YOUR GUIDE TO

UK INHERITANCE TAX AND TRUSTS

Guide for UK domicile investors only

OLD MUTUAL WEALTH

INTRODUCTION

This guide is designed to give you a basic understanding of inheritance tax and the issues you might face. It looks at various ways you could reduce your inheritance tax liability, in order to pass on as much wealth as possible.

This guide addresses the main arrangements available to individuals.

The language used throughout this guide is technical, due to the nature of the subject. Old Mutual Wealth always recommends that you seek the help of a financial adviser before making any decisions, as they will be able to help you understand these technical issues and make a decision that is appropriate for your personal circumstances.

We have included a glossary of the technical terms used throughout this brochure and you can find this on pages 20-22.

We regularly update our literature.
You can confirm that this **March 2019** version is the latest by checking the literature library on our website at www.oldmutualwealth.co.uk

WHAT IS **UK INHERITANCE TAX?**

UK inheritance tax (IHT) is a tax charged on your estate when you die.

Your estate is basically everything you own, including your main property, any other properties, cars, boats, life assurance policies, life bonds and other investments, as well as personal effects such as jewellery.

IHT is potentially charged at a rate of 40% on the value of everything you own above the nil-rate band threshold.

The nil-rate band is the value of your estate that is not chargeable to UK inheritance tax. The amount is set by the government and is currently £325,000 which is frozen until 2021. When you die your estate is not liable to tax on any assets up to this amount.

However, anything over this amount could be taxed at a rate of 40%.

In addition, since 6 April 2017, if you leave your home to direct lineal descendants which includes amongst others your children (adopted, fostered and stepchildren) and grandchildren. The value of your estate before tax is paid, will increase with the addition of the residence nil-rate band. This was £100,000 in the 2017/18 tax year, and will be £125,000 in 2018/19, £150,000 in 2019/20 and £175,000 from the 2020/21 tax year.

For more information, please go to: www.gov.uk/inheritance-tax

PLEASE NOTE:

If you are a UK resident who is domiciled (refer to the glossary for definition) outside the UK, you will only be subject to IHT on UK assets* in your estate on death. If you are uncertain about whether you are classed as a 'UK domiciled individual', please speak to your financial adviser or contact HM Revenue & Customs (HMRC).

**As of 6 April 2017, if a non-UK domiciled individual owns shares in a foreign close company or has an interest in a partnership which own UK residential property, the value of the foreign assets linked to that UK residential property is within the scope of UK inheritance tax.*

PLANNING FOR **THE FUTURE**

Without IHT planning, your beneficiaries could be faced with a large tax bill when you die. They may even have to sell assets, such as the family home, in order to pay the bill.

With some forward planning you can help ensure that the people you want to benefit from your estate actually do benefit. One of your first considerations should be to make a will to ensure your estate goes to the people you want it to. For more information on wills, please see page 9.

The first key help available is the 'spouse exemption', which allows all assets to pass from one spouse/civil partner* to the other when the first person dies, with no IHT to pay. However, you should not rely solely on this exemption as it sometimes acts only to delay the problem. For married couples or those in a civil partnership, it is possible to transfer any unused nil-rate band from a spouse or civil partner who died before you, giving the second spouse or civil partner to die up to twice the current nil-rate band.

If your spouse/civil partner is non-UK domiciled, the exemption is currently restricted to £325,000 (see page 11).

** As defined by the Civil Partnership Act 2004.*

WHY IT'S IMPORTANT

IF YOU DO NOTHING, WHAT WILL HAPPEN?

If you do nothing to mitigate your IHT bill, your beneficiaries could be faced with 40% tax on all your assets over the available nil-rate band and residence nil-rate band.

This means that HMRC could become the largest beneficiary of your estate, as the following example shows.

EXAMPLE

KATHERINE IS DIVORCED WITH FOUR CHILDREN.

SHE OWNS A HOUSE VALUED AT £400,000 PLUS INVESTMENTS WORTH £600,000.

SHE HAS NOT TAKEN STEPS TO REDUCE HER IHT LIABILITY.

ESTATE – NIL-RATE BAND AT DEATH
(IE £1,000,000 - £450,000*) = £550,000

TAXABLE ESTATE X IHT DEATH RATE = IHT PAYABLE
(£550,000 X 40% = £220,000)

THE FOUR CHILDREN WOULD SHARE THE BALANCE OF THE ESTATE (£1,000,000 - £220,000 = £780,000), LEAVING EACH CHILD WITH JUST £195,000.

