KEY FEATURES AND BENEFITS 23A

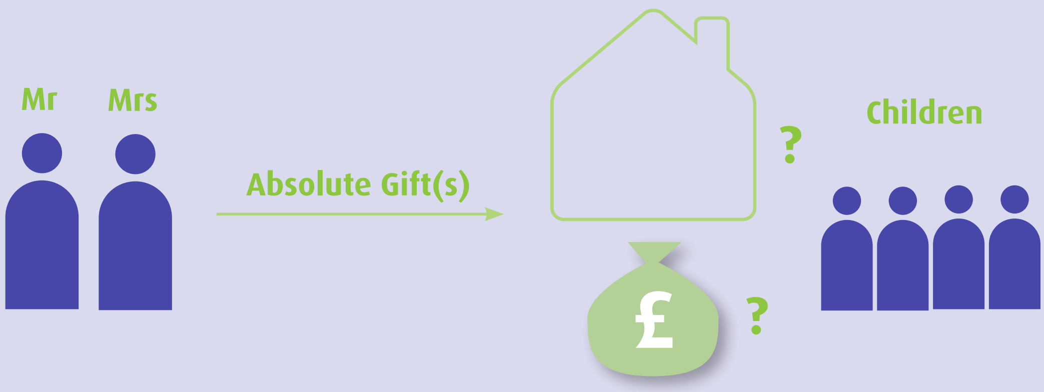
Family Gift Trust

SCENARIO

- Want to gift to reduce Inheritance Tax liability on death.
- Want to provide a deposit for a beneficiary's house purchase (See Key Features and Benefits Sheet 14.1 & 14.2).
- Want to make provision whilst alive for children and/or grandchildren.
- Want to start the '7 year clock' but do not want the potential beneficiaries to have access immediately.
- Concerned that the gift made would be at risk from the recipients future divorce/separation, creditor/ bankruptcy claims, care fees and IHT.

GIFTING OPTIONS:

1. 'ABSOLUTE' GIFT (POTENTIALLY EXEMPT TRANSFER)



- The gift is at risk from the recipient's future divorce/ separation, creditor/bankruptcy claims, care fees and Inheritance Tax.
- The donor of the gift has no control over the gift once it has been made.
- To be IHT efficient the donor cannot then benefit from the gift made. Otherwise the gift would be a gift with reservation of benefit (GWROB) and not efficient for the clients IHT planning.
- Need to survive 7 years from making the gift for the gift to be out of the donor's estate for IHT.
- Pending the value of the gift it will utilise part/ all of the donors Nil Rate Band (NRB) for the proceeding 7 years period.
- The gift is a Potentially Exempt Transfer (PET).
- The gift would be a 'disposal' from the donor. Pending the asset type that is gifted, the gift could be subject to Capital Gains Tax (CGT). Gifting 'money' would not create CGT.
- If the gift generates income (rental income) then Income Tax would apply in most circumstances. The donor could not benefit from the income to be IHT efficient. (The donor would be maintaining a benefit of their gift).

OUR SOLUTION:

2. FAMILY GIFT TRUST. GIFTING ‘MONEY’

STEP 1
Single Settlor Family Gift Trust established

£10 → **Family Gift Trust**

Settlor is ‘specifically excluded’ as a beneficiary from the Trust

STEP 2
Trustees establish Trustee Bank Account

£ → **Family Gift Trust**

The Settlor transfers the ‘gifted’ monies to the Trustee Bank Account

STEP 3
Trustees could loan and/or Invest Trust Assets

Family Gift Trust → **Children spouse**

BENEFITS OF SETTLING THE ‘GIFT’ TO TRUST:

- The Settlor (the donor of the gift) of the trust can maintain some control of the gift by being a trustee of the trust as well. (It is recommended to have more than 1 trustee).
- By the use of non-commercial ‘loans’ the trust provides the maximum protection from the beneficiary’s remarriage, divorce/ separation, creditor/bankruptcy, long term care fees and their IHT on any assets leaving the trust from their benefit.
- Trust assets can be managed by the trustees for minor beneficiaries if required.
- If used to fund new property purchases and/or mortgage repayments, then the trustees can secure the loan on the property to protect the trust value. (See Key Features and Benefits Sheets 14.1 & 14.2).

WHEN MAKING A GIFT TO TRUST FOR IHT EFFECIENCY

- The Settlor is ‘specifically excluded’ from being a beneficiary of the trust.
- The Settlor needs to survive 7 years from making the gift for it to be out of their estate for the calculation of their IHT. (Does the Settlor need to consider a 7 year level term assurance assigned to trust? See Key Features and Benefits Sheet 8).
- The gift will utilise part/all of the Settlors Nil Rate Band (NRB).
- **The gift to trust is a Chargeable Lifetime Transfer (CLT) so to avoid any immediate tax charge at half the death rate (20%) the total of all settlement to trust during the any 7 years period should be restricted to less than the NRB.**

ADDITIONALLY IF THE GIFT IS NOT ‘CASH’, E.G. LAND/PROPERTY OR SOME INVESTMENTS:

- If the gift generates income (rental income) then Income Tax is also a consideration. in most circumstances , the Settlor couldn’t still benefit from the income to be IHT efficient. Any income generated would be trust income and would need to be managed by the trustees. Strongly consider appointing professional trustees to assist. (See Professional Trustee Client Support Information Sheet 12).
- **The gift would be a disposal for Capital Gains Tax. (CGT). (See Family Holdover Gift Trust Key Features and Benefits Sheet 23b)**

3. RECIPROCAL GIFT TRUST

Spouse 1 — Up to NRB → **Family Gift Trust** — Up to NRB

Spouse 2 — Up to NRB → **Family Gift Trust** — Up to NRB

- Ideally all gifts would be recommended to be individual rather than a ‘joint’ gift.
- However there is nothing to prevent both spouses gifting up to the NRB to their own Gift trust(s). (See Multiple Trusts Key Features and Benefits Sheet 22).
- With such planning, the trusts need to be carefully managed to ensure the Settlor does not benefit from their own gifts, but their spouse could, at the discretion of the trustees. Strongly consider appointing professional trustees to assist.

Please consider the information in Key Features and Benefits Sheet 22 to understand whether using Multiple Trusts may be applicable to your circumstances.

This sheet contains only general planning and is not to be construed as advice for any personal planning. Each strategy recommended is based on individual circumstances.

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