canada life International™

Controlled Access Account Bare Trust

Tax Notes

Note: All references are to Acts of the UK Parliament

Members of the general public who receive this document should make sure that they take financial advice in relation to setting up a Controlled Access Account.

Background

Under the Controlled Access Account, the client/donor will create a bare trust instructing the trustees to take out a series of life insurance policies (the 'policies'). Each policy will confer two main benefits the maturity benefit and the death benefit. The death benefit will be payable on the death of the child beneficiary, who will be the life assured. The maturity benefit is always for the benefit of both beneficiaries; the child beneficiary and the adult beneficiary. The legal title to the policies will be held by the trustees of the trust.

Practical implications

The bare trust is for the benefit of named individuals and there is no flexibility in this. The child beneficiary is entitled to 99% of the assets within the trust and the adult beneficiary 1%. Once the bare trust has been set up, the trustees cannot change the part that a named beneficiary will receive. Also the trustees have no power to change the actual beneficiaries of the bare trust.

The beneficiaries of the bare trust cannot demand that the legal title be transferred to them until the child beneficiary has attained age 18 on a policy maturity. On the payment of the death benefit, each beneficiary of the bare trust, or their estate, will be entitled to their share of the death benefit.

It is important for the trustees to realise that Canada Life International Limited will require the signatures of all the trustees for transactions relating to the policies.

Inheritance tax considerations

Gift with reservation of benefit

The gift to the beneficiaries of the bare trust should not form a gift with reservation of benefit by the client/donor, since the client/donor will, by the terms of the trust deed, be expressly excluded from being able to benefit from the trust.

Initial gift

The gift to the beneficiaries of the bare trust will be an absolute gift, as a bare trust is not a settlement for inheritance tax ('IHT') purposes. As such, the gift should be a potentially exempt transfer ('PET').

On the client/donor surviving seven years from the making of the PET, the PET should become fully exempt from IHT.

If the client/donor dies within seven years of the making of the PET, the PET will become a chargeable transfer and IHT may become payable. However, any IHT payable (that is assuming that the entire PET does not fall within the client /donor's IHT nil rate band) will be reduced by taper relief if the client/donor dies more than three years after the date of the chargeable transfer. Taper relief has the effect of reducing the rate of IHT payable from 40% to as little as 8%, depending when the client/donor dies within the seven year period.

Income tax considerations

On the death of the life assured or the maturity of each policy, benefits are payable and a chargeable event occurs. Any gain will be subject to income tax. The income tax charge will fall on the beneficiaries however, whilst the child beneficiary is a minor and if the client/donor is a parent, it would fall on the client/donor and adult beneficiary.

The information contained in this document is based on Canada Life International Limited's understanding of applicable legislation, law and current HM Revenue & Customs practice as at October 2023. It is given only for general consideration. The information regarding taxation is based on our understanding of current legislation, which may be altered and depends upon the individual financial circumstances of the investor.

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