IN THIS CASE, HMRC IS THE BIGGEST INDIVIDUAL BENEFICIARY, RECEIVING £220,000.

Please note that this example is entirely fictional and used for illustration purposes only.

** Includes the £125,000 residence nil rate band for the 2018/19 tax year.*

WILL IHT **APPLY TO ME?**

You first need to work out if your estate* is worth over £325,000 (the nil-rate band for 2018/19) and where it is available to you, the residence nil-rate band which for 2018/19 is the lower of £125,000 and the value of your residence. The table below will help you calculate this. If your estate is worth more than the nil-rate band, you should consider the IHT solutions available to you. We strongly recommend you discuss this with your financial adviser, who also has access to Old Mutual Wealth's online IHT calculator.

Remember, the value of your estate will change over time, so even if it's just on the threshold now it may be over it in a year's time. If your property increases in value, or your investments grow, these could quickly put you above the threshold, so it is important to review the value of your estate regularly.

** For the purpose of these illustrations, the term 'estate' relates to all your assets, wherever situated.*

CALCULATING YOUR POTENTIAL IHT LIABILITY

ASSETS	ESTIMATED VALUE
Value of main home	£
Other properties, business property/land	£
Car(s), boat, etc.	£
Household contents and personal effects	£
Bank and building society accounts	£
Investments (stocks and shares, bonds, offshore accounts, ISAs)	£
Life insurance policies (if not under trust)	£
Pensions lump sum (if not under trust)	£
Other assets including previous gifts	£
SUB TOTAL	£
Less any liabilities:	
Mortgage(s)	£
Loans, hire purchase, credit cards	£
SUB TOTAL	£
Calculating your IHT liability	
Subtract available nil-rate band, taking into account any transferrable unused allowance from deceased spouse or civil partner and any residence nil-rate band available to you	- £
Subtract any exemptions**	- £
Balance	£
X 40% (potential liability)	

*** See pages 11 and 12 for more details on exemptions and reliefs.*

If your balance is positive and you do nothing to mitigate your IHT liability, you may be liable to pay 40% IHT on this amount.

WHAT WOULD MY IHT LIABILITY BE?

The following table shows how much tax your non-exempt beneficiaries or executors would have to pay, assuming both your nil-rate band and residence nil-rate bands are available in full and you do nothing to reduce your IHT liability, based on 2018/19 tax year figures.

ESTATE VALUE	AMOUNT TAXABLE	IHT PAYABLE AT 40%
£300,000	£0	£0
£400,000	£0	£0
£500,000	£50,000	£20,000
£600,000	£150,000	£60,000
£700,000	£250,000	£100,000
£800,000	£350,000	£140,000
£900,000	£400,000	£180,000
£1,000,000	£550,000	£220,000

There are steps you can take to help reduce your IHT bill, as detailed on the following pages.

HOW CAN I REDUCE **MY IHT BILL?**

The main approach to inheritance tax (IHT) mitigation is to reduce the value of your estate over a number of years. The smaller your estate when you die, the less your IHT bill is likely to be.

There are many approaches to reducing your IHT liability, such as those outlined below. Some are more complex than others and some may not be suitable for you, so it is always important to get professional financial advice.

The tax rate for an individual's IHT on death will be reduced from 40% to 36% if they have left at least 10% of their estate to charity in their will – this was introduced in the UK Budget in 2011 to encourage gifting to charities on death to become the 'norm'.

WAYS TO REDUCE YOUR IHT BILL

- **Ensure assets** are individually owned at least up to nil-rate band values
- Write your **life assurance policy/policies** into trust
- Put **gifts in trust** for beneficiaries
- Will **gifts to charities,** museums and political parties
- Consider an **equity release plan** or creating a debt on the estate
- Utilise any **unused nil-rate and residence nil-rate bands** from deceased spouse or civil partner
- Write **a will**
- **Utilise** potentially exempt transfers
- Give **cash gifts** to family members and use exemptions
- **Own assets** which are not liable to IHT

Many of the solutions above are outlined on the following pages. For specific information on Old Mutual Wealth's IHT solutions, please speak to your financial adviser.

WILLS

WRITING A WILL AND KEEPING IT UP TO DATE IS AN ESSENTIAL PART OF IHT PLANNING

Many people wrongly believe that their whole estate will go to their spouse/civil partner* when they die. However, this only applies if a will has been drawn up and provides for this to happen.

