Quilter

Lifestyle Trust – Your questions answered

The Lifestyle Trust allows a settlor to make a gift of a new or existing Collective Investment Bond (CIB) to their chosen beneficiaries whilst retaining access to a schedule of Policy Funds. To help with the setup and management of the trust, we have put together a list of common questions which covers how the trust works and the roles of the people involved.

For further information about the trust visit ***Quilter.com*** and search for 'Lifestyle Trust'.

The Settlor

1. Who is the settlor of the trust?

The settlor makes a gift of their CIB and establishes the trust.

2. Can the Lifestyle Trust have more than one settlor?

No, the Lifestyle Trust can only have one settlor.

3. Can a couple which is married / in a civil partnership set up their own trusts?

Yes.

The Trustees

4. Who are the trustees?

The trustees are the people the settlor chooses to run the trust. It is their responsibility to control, manage and ultimately distribute the trust fund to the beneficiaries. They're also responsible for working with the settlor to manage the vesting or deferral of Policy Funds.

5. Who can be a trustee?

Any person aged 18 or over. These should be people trusted by the settlor with the management of the trust fund. The settlor can also consider using a company which provides professional trustee services. Though these companies will charge for their service.

6. Can the settlor be a trustee?

Yes. However, there should be at least one trustee other than the settlor.

7. Can the trustees be changed?

Yes. A trustee can retire and new trustees can be added at any time. These actions must be completed using a deed. Quilter has a draft deed available for consideration by the trustees and their legal advisers. Alternatively the trustees can instruct their legal adviser to draft their own.

The Beneficiaries

8. What is a discretionary trust?

The Lifestyle trust is structured as a discretionary trust. A discretionary trust gives the trustees discretionary powers over how and when the trust fund is distributed to the beneficiaries. Guidance can be given to the trustees by writing a letter of wishes, outlining the settlor's intentions for the trust.

9. Who are the beneficiaries?

The trust deed defines 'classes' of beneficiary. Any person who meets the definition of those classes can benefit from the trust fund - even if they are born after the trust's declaration date. For example, the trust deed includes 'descendants of the settlor' this means any children (including adopted), grandchildren and greatgrandchildren (and so on) of the settlor. There is no need to name the individuals within each class, they're automatically included.

A full definition of beneficiary is given in Part 2 (5) of the trust deed. We recommend reviewing this carefully when completing the trust deed to ensure it meets the settlor's needs. Space is provided for the settlor to add their own classes or name specific individuals.

10. Can beneficiaries be added after the trust is started?

Yes. The settlor has the power to add beneficiaries during their own lifetime. After the settlor's death two existing beneficiaries may nominate a new beneficiary.

Remember, if the person to be added as a beneficiary is already covered by the classes defined in the trust deed, then they're automatically included as a beneficiary and no nomination is required.

11. When can the trustees distribute the trust fund to the beneficiaries?

The trustees have discretionary powers to distribute the trust fund in full or in part to any person who meets the definition of beneficiary. They can do this any time but should consider if this will impact the settlor's Policy Funds. See Q25 for an example.

The Collective Investment Bond

*This section provides high level information about the Collective Investment Bond when held within a Lifestyle Trust. For further information visit **Quilter.com** and search 'Key features of the Collective Investment Bond'.*

12. What is a Collective Investment Bond (CIB)?

A single premium life assurance bond provided by Quilter Life & Pensions Ltd. It aims to provide a flexible method of investing with potential for growth over the medium to long term. The value of the bond is linked to the performance of chosen investment funds which can be reviewed and changed at any time. When setting up the trust, the settlor will invest their cash sum into a CIB in their own name. The CIB is then transferred to the trust as a gift.

The bond structured as 1,000 identical life assurance policies. This segmented structure gives the settlor the flexibility to create a schedule of Policy Funds to meet their needs. See Q15.

Life assurance policies are taxed under the chargeable event regime which helps simplify tax reporting for the trustees as tax is deferred until the occurrence of a chargeable event, such as the surrender of an individual policy.

13. Who should be the life assured?

Because the bond is structured as a life assurance policy, the settlor must decided at the start whose life is to be covered. They can choose up to 10 people, with a minimum age of 3 months and no maximum as long as at least one is 85 or less. Lives assured cannot be changed.

Neither the settlor or their spouse / civil partner can be named as a life assured. This is to prevent the potential for a gift with reservation of benefit as defined under Finance Act 1986 Schedule 20.

