

For adviser use only



# Flexible Reversionary Trust



# What is the Transact Flexible Reversionary Trust?

The Transact Flexible Reversionary Trust (FRT) is a single-settlor trust designed for use with a new Transact Onshore or Offshore Bond.

It combines discretionary trusts for the chosen beneficiaries with a carved-out retained interest for the settlor in specified policies. Those retained policies are scheduled to vest for the settlor on future vesting dates, provided the settlor is alive and the trustees have not deferred or defeated the entitlement before that date. The settlor is excluded from benefiting from the trust fund except through their specified retained policies. The settlor's spouse or civil partner is also excluded from benefiting during the settlor's lifetime, although a widow, widower or surviving civil partner may fall within the beneficiary class after the settlor's death.

This flexibility allows for inheritance tax (IHT) planning, peace of mind for the settlor in relation to future access (if reversions are allowed by the trustees), and an element of control over who ultimately benefits from the trust (e.g. the settlor's children, grandchildren etc).

# Why consider a Flexible Reversionary Trust now?

## Current IHT context

From April 2027, unused defined contribution pension funds and certain pension death benefits are expected to fall within the member's estate for IHT. This may bring more clients into scope for IHT, or increase the potential liability for clients whose estates are already taxable.

At the same time, the nil-rate band remains frozen at £325,000 and the residence nil-rate band will remain at £175,000 until 5 April 2031. IHT is charged at 40% on the value of an estate above the available allowances. Lifetime transfers into relevant property trusts can also give rise to an immediate 20% charge on the excess over the available nil-rate band, with further relevant property charges of up to 6% at each 10-year anniversary and on some exits.

## Key client benefits of the FRT



### Access

The settlor can plan to become absolutely entitled to specified policies on chosen future dates. The entitlement is not guaranteed, because the trustees may defer or defeat it before the relevant Vesting Date.



### Flexibility

Trustees can decide which beneficiaries benefit, when and by how much. Beneficiaries may include named individuals and/or classes, such as children or grandchildren, but the settlor and the settlