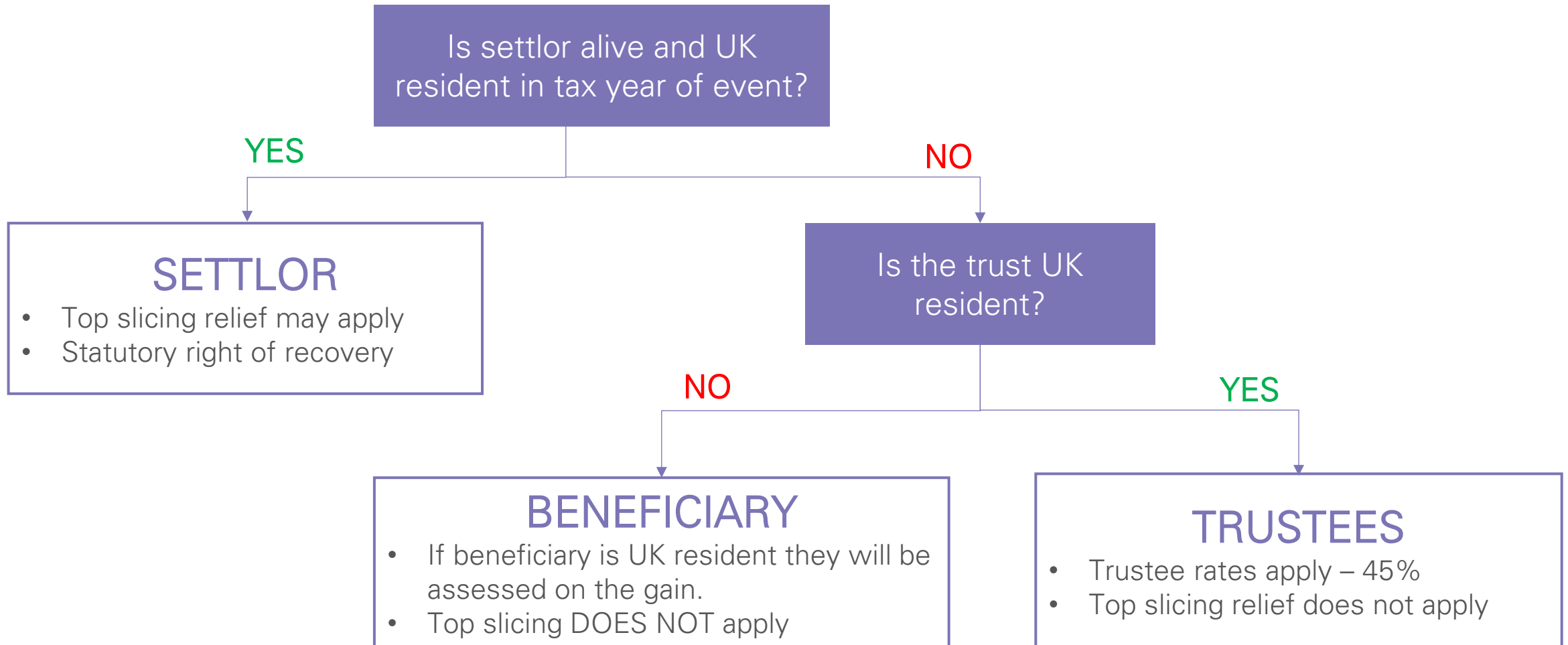
Mixture of resident and non-resident trustees – settlor UK resident when trust set up



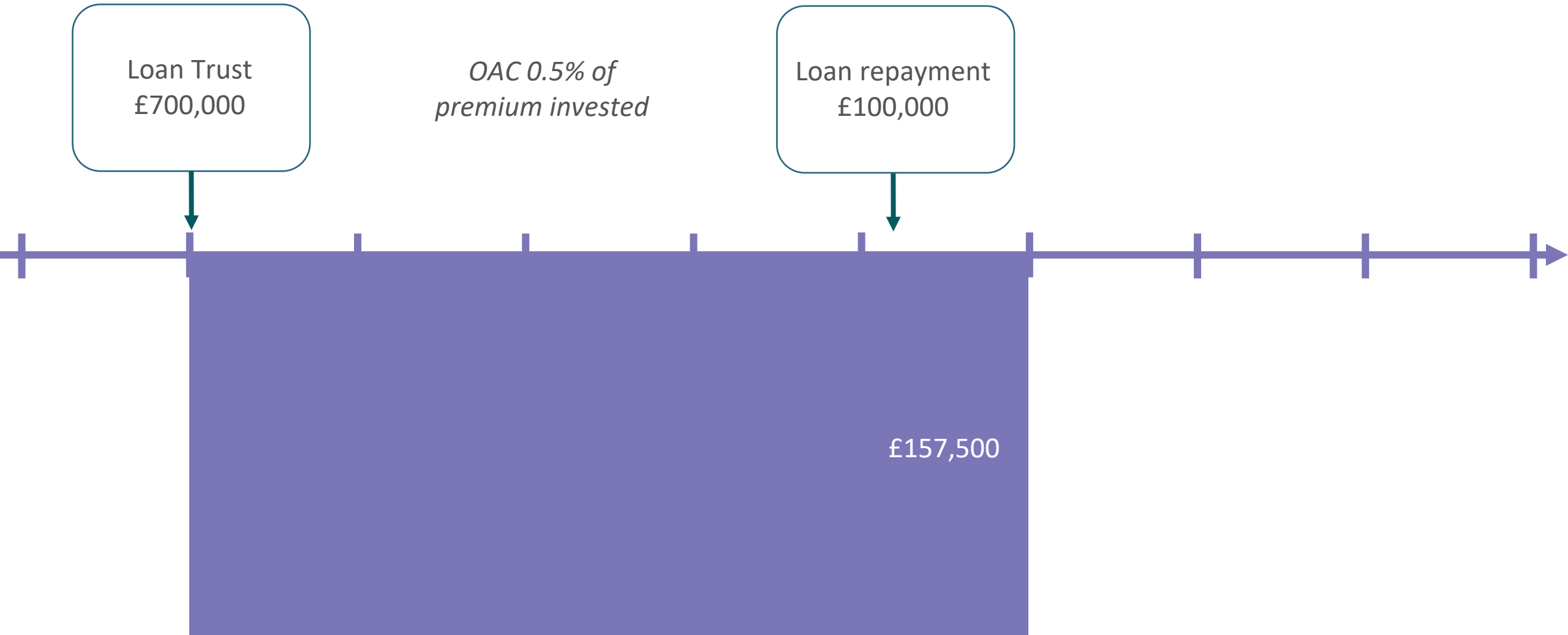
All trustees are resident outside the UK

Mixture of resident and non-resident trustees – settlor NOT UK resident when trust set up

