Lifestyle Trust frequently asked questions

1. Who is the Settlor of the Trust?

The individual who assigns (gifts) the bond into Trust.

2. Can the Lifestyle Trust have more than one Settlor?

No, the Trust can only have one Settlor.

3. Can a married couple set up their own trusts?

Yes, it is possible to have two trusts. However, care should be taken that the Trust is not set up for the benefit of the other spouse, see Q4.

4. Does that mean the Settlor's spouse cannot be a beneficiary under the Trust?

The Settlor's spouse can be a beneficiary. If any advancement is made to the spouse whilst the Settlor is alive, it is crucial that the Settlor is not able to benefit directly or indirectly in any way. This is to ensure the 'gift with reservation' provisions are not triggered, see Q5.

5. What are the 'gift with reservation' provisions?

In simple terms, if the Settlor can still benefit from a gift they made, any UK inheritance tax (IHT) mitigation in relation to this Trust will not work and the trust fund will be considered within the Settlor's estate on their death.

6. Can the Settlor be a Trustee?

Yes, the Settlor can be a Trustee. It is essential that there is at least one additional Trustee, other than the Settlor.

7. Can the Settlor top-up the trust fund?

Yes, it is possible to do this, subject to Quilter's acceptance. The top-up will be applied across all the separate policies which make up the bond that are in force at the time. For example, the bond is split into 1,000 policies so if the Settlor adds a further £100,000, £100 will be added to each of the policies. This will apply to all individual policies regardless of whether they have passed the entitlement date or not.

8. Who are the beneficiaries under the Trust?

The Trust is a discretionary trust, so it includes a wide class of beneficiaries. The Settlor at outset can specify certain beneficiaries or additional classes of beneficiaries if they are not covered by the default list. The Trustees then have discretion over which of the potential beneficiaries receive benefits and when. Guidance can be given by the Settlor to the Trustees using a 'letter of wishes'.

9. Can the Trustees cash in the bond and reinvest the proceeds in different investments?

Yes, this is possible provided the Settlor agrees to such change. The Settlor will either need to give up all rights to the policy funds or, if they want to retain these rights, the consent to the Trustees will be on the provision that the entitlements can be replicated.

10. Is the Settlor guaranteed to receive the entitlement they have specified in the trust fund?

No, the Trustees are able to defeat the Settlor's interest at any time and allocate the entitlement to the Trust's beneficiaries.

11. Is the value of the Settlor's entitlement fixed?

No, the value of each policy fund will fluctuate. However, the number of individual policies that make up each policy fund (chosen at outset) will remain the same.

12. What happens to the Settlor's entitlement when they die?

The Settlor's entitlement is dependent on them being alive on the day they become entitled to the policy fund. Any future entitlement is therefore lost on death.

Any policy funds which have passed their vesting date and remain invested in the bond, i.e. they were not surrendered, are considered to be within the estate of the Settlor and included when assessing whether there is an IHT liability.

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13. Does the Settlor have access to the trust fund if needed?

The Settlor is only entitled to the pre-defined entitlements listed in the second schedule of the Lifestyle Trust deed. The Settlor is specifically excluded from benefiting from the trust fund in any other way.

14. Can an entitlement be brought forward?

No, there is only the ability to defer entitlement prior to the pre-defined date.

15. Does the Settlor's entitlement reduce the size of the gift being made at outset?

No, the entire bond premium is considered a gift. No discount is given for the Settlor's entitlement as it has negligible value due to the flexible nature of the entitlement, i.e. it might be defeated.

16. What part of the trust fund is liable to the 10 year periodic IHT charges?

The entire trust fund (bond value) is liable, minus any policy funds which have vested, i.e. they have passed the entitlement date and not been surrendered.

17. Is the vesting of the policy funds seen as an exit from the discretionary trust and therefore liable to an exit charge?

The policy fund entitlement is carved out at outset and can't be brought forward. Because of this, the entitlement to the policy fund is not chargeable as an exit from the discretionary trust.

18. Which assets are surrendered when the Settlor becomes entitled to a policy fund and chooses to receive the money?

The assets within the bond are equally divided across the individual policy segments. The sale of a policy segment will result in sale of all assets within that policy segment.

19. Will you write to the bond holders before a policy fund vests?

No, as the policies continue to be invested within the bond, we will not inform the Trustees or Settlor that an entitlement date has passed. The Trustees should retain records of policy fund entitlements.

20. Can part of the policy fund be deferred?

No, a policy fund can only be deferred in full. It might be prudent to have multiple policy funds with the same vesting date to increase flexibility.

21. Can more than one policy fund vest in the same year?

Yes, this can increase the flexibility further. If, for example, three policy funds are set for the same year, any number of these can be deferred before the entitlement date to reduce the entitlement if it is no longer required. If only one were selected, the choice is to defer entirely or receive as planned.

For example:

- *Policy fund A = 5 policies with vesting date of 20/11/2025*
- *Policy fund B = 5 policies with vesting date of 20/11/2025*
- *Policy fund C = 5 policies with vesting date of 20/11/2025*

All of the policy funds vest on the same day. However, each policy fund could be deferred independently to reduce the number of policies the Settlor becomes entitled to.
So if policy fund C is deferred, 10 policies vest on 20/11/2025.

If a single policy fund held all 15 policies, the choice would be to access all 15 or defer all 15.

22. Can an existing bond be placed under the Lifestyle Trust?

Yes, although the bond must be held by the proposed Settlor only and the Settlor or their spouse should not be a life assured on the bond.

23. Can the Trustees appoint policies to a beneficiary during the Settlor's lifetime?

Yes, the Trustees have power to appoint the trust fund to any potential beneficiary at any time. This may impact the Settlor's pre-determined policy funds.

For example:

- *Policy fund A contains policies 1-10 due to vest 20/11/2025.*
- *The Trustees decide before the vesting date to advance policies 6-10 to a beneficiary who wants to surrender them.*
- *On the vesting date, the Settlor will only receive access to policies 1-5.*

24. Does the Lifestyle trust need to be registered with HMRC's trust register?

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***

For more information about trusts visit our Trust Planning Hub for advisers at:

https://quilter.com/products/trust-planning/

Your client's investment may fall or rise in value and they may not get back what they put in.

This information is based on Quilter's interpretation of legislation as at January 2024. While we believe this interpretation is correct, we cannot guarantee it. Tax relief and the tax treatment of investment funds may change in the future. The value of any tax relief will depend on your client's financial circumstances.

Quilter cannot accept responsibility for any losses or liabilities arising from actions taken as a result of the information contained in this document.

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