Writing a will means you can specify exactly how you would like your assets to be distributed after your death and allows you to name your executors as well as the guardians for your children. It can also be used to reduce your tax bill.

Even if you have a will, it must be up to date and reflect your wishes, assets and current tax position. Marriage, civil partnership, divorce or dissolution can all have an impact on an existing will.

If a person dies without having made a will, then they are said to have died 'intestate'. In such cases, a variety of problems can arise such as:

- assets being distributed to individuals according to the intestacy rules (as described on page 10) rather than to those chosen by the deceased
- possible delays in the settling of a deceased's affairs, which could prove distressing for a surviving spouse/civil partner or other members of the family
- an avoidable IHT bill being incurred.

UTILISING THE NIL-RATE BAND FOR MARRIED COUPLES AND CIVIL PARTNERS

Within your will, you can include specific gifts to reduce the taxable size of your estate. It may not be tax-efficient to leave everything to your spouse/civil partner as you may effectively just be passing on some of the tax burden. Instead, it may be better to leave an amount to your children up to the available nil-rate band.

Alternatively, the nil-rate band can remain unused when the first spouse or civil partner dies. On the death of the surviving spouse or civil partner, their legal personal representatives or executors can claim any available unused nil-rate band from the first of the couple to die in addition to that of the second. Whether to use the nil-rate band on first death or allow it to be carried forward until the second person dies will depend on various factors.

Your financial adviser will be able to explain how the transferable nil-rate band can be claimed and whether this approach is suitable for you.

RESIDENCE NIL-RATE BAND – SINCE APRIL 2017

The residence nil-rate band was announced in the Summer Budget of July 2015, where it was confirmed that it would be available in addition to the existing nil-rate band (NRB) of £325,000 (frozen until 2021).

This residence NRB started in the 2017/18 tax year £100,000 and rises with £25,000 increments each tax year until it eventually reaches £175,000 per person in the 2020/21 tax year. The additional allowance will only be available where a family home or 'main residence' is transferred to a direct descendant of the deceased. There are also provisions to ensure that those individuals who have had to sell the family home or have downsized are also protected under the new legislation.

Writing a will means you can specify how you would like your home to be distributed after your death or, if the home has been sold, how the assets of equal value are to be distributed to ensure your estate can benefit from this additional NRB.

The residence nil-rate band can be transferred to a surviving spouse/civil partner in the same way as the transferable nil-rate band.

Your financial adviser will be able to discuss this with you.

** As defined by the Civil Partnership Act 2004.*

INTESTACY RULES ENGLAND AND WALES

If someone dies without leaving a will, their estate is distributed according to the rules of intestacy, as shown below.

UNMARRIED PERSON WITH NO CHILDREN OR GRANDCHILDREN

- The estate goes to their parents.
- If no parent is still alive, the estate goes to any brothers/sisters or their children.
- If no brothers/sisters, the estate goes to the half brother/half sister or their children.
- If no half brother/half sister, the estate goes to grandparents.
- If no grandparents are still alive, the estate goes to brothers/sisters of the person's parents (uncles or aunts) or their children.
- If no uncles or aunts are alive, the estate goes to half brothers/half sisters of the person's parents or their children.
- If none of the above are alive, the estate goes to the Crown (or to the Duchy of Lancaster or the Duke of Cornwall).

MARRIED PERSON/CIVIL PARTNER WITH NO CHILDREN

- The surviving spouse or civil partner* takes the whole intestate estate.

UNMARRIED PERSON WITH CHILDREN

- The estate goes to any children.
- If a child dies before the parent, leaving children, their children will divide that share between them.

MARRIED PERSON/CIVIL PARTNER WITH CHILDREN

- Spouse/civil partner* receives everything up to £250,000 plus personal possessions.
- Anything remaining is divided into two:
  - Half of the remaining estate goes to any children.
  - The other half goes to the surviving spouse.

If a child dies before the parent, leaving children, their children will divide that share between them.

There may be exemptions to the rules outlined above. Independent legal advice should be sought as each individual's circumstances will be different. Scots law rules differ from those in England and Wales.

** As defined by the Civil Partnership Act 2004.*

GIFTS AND **EXEMPTIONS**

You can reduce the value of your estate and therefore the amount of IHT you are liable for by 'gifting away' some of it before you die.

