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# Lifestyle Trust Reasons Why

*For UK financial advisers only*

This document has been compiled to provide you with some information and reasons 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.



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Quilter International's Lifestyle Trust can be used with the following bonds:

- Quilter International Isle of Man Limited life assurance or capital redemption policy
- Quilter International Ireland dac life assurance or capital redemption policy
- Utmost Limited capital redemption policy
- Utmost PanEurope dac capital redemption policy.

All references to Quilter International in this document mean Quilter International Isle of Man Limited or Quilter International Ireland dac. All references to Utmost Wealth Solutions in this document mean Utmost Limited or Utmost PanEurope dac.

The Lifestyle Trust is available for use with Quilter International bonds and Utmost Wealth Solutions bonds.

### *The aim of the Lifestyle Trust*

The trust is designed to allow you to reduce your potential UK Inheritance tax (IHT) liability whilst also providing you with the flexibility to make withdrawals from the trust capital, which includes any growth.

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

### *Mitigation of UK inheritance tax*

Currently, only assets above the nil-rate band (NRB) of £325,000 (frozen until 2026) are liable to IHT on death. Married couples and civil partners\* each have a NRB allowance. Since October 2007, any unused allowance from a spouse or civil partner who dies, can be transferred to the surviving partner. Since 6 April 2017, an additional NRB is also available where a residential property is left to direct descendants. This is known as the Residence Nil Rate Band (RNRB)

In order to mitigate IHT, you can consider giving assets away under trust. However, if an asset is to be IHT efficient, you must no longer have access to or receive benefits from it. If benefit is reserved, the gift will be known as a gift with reservation and IHT will be due.

If benefit and access is not reserved, the asset will be known as a chargeable lifetime transfer (CLT). If the original owner then survives for seven years following the transfer, there will be no further IHT liability on the original gift. The trust however will still be subject to periodic and exit charges. Many people are not prepared to give up access to their assets.

For investments into trust over the NRB, an immediate charge to IHT would occur at 20% (half the 40% rate payable on death) on the excess above the NRB. A tax charge may also occur every 10 years at a maximum rate of 6%. Finally, an IHT liability may also arise when capital leaves the trust.

Through the use of trusts and single premium investments, IHT can be reduced. The Lifestyle Trust combines IHT planning with access to capital.

\*As defined by the UK Civil Partnership Act 2004.



### *What is the Lifestyle Trust?*

As a UK domiciled individual, you can use the Lifestyle Trust to provide for your potential beneficiaries while also being able to access your capital. This is done by requesting access to specified policies from the trust fund during your lifetime. These are known as the 'entitlements'. This type of arrangement does not create a gift with reservation as the access to policies can be deferred by you or 'defeated' by the trustees. In other words, they can decide not to fulfil the entitlement(s) by advancing payments to beneficiaries prior to the entitlement date.

The Lifestyle Trust contains a single premium investment bond, which is written subject to the trust. The trust process works as follows:

- 1. Invest in a bond.** To set up the trust, you first invest the amount you want to place into trust in a 'single premium bond'. The bond is a way to hold your wealth in order to potentially achieve long-term investment growth.
- 2. Transfer the bond to the trust.** The value of the bond becomes the 'trust fund' and the appointed trustee(s) take(s) full responsibility for managing and distributing it to beneficiaries. This transfer is considered a chargeable lifetime transfer (CLT) for Inheritance Tax purposes.
- 3. Specify your entitlement schedule.** At the same time as you transfer the bond to the trust, you specify a schedule of dates when you want to receive entitlements from the trust policies. Although you can't change the amount of each 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.
- 4. Consider writing a letter of wishes.** You may want to write a 'letter of wishes' to the trustee(s) 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 trustee(s) guidance that you would like them to take into account when making future decisions.

Once you start to receive access to the capital at pre-defined dates specified in point 3, the part of the trust fund held for your benefit will be considered within your estate for Inheritance Tax purposes.

### *Who is the Lifestyle Trust for?*

The Lifestyle Trust is suitable if you have capital and a potential UK IHT liability. It is an appropriate vehicle if you:

- require access to your gift into the trust
- require flexibility over how you access it
- are concerned about the IHT position of your estate and want to take action.

### *Advantages of the Lifestyle Trust*

The Lifestyle Trust is specifically designed for UK IHT planning under the current tax rules. It provides you with the opportunity to reduce your potential UK IHT liability immediately, while retaining access to capital at pre-determined dates. It will also potentially accumulate a cash sum for your chosen beneficiaries.

