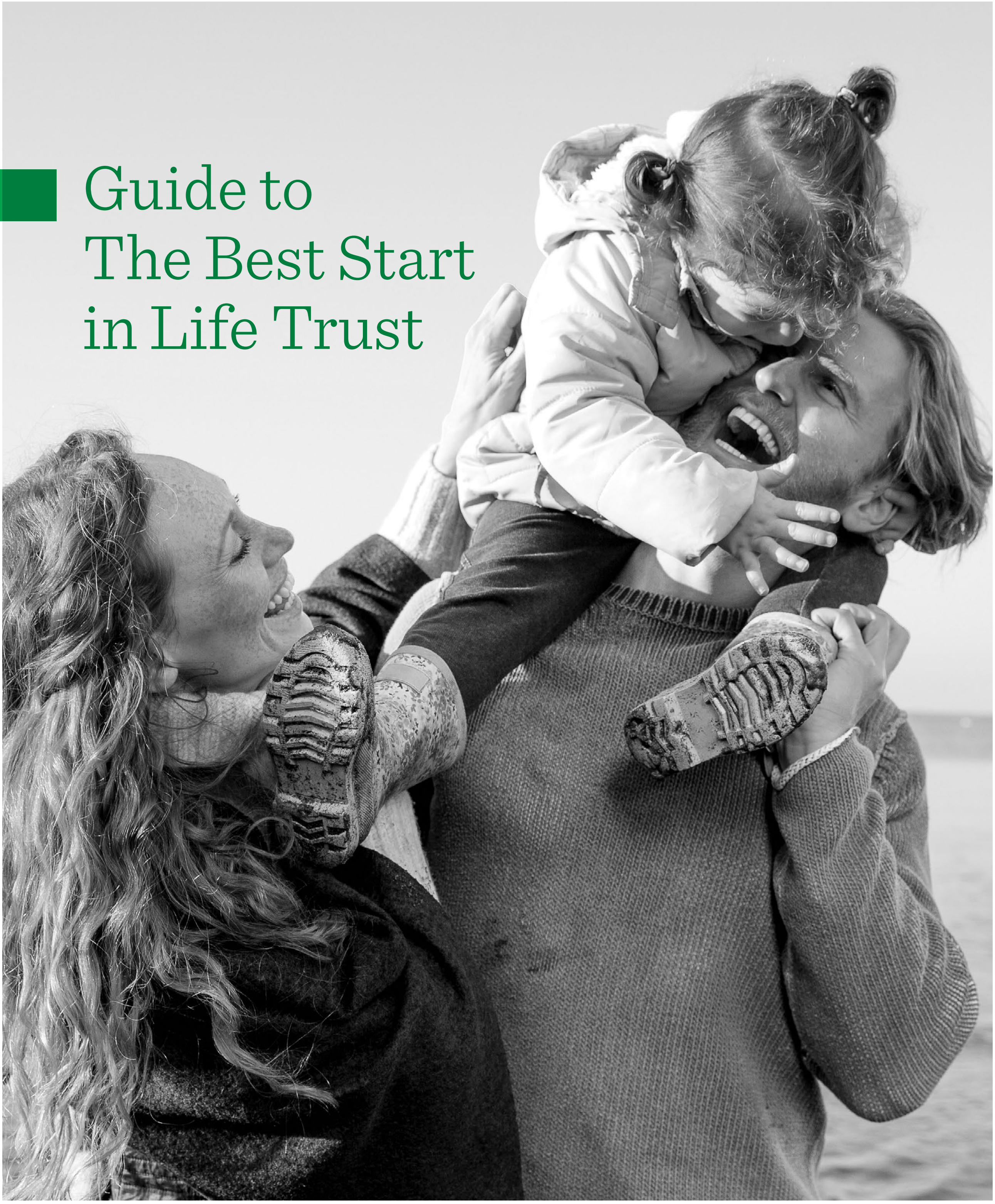
Quilter

Guide to The Best Start in Life Trust



We regularly update our literature; you or your financial adviser can confirm that this February 2024 version is the latest by checking the literature library on our website ***quilter.com***

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Giving the ones you love the best start in life

You want the best for your loved ones whether this means ensuring they receive the best education by paying for their school or university fees, helping them with the cost of their wedding or to get on the property ladder, or even by just ensuring your wealth is passed to them.

This document describes how you can use the Best Start in Life Trust, in conjunction with a Collective Investment Bond, to provide tax-efficient benefits for those you care about.

What is a trust?

A trust allows you ('the settlor'), to transfer money out of your estate and entrust it to the trustees you have chosen. The money transferred becomes the 'trust fund'. The responsibility of the trustees is to manage and eventually distribute it to those you have nominated to benefit from it in the future (the 'beneficiaries').

Beneficiaries can be specific individuals, or groups of people, such as grandchildren or other family members. The Best Start in Life Trust combines the flexibility and control of a 'discretionary trust' with the option to use a 'bare trust', if necessary, to improve tax efficiency when distributing the trust fund assets.

For more information about trusts and their uses see our brochure – ***Your guide to UK inheritance tax and trusts.***

**You should always check the trust wording to ensure that the class of individuals you would like to potentially benefit are included, using the box provided to add named individuals or other classes as appropriate. You should consult your tax and financial advisers to ensure that it meets your financial needs.*

What's the difference between a discretionary and a bare trust?

When you set up your trust fund, you will have particular beneficiaries in mind but you may also like to include future beneficiaries, for example future grandchildren. A discretionary trust provides for a wide range of potential beneficiary classes including grandchildren.

You can also specify other classes of beneficiaries as appropriate, for example nephews and nieces.*

By contrast a bare trust is one where the beneficiaries, and their share, are specified at the outset and cannot be changed. Nor can beneficiaries be added in the future.

Control and flexibility

The beneficiaries of a bare trust can demand their share of the trust fund once they reach age 18. This may not be what you intend to happen. With a discretionary trust, no one is automatically entitled to receive benefits. It is for the trustees to decide who will benefit and when. They retain complete control over the trust fund, regardless of the age of any potential beneficiary.

The Best Start in Life Trust combines the best of both approaches. It enables the trustees to control who receives benefits and when, while at the same time ensuring that payments from the fund can be made in the most tax-efficient way, regardless of the age of the beneficiaries.

Tax efficiency

If the trustees decide to provide benefits to a beneficiary who is over 18, they can assign to the beneficiary a number of the policies that make up the Collective Investment Bond from the trust. The tax assessment when these policies are subsequently cashed in is then based on the beneficiary's tax position.

However, if the intended beneficiary is a 'minor' (ie under 18) the trustees cannot assign bond policies to them since minors cannot legally own such policies.

One way around this would be for the trustees to cash in the bond policies themselves and then to pay the minor beneficiary out of the proceeds. The problem with this approach, however, is that if you (the settlor) are alive during the tax year in which this payment takes place, the tax assessment will be on you at your highest marginal tax rate.

This may not be advantageous if you are a higher or additional rate taxpayer. Even if the trustees cash in the policies after your death, the tax assessment will then be on the trustees, currently at a rate of 45%.

The solution provided by the Best Start in Life Trust is for the trustees to place the appropriate number of policies from the bond into a bare trust for a minor beneficiary.

Under the wording of the trust, the trustees are able to make such absolute appointments and are given this power by the settlor when establishing the original trust and appointing the trustees.

The trustees would need to establish this was the right course of action but are under no obligation to do this for the beneficiary. The bare trust is created when the trustees complete a deed of appointment for the named beneficiary. This process, known as making an 'absolute appointment' of the policies, creates an absolute right to one or more policies for a named beneficiary within the original trust exactly like a bare trust does. When the trustees of the bare trust cash in some or all of these policies, the tax assessment is based on the tax position of the minor beneficiary and not the trustees or settlor of the original trust.

Important Note:

Please note that the Best Start in Life Trust may not be suitable for parents setting up a trust fund for their minor unmarried children. This is because the parental settlor rules will apply. This means that chargeable gains above £100 are assessable on the parents.

Throughout this brochure, wherever we want to explain a particular term or draw your attention to a potential risk, we have highlighted them like this on the page where the term is first used.

Beneficiary – The person who benefits from the trust.