Some gifts are completely free of IHT (ie, do not form part of your estate when you die) whereas others will still be liable to tax, albeit at a reduced rate in many cases. The following summarises the gifts you can make and exemptions available.

SPOUSE/CIVIL PARTNER EXEMPTION

There is no IHT to pay on transfers between most married couples or civil partners* living in the UK,** whatever the amount. Effectively, the amount liable to IHT is deferred until the death of the second spouse/civil partner.

However, if you do decide to pass your estate on to your spouse/civil partner, a potential liability can build up again on their death. That is why many couples decide to pass their estate on to their children or grandchildren, rather than to the surviving spouse/civil partner.

* *As defined by the Civil Partnership Act 2004.*

** *For those married to a non-UK domiciled spouse/civil partner living in the UK, exemption is limited to £325,000.*

ANNUAL EXEMPTION

Individuals are entitled to give away £3,000 in total, in any tax year, free from IHT. This allowance can be backdated by one year, so where the full £3,000 is not used in one tax year it can be carried forward to the next.

This means a married couple could give away a total of £6,000 a year to their children without incurring IHT (or £12,000 if the previous year's allowances were unused).

SMALL GIFT EXEMPTION

Outright gifts of up to £250 in total, to each of any number of people in one year, are exempt from IHT. The total of any one person's allowance cannot form part of any larger gift.

NORMAL EXPENDITURE FROM INCOME

Lifetime gifts are gifts made by you while you are alive. To benefit from this exemption, the gifts need to be made periodically (e.g., yearly) and out of true income (e.g., salary, dividends and interest from investments). Provided they do not affect your usual standard of living, they should be exempt from IHT. There is no maximum limit on the amount which can qualify for this IHT exemption, however, this amount can only be worked out on death and some may still be classed as being within your estate for IHT purposes. You should create a written plan showing your intentions to make periodic payments from income and the purpose of these payments.

MARRIAGE OR CIVIL PARTNERSHIP GIFTS EXEMPTION

Gifts made in consideration of a marriage or civil partnership are exempt as follows:

DONOR	AMOUNT
Parent	Up to £5,000
Grandparent	Up to £2,500
Others	Up to £1,000

OTHER EXEMPTIONS

Lifetime gifts for the upbringing of children and other dependants are free from IHT liability. Also exempt are gifts and bequests:

- to charities
- to political parties
- to universities
- for national purposes
- for public benefit.

TAX **RELIEFS**

Owners of businesses are eligible for certain tax reliefs, depending on the type of business.

In many instances, a business transfer on death is completely free from any IHT liability. The main tax reliefs, which are subject to minimum periods of ownership, are set out below. Please check with your financial adviser regarding the period of ownership and whether the asset qualifies for the relief.

TYPE OF RELIEF	AMOUNT OF RELIEF
BUSINESS PROPERTY RELIEF	
• Interest in a business as a sole trader or partner	100%
• Controlling interest in a quoted company	50%
• Holding shares in Alternative Investment Market	100%
• Unquoted shares	100%
• Certain assets used by a company which the owner controls or by a partnership in which the owner is a partner	50%
• Certain trust property used by a life tenant (a beneficiary with a life interest in a trust) in his or her own business	50%
AGRICULTURAL PROPERTY RELIEF	
• Agricultural land and certain buildings	
– With vacant possession or ability to vacate within 24 months	100%
– Let on a tenancy beginning on or after 1 September 1995	100%
– Let on a tenancy beginning before 1 September 1995	50%

The increase in these tax reliefs has led many business owners to believe they no longer face an IHT problem. Although their problem may have been reduced, it may not be eradicated entirely. At retirement, many owners sell their businesses rather than pass them on. However, once a business has been sold, any business property relief is lost and the money raised from the sale will form part of the estate. This can cause a significant increase in the potential IHT liability.

EXAMPLE

If the owner of a business worth £500,000 sold it to finance his retirement instead of using his other investments, as he wants to ensure a legacy for his children, but died shortly afterwards, the £500,000 proceeds would automatically be included in his estate. If the rest of his estate was worth £450,000 (utilising his nil-rate and residence nil-rate bands) 2018/19 tax year then, at current rates, the IHT bill would be £200,000 (£500,000 x 40%). However, if the owner passed the business (as opposed to investments) on death to his children, there would be no IHT liability, as it would be covered by business property relief.