14. Does the life assured inherit the bond on the settlor's death?

No. The role of life assured does not itself give any access or control over the collective investment bond. The trustees will use their discretionary powers to distribute the trust fund to beneficiaries of the trust as they see fit. See Q8.

The settlor's entitlement to Policy Funds

15. What is the settlor entitled to under the trust?

When setting up the trust the settlor defines a schedule of 'Policy Funds' (see the Second Schedule, of the trust deed) which they will become entitled to on the 'vesting date'.

A Policy Fund is a group of individual policy segments which make up the Collective Investment Bond held within the trust (as described in Q12). The number of policy segments in each Policy Fund and the vesting date is chosen by the settlor when the trust starts.
The settlor is entitled to the surrender value of the policy segments within a Policy Fund once the defined vesting date is reached.

16. When is the vesting date?

When drafting the trust deed, the settlor defines their Policy Funds and the year in which they will become entitled to them. The vesting date is the day and month of the CIB's anniversary in that given year.

The settlor can defer their Policy Funds at any time before their vesting date. It is therefore necessarily to keep track of both the original trust deed and any deferral instructions.

17. How does the settlor defer a Policy Fund?

The settlor must write to the trustees ahead of the vesting date to defer their Policy Funds. The settlor can use Quilter's template deferral request (Visit Quilter.com and search for 'Lifestyle Trust Deferral') or write their own. The trustees should keep a record of deferred Policy Funds along with the trust deed. You do not need to send deferral instructions to Quilter.

18. Can a Policy Fund be deferred after the vesting date?

No, any vested Policy Funds cannot be deferred.

19. Can the settlor have their Policy Funds before the vesting date?

No, their entitlement to Policy Funds cannot be brought forward.

20. Can part of a Policy Fund be deferred or allowed to vest?

No, a Policy Fund can only be deferred or allowed to vest in full. However, the settlor can build in extra flexibility when drafting the trust. See Q21.

21. Can more than one Policy Fund vest in the same year?

Yes. In fact this can be a way of increasing the flexibility of the trust as the settlor can choose which Policy Funds to defer or take.

For example:

Policy Fund A = 5 policies with a vesting date of 20/11/2025

Policy Fund B = 5 policies with a vesting date of 20/11/2025

Policy Fund C = 5 policies with a vesting date of 20/11/2025

All Policy Funds vest on the same day. However, each Policy Fund could be deferred independently to reduce the number of policies the settlor becomes entitled to. So, if Policy Fund C is deferred, 10 policies vest on 20/11/2025. Had this been a single Policy Fund with 15 policies, the settlor would only be able to take or defer the whole Policy Fund.

22. What are the options on or after the vesting day?

Each vested Policy Fund contains one or more of the individual policy segments which make up the Collective Investment Bond. The trustees have the choice to either encash those segments (passing the proceeds to the settlor), or assign ownership over to the settlor. The settlor can then encash the segments or keep them.

Assignment of segments may allow the settlor to take advantage of other planning opportunities. For example - delaying the surrender until another tax year, or assigning the segments to another person as a gift. Trustees and the settlor should discuss with their financial adviser to understand which option best suits.

23. Can the Settlor's entitlement be paid using partial or regular withdrawals from the Collective Investment Bond?

No. Partial / regular withdrawals are taken equally from all policy segments which make up the collective investment bond. Whereas the settlor is only entitled to the policy segments within vested Policy Funds.

24. Is there a tax liability when surrendering policies?

The Collective Investment Bond is taxed under 'chargeable event' rules. Surrendering policies is a chargeable event and may trigger a taxable gain. These gains are taxed as income. The settlor will be taxed at their marginal rate of income tax. We recommend trustees and the settlor speak to their financial adviser before proceeding.

25. Is the settlor guaranteed to receive the Policy Funds they have specified in the trust fund?

No, the trustees can defeat the settlor's interest in full or in part at any time. For example. Jason is the settlor of the trust and is entitled to Policy Fund 'e' at the next vesting date. The Policy Fund contains 50 policies, identified in the trust deed as policies 100 to 149.

Meanwhile, the trustees have chosen to help cover school fees for one of the beneficiaries and will instruct a surrender from the CIB to cover them.

If the trustees surrender policies 100 to 119 (20 policies) before the vesting date then Jason's Policy Fund will only contain policies 120 to 149 (30 policies).

26. Is the value of the settlor's entitlement fixed?

The value of the Collective Investment Bond is linked to the performance of the investment funds chosen by the trustees. The value of the settlor's Policy Funds will therefore fluctuate with the performance of these funds.