The Lifestyle Trust has the following important advantages:

- you can access the trust capital on pre-determined dates
- you can choose the level of access (in the form of entitlements) which is available to you
- you can defer the dates on which capital becomes available

- you can complete a letter of wishes to the trustees to inform them who you would like to benefit from the trust fund
- you can access a wide range of investment funds managed by the world's leading fund managers
- the trust has a flexible charging structure
- it is pre-owned asset tax\* (POAT) friendly.

### *Income tax*

#### **Taxation on chargeable event gains**

These bonds are taxed under the chargeable event legislation, which means any gain on a chargeable event is assessed to income tax, rather than capital gains tax.

#### **Chargeable events**

During the period your bond is in force, there is no trustee taxation to pay. However, there are certain 'chargeable events' that may trigger a 'taxable gain'. A chargeable event happens when:

- you or the trustees take withdrawals from your bond by partially cashing in the policies above your 5% tax deferred withdrawal allowance (5% of the premiums paid for each policy year);
- you or the trustees fully cash in one or more policies in your bond;
- you or the trustees fully cash in all the policies in your bond;
- the last life assured dies (life assurance basis only);
- the bond reaches its maturity date (capital redemption basis only);
- you or the trustees assign one or more policies in your bond for consideration for 'money or money's worth'.

When a chargeable event happens (with the exception of the surrender of a Policy Fund post entitlement date) this is assessable on the following people:

- Settlor, if alive and UK resident or in the tax year of their death
- If the settlor has passed away in a previous tax year or non-resident, the trustees if UK resident
- If both the above are not applicable, the beneficiaries if UK resident (to the extent they benefit)

A chargeable event relating to the policies held with a Policy Fund following an entitlement date is assessable on the settlor as the sole beneficiary of the Policy Fund.

#### **Assignment**

It is possible to assign one or more policies in your bond to a potential beneficiary. Provided this is not for consideration or 'money or money's worth', a chargeable event will not occur, so there is no tax liability at the time of the assignment. The beneficiary will become the legal owner of the policy/policies and if they cashed in the policies, they would be liable to tax at their highest marginal rate on any chargeable gain. Although there is no liability to income tax, you should consider any inheritance tax implications on assignment, for example 'exit charges'.

\*a charge to income tax on benefits received by a former owner of property



### *What are the risk factors?*

- You may not reduce your IHT liability if HMRC interprets existing legislation differently or if legislation or HMRC practice changes.
- You may not reduce your IHT liability if the capital you receive from the trust is accumulated in your estate, as its value could be liable to UK IHT on your death.
- The value of the bond is not guaranteed, as the prices of units may fall as well as rise.

Quilter International Isle of Man Limited and Utmost Limited investors will benefit from the Isle of Man's policyholder protection scheme, which covers policies issued by an authorised life assurance company based on the island. So in the unlikely event that Quilter International Isle of Man Limited or Utmost Limited becomes insolvent, you will be able to claim compensation of up to 90% of the policy value, less any contractual charges.

In Ireland there is no formal investor protection scheme. However, there are a number of regulatory measures in place to protect the policyholder of an Irish life assurance company.

This information is based on the provider's interpretation of HMRC law and practice as at January 2022. 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 the investor's financial circumstances.

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

### **Trust registration – important information**

Once the trust is set up, it may need to be registered. Failure to do so could result in a fine.

Under the EU's fifth money laundering directive (5MLD) a trust may be required to register, where it is deemed to be resident in a participating EU Member State, and in this context includes the UK despite no longer being part of the EU. This is generally driven by the residency of the trustees and the settlor, and the location of the trust's property or other business relationships.

Each country/EU Member State has its own rules regarding residency of a trust. For example, where the trustees and/or settlor are UK resident, the trust will be deemed to be resident in the UK and is required to be registered with HMRC's trust registration service within 90 days of the declaration of trust.

## *quilterinternational.com*

*Calls may be monitored and recorded for training purposes and to avoid misunderstandings.*

*Quilter International Isle of Man Limited is registered in the Isle of Man under number 24916C.*

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*All promotional material has been approved by Utmost Limited which is authorised in the UK by the Financial Conduct Authority. Financial Services register number: 160418.*

*The rules made under the Financial Services and Markets Act 2000 (as amended) for the protection of retail clients in the UK do not apply.*