Trustee – The person who has responsibilities to administer the trust assets in accordance with the trust terms.

Settlor – The creator of the trust.

Chargeable gains – The amount on which income tax may be payable depending on the tax position of the person liable.

A trust solution providing only the best for your family

How the Best Start in Life Trust works

You first invest into a Collective Investment Bond with the intention of achieving long-term capital growth. Once your bond has been set up, you gift it into a settlor excluded discretionary trust. Legal ownership is thus transferred to the trustees. The bond then forms the trust fund. 'Settlor-excluded' means that you will no longer have any access to or benefit from, the investment. The bond is made up of 1,000 separate policies that can be cashed in individually to pay the beneficiaries at the discretion of the trustees.

> *I want to pay my grandchild's private school fees.*

Paying out benefits

When the trustees, guided by your wishes stated at the start of the trust, decide to provide benefits to a beneficiary, such as to a minor grandchild for their school fees, they complete a 'deed of appointment'. This will ring-fence a specified number of bond policies so they are held absolutely for the beneficiary named in the deed of appointment. This ring-fenced portion of the trust will be held on 'bare trust' for the named beneficiary. The remainder of the policies within the bond will stay in the discretionary portion of the trust and can be similarly appointed to any discretionary beneficiary at any time. The trustees can then cash in those policies. Whilst the surrender of the policies will be a chargeable event for tax purposes, any chargeable gain will be assessable on the minor beneficiary. It avoids the tax assessment being based on your tax position or that of the trustees (as described on Page 4).

The Best Start in Life Trust provides an estate planning solution

The value of your gift into trust (the Collective Investment Bond) is categorised by HM Revenue & Customs as a 'chargeable lifetime transfer' (CLT) for inheritance tax (IHT) purposes. If the value of this CLT – together with any other such transfers you may have made within the previous seven years – exceeds the amount of your estate on which the IHT rate is zero (known as the nil-rate band – or NRB), there will be a 20% tax bill on the excess at the outset.

Once the bond is held in trust, any investment growth will not be part of your estate and therefore your estate will not be liable for IHT on any investment growth.

After seven years there will be no IHT to pay on the CLT. If you die within the seven year period however, your estate may be liable for additional tax of up to 20%. The trust fund may also be subject to periodic and exit charges (see notes right).

Important Note:
The value of the Collective Investment Bond may go down as well as up and your beneficiaries may not get back what you put in.

Maximum flexibility

The trustees, as legal owners, have full discretion about making payments to the beneficiaries from the trust. The beneficiaries have no control over when the trust fund is paid. In fact there is no guarantee that any potential beneficiary will receive anything from the trust.

Using a discretionary trust at the outset gives the trustees maximum flexibility to adapt to changing circumstances – such as one child requiring more course fees than the others or a child requiring money to pay a deposit for a house.

Taking account of your wishes

Although the trustees must use their own discretion over payments from the trust fund, you can indicate your own intentions and wishes about how you would like them to use the money held within the trust.

Although not legally binding on the trustees, this 'letter of wishes' can be used to give them guidance on what you would like them to take into account when making future decisions.

I want to help my niece with the cost of her wedding

Chargeable lifetime transfer (CLT) – A gift to a discretionary trust is regarded as a chargeable lifetime transfer. This gift may be liable to inheritance tax (IHT) immediately if the amount (plus any CLTs in the previous seven years) exceed the nil-rate band. The value of the gift will remain in your estate for IHT purposes for seven years from the date of the gift.

Nil-rate band (NRB) – NRB is the amount of your estate on which the IHT rate is zero. This is £325,000 and is frozen until the 2027/2028 tax year.

Chargeable event – Taxation of the Collective Investment Bond is subject to the chargeable events regime.

A chargeable event liability occurs when a gain arises on a specified event. These events include full surrender of policies, death of the last life assured of the Collective Investment Bond or, assignments for consideration and regular withdrawals in excess of the 5% tax deferred allowance.

Periodic charge – If, after 10 years, and every subsequent 10 years, the value of the trust fund is more than the current IHT nil-rate band, the trustees may need to pay a periodic charge. If this tax does apply it will be no more than 6% of the value of the trust fund.

