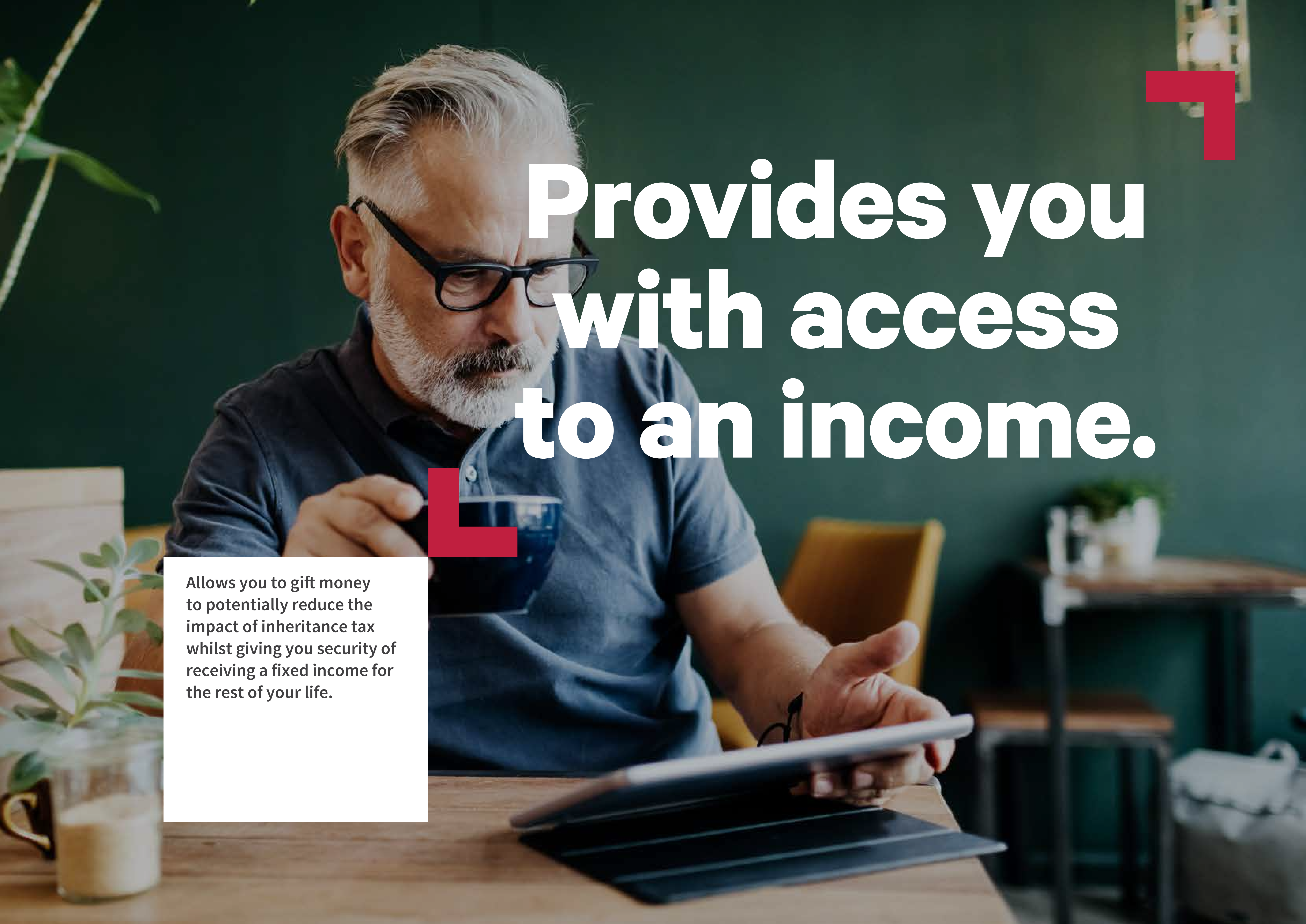
Wealth Management

Access

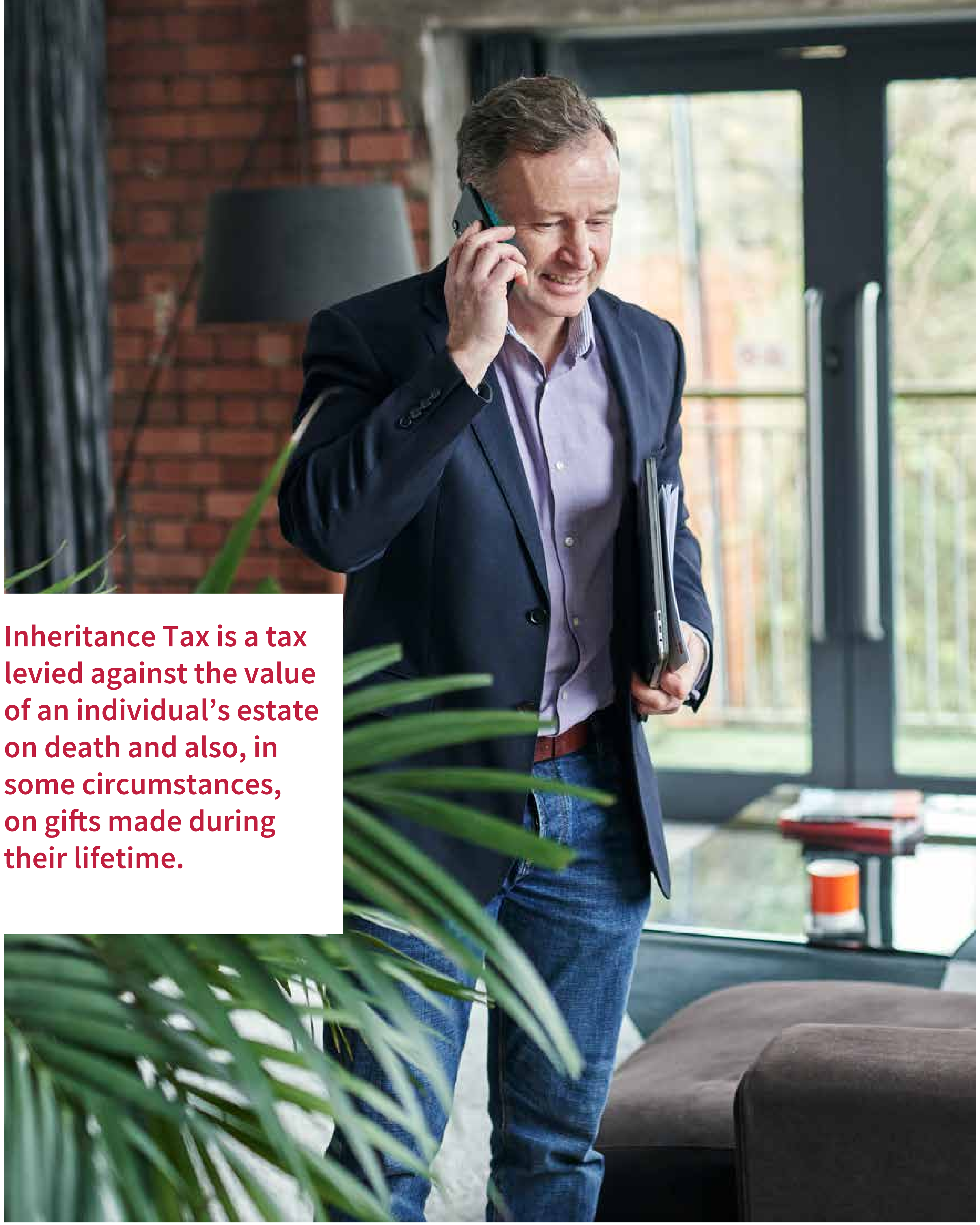
Discounted Gift Trust

Client Guide



Provides you with access to an income.

Allows you to gift money to potentially reduce the impact of inheritance tax whilst giving you security of receiving a fixed income for the rest of your life.



Inheritance Tax is a tax levied against the value of an individual's estate on death and also, in some circumstances, on gifts made during their lifetime.

The Discounted Gift Trust

As we get older it is only natural that we consider both our future and those of our children and grandchildren. Unfortunately few of us are able to afford to give away our assets, outright, as we may need to live off them. Fortunately, there is a solution that lets you pass wealth to future generations whilst allowing you to receive fixed regular payments.

Introduction

Inheritance Tax (IHT) is a tax levied against the value of an individual's estate on death and also, in some circumstances, on gifts made during their lifetime

An individual is only allowed to leave £325,000 (standard nil rate band (NRB)) to his or her heirs (subject to any available exemptions) without the estate suffering IHT. In April 2017 the residence nil rate band (RNRB) was introduced if a residence is left to a direct descendant and certain conditions are met. Married couples and registered civil partners can each leave their nil rate band and residence nil rate band to their heirs.

This means that on your death, your estate valued in excess of the available nil rate bands will be liable to IHT at 40%. A lower rate of 36% can apply if you leave at least 10% of your net estate value to charities.

On your death, if you have not used your NRB and RNRB, the unused percentages can be claimed by the executors of your spouse or civil partner when they die, increasing their nil rate bands.

One way to reduce your estate and the IHT liability on your death is a discounted gift trust. This allows you to invest a lump sum and retain the right to fixed regular payments from the investment that will continue during your lifetime, unless the fund is exhausted before then. This arrangement can immediately reduce the value of your estate's liability to IHT, and reduce it even further once you survive seven years.

The benefits of a discounted gift trust

- You retain the right to fixed regular payments which, in many instances, will not attract any immediate income tax liability.
- There can be an immediate IHT saving.
- It can be a joint arrangement with you and your spouse or civil partner.
- There is a choice of bare or discretionary trust versions.
- The beneficiaries can be changed at any time providing the discretionary trust version is used.

Background

In broad terms, what happens is that you (or you and your spouse/civil partner jointly) invest a capital lump sum into an investment bond, which is transferred and held in trust for your chosen beneficiaries.

At outset you state the level of fixed regular payments you want to be paid and these will continue and cannot be changed. These payments cease on your death (or on the second death if held jointly), or when the fund is exhausted.

The capital value of the payments that are expected to be made during your lifetime is immediately outside of your estate for IHT purposes. This is known as the 'discount' and in effect you are exchanging part of your initial investment for this stream of payments. The balance of your investment is a gift.

The investment growth is part of the trust and therefore does not form part of your estate.

The discounted gift trust allows you to carry out IHT planning whilst still having access to fixed regular payments.

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How it works

1) Decide how much you are able to invest and the value of the fixed regular payments you require

Your professional adviser will help with deciding whether to hold the bond in single or joint names, the type of trust to be used, the amount to be invested and the level of fixed regular payments required. These all need to be carefully considered as they cannot be changed once the investment has been set up.

Your professional adviser will consider if any investments made into the trust, which exceed the NRB, are liable to an IHT charge. This will depend on the value, the type of trust and if you have made any other gifts into trust in the previous seven years.

2) Obtain the discount calculation

In order to calculate the discount you will need to be medically underwritten as we need to estimate your life expectancy and the likely duration of the fixed regular payments. The underwriters will take into account the level of fixed regular payments required, your life expectancy based on your age, state of health, lifestyle and interest rates. The younger and healthier you are, the higher the capital value of the income stream, as payments could potentially continue for longer, which will therefore give a larger discount.

Discounts between providers can vary, however HM Revenue & Customs provide guidance on the basis for the calculation and the assumptions that should be used. Making sure that the provider follows the guidance can reduce the chance of HMRC challenging the level of discount being provided.

3) Choose the trust and trustees

Once the bond has been set up it is transferred into a discounted gift trust. This can be on a bare or discretionary basis.

- A bare trust enables you to select the beneficiaries at outset and what share of the trust you want them to have. These names and amounts cannot be changed.
- A discretionary trust provides more flexibility by allowing the trustees to decide who benefits after your death, how much they get and when. Discretionary trusts are covered by different tax rules and you should discuss the choice of trust with your professional adviser.

Under both types of trust you will automatically be one of the trustees and you must appoint at least one other trustee. As the trust has an obligation to provide you with the fixed regular payments, no money can be distributed to any of the beneficiaries before you, and your spouse/civil partner if jointly held, have died.

4) Complete application

Your professional adviser will assist you in completing the application. On receipt of your application our underwriters will review your answers and inform your professional adviser of the underwriting decision. If we require further medical information we will contact your doctor for a General Practitioner's Report (GPR) and inform your professional adviser.

5) On completion

Once the bond has been set up the requested level of fixed regular payments will start and these will continue throughout your lifetime or until the fund is exhausted.