TRUSTS

A trust is one way to move money out of your estate in order to reduce your inheritance tax (IHT) bill. It avoids potentially lengthy probate delays, so that the people you want to benefit from your estate do so as quickly as possible. However, you should be aware that with some trusts, you have to forgo access to some or all of the original capital as well as any future growth.

Simply put, a trust allows you (the Settlor) to entrust your assets to a group of people (the trustees). The trustees are the legal owners of the assets and manage the assets for the benefit of your trust's beneficiaries. It is the trustees' responsibility to manage and ultimately distribute the trust fund to the beneficiaries.

You can put all manner of assets in trust, including investments, life assurance policies and death benefits.

Certain trusts not only allow you to pass on your wealth when you die, but can also give you access to regular 'income' while you are alive, in the form of withdrawals. However, the trust needs to be established correctly to avoid any 'gift with reservation' issues, which would mean the asset was still classed as being inside your estate for IHT purposes (see page 14).

HOW TRUSTS WORK

A trust can reduce your IHT liability by transferring assets progressively out of your estate. The IHT liability on these assets will reduce in stages over a seven-year period and after seven years, the assets will be outside your estate and therefore exempt from IHT. However, should you die within seven years of creating a trust, the tax on your gifts may benefit from a reduced rate of tax, known as taper relief.

Transfers out of your estate are considered as either chargeable lifetime transfers (CLTs) or potentially exempt transfers (PETs), depending on the type of trust chosen. The tax treatment for each is slightly different, as highlighted below. Either way, and regardless of whether you survive the seven-year period, a trust can significantly reduce your IHT liability.

CHARGEABLE LIFETIME TRANSFERS

Some gifts are considered as CLTs. These would be gifts into a trust, other than a bare trust (where there is a named beneficiary which cannot be changed). If the CLT gift amount exceeds your available nil-rate band it can be subject to IHT at a rate of 20% at outset. Should you die within seven years, additional tax may be payable on a CLT*.

There is no refund for any overpayment of tax paid during your lifetime.

Please note: entry, exit and periodic charges apply. See pages 20 and 21 for more details.

POTENTIALLY EXEMPT TRANSFERS

Some gifts are considered as PETs and are not liable to immediate IHT. These can be outright gifts, or gifts into bare trusts. After seven years, the PET will fall outside your estate for IHT purposes. However, should you die within seven years, the PET will become chargeable and IHT will be due at 40%* on the gift amount after deduction of any available nil-rate band.

* Taper relief may reduce the tax due. See page 14 for more information.

TRUSTS (CONTINUED)

TAPER RELIEF

The IHT rate(s) payable will depend on the number of complete calendar years between the date the gift (the chargeable lifetime transfer or potentially exempt transfer) was made and the date of the Settlor's death. This is known as taper relief, as outlined below.

Taper relief will only reduce the tax payable where the gift or cumulative total of gifts in the previous seven years is **greater** than the available nil-rate band.

Number of years between the date of gift and death	Proportion of 40% IHT payable	Effective IHT rate on amounts over the nil-rate band
0-3	100%	40%
3-4	80%	32%
4-5	60%	24%
5-6	40%	16%
6-7	20%	8%
7+	0%	No tax to pay

Example:- death in year 4-5: £100,000 x 40% = £40,000 x 60% = £24,000 (ie effective IHT rate is 24%).

GIFTS WITH RESERVATION

If you 'gift' an asset but retain some benefit, it may be treated as still being within your estate on death.

The following are examples of such gifts:

- The gift of a property where you continue to live for your lifetime without paying rent to the beneficiary.
- The payment of premiums into a life assurance policy, written in trust since March 1986, where you are a potential beneficiary.

If the benefit which you can enjoy ends during your lifetime, then you will be treated as having made a potentially exempt transfer on that date. However, if the benefit continues until your death, the trust fund will form part of your estate for IHT purposes.

This is a brief summary of the IHT provisions under UK law. This does not cover every eventuality, so please consult your financial adviser before making any decisions.

PACKAGED **SOLUTIONS**

There are many product and trust solutions available to help you mitigate paying inheritance tax (IHT). The combination of a product such as an investment bond with a trust can offer significant tax savings and investment opportunities. Some of these solutions are described on the following pages. Please see your financial adviser who will be able to help you choose a solution suitable for your circumstances.

