

## Technical Insights, Quick Reference Guide

### *Taxation of Discretionary Trusts: 2. Inheritance Tax (IHT) Periodic (10 Year) Charge*

This guide will provide you with an understanding of when the periodic charge applies and how to calculate it.

We have a calculator which can perform the calculation described within this guide. The calculator can be found on our website; <https://www.quilter.com/help-and-support/tools/discretionary-trust-tax-calculator/>

#### **Periodic charges apply to 'relevant property' trusts**

The definition of relevant property trust can be complex. In general it covers; all discretionary trusts, other types of flexible trust created on or after 20 March 2006 and interest in possession (IIP) trusts created on or after 20 March 2006 unless as part of a Will.

Flexible Trusts and IIPs created before that date may also become relevant property trusts if they have been altered.

The charge does not apply to bare/ absolute trusts.

#### **The periodic charge applies every 10 years**

The charge falls on the 10th anniversary of the trust's declaration date. For Will trusts and deeds of variation, this is the date of death.

#### **For jointly settled trusts a separate calculation is required for each settlor**

For the purpose of the calculation and reporting, a jointly settled trust is treated as separate settlements. The value of the trust fund at the time of the anniversary is split between those settlements and the calculation is performed for each settlor separately and using their own gifting history. The split in the value of the trust fund is proportionate to the contribution of each settlor.

*For example*, where an equal gift was made by two settlors, the trust value at the time of the anniversary is split 50/50. The same applies to any distributions of trust capital to beneficiaries.

#### **The Discounted Gift Trust (DGT) may have a discounted periodic charge**

DGTs offer the settlor a right to fixed withdrawals throughout their lifetime. The value of this retained right can be 'discounted' from the value of the trust property when performing the periodic charge calculation. No discount can be applied if the settlor is over 90 years (attained), rated at 'nil discount' or deceased at the time of the periodic charge.

#### **Deduct the value of any loans**

The value of unpaid debts, such as a loan made to the trust by the settlor, is deducted from the value of the trust property when performing the periodic charge calculation.

#### *Reporting*

#### **Periodic charges must be reported to HMRC within 6 months**

The trustees must complete HMRC's IHT100 and 100d forms along with applicable supplementary pages. For jointly settled trusts, separate forms are required for each settlor. Payment of tax owed should be made within six months of the end of the month in which the charge arises. If payment is made after this, interest is payable.

#### **Some trusts will need to report even if there's no charge**

All relevant property trusts must complete an IHT100 and IHT100d *unless all the following apply*.

- The settlor was domiciled in the UK at the time of the trust was declared and has remained so throughout the existence of the trust.
- The trustees are resident in the UK throughout the existence of the trust.
- There are no related settlements (another relevant property trust created by the same settlor on the same day).
- The value of the trust fund, plus previous chargeable transfers in the seven years prior to creating the trust, plus any distributions that gave rise to an exit charge in the past ten years, is equal to or less than 80% of the nil rate band.

#### *Note*

Any outstanding loan owed by the trustees cannot be deducted from the trust value for the purpose of the '80%' rule.

#### **Trustees must also update the trust register**

All UK resident express trusts are required to register with HMRC's trust registration service. The trust must update the register in each year in which it has a UK tax liability. This includes the periodic charge. The register must be updated by 31 January following the tax year in which the liability arose.

*For financial advisers only*

### Step 1 - Calculate the 'Notional Transfer'

Value of the trust fund the day before the 10 year anniversary

Plus

#### Historic\* value of gifts made to related settlements

(A related settlement is a relevant property trust created same day as this trust by the same person (settlor).  
Provide the total value of the initial gift made to that related settlement)

Plus

#### Historic\* value of same day additions

A Same day addition is where the settlor makes an additional gift to this trust on the same day as a gift to another trust. Insert here the value of the same day addition made to another relevant property trust. Do not include the addition to this trust. If a gift has already been accounted for under related settlements (above) do not repeat it again here.

Plus

#### Historic\* value of the initial gift made to 'same day addition' trusts

For any trusts with a same day addition (as identified in the previous box) - insert here the value of the initial gift made to that trust. Do not include the same day addition itself provided as this is included in the previous box. If a gift has already been accounted for under related settlements (above) do not repeat it again here.

**Equals the 'Notional Transfer'**

### Step 2 - Calculate the 'Available NRB'

Current nil rate band (currently £325,000)

Minus

Total Chargeable Lifetime Transfers made by the settlor in the 7 years immediately before the trust started\*\*

Minus

Any capital distributions that gave rise to an exit charge (includes £0 exit charge)  
in the 10 years immediately before the 10 year anniversary.

**Equals the 'Available NRB' (minimum £0)**

### Step 3 - Calculate the Periodic Charge

Notional Transfer - Available NRB = Difference

Difference x 20% = Notional IHT

Notional IHT / Notional Transfer = Effective Rate (%) (Max 20%)

Effective Rate x 0.3 = Actual Rate (%) (Max 6%)

**Actual Rate x Value of trust fund = Periodic Charge (£)**

\*Historic value refers to the value of the gift at the time it was made - not the current value

\*\*If there have been additional gifts to this trust, use the total cumulative chargeable transfers made in the 7 years before the addition - if that figure is higher than the cumulative chargeable lifetime transfers made before the trust started.

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