The bond will be invested in funds selected by you and recommended by your professional adviser. After the bond has been transferred to the discounted gift trust the trustees should obtain ongoing investment advice to ensure the investments remain suitable – this is one of the duties of the trustees.

Questions and answers

Who can be a life assured?

Due to legislation, if the underlying bond is on a life assurance basis neither you nor your spouse/civil partner can be a life assured.

What happens when I die?

On your death or on the second death if it is a joint arrangement, Canada Life should be notified and the fixed regular payments will immediately cease.

The trustees will then administer the remaining trust fund for the benefit of the chosen beneficiaries. This may mean that the trust continues with the current underlying investment, or the trustees could change the underlying investment, or wind-up the trust and distribute the assets to the beneficiaries.

If using a bare trust and any beneficiaries are over 18 at that time, then the trustees should distribute their entitlement to them and should not retain the investment any longer than necessary.

What happens if my investment falls in value?

During your lifetime you are only entitled to receive the fixed regular payments until your death or, if earlier, when the fund is exhausted. If the investment falls there may not be enough funds to provide you with the fixed regular payments. Therefore, the trustees should seek financial advice to make sure the underlying investments are suitable.

The discounted gift trust allows you to make potential IHT savings whilst still having access to fixed regular payments.

How can I use the discounted gift trust to minimise my IHT liability?

The discounted gift trust allows you to make potential IHT savings whilst still having access to fixed regular payments. At the outset you are making a discounted gift into a trust. Any investment growth will not form part of your estate, but if you died within seven years of the gift there may be an IHT liability on the gift made.

Will my doctor always need to provide a GPR?

No, we will only need to request a GPR from your doctor if we require further medical evidence based on the details provided in your application form.

Taking a fixed regular payment; when do I decide how much I want to receive?

You inform us at the outset how much you want to receive. Once the bond has been set up this cannot be changed as this is one of the bases used to calculate the value of the discount. It is important to discuss this with your professional adviser because if you take too little then you may have a shortfall, and if you take too much the surplus will accumulate and potentially be subject to IHT.

Will I pay tax when I take a fixed regular payment?

Generally the payments you receive will be on a tax deferred basis with no immediate liability to tax.

As the underlying investment is held in an investment bond, withdrawals equal to 5% of the amount invested can be taken each year until you have taken an amount equal to the amount invested. Where the full 5% entitlement is not taken in any policy year, the unused amount is carried forward for use in future years.

For example, should you select a fixed regular payment of 4% of your original investment, you are entitled to take withdrawals tax deferred for 25 years.

If the withdrawals including any ongoing adviser charges agreed by the trustees exceed 5% of the investment made, the excess could generate a tax liability depending on your level of income and whether the underlying investment bond is through a UK provider or a non-UK provider.

You should speak to your professional adviser regarding this.

The information regarding taxation is based on our understanding of current legislation, which may be altered and depends on the individual financial circumstances of the investor. We recommend you consult with your professional adviser for more details about your individual tax position.

About Canada Life

Canada Life

The Canada Life Assurance Company provides insurance and wealth management products and services through domestic operations in the UK, and international operations in the Republic of Ireland, the Isle of Man, Germany and, of course, Canada, as well as branch and subsidiary operations in other countries.

Canada Life is a subsidiary of The Great-West Life Assurance Company.

Strength and stability

We understand that you want to invest in a company that is strong, safe and secure. As part of the Great-West Lifeco group we are a constituent of the Financial Times Global 500 world's largest companies. With combined assets under administration of more than £987 billion (as at 30 June 2020) we have a strong platform for continued growth as a world-class financial services provider.

Ratings are another reflection of our financial strength; Great-West and its subsidiaries have received strong scores from the major ratings agencies.

You can view our latest ratings on the 'About us' part of our website

Service charter

We are committed to providing superior levels of service, and to demonstrate this we have published a service charter, incorporating our service standards and non-performance penalties we pay out.

If you'd like to read our service charter, please visit our website or ask your professional adviser.

For more information please speak to your professional adviser.

Past performance is not a guide for the future. The value of any investment is not guaranteed, as it is directly linked to the value of assets held by the selected investment fund(s) and can fall as well as rise. If the investment bond is surrendered, the surrender value may be less than the original investment. Currency fluctuations can also affect performance.

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