LIFE ASSURANCE POLICIES

A life assurance policy can be used to pay an IHT liability as long as it is written under an appropriate trust. The trust means that the amount for which you are covered (the sum assured) does not form an asset of your estate. This ensures that your family has money to pay some or all of the IHT bill which arises, either as a result of being over the nil-rate band threshold or if IHT is due on a potentially exempt transfer (PET) or chargeable lifetime transfer (CLT), as described on page 13.

If the life assurance policy is not written into trust, the sum assured will form part of your estate and the proceeds will therefore be liable to IHT. By writing your life assurance policy into trust, when you die the proceeds become payable to the trust. As the proceeds fall outside the estate, the trustees have access to them without having to wait for a grant of probate; this can ensure prompt payment to beneficiaries, if the trustees decide this is appropriate.

Please note: premiums you pay into the policy once written in trust will be treated as PETs or CLTs unless they are otherwise exempt. (See page 11 for more information on the exemptions available.)

For more information about Old Mutual Wealth's life assurance products please speak to your financial adviser.

PENSION PLANS

Your pension is one of the most tax-efficient ways of providing for your retirement. However, should you die before retirement your pension death benefits may form part of your estate for IHT if your pension is not under trust.

Under most pension schemes, death benefits do not form part of the deceased's estate and are normally free of IHT. This is because the pension scheme is already under trust and is administered by trustees or scheme administrators. In these cases, the trustees or scheme administrators have discretion regarding to whom death benefits are payable. This applies to:

- all occupational pension schemes including executive pension plans and small self-administered schemes.
- personal pension schemes including self-invested personal pensions established under trust.

It is important that you keep the pension trustees/scheme administrators up to date regarding details of the people who you wish to receive the death benefits. Your financial adviser or scheme trustees/administrators should be able to confirm whether your pension death benefits are established under trust.

SUSTAINING YOUR **STANDARD OF LIVING**

There are many types of trust designed to provide an 'income' through the use of regular withdrawals of capital. Old Mutual Wealth's single premium schemes are outlined below and further information can be requested from your financial adviser.

DISCOUNTED GIFT SCHEMES

These schemes involve an investment into a whole life assurance bond or capital redemption bond written in a trust. The trust allows you a right to 'income' in the form of withdrawals during your lifetime or until the bond comes to an end. The value of all these future withdrawals is called the 'discount'. It is calculated by taking into account such factors as your age, state of health and withdrawals required. The discount provided is an estimated discount; the actual discount needs to be agreed with HM Revenue & Customs upon your death. The significance of the discount is that your estate should immediately be reduced by the value of the discount.

Old Mutual Wealth offers two Discounted Gift Trust arrangements. The Bare version creates a PET and the Discretionary version* creates a CLT. Both schemes give you a right to a chosen level of withdrawals, and any growth made on the underlying investment falls immediately outside your estate for IHT purposes.

Should you die within seven years of creating a trust, your IHT liability can be reduced. After three years any further liability can be reduced; this is known as taper relief (as described on page 14). After seven years your assets would fall outside your estate and be completely free of IHT – leaving your beneficiaries to benefit fully from the trust fund, with no IHT bill to pay.

Please speak to your financial adviser for more information about any of Old Mutual Wealth's trust arrangements.

***PLEASE NOTE: periodic and exit charges may apply. See pages 20 and 21 for further information.**

LOAN SCHEMES

Under a Loan Trust scheme, you appoint trustees and make a loan to them. The trustees use this loan to invest in a single premium whole life assurance bond or capital redemption bond from which you can request withdrawals in the form of loan repayments. This loan amount forms part of the trust fund and is repayable to you on demand, giving you flexibility for the future. This can be repaid to you on an ad hoc basis or as regular repayments.

Other advantages with this type of scheme are as follows:

- All growth on the trust fund is outside your estate from day one and therefore free from IHT. However, periodic and exit charges may apply in the future where a discretionary trust is used.
- As the interest-free loan is repayable on demand, it is not treated as a gift, although any outstanding sum due on death will form part of your estate.
- Assuming loan repayments are spent, your taxable estate should gradually reduce.

LIFESTYLE TRUST

These schemes are designed to help you achieve a balance between access to your capital, inheritance tax planning and control over the future distribution of your assets.

The Lifestyle Trust entitles you to access a pre-agreed proportion of the trust fund for your own future use. This is divided into a series of what are known as 'entitlements' that become available in line with an agreed schedule of dates.

The initial payment into the trust is classed as a CLT and therefore it is potentially liable to entry, exit and periodic charges, depending on the amount invested.