Exit charge – A potential tax charge on any money paid to beneficiaries may be subject to an exit charge up to 6%. The charge is based on the rate of the periodic charge at the last anniversary and how long it has been since that anniversary.

Withdrawals paid to beneficiaries within the first 10 years of the trust's creation are subject to a different calculation. Your financial adviser can guide you as to whether these charges may apply to your beneficiaries.

Making the right choice so that your loved ones benefit in a tax efficient way

A settlor makes an investment into a Collective Investment Bond

The bond is transferred into a Settlor Excluded Discretionary Trust

The Trustees determine when and how benefits will be paid to the beneficiaries.

Chargeable event liability assessable on the beneficiary

By completing a 'deed of appointment' and specifying the number of policies they wish to assign to a beneficiary. When the trustees surrender the assigned policies, any chargeable event liability will be assessable on the beneficiary.*

Chargeable event liability assessable on the Settlor

By choosing not to complete a 'deed of appointment' and instead just requesting the surrender from the discretionary trust, any chargeable event liability will be assessable on the settlor of the trust, or the trustees if the settlor has died in a previous tax year.

* *For a minor beneficiary the Parental settlor rules will apply and chargeable gains above £100 will be assessable on the parents.*

A solution that is simple, flexible and tax efficient

Example

Mr Stevens is aged 68. He is retired, married, has three children and two grandchildren.

Assets:

- **House:** £600,000
- **Savings and investments:** £1,325,000

Income:

- In receipt of state pension and private pension.

I want to help my grandchildren through university.

Mr Stevens realises that the value of his assets could expose his beneficiaries to a large inheritance tax (IHT) bill when he dies. He can afford to give away a substantial amount of money without affecting his lifestyle. He also wants to ensure that all his grandchildren benefit from a private education.

Having considered Mr Stevens' needs, his financial adviser proposes a Best Start in Life Trust. The Trust does not oblige him to specify the names of his beneficiaries at the outset, so it can be used, for example, to benefit any grandchildren as yet unborn. It also means that he can limit his potential IHT bill.

Mr Stevens invests £325,000 in the Collective Investment Bond which is made up of 1,000 identical policies.

The investment into the bond is spread evenly across all the policies so that they are all identical in terms of the amount of investment and the number of units allocated to them.

Mr Stevens knows that any growth will now be outside his estate and he will not be subject to IHT on this amount. The Best Start in Life Trust is a discretionary trust so ongoing periodic and exit charges may apply.

Mr Stevens completes a letter of wishes informing the trustees that he would like them to consider making school fee payments for each of his grandchildren.

In September, the trustees decide to pay the school fee payments for one of the grandchildren Ben.

After speaking to their financial adviser the trustees decide to complete a deed of appointment to appoint 100 policies for the absolute benefit of Ben before the trustees fully surrender the policies.

The chargeable event gain arising from the full surrender is Ben's only income in the tax year and is within the basic rate tax band. As gains on the Collective Investment Bond (like all bonds issued by UK insurers) come with a 20% tax credit there is no personal liability to income tax on this gain.

When Mr Stevens dies aged 80, having lived for more than 7 years since creating the trust, the value of the trust is outside his estate and therefore free from IHT. Mr Stevens' Best Start in Life Trust has saved his estate £130,000 (ie £325,000 x 40%) in IHT, not including the growth on the trust which is also free from IHT.

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'***

Full details of the Collective Investment Bond are available from your financial adviser. The value of the Collective Investment Bond may go down as well as up and your beneficiaries may not get back what you put in.

You should consult your financial and tax advisers before making a decision to invest via any trust or to make any encashments to ensure that it meets your personal investment needs. Quilter Life & Pensions Limited cannot provide such advice.

This document is based on the law and regulations of HM Revenue & Customs as at February 2024. These may change in the future which could affect the operation and tax efficiency of this trust.

The tax efficiency of these options (products) will depend on the individual circumstances of each customer. Tax rules and their application may change in the future.

If you are subject to tax in any country outside of the UK, you should contact your financial adviser or tax specialist in the country concerned to understand whether you will be liable for tax in that country as well, as a result of receiving benefits from this plan.

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