27. Can the settlor have access to the rest of the trust fund?

No. The settlor is only entitled to the pre-defined Policy Funds listed in the second schedule of the trust deed. The settlor is specifically excluded from benefiting from the trust fund in any other way.

28. What happens to the Settlor's entitlement to Policy Funds when they die?

The settlor only becomes entitled to a Policy Fund if they are alive on the vesting date. Any future entitlement is therefore lost on death. The whole trust fund (excluding previously vested Policy Funds) is then held for the discretionary beneficiaries and can be distributed by the trustees at their discretion.

Any Policy Funds which have passed their vesting date, but remain invested in the bond (ie because they had not yet been surrendered or assigned) are considered in the settlor's estate for Inheritance Tax purposes. The trustees should arrange with the legal personal representatives of the settlor's estate to pay or assign any outstanding policies to them.

Inheritance Tax (IHT)

Note to trustees and settlors. The answers provided in this section aim to give you a general overview of the IHT treatment of the trust. We recommend speaking to your financial adviser for further details.

29. Is there an IHT charge when the trust is created?

When the trust is created the settlor is making a gift referred to as a 'chargeable lifetime transfer' (CLT). The settlor can make CLTs up to a cumulative total of £325,000* in a 7 year period. If CLTs exceed this figure then there is an 'entry charge' on the excess of 20%.

30. What is the value of the settlor's gift?

The value of the gift is equal to the surrender value of the bond on the date which the trust is declared.

31. Does the settlor's entitlement mean there is an Inheritance Tax discount applied when valuing the settlor's gift?

No discount is given. The settlor's entitlement is deemed to have a negligible value for the purposes of IHT valuation. This is because the trustees can use their discretion to 'defeat' the settlor's entitlement at any time. For example, by making payments to a beneficiary before the vesting date. See Q25

32. Does the 10 yearly (periodic) charge apply to the trust?

Yes. The Lifestyle Trust is considered a 'Relevant Property' trust. The charge applies if the value of the trust fund exceeds the trust's available nil-rate band (currently £325,000*). The charge is broadly equivalent to 6% on the excess over the nil-rate band. If the trust fund is below the available nil-rate band, then no charge applies.

33. Does the 10 yearly (periodic charge) apply to the whole trust fund?

Yes. There is no discount applied to the trust's value when calculating the periodic charge. However, any vested entitlements which have not yet been surrendered or assigned to the settlor are excluded.

34. Does the exit charge apply to the trust?

An exit charge may apply when the trust fund is distributed to a beneficiary. The maximum charge is 6% of the amount distributed. However, application of the charge depends on whether there was an entry charge (for distributions in the first 10 years) or if a periodic charge applied (distributions after 10 years). If there is no entry or periodic charge, there will be no exit charge.

35. Does the exit charge apply to the settlor's Policy Funds?

No. The Policy Fund entitlement is carved out at outset and can't be brought forward - it is not 'Relevant Property' for IHT purposes. Because of this, the entitlement to the Policy Fund is not chargeable as an exit from the trust.

**The Nil-Rate Band (NRB) is £325,000. The NRB is currently frozen until April 2028. The available NRB may be reduced or affected by the settlor's personal circumstances, such as previous chargeable lifetime transfers.*

Managing the trust

36. Will Quilter write to the bond holders before a Policy Fund vests?

No. The policies will continue to be invested in the Collective Investment Bond. There is no automatic surrender or assignment of ownership on the vesting date. We will not inform the trustees or the settlor that a vesting date has passed. The trustees should retain a record of Policy Fund entitlements and review them regularly with the settlor.

37. Does the trust need to be registered with HMRC's trust register?

A trust must register with HMRC's Trust Registration Service (TRS) if it is considered UK resident or has a UK tax liability, unless an exemption applies. The trust must be registered within 90 days of the declaration date.

The trustees must send a 'proof of registration' document to Quilter within 90 days.

Failure to register the trust, provide proof of registration, or keep the register accurate or up to date may result in a fine of £5,000 by HMRC.

For further information see: ***https://www.gov.uk/guidance/register-a-trust-as-a-trustee*** and our guide to registration: ***https://www.quilter.com/siteassets/documents/platform/guides-and-brochures/qip22888_registering_trust-guide.pdf***

For more information about trusts and their uses visit ***https://platform.quilter.com/products-and-services/trust-planning/***

Your investment may fall or rise in value and you may not get back what you put in.

This information is based on our interpretation of legislation as at August 2024. 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 cannot accept responsibility for any losses or liabilities arising from actions taken as a result of the information contained in this document.

quilter.com

Published: September 2024

QIP12245/106/7341