# Not bare – Who is liable?



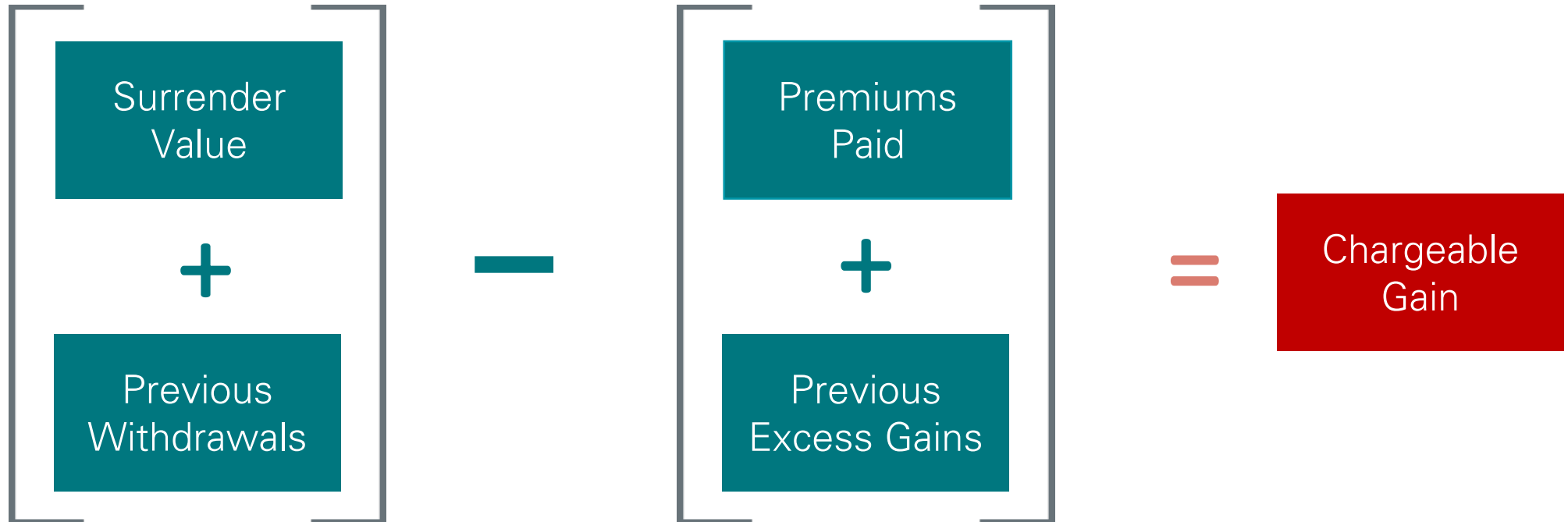
# Janice - Tax deferred allowance



# Encash full segments

Bond is worth £850,854

Encashing 11 segments gives proceeds of £93,593



# Encash full segments

Bond is worth £850,854

Encashing 11 segments gives proceeds of £93,593

The diagram illustrates the calculation of net proceeds from encashing 11 segments. It consists of two large teal brackets, each containing two smaller teal boxes. The first bracket contains '£93,593' and '£1,572' with a '+' sign between them. The second bracket contains '£77,000' and 'nil' with a '+' sign between them. A '-' sign is placed between the two brackets. To the right of the second bracket is an '=' sign, followed by a red box containing '£18,166'.

$$\left[ \begin{array}{c} \text{£93,593} \\ + \\ \text{£1,572} \end{array} \right] - \left[ \begin{array}{c} \text{£77,000} \\ + \\ \text{nil} \end{array} \right] = \text{£18,166}$$

# Tools!

## Bond Gain Tool

built by M&G

Please navigate between inputs and outputs using Tabs below

Hover over the red tags beside fields for further information.

### Tax Relief Modeller Tool

**ABOUT YOUR CLIENT**

What is the client's age? Under 75

Scottish Tax Payer? No

Number of Children - Only fill if Child Benefit is claimed

Gift Aid (Gross amt)

Employment Income

Benefits in Kind

Taxable Self Employed Profits

UFPLS (taxable element)

Drawdown / Annuity Income / Scheme Pension Income

State Pension Income

Onshore Gain 1

Onshore Gain 2

Onshore Gain 3

Onshore Gain 4

Offshore Gain 1

Offshore Gain 2

Offshore Gain 3

Offshore Gain 4

Tax Year 2025/26

**INCOME SOURCES**

Purchased Life Annuity Income

Gross Savings Interest

Dividends

Capital Gains above the annual exempt amount

Taxable Redundancy Payment

Rental Income

**CHARGEABLE EVENTS - BOND GAINS**

Years Gain 1 (N)	Slice 1
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**BEFORE NEW CONTRIBUTIONS**

"Total Income"

Adjusted Net Income

Personal Allowance

Personal Savings Allowance

Child Benefit Charge

Capital Gains Tax

**Tax Liability**

Bond Gains Summary

Tax on gains

Onshore Tax Credit

Top slicing relief

Liability

"Bank Balance"

**AFTER NEW CONTRIBUTIONS**

"Total Income"

Adjusted Net Income

Personal Allowance

Personal Savings Allowance

Child Benefit Charge

Capital Gains Tax

**Tax Liability**

Bond Gains Summary

Tax on gains

Onshore Tax Credit

Top slicing relief

Liability

"Bank Balance"

**DIFFERENCE**

Relevant Earnings

Contributions: Existing

New

Total

**Effective Rate of Tax Relief**

(on new contributions)

0.00%

**PENSION SUMMARY**

Relief at Source (Net Amount)

Contributions paid gross

Relief at Source (Net Amount)

Contributions paid gross

Policy start

Policy Type (Onshore/Offshore)

Initial Segments

Calculation Date

Current Surrender Value

Segments at calculation

Segments

Surrender Value

Gain

"N"

Slice

Proposed Withdrawal

Amount required

Full segment surrender

Partial surrender

# Beneficiary distributions - Encash or assign/appoint?

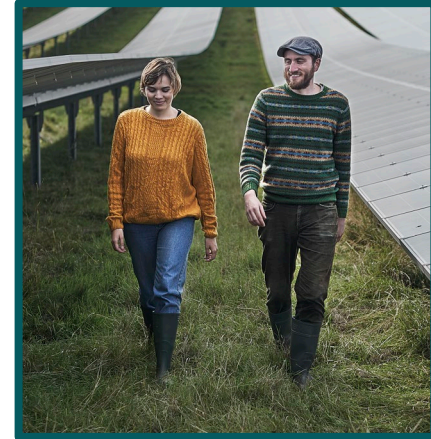
Encash



Janice assessed  
on the gain

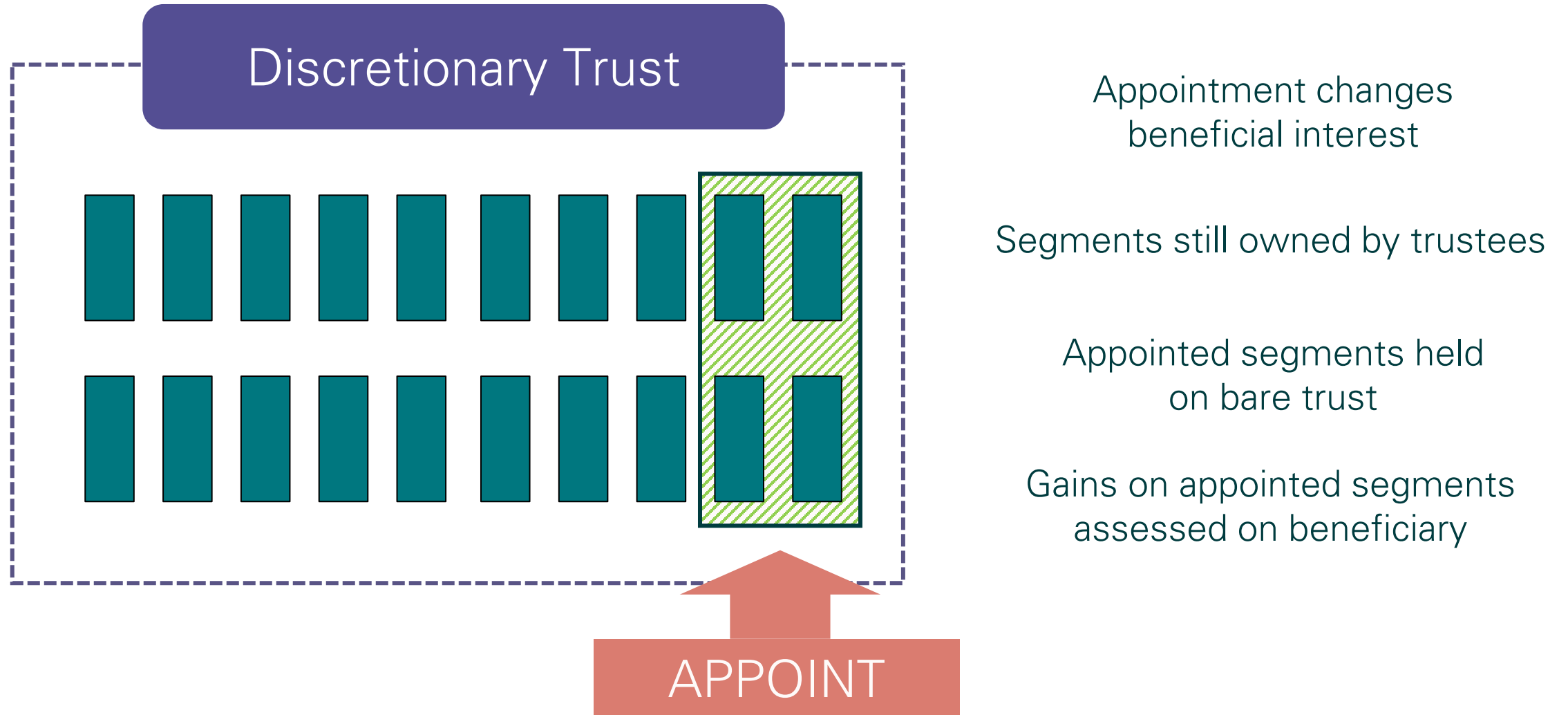


Assign



Adam or Evie  
assessed  
on the gain

# Under 18 – deed of appointment





# Loan Trust administration



# Loan Trust administration

[illegible]

# Loan Trust administration

[illegible]



How are periodic charges calculated  
on a loan trust?

