Our lifestyle trust

A flexible way to help you achieve a balance between access to capital, inheritance tax planning and control over the distribution of assets.

For use with a Collective Investment Bond.

Contents

Planning for inheritance tax

Inheritance tax (IHT) used to be a concern for only the very wealthy but these days many more of us need to consider how to deal with it.

There are a number of ways you can plan your finances to help reduce your IHT liabilities. Typically, they involve removing money from your 'estate' (the total value of your assets) at least seven years before you die. One way to help mitigate IHT is to put an investment into a trust.

Any growth in value on the investment that you place in the trust is immediately outside your estate for IHT purposes and, if you survive for seven years after setting it up, the value of the original investment will not be liable for IHT.

What is a trust?

Simply put, a trust allows you, 'the Settlor', to entrust your assets, which then become known as the trust fund, to your appointed 'trustees'. The trustees then become the legal owners of the trust fund and it is their responsibility to control, manage and ultimately distribute the trust fund to the 'beneficiaries'.

You can appoint individuals as trustees, or you can choose a corporate trustee.

Certain trusts not only allow you to pass on your wealth when you die, but can also give you regular access to capital when you are alive. However, with trusts designed to achieve a tax benefit, you usually have to forgo access to some of the original capital as well as any capital growth.

That's where the Lifestyle Trust can help.

The following pages explain how the Lifestyle Trust can be used for inheritance tax planning with a Collective Investment Bond.

Introducing the Lifestyle Trust

The Lifestyle Trust offers a tax-efficient way to leave your wealth to future generations.

It is designed to help you achieve the required balance between access to capital, inheritance tax planning and control over the future distribution of assets, while providing a certain amount of flexibility in the future.

What makes the Lifestyle Trust unique is that it entitles you to access a pre-agreed proportion of the trust fund for your own future use. This is divided into a series of what are known as 'entitlements' that become available in line with an agreed schedule of dates.

Access

Specified at the start, these entitlements can differ from each other and the frequency of the dates can also differ. This allows you to access them when you might need to; for an overseas holiday perhaps, or to help fund your grandchildren's education.

You can even defer or waive payment of an entitlement if you decide you don't need the money when it becomes available.

Flexibility

There are other trusts that provide ways to retain access to your wealth in the form of regular payments, but the rules governing these don't typically offer this level of flexibility. Using a Lifestyle Trust gives you the opportunity to better adapt to changing future circumstances, tailoring the timing and the entitlements to suit you.

How the Lifestyle Trust works

1

Invest in a single premium bond.

To set up the trust you first invest the amount you plan to place into trust in a Collective Investment Bond (CIB) which is a single premium life assurance bond from Quilter. The bond is a way to hold your wealth in order to achieve potential long-term investment growth.

To ensure the trust remains effective for inheritance tax purposes, neither you, the Settlor, nor your spouse or civil partner should be included as lives assured.

2

Transfer the bond to the trust.

The value of the bond becomes the 'trust fund' and the appointed trustee(s) takes full responsibility for managing and distributing it to the potential beneficiaries. You can be a trustee, but we recommend at least one additional trustee is appointed.

3

Specify your entitlement schedule.

At the same time as you transfer the bond to the trust (step 2), you specify a schedule of dates when you want to receive entitlements from the trust fund. Although you can't alter the size of these, the Lifestyle Trust gives you the flexibility to defer accessing them if you decide that you don't need an entitlement on a scheduled date. (See 'Accessing your entitlements' on page 6).

4

Consider writing a letter of wishes.

You may decide to write a 'letter of wishes' to the trustees to give them an indication of your intentions and wishes for the way the trust fund is to be used. Although it is not legally binding, its purpose is to give the trustees guidance that you would like them to take into account when they make future trustee decisions.

Accessing your entitlements

When you invest in the Collective Investment Bond to establish the Lifestyle Trust, it is issued as 1,000 identical policies.

This is primarily to provide as much flexibility and tax efficiency as possible when taking withdrawals. (For example, an investment of £100,000 is divided across 1,000 policies worth £100 each at outset.)

Your pre-agreed entitlements are detailed on the Second Schedule of the Lifestyle Trust deed, and held by the trustees in a series of 'pots' within the bond, until their relevant entitlement dates. Each of these pots, known as 'Policy Funds', contains a number of policies. The table on page 8, part of the case study, shows an example of this.

When the time approaches for you to access an entitlement, you have the following options:

1. Defer the entitlement to another year.

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2. Allow it to reach the entitlement date.

Once the entitlement date has been reached, a further three options are available:

1. Decide to do nothing; in which case the policies remain invested in the name of the trustees for your benefit.

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2. Ask the trustees to surrender the individual policies that make up the Policy Fund and receive the proceeds.