WHAT TO
DO NEXT

It is essential that you and your financial adviser assess the nature and scale of your IHT liability. To make a start on this you can use the checklist below and the 'IHT calculator' on page 6.

Not all the IHT solutions described in this brochure may be suitable for you, so we always recommend you seek professional advice. Your financial adviser will be able to assess your IHT plan to ensure you are reducing your IHT liability effectively, and can recommend a trust that will suit your particular circumstances and financial goals.

Successful IHT planning should be a continuous process, rather than a one-off exercise. Therefore, it is important to regularly review any IHT arrangements you have made.

CHECKLIST	**Yes**	**No**	**Don't know**
1. Have you made a will?	☐	☐	☐
If yes, is it up to date?	☐	☐	☐
2. Are you making full use of your various IHT exemptions?	☐	☐	☐
3. If married or in a civil partnership*, are you making full use of available nil-rate bands?	☐	☐	☐
4. If you have children and/or grandchildren, are you able to use the available residence nil-rate band?	☐	☐	☐
5. Are all life assurance policies you hold written in trust?	☐	☐	☐
6. If you are in a pension scheme or have a personal pension plan, are death benefits included?	☐	☐	☐
If yes, have you given up to date details of the person/people to whom you wish these benefits to be paid?	☐	☐	☐
7. If you have an old-style retirement annuity policy, is the death benefit in trust?	☐	☐	☐
8. Have you made, or are you making, full provision for retirement income?	☐	☐	☐

** As defined by the Civil Partnership Act 2004.*

Answers 'No' or 'Don't know' are an excellent place to start in discussions with your financial adviser.

OLD MUTUAL WEALTH
EXPERTS YOU CAN TRUST

Financial decisions are some of the most important you will ever make, so when choosing where to place your long-term savings, it's important to do so through a company with solid foundations that can offer the flexibility to adapt as your investment needs change.

We only offer our products through financial advisers, so you can be sure that when they recommend an Old Mutual Wealth product, they are doing so because they truly believe in it and the company behind it.

Old Mutual Wealth is one of the top ten providers of long-term savings in the UK market, with a range of well-established solutions for investments, tax and planning, pensions and protection. Our wealth of experience has earned us a reputation for excellence for our approach to product design, administration and service.

We give you and your financial adviser access to over 1,300 funds from around 60 different fund management houses covering the world of investment opportunities. Plus, we provide the most advanced methods and best support to enable you to make your financial goals achievable.

QUILTER

Old Mutual Wealth is part of Quilter, a leader in wealth management in the UK and selected offshore markets, providing advice-led investment solutions and investment platforms. Quilter plc oversees £111.6 billion in customer investments (as at 31 March 2018).

Old Mutual Wealth in the UK

Provides a range of investment products including pensions and ISAs, and protection products including life and critical illness insurance.

OLD MUTUAL INTERNATIONAL

Provides offshore and cross-border investment solutions within Quilter plc.

GLOSSARY
OF TERMS

AGRICULTURAL PROPERTY RELIEF	A deduction of 50% or 100% taken from the value of agricultural property in the UK, Channel Islands or Isle of Man, when it is assessed for IHT purposes.
ANNUITY	A form of investment where an individual invests a capital sum with a life assurance company in return for a regular income.
BARE OR ABSOLUTE TRUST	A trust where the beneficiaries are named at outset and cannot be changed at any time in the future. At age 18 the beneficiary can demand their share of the trust fund.
BENEFICIARY	Someone who will or may benefit from a trust fund or will.
BOND	A single premium investment product that can be set up on a whole life or capital redemption basis.
BUSINESS PROPERTY RELIEF	A deduction of 50% or 100% taken from the value of certain business property when it is assessed for IHT purposes.
CHARGEABLE LIFETIME TRANSFER (CLT)	A transfer of value which is made by an individual and is not an exempt or potentially exempt transfer.
DISCRETIONARY TRUST	A trust where the beneficiaries can be added to and the trustees use their discretion as to when and to whom benefits may be paid.
DOMICILE	The country where the person has their permanent home, whether or not he/she actually lives there. Domicile of origin is inherited, normally from the father. Deemed UK domicile occurs where a person has been resident in the UK for at least 15 of the last 20 tax years. An individual originally UK domiciled but who achieves a change of domicile and then returns to the UK will be UK domiciled for the period of UK residence. This may be of particular importance in the assessment of a person's liability to IHT.
ENTRY CHARGE	When a chargeable lifetime transfer (CLT) is created, an entry charge equivalent to half the rate payable on death is paid on the transfer of any value above the available nil-rate band. Previous CLTs will affect the amount of available nil-rate band.
ESTATE	All the assets that a person owns at the time of death. For non-UK domiciled UK residents, this is limited to their UK assets for IHT purposes, except for UK residential property owned by their foreign close company or partnership.