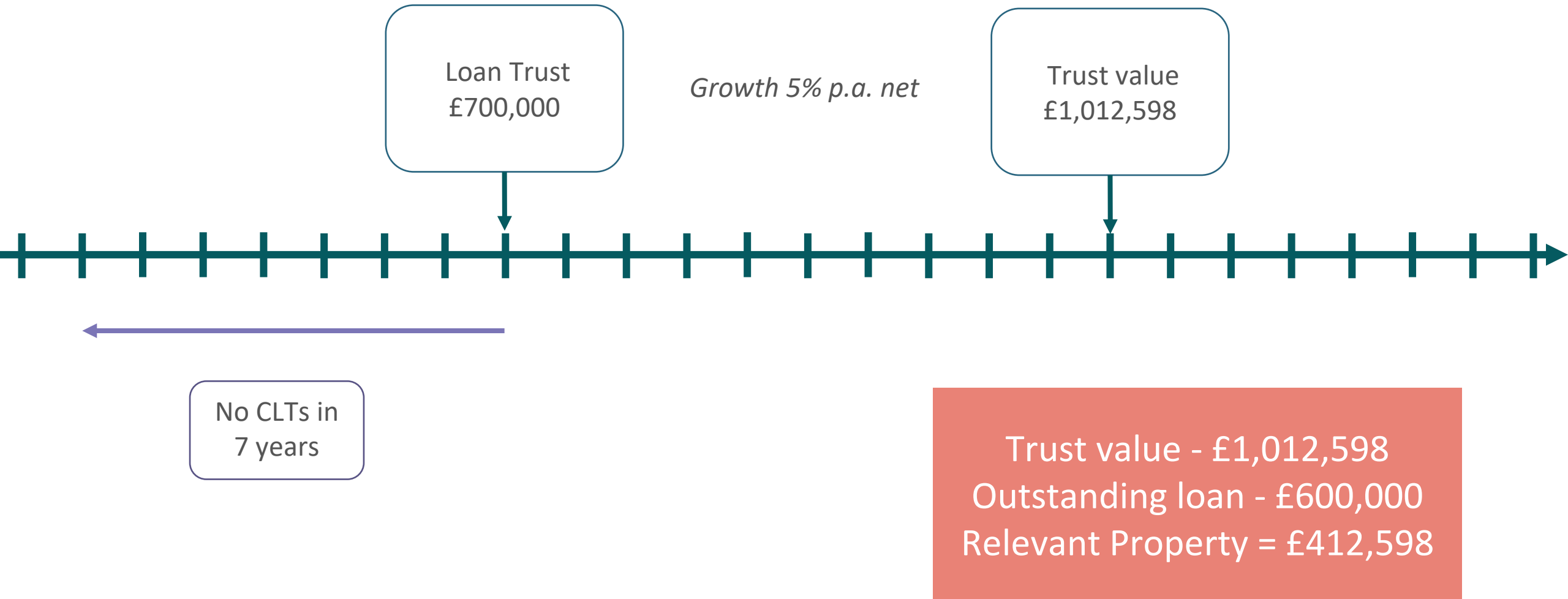
# What's assessed for the periodic charge?

## LOAN TRUST

Value of the trust  
after deducting  
outstanding loan\*

\*Trustees still need to report to HMRC where full value exceeds 80% of the trust's nil rate band

# How is the periodic charge calculated?



# Periodic charge – simple calculation

Value of Relevant Property the day before the 10 year anniversary

£412,598

PLUS

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

NIL

LESS

Trust's Nil Rate Band\*

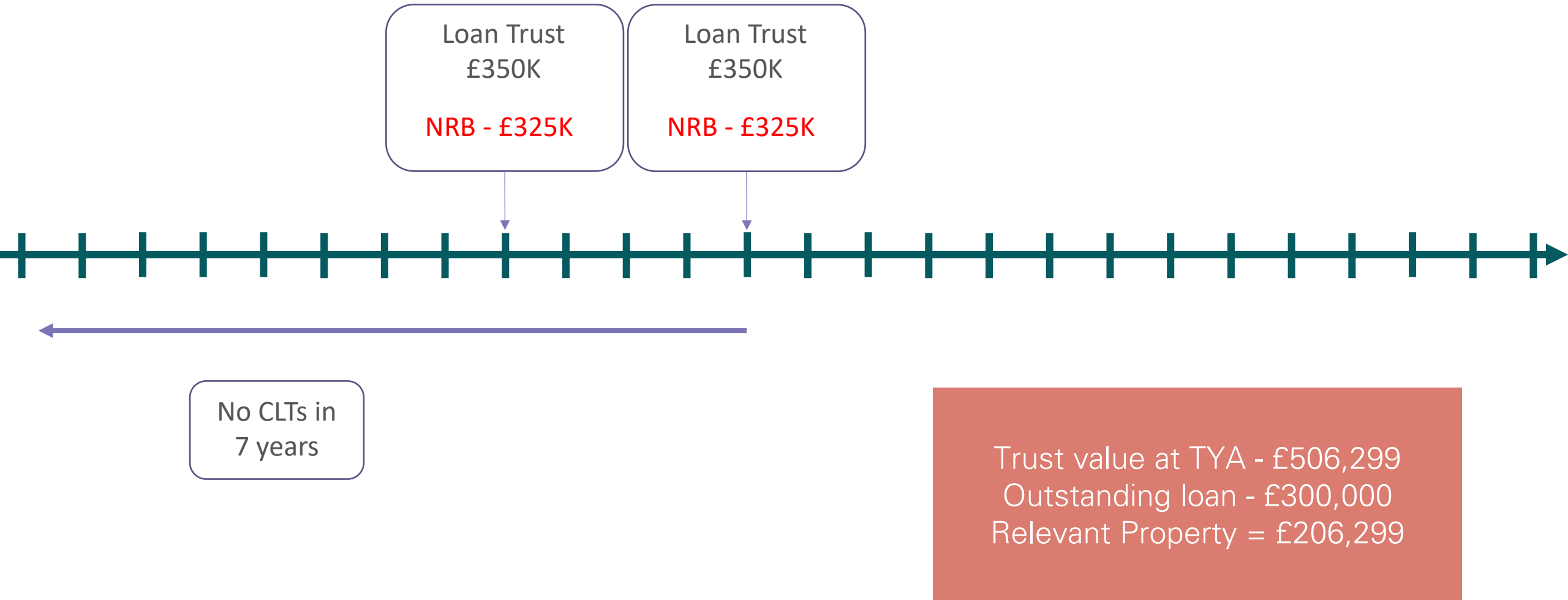
£325,000

\* 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%

£87,598 x 6% = £5,255

# Rysaffe planning





# Periodic charge – simple calculation

Value of Relevant Property the day before the 10 year anniversary

£206,299

PLUS

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

NIL

LESS

Trust's Nil Rate Band\*

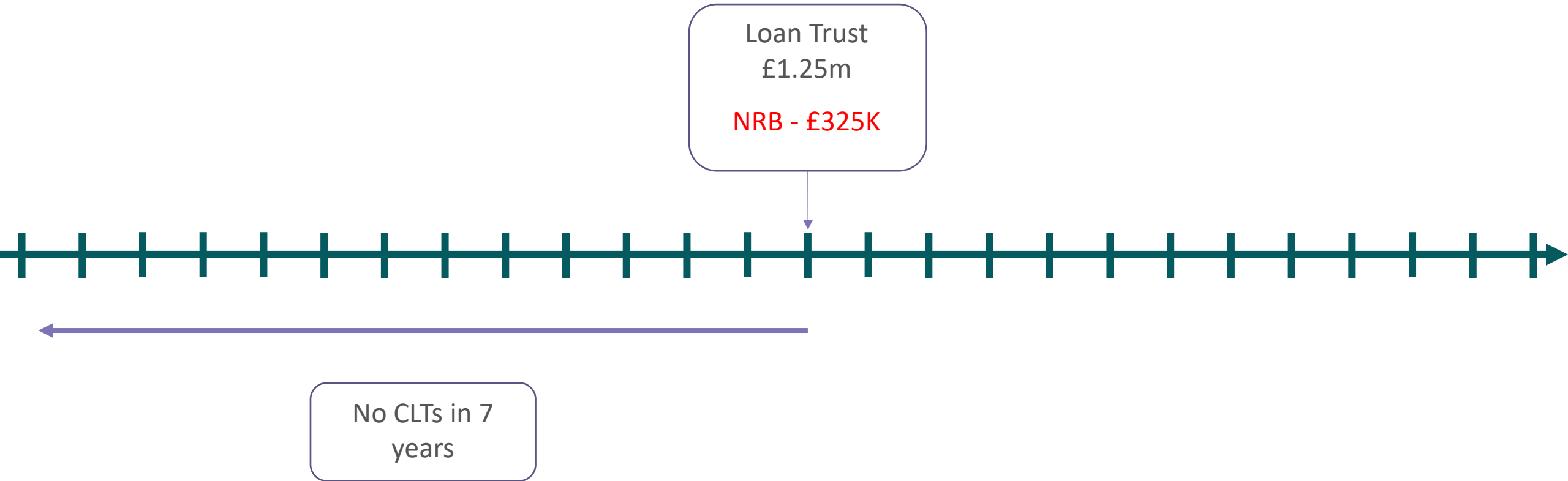
£325,000

\* 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.

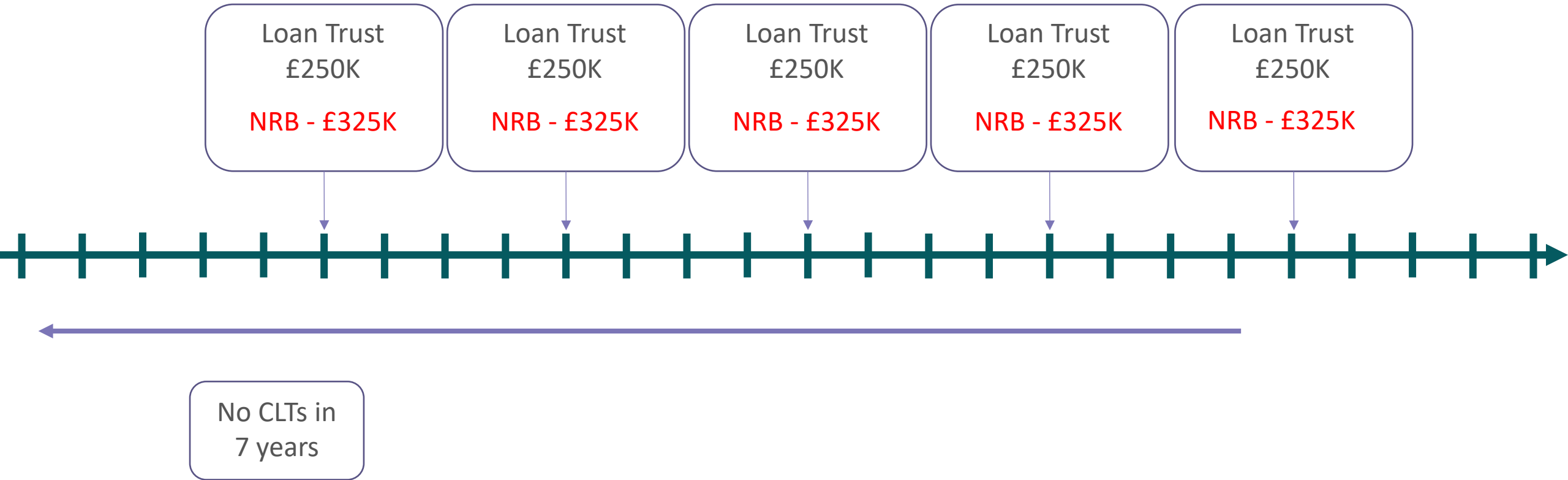
Excess taxed at 6%

£0 x 6% = **NIL**

# Rysaffe planning



# Rysaffe planning



# Rysaffe planning

$$\begin{array}{l} \text{Nil Rate} \\ \text{Band} \\ \text{£325,000} \end{array} \times 6\% = \text{£19,500}$$

Will the trust ever have over £325k taxable  
at a ten year anniversary?



Don't add to more than one trust on the same day!

# Order of gifting



Loan Trust

1st

CLT

2nd

PET

3rd



What if you decide you no longer  
need access to some or all of the  
loan?

# “Waiving the loan” during lifetime

Settlor can  
waive some  
or all of the  
loan

It must be  
done by  
deed!

Waived  
amount is  
either  
exempt, PET  
or CLT



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

# “Waiving” the loan during lifetime



On 18<sup>th</sup> July 2037 (12 years after trust set up) Janice decides she can afford to give up access to £325,000 of the outstanding loan.

Janice’s adviser recommends that she completes a deed to waive £325,000 of the loan.

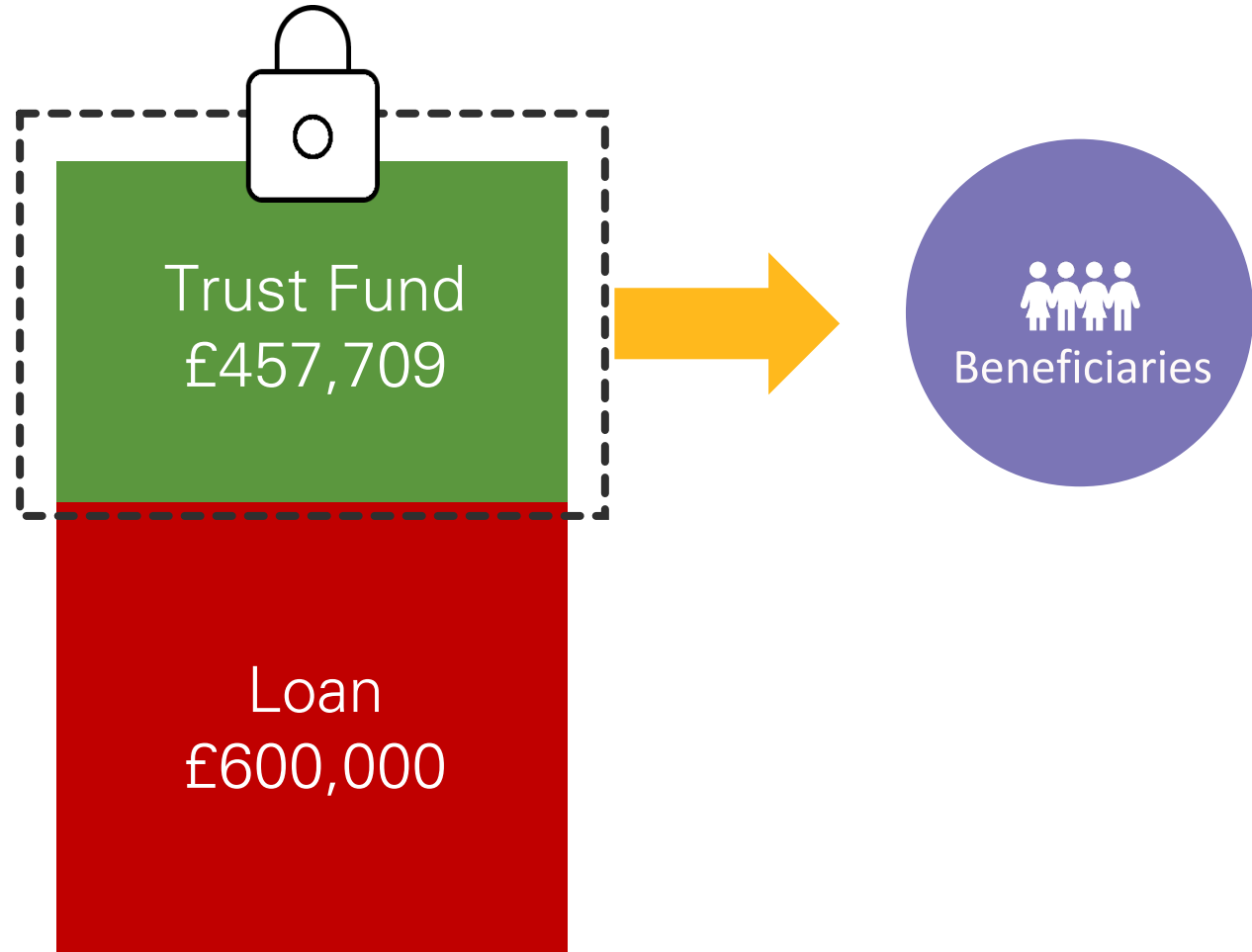


# “Waiving” the loan during lifetime

## Whereas

1. The Settlor(s) declared a trust dated **1 7 0 7 2 0 2 5** (“the Trust”) and lent the Trustees(s) the sum of **£ 700,000** in terms of a Loan Agreement dated (“the Loan”). **1 7 0 7 2 0 2 5**
2. The Settlor(s) in accordance with the terms of the Loan Agreement can at any time demand repayment of the whole or any part of the outstanding loan.
3. The Settlor(s) wishes/wish to irrevocably waive his/her/their right to repayment of the sum of **£ 325,000**

