

Discretionary Trust (settlor excluded) Reasons Why

This document has been compiled to provide you with some information and reasons why to use this type of trust for your client, which you may wish to incorporate within your recommendation letters. These sample paragraphs are for your information and consideration only. You will, of course, need to relate the sections you select to your client's own circumstances as they may not all be relevant. This wording has been produced to help you, as a financial adviser, draft your own material. We accept no responsibility for ensuring that it meets with your own regulatory requirements and you should arrange for approval in accordance with your regulator's rules within your own firm.

The Discretionary Trust (settlor excluded) and Collective Investment Bond (CIB) are both provided by Quilter Life & Pensions Limited.

Summary of recommendation

I recommend that you make a £<enter amount> single lump sum contribution into a Quilter Life & Pensions Collective Investment Bond. Following commencement of the bond we will place it into the Discretionary Trust (settlor excluded).

What are the key benefits of this recommendation?

The trust is designed to allow you to reduce your potential UK inheritance tax (IHT) liability by making a gift of your Collective Investment Bond to your chosen trustees.

After seven years, there would be no further IHT liability on the original gift, but the trust would continue to be subject to IHT periodic and exit charges. If you die within seven years of creating the trust, you may be entitled to taper relief which would reduce the inheritance tax payable.

It allows you to create a legacy for your family in a flexible way, evolving with you and your family over the coming years.

The Quilter Collective Investment Bond is used as the investment within the Discretionary Trust (settlor excluded). This is a single premium, unit linked, whole of life assurance policy. The Collective Investment Bond is a Defaqto '5 Star' rated bond provided by Quilter Life & Pensions Limited.

What personal objectives does this achieve?

We have discussed your personal objectives and the recommendation of a Discretionary Trust (settlor excluded) achieves the following objectives (delete/amend as appropriate):

- ▶ You would like to take action about the IHT position of your estate
- ▶ You would like to provide a legacy for your family
- ▶ You are happy to make a gift in order to achieve this and you have confirmed that you do not require access to your gift
- ▶ You would like to give your trustees the discretion to decide how and when the trust fund is distributed to beneficiaries

Summary of how the Discretionary Trust (settlor excluded) works and the advantages to you of using it

A trust allows you to entrust your assets 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'.

The Discretionary trust (settlor excluded) is designed to allow you to make a gift (your Collective Investment Bond) to the trustees. The Collective Investment Bond is then held for the benefit of the beneficiaries by the trustees you have appointed. They have discretion on who will benefit from the trust and when. As the name of the trust implies, you (the settlor of the trust) are excluded from benefiting from it in the future.

The trust also allows the trustees to have continued access to the trust fund on your death without the need for lengthy probate delays.

The Discretionary Trust (settlor excluded) allows you to:

- ▶ reduce your estate (after 7 years) by making a gift
- ▶ remove future growth on the gift outside of your estate from day one
- ▶ provide a legacy for your family but with no one named person being entitled
- ▶ complete a letter of wishes to the trustees to inform them who you would like to benefit from the trust fund
- ▶ automatically include new individuals entering the beneficiary class, e.g. birth of an additional grandchild
- ▶ link your Collective Investment Bond to a wide range of investment funds managed by the world's leading fund managers
- ▶ take advantage of bond assignment options, with individual segments being assigned to potential beneficiaries in the future. This can allow trust beneficiaries to hold a portion of the bond in their own name rather than being forced to withdraw

Appointing a professional trustee (only include where a professional trustee is being recommended)

Being a trustee can be a complex and often daunting role. We have discussed appointing an independent professional trustee to ease the concerns you have with selecting individual family members to act as trustees. By appointing a professional trustee (a company) as trustee, ensures that your trust is not affected by individual trustee incapacity and death.

The benefits of appointing a professional trustee include:

- **Impartiality** – removing the emotional element which can cloud decision making.
- **Expertise** – navigating the responsibilities imposed on trustees by statute.
- **Ease of administration** – taking responsibility for the trust registration service, reporting, and exit and periodic charges.
- **Continuity** – trust won't be impacted by the incapacity or death of a trustee
- **Confidentiality** – trustees are required to act in confidence.
- **Peace of mind** - the professional trustee being subject to a regulated environment with controls in place to protect all parties.



For financial advisers recommending Zedra as the professional trustee:

To help ensure that Zedra is suitable for your individual clients, and to support your due diligence, more information on Zedra can be found [here](#) **Professional Trustee Service for Quilter's range of Trusts | ZEDRA.**

Inheritance Tax Summary

Initial lump sum payment into the Collective Investment Bond subsequently moving into the Discretionary Trust (settlor excluded)

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. 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 (£325,000 frozen until 2028 less any previous CLTs in the 7 years prior to the transfer) of the settlor then a charge of 20% on the excess is payable.

Any CLT into the Discretionary Trust (settlor excluded) 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.

When you die

The original gift into the trust – You must survive seven years after transferring the bond for the gift 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.

Discretionary trust taxation

The Discretionary Trust (settlor excluded) is subject to certain IHT charges. The tax calculations for discretionary trusts can be complex, but in summary:

- ▶ A chargeable lifetime transfer charge may apply as explained above
- ▶ A ten-year periodic charge may arise, every 10 years where the value of the trust exceeds the available nil rate band; and

- ▶ An exit charge may apply when benefits leave the trust.

More information on Inheritance Tax can be found here:

[quilter.com/siteassets/documents/platform/guides-and-brochures/0653_your_guide_to_uk_inheritance_tax_and_trusts.pdf](https://www.quilter.com/siteassets/documents/platform/guides-and-brochures/0653_your_guide_to_uk_inheritance_tax_and_trusts.pdf)

The Collective Investment Bond

As discussed, the Quilter Collective Investment Bond is used as the investment within the Discretionary Trust (settlor excluded). The Collective Investment Bond is a Defaqto '5 Star' rated bond provided by Quilter Life & Pensions Limited.

<Delete as appropriate:>

The Collective Investment Bond can be linked to a wide choice of 2,600 unit trusts and OEICs. We will link the bonds value to a portfolio built and managed by us which is relevant to the risk profile agreed with you and the trustees as being appropriate for the trustee investment horizon.

The Collective Investment Bond can be linked to a wide choice of 2,600 unit trusts and OEICs. We agreed that the bond will be linked to Quilter's WealthSelect discretionary investment solution. This is appropriate for the trustee investment horizon. Quilter will manage the asset allocation, manager selection, and day-to-day running of the portfolio at a very competitive cost.

The Collective Investment Bond can be linked to a wide choice of 2,600 unit trusts and OEICs. We agreed that the bond will be linked to the services of <enter discretionary investment manager>. <Enter discretionary investment manager> will build and maintain a portfolio suitable for the trustee investment horizon.

The Collective Investment Bond offers an unbundled charging structure which means:

- ▶ There is one simple tiered Product Charge with a rate that reduces as the platform investments increase
- ▶ There is no charge to establish the trust or manage it on an ongoing basis above the Product Charge
- ▶ You/the trustees can access the best fund deals in the market
- ▶ There are no transaction fees for withdrawals and trades on the unit trusts and OEICs linked to the bond
- ▶ <Delete where not applicable> As we agreed to include the Capital Protected Death Benefit there is an extra charge, providing protection of capital in the event of the life assured's death

Cost of advice

The initial fee will be £<enter amount>, which is <enter rate>% of the value being invested in the Collective Investment Bond.

My ongoing service fee is <enter rate>% of the Collective Investment Bond value per year and will provide the service to the trustees as outlined in our 'Terms of Business'. The actual amount will fluctuate in line with the bond value each year. Based on the initial investment, the yearly cost will be £<enter amount>.

These fees can be paid by you (initial) directly or by the trustees (ongoing) or by deduction from the bond value. You have confirmed you would prefer to pay the fees by deduction from the bond.

Possible disadvantages

Please be aware of the following disadvantages of my recommendation:

- ▶ You may not reduce your IHT liability if HMRC interprets existing legislation differently or if legislation or HMRC practice changes
- ▶ The value of the bond is not guaranteed, as the prices of the linked units may fall as well as rise
- ▶ The Financial Services Compensation Scheme acts as a safety net for customers of UK financial services providers. If Quilter Life & Pensions Limited cannot meet its liabilities, the Financial Services Compensation Scheme may arrange to transfer your policy to another insurer, provide a new policy, or if these actions are not possible, provide compensation.

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. As discussed, the Discretionary Trust (settlor excluded) will need to be registered.

- The trustees 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: https://www.quilter.com/49a6d8/siteassets/documents/platform/guides-and-brochures/qip22888_registering_trust-guide.pdf

Details on Quilter

Quilter plc are a leading UK-focused wealth manager, providing advice-led investment solutions and investment platform services.

Quilter enables financial advisers to deliver the very best service to clients and their families, to help them achieve their financial goals. They offer a comprehensive range of products and investments through an award-winning online investment platform.

Quilter's platform has been consistently recognised as being of very high quality within the financial services industry, which is evident in the awards we have won.

More information can be found here: [*Our ratings and awards | Quilter*](#)

quilter.com

Please be aware that calls and electronic communications may be recorded for monitoring, regulatory and training purposes and records are available for at least five years.

Quilter is the trading name of Quilter Investment Platform Limited which provides an Individual Savings Account (ISA), Junior ISA (JISA) and Collective Investment Account (CIA) and Quilter Life & Pensions Limited which provides a Collective Retirement Account (CRA) and Collective Investment Bond (CIB). Quilter Investment Platform Limited and Quilter Life & Pensions Limited are registered in England and Wales under numbers 1680071 and 4163431 respectively.

Registered Office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB, United Kingdom. Quilter Investment Platform Limited is authorised and regulated by the Financial Conduct Authority. Quilter Life & Pensions Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Their Financial Services register numbers are 165359 and 207977 respectively. VAT number 386 1301 59. Their Financial Services register numbers are 165359 and 207977 respectively. VAT number 386 1301 59.

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