EXIT CHARGE	Where the entry charge or 10-yearly periodic charge has given rise to a tax actually payable, an exit charge will be paid on any distributions made by the trustees out of the trust fund. The rate charged is dependent on the entry and 10-yearly periodic calculations but can never be greater than 6%.
GIFT WITH RESERVATION	Assets passed from one individual to another by way of a gift, while he/she still enjoys a benefit from it. The gift will then be treated as part of the donor's estate for IHT purposes.
GIFTS OUT OF NORMAL EXPENDITURE	Gifts made by an individual out of income while they are still alive, and providing they do not affect their standard of living, are classed as gifts out of normal expenditure and should be exempt from IHT.
GRANT OF PROBATE	A certificate granted by the Courts confirming that the will of a certain person has been proved and registered in the Court and the administration of the deceased's estate has been granted to the personal representative proving the will.
INTESTATE	Where a person dies without having made a will, or where any will made before death is invalid.
NIL-RATE BAND	The nil-rate band is the value of your estate that is not chargeable to UK inheritance tax. The amount is set by the Government and is currently £325,000, which is frozen until 2021.
PERIODIC CHARGE	Every ten years the value of the trust, less the available nil-rate band and previous chargeable lifetime transfers, will be assessed for tax at a maximum rate of 6%.
PERSONAL REPRESENTATIVE(S)	Person(s) appointed by the Courts to administer the affairs of a deceased individual.
POTENTIALLY EXEMPT TRANSFER (PET)	A gift made by an individual which is not immediately liable to IHT. It only becomes chargeable if the Settlor dies within seven years of making the gift. If the Settlor survives for seven years then the transfer is not chargeable.
PRE-OWNED ASSETS TAX	A tax charge introduced to tax certain arrangements which avoided the 'gift with reservation' rules. This does not apply to loan trust and discounted gift arrangements.
RESIDENCE NIL-RATE BAND	The residence nil-rate band is an additional nil-rate band available to your estate if you own a property and leave this to your children (including adopted, foster or stepchildren) or grandchildren. It may also be available if you have downsized or sold your property since 8 July 2015. The amount is set by the Government and is currently £125,000 for 2018/19 and will rise by £25,000 each tax year to reach £175,000 in the 2020/21 tax year.
SETTLOR	Someone who makes a gift to a trust, for example the policyholder who transfers the policy into a trust for the benefit of another person.
SUM ASSURED	An amount payable on death of the person whose life is assured under a life assurance policy.

GLOSSARY OF TERMS (CONTINUED)

TAPER RELIEF	Reduction applied to the amount liable to IHT, where death occurs between three and seven years after setting up a trust or gifting away your assets.

YEARS BETWEEN MAKING A PET AND DYING	PROPORTION OF 40% INHERITANCE TAX PAYABLE
6-7	20%
5-6	40%
4-5	60%
3-4	80%
0-3	100%

TRANSFERABLE NIL-RATE BAND	The ability to use any available unused nil-rate band from the estate of a deceased spouse or civil partner up to 100% of the then current nil-rate band.
TRANSFERABLE RESIDENCE NIL-RATE BAND	The ability to use any available unused residence nil-rate band from the estate of a deceased spouse or civil partner up to 100% of the then current residence nil-rate band.
TRUSTEE(S)	The person/people to whom the Settlor transfers the trust assets and who administers the trust.
TRUST FUND	All assets placed in a trust.
WHOLE LIFE ASSURANCE	A type of life assurance without a specified expiry date, where the sum assured is paid on the death of the person whose life is assured.
WILL	A written declaration, made by a person, providing instructions for the distribution and administration of his/her estate after his/her death.

This document is based on Old Mutual Wealth's interpretation of the law and HM Revenue & Customs practice as at June 2018. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

Full details of the range of trusts, investment and protection products available from Old Mutual Wealth can be obtained from your financial adviser.

The value of investments can fall as well as rise. Investors may get back less than they invested.

Examples in this document are entirely fictional and used for illustration purposes only.

SK0653/218-1046/March 2019