# “Waiving” the loan during lifetime

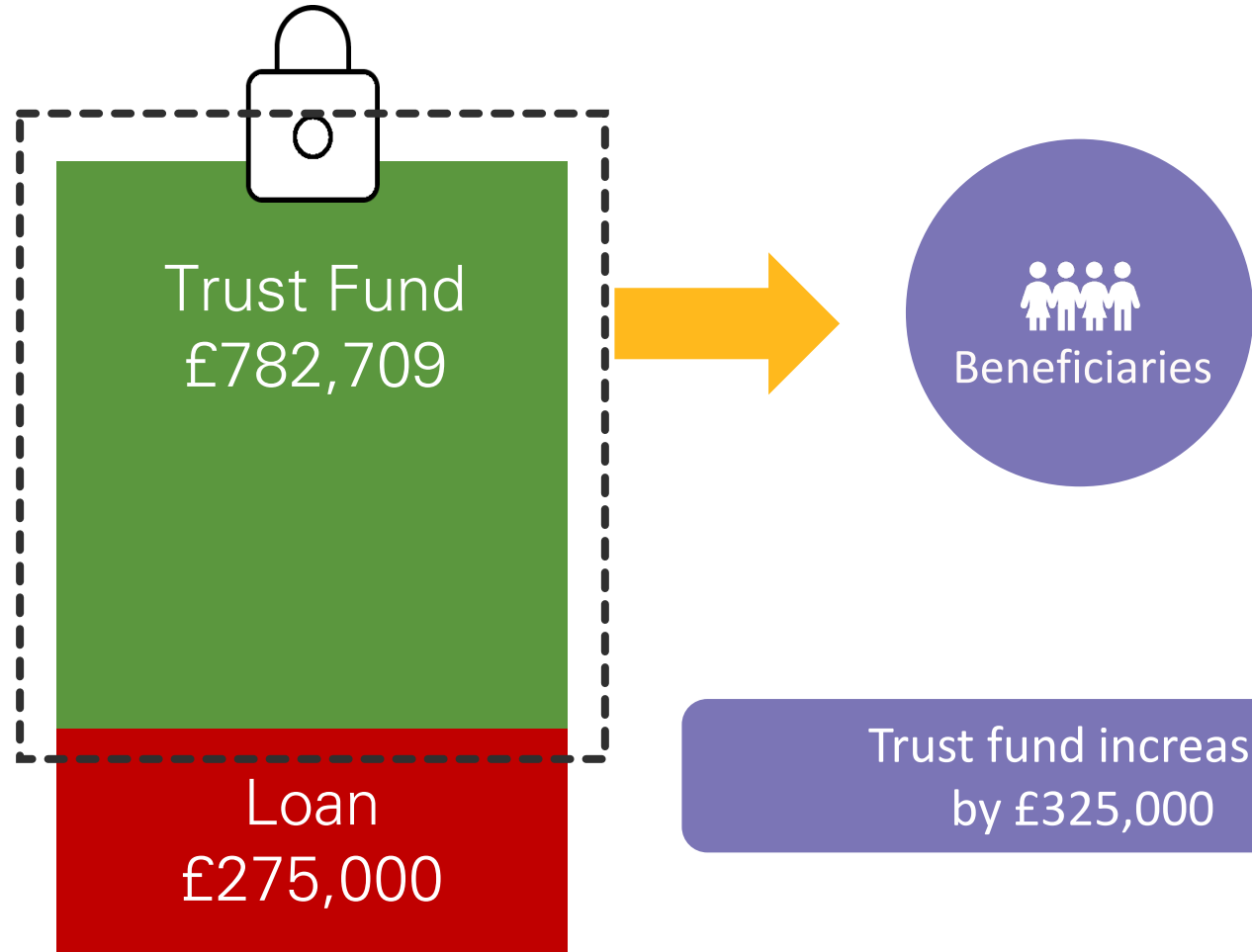


# “Waiving” the loan during lifetime



Loan reduces by £325,000

Waived amount is a chargeable lifetime transfer – 7 year clock



# Loan Trust administration

Name of Trust	The Janice Smith Loan Trust		
Date established	17 <sup>th</sup> July 2025		
1st settlor	Janice Smith		
2nd settlor (if applicable)			
Trustees	Janice Smith		
	Evie Smith		
	Adam Smith		
Initial loan	£ 700,000		

Event Date	Loan Repaid	Loan Written Off	Loan Outstanding
20 <sup>th</sup> Aug 2029	£100,000	n/a	£600,000
18 <sup>th</sup> July 2037	n/a	£325,000	£275,000



What happens to the loan on death?

# Loan trusts on death



Janice sadly passes away aged 86, almost 20 years after setting up the loan trust.

The outstanding loan is still £275,000 as no more of the loan was repaid or waived

The bond is now worth £1,562,718.

Janice's executors and trustees are her two children Adam and Evie.

They notice that a box was ticked on the trust deed to "waive the loan on death" and ask the adviser what they need to do with the trust.

# What do you want to happen on death?



## Lives assured

Bond ends when last life assured dies

Sum assured payable on death

Available Onshore and Offshore



## Capital Redemption

Ends at maturity date (term of 99 years)

Maturity benefit payable at maturity date

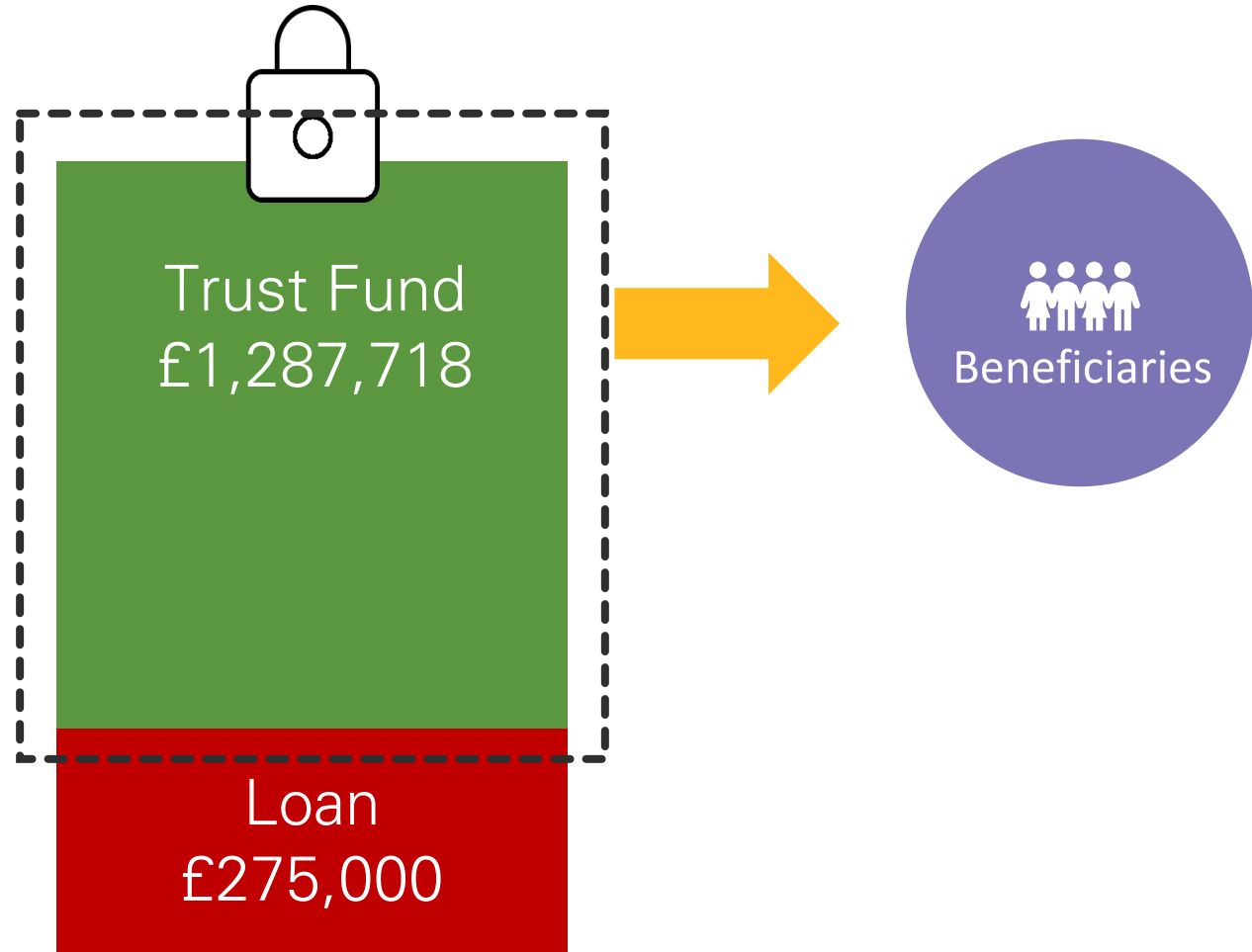
Available on Offshore bonds only

# Loan trusts on death – IHT treatment



Loan of £275,000 included in  
Janice's estate

Waived amount ignored as  
Janice survived 7 years





# Loan Trusts on death – the 3 options



1. Repay the full loan to the estate

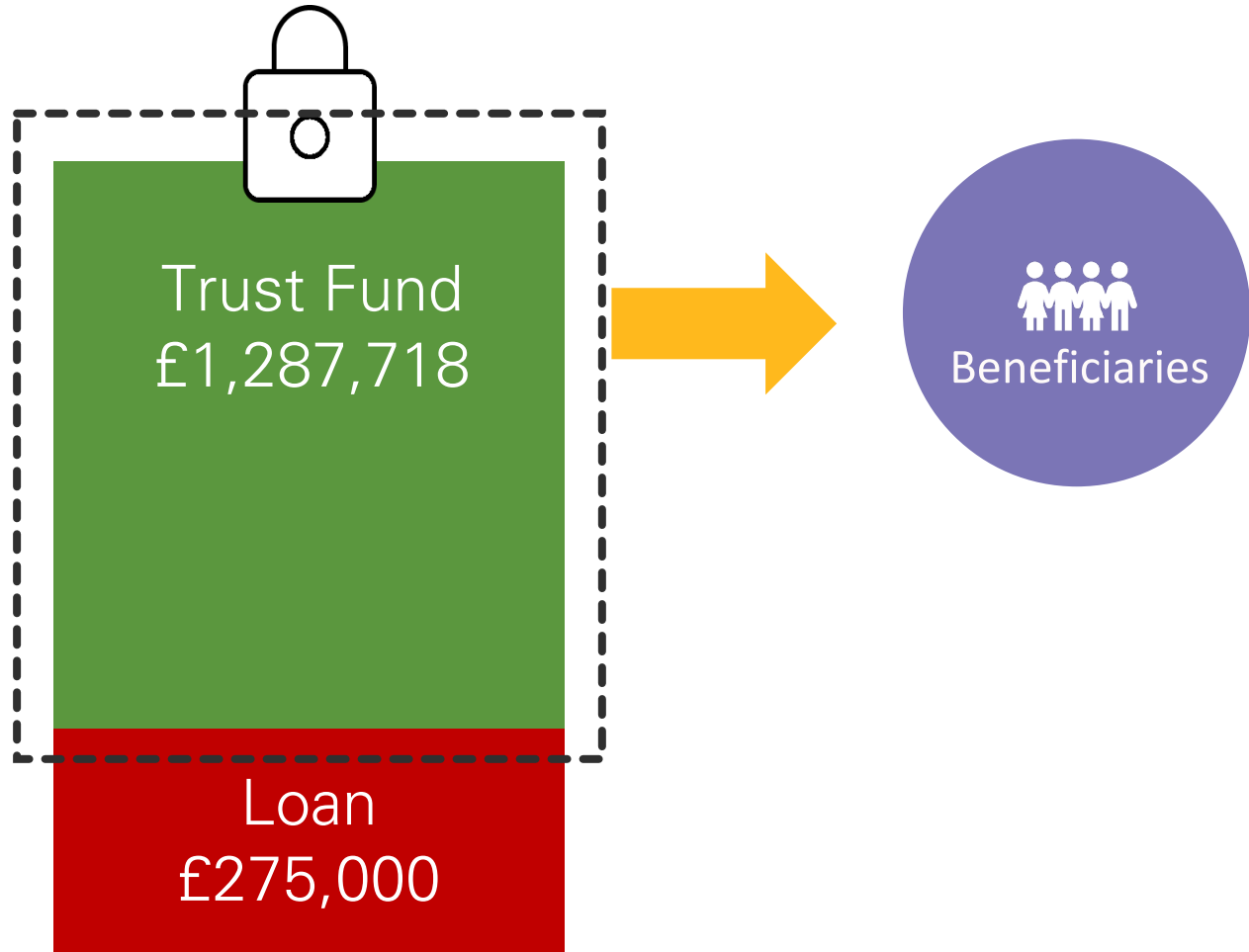
2. Estate beneficiaries take over the loan

3. Waive the loan on death  
(tick box at outset or include instruction in Will)

# Waiving the loan on death



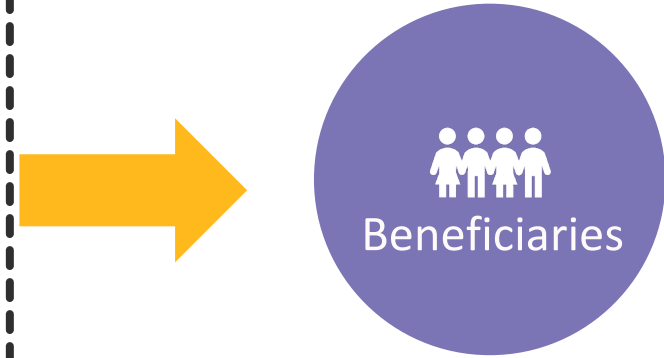
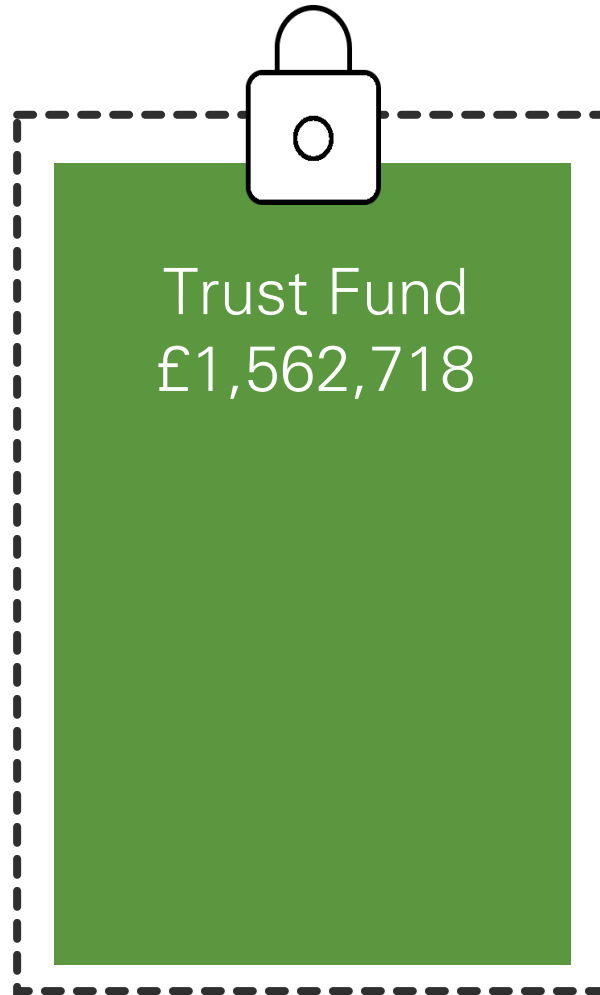
Janice ticked the box on the trust deed at outset to waive the loan on death