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3. Ask the trustees to assign the individual policies that make up the Policy Fund to you. You can then surrender the policies at a later date or even give them away to a loved one.

Important information

Tax considerations when taking entitlements.

The surrender of policies which make up a Policy Fund is considered a chargeable event in the UK. Any gain made on the policies surrendered are potentially liable to income tax depending on your other income in the year of surrender. You should speak to your financial adviser prior to surrendering the policies to ensure you understand the consequences.

The Lifestyle Trust in action

An illustrative example

Mr Smith, a semi-retired 68 year old, has an annuity providing fixed income on a monthly basis and works part-time. He has two sons and four grandchildren.

Assets

- His main asset is his house, valued at £750,000 and owned outright
- He also has investments in various forms totalling £350,000

Income

- £6,500 a year from his part-time job
- £9,000 a year State Pension
- £10,000 a year from his annuity

Goal

- Reduce inheritance tax
- Supplement income with flexible access to capital, particularly at expensive times of the year such as birthdays and holidays.

Investment

- £325,000 (retaining £25,000 as an emergency fund and not exceeding the nil-rate band)

Previous gifts

- None

This case study is fictional and used purely to illustrate a possible real-life scenario. The value of investments can fall as well as rise and investors may not get back what they put in. Growth figures do not include bond charges.

Setting up a bond into trust

Having considered Mr Smith's needs and investment goals, his financial adviser recommends that he invests into a Collective Investment Bond with Quilter subject to a Lifestyle Trust. The trust does not oblige Mr Smith to specify the names of his beneficiaries at the outset, but he can complete a letter of wishes to his trustees confirming his intention for his sons and grandchildren to benefit.

Any growth in value within the bond will be immediately outside his estate for inheritance tax (IHT) purposes. If he lives for seven years after gifting the bond to the Lifestyle Trust, there will be no further IHT charge on his estate in respect of the £325,000 gift when he dies. (Please see 'The inheritance tax treatment of the Lifestyle Trust' on page 9.)

Accessing the entitlements

The bond, which was taken out on 1 May 2025, is segmented into 1,000 policies worth £325 each. Mr Smith has specified that he would like access to 30 policies every other year, as can be seen in the table below.

He believes the extra £9,750 (30 policies with initial premium of £325) plus any growth – will cover any additional income requirements he might have.

Mr Smith becomes entitled to Policy Fund A (which contains policy numbers 1-30) on the anniversary date of the bond.

When the Policy Fund is cashed in by the trustees and the proceeds returned to Mr Smith, there is no IHT exit charge, although it may create an income tax liability. Once Mr Smith receives the value of each Policy Fund from the trustees it will be within his estate for IHT purposes. When Mr Smith uses the money to purchase gifts for example, the money will no longer be included within his estate for IHT purposes.

Deferring access

If Mr Smith decides at a later date that he does not require a Policy Fund to be paid to him, he can defer it by writing to the trustees and request a deferral either until a later date or indefinitely.

Policy number(s)	Total number of policies	Year of entitlement	Policy fund
1-30	30	2027	A
31-60	30	2029	B
61-90	30	2031	C
91-120	30	2033	D
121-150	30	2035	E
151-180	30	2037	F
181-210	30	2039	G

Tax saving

If Mr Smith dies aged 80, he will have lived more than seven years since creating the trust and having spent all the proceeds from the Policy Funds, the value of the trust is outside his estate for IHT purposes. On Mr Smith's death, taking into account the value of the Policy Funds (A – F) which have been paid to Mr Smith over the previous 10 years, the value of the remaining investment (policies 181 – 1,000) is £410,000. So, compared to Mr Smith doing no IHT planning, he has saved £410,000 x 40% = £164,000 (assuming the nil-rate band is used elsewhere).

The inheritance tax treatment of the Lifestyle Trust

Lump Sum Payments into the Lifestyle Trust

By transferring the bond into the trust, you are making a gift for inheritance tax (IHT) purposes. This gift will be treated as a 'chargeable lifetime transfer' (CLT) apart from any amount covered by an 'exemption'. (See CLT explanation on page 11).

Any CLT into the Lifestyle Trust which would cause you to exceed your available 'nil-rate band' must be reported to HM Revenue and Customs (HMRC) and tax at 20% (of the excess) is payable. In addition, all trusts now need to register with HMRC within 90 days of declaration. See page 11 for further details.

When you receive the 'entitlement'

There should be no IHT liability applicable when you receive your entitlement to the Policy Funds. This is because of the special design of the Lifestyle Trust. However, once you receive your entitlement to each Policy Fund, then its value will form part of your estate for IHT purposes.

When you die:

- **The original gift –** You must survive seven years after transferring the bond for the CLT to be considered outside of your estate for IHT purposes. If you do not survive seven years then there may be further IHT to pay on death. For any additional contributions you choose to make to the bond, a new seven years will apply for each contribution.
- **The future 'entitlements' –** One of the conditions for receiving an entitlement to the Policy Funds is that you are alive on the date you become entitled. Therefore, if you are deceased, the value of the Policy Funds that you are yet to become entitled to will be outside your estate for IHT purposes and will remain within the trust.
- **Previous 'entitlements' –** Any Policy Funds you receive which have not been encashed and spent by the time you die, will be within your estate for IHT purposes.

Discretionary trust taxation

The Lifestyle Trust is a discretionary trust, a type of trust subject to certain IHT charges.

The tax calculations for a discretionary trust can be complex, but in summary:

- A chargeable lifetime transfer charge may apply
- A ten year periodic charge may arise, every 10 years; and
- An exit charge may apply when benefits leave the trust. See glossary on page 11 for definitions of charges.

Your financial adviser will be able to explain this in more detail.

Talk to your financial adviser about the Lifestyle Trust

The Lifestyle Trust is one of a number of trust solutions that can be used for tax planning.

It can help ensure that your wealth can be passed on to those you choose, in line with your wishes, during your lifetime and after.

Your financial adviser will be able to explain whether the Lifestyle Trust is appropriate for your needs and if it is the most suitable.

The Lifestyle Trust could be right for you if you want to:

reduce your inheritance tax liabilities

leave your wealth, tax efficiently, to future generations

fund a dream holiday or perhaps your grandchildren's education, by having access to trust fund 'entitlements' at pre-determined dates

have the flexibility to defer accessing entitlements if circumstances change.

Note

Things you should consider with the Lifestyle Trust:

- Once you have specified your entitlement schedule you will be unable to change the size of these entitlements, although you do have the flexibility to defer accessing them if you decide that you don't need an entitlement on a specific date.
- The Lifestyle Trust may not be suitable for you if you need greater access to the money you have put under trust.
- Although you have the right to the entitlements specified, if market returns are poor for a sustained period, the value of these entitlements may be worth less than you expect.
- There may be immediate, ongoing and exit IHT charges.
- The trustees will use their discretion to decide who should benefit from the trust and, whilst you can make your wishes known to them, they will ultimately decide.

Glossary

Beneficiaries

The beneficiaries are the individuals or groups of people named under the trust. These are often children or other family members. Depending upon the nature of the trust, it may also be possible to include future generations such as grandchildren as yet unborn.

Chargeable Lifetime Transfer (CLT)

A CLT is a transfer of value which is made by an individual and which is not an exempt or potentially exempt transfer. If the transfer exceeds the available nil-rate band of the transferor then a charge of 20% on the excess is payable. A transfer into a discretionary trust is a CLT.

Discretionary trust

A trust where the trustees use their discretion to decide who may benefit from the trust and when. The beneficiaries cannot demand their rights from the trustees.

Estate

Estate means all the assets that a person owns (or, in some cases, is treated as owning) at the time of their death, less their liabilities. Your estate will also include the value of any property you have given away if either the gift you have made is subject to conditions or restrictions, or you keep back some benefit for yourself.

Exit charge

If a CLT charge or 10-yearly periodic charge has given rise to a tax charge, an exit charge will be paid on any distributions made by the trustees out of the trust fund. The rate charged is dependent on the entry and 10-yearly periodic calculations but can never be greater than 6%.

Nil-Rate Band

The nil-rate band (NRB) is the value of an individual's estate that is not chargeable to UK inheritance tax. The amount is set by the Government and is currently £325,000, which is frozen until 2030.

Periodic charge

Every ten years, the value of the trust less the available nil-rate band will be assessed for inheritance tax at a maximum rate of 6%.

Second schedule

The Lifestyle Trust deed is a document which includes four sections known as 'schedules', in which the provisions of the trust and its management are detailed. The Second Schedule is where the Settlor specifies the future entitlements they will receive and when they will be able to access them.

Settlor

The Settlor is the person or persons who sets up the initial investment. The Settlor(s) transfers the ownership of the assets to their chosen trustees.

Trustee(s)

The trustees are the legal owners of the assets, and manage the assets for the benefit of the beneficiaries. They are also responsible for dealing with the trust fund on the Settlor's death.

Trust registration

A trust must register with HMRC's Trust Registration Service (TRS) if it is considered UK resident or has a UK tax liability, unless an exemption applies.

- A trust must register within 90 days of the date of the trust deed.
- The trustees must submit evidence of registration (available from the TRS) or confirm exemption from registration to Quilter within 90 days of the trust date.

Further details regarding trust registration can be found here: ***quilter.com/TrustRegister***

quilter.com

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