



## Periodic charges

### Check List

When any discretionary trust reaches its tenth anniversary, the trustees will need to be aware of their specific responsibilities with regard to any reporting requirements to HMRC.

#### Is an account required?

There is no need to send anything to HMRC unless the total of the three elements below exceeds 80% of the inheritance tax nil rate band (currently £260,000) at the tenth anniversary. The three values that need to be added together are:

1. The market value of the trust fund at the tenth anniversary<sup>1</sup>
2. The value of any payments made to any discretionary beneficiary in the previous ten years<sup>2</sup>
3. The value of any chargeable lifetime transfers made by the settlor in the seven years prior to the start date of the discretionary trust<sup>3</sup>

If the total does not exceed 80% of the inheritance tax nil rate band, no action needs to be taken.

#### What if the total exceeds £260,000?

If the total of the above three items exceeds £260,000, the trustees need to send forms IHT100 and IHT100d to HMRC within six months of the tenth anniversary. These forms (as well as guidance on how to complete them) can be obtained from HMRC or by searching for them at [www.gov.uk](http://www.gov.uk).

Note that, if the total of the above three items does not exceed £325,000<sup>4</sup>, there will be no periodic charge to pay. Nevertheless, the trustees still have a responsibility to send the above forms to HMRC within six months of the tenth anniversary where the total exceeds £260,000.

If the total of the above three items exceeds £325,000, the trustees will be required to pay a periodic charge. HMRC will notify them of this on receipt of the above forms (or, if the trustees use the interactive version of form IHT100, the amount will be calculated for them).

It should be noted that, where there is a periodic charge, any subsequent payment to or absolute appointment in favour of any discretionary beneficiary in the following ten years will give rise to an exit charge, necessitating the submission of a further IHT100 and IHT100d to HMRC when this occurs.

<sup>1</sup> For a discretionary gift & loan trust, this will be the value of the bond at the tenth anniversary. For a discretionary discounted gift trust, this will be the value of the bond at the tenth anniversary minus the recalculated discount taking into account any rating imposed at outset. Canada Life will be able to calculate this on request, although this calculation will not be necessary where the value of the bond, plus the other two items, does not exceed £260,000.

<sup>2</sup> This figure does NOT include (a) any loan repayments under a discretionary gift & loan trust; (b) the regular capital payments made to the settlor(s) under a discretionary discounted gift trust; or (c) any maturity proceeds paid to the settlor under a Wealth Preservation Trust but it does include any surrender proceeds paid to one or more of the discretionary beneficiaries as well as the value of any policies assigned or appointed absolutely to one or more of the discretionary beneficiaries.

<sup>3</sup> This figure should include any potentially exempt transfers made by the settlor in the seven years prior to the start date of the discretionary trust only if the settlor died within seven years of making them.

<sup>4</sup> For a discretionary gift & loan trust, the outstanding balance of loan at the tenth anniversary should be deducted from the value of the bond to determine whether the net amount exceeds £325,000.