# Waiving the loan on death

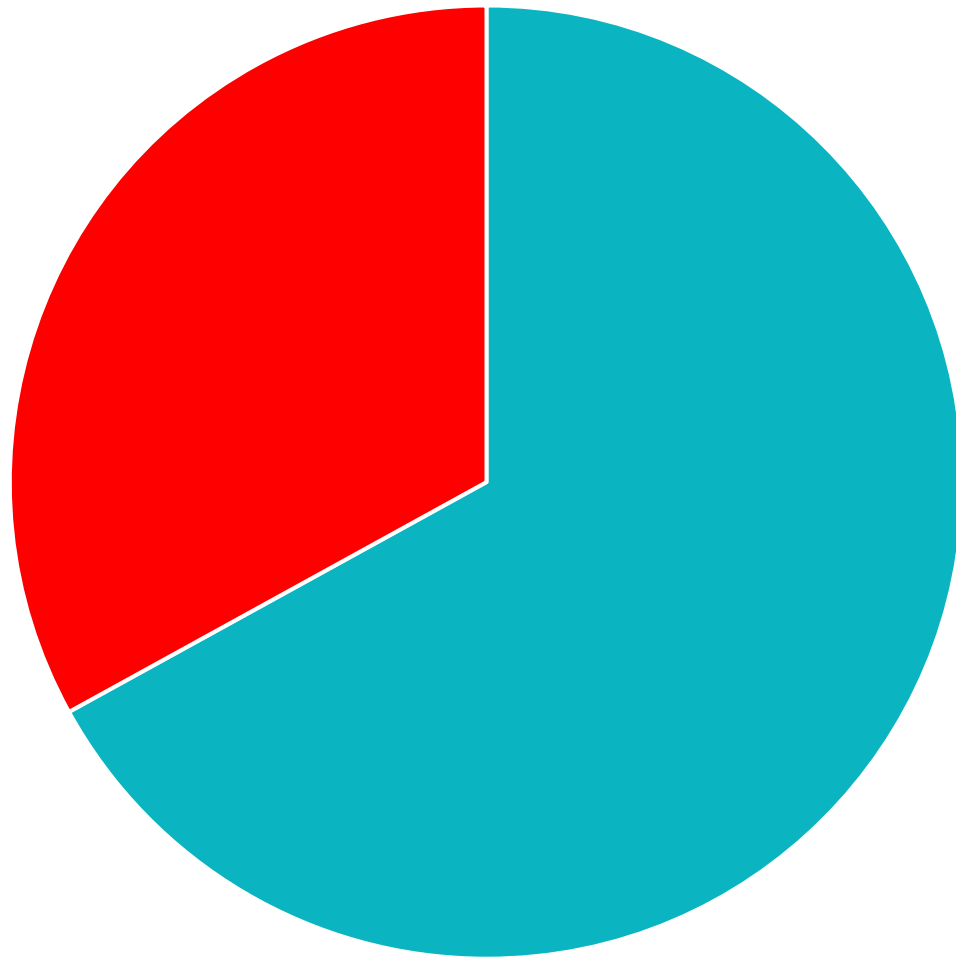


Janice ticked the box on the trust deed at outset to waive the loan on death



- Trust fund increases by £275,000
- Trustees can distribute without probate
- Trustees can assign segments to beneficiaries (chargeable event planning)

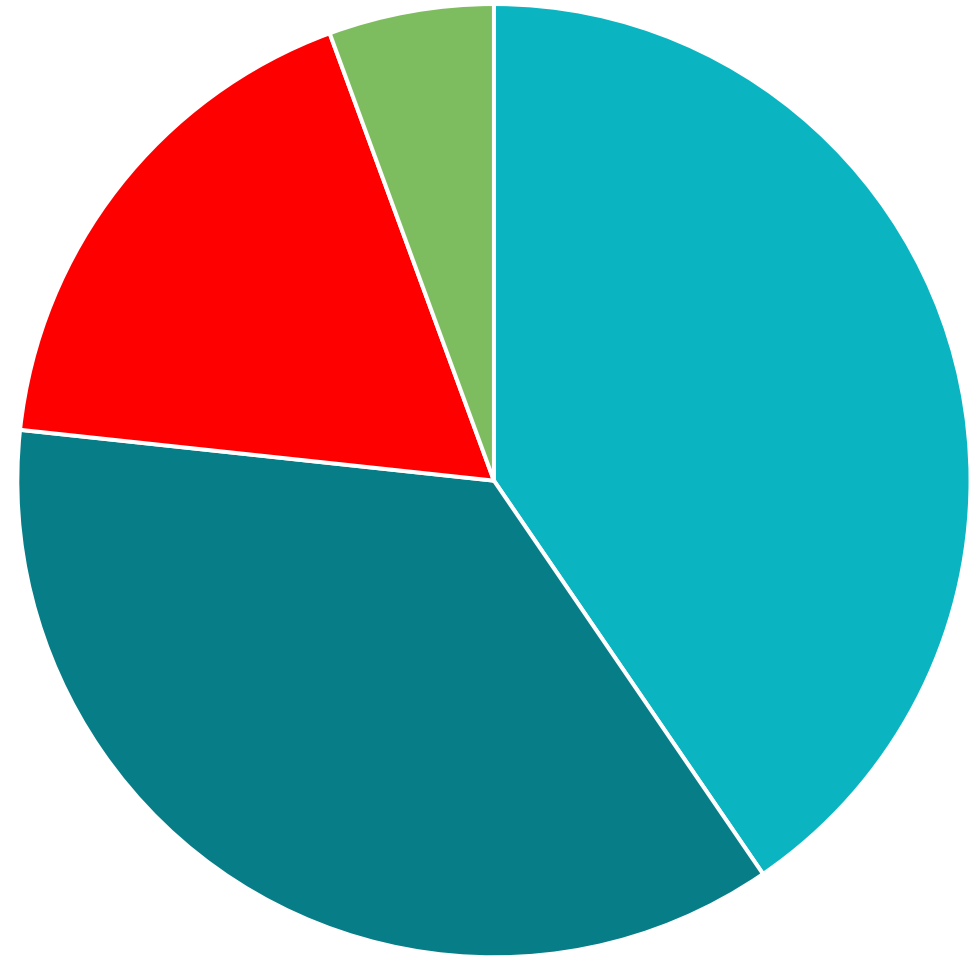
No planning



■ Net Estate ■ IHT

Net Legacy - £2,491,267

Loan Trust



■ Net Estate ■ Net Trust ■ IHT ■ Income Tax

Net Legacy - £2,833,148

# Joint settlor loan trusts

1

The loan is a joint asset

2

Both settlors excluded as beneficiaries of the trust

3

Waived amounts constitute a gift from both settlors

4

Bond gains split between each settlor/trustees on discretionary trusts

5

The outstanding loan passes by survivorship on first death (inter-spouse exemption?)



How does a Loan Trust compare to the other main IHT solutions?

# Comparison with other IHT solutions

Loan Trust

~~Gift Trust~~

~~DCI~~

~~Reversionary  
Trust~~

Business  
Relief

Flexible  
access to  
capital

No settlor  
access

Fixed  
withdrawals

Restricted  
Access

Flexible  
access to  
capital

## Business Relief

Access to capital growth  
Potential for relief

Lack of diversification  
Liquidity risk  
Legislative risk  
Beneficiary access requires gift  
Inflexible  
Lower returns

## Loan Trust

No access to capital growth  
IHT on outstanding loan

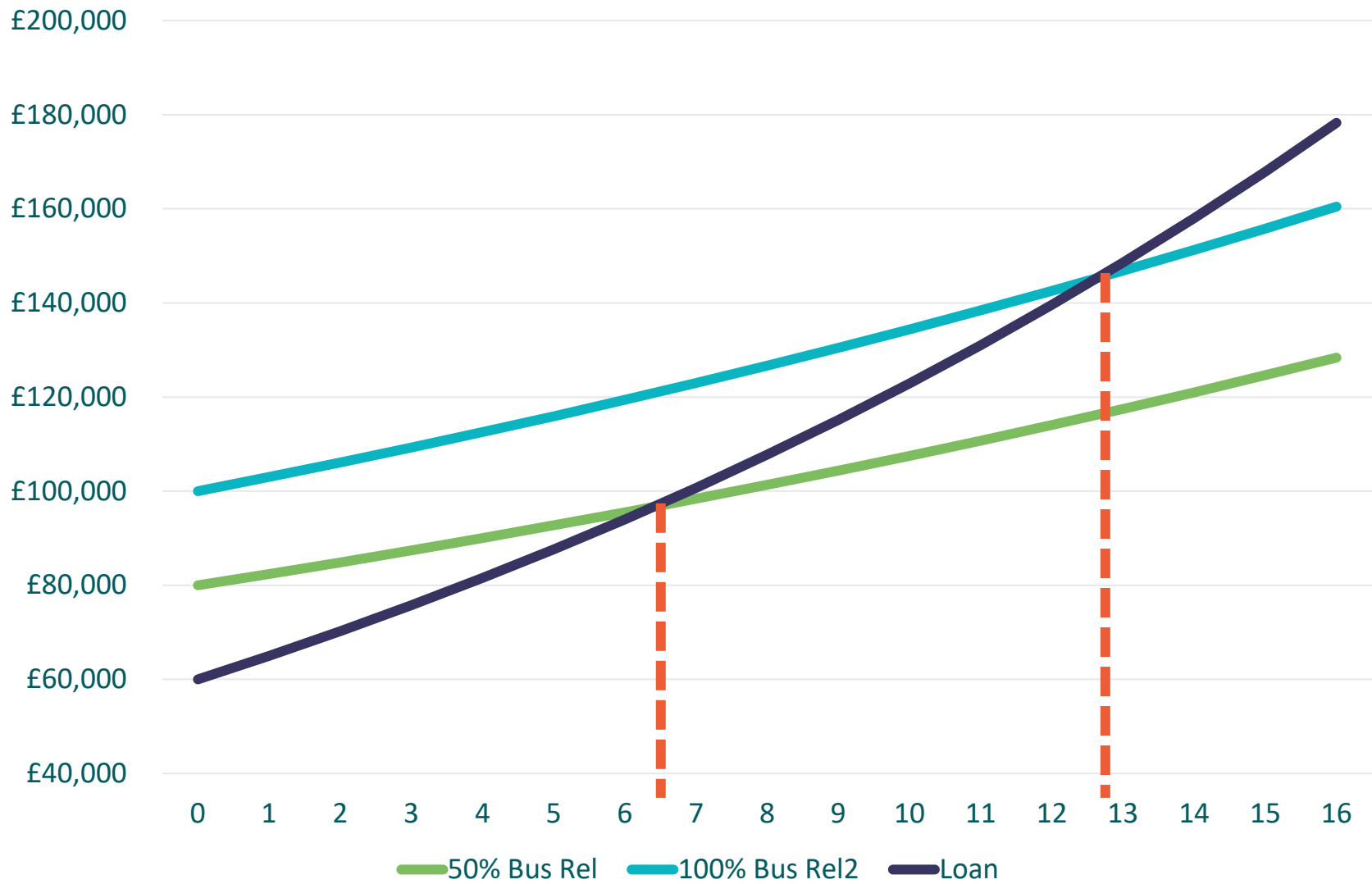
Full investment universe  
Negligible liquidity risk  
Limited legislative risk  
Beneficiary access - trust distributions  
Flexible  
Higher returns



# Business Relief 3% v Loan Trust 5%

**£100,000 invested**

- 20% tax on bond gain
- No tax on BR
- 40% IHT on Loan
- 50% IHT relief on BR
- 100% IHT relief on BR



Should you let the tax tail wag the investment dog?

# What does a loan trust offer?

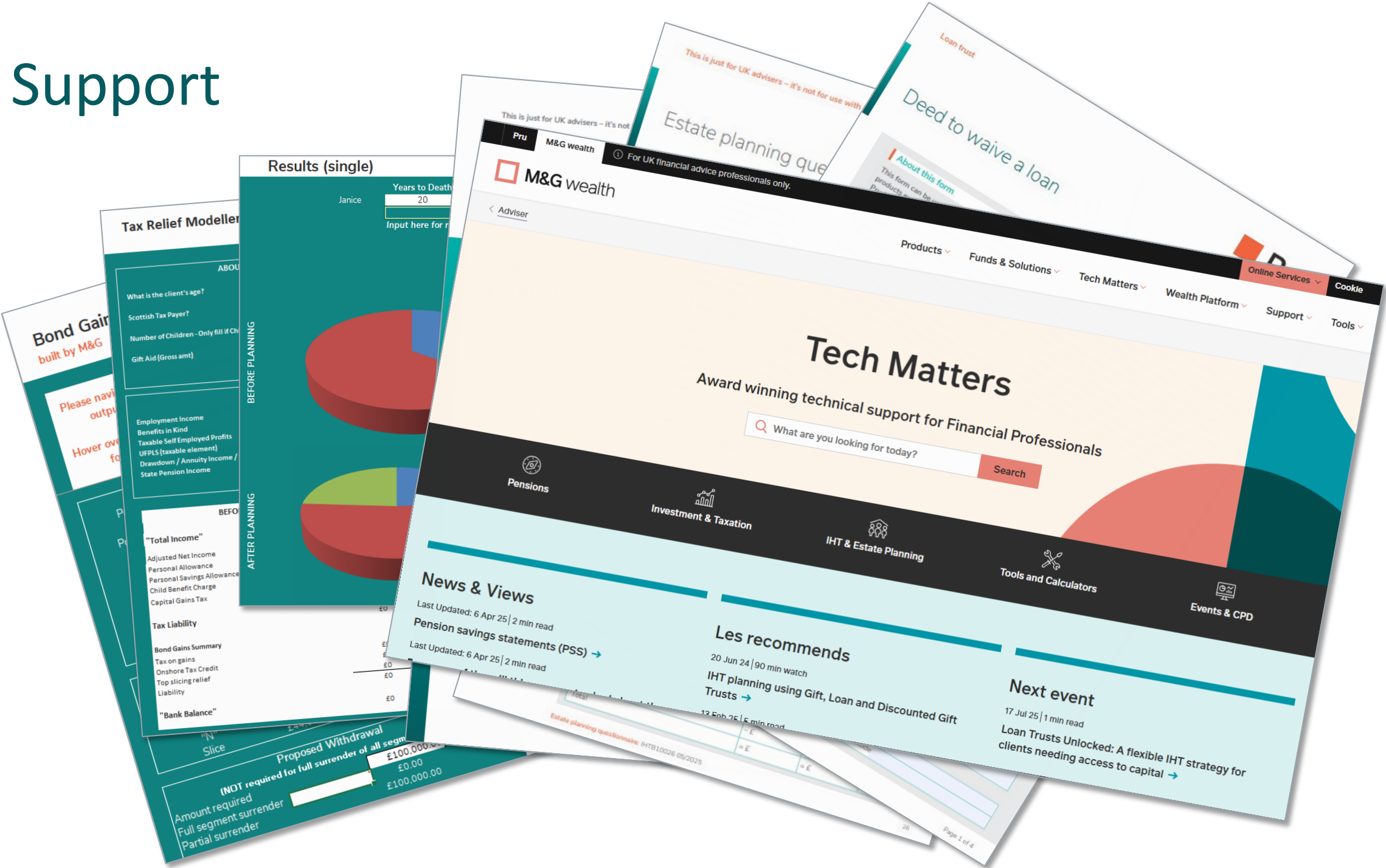


Access

Flexibility

Caps the  
growth on  
the estate

# Support



# Learning objectives

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

Describe the structure of a loan trust, including the inheritance tax benefits they can provide

Explain how to effectively administer a loan trust, including managing chargeable gains both during the settlor's lifetime and on death

Evaluate client circumstances to determine the suitability of a loan trust as part of a comprehensive IHT mitigation strategy



Thank you for your time

Get in touch with your usual M&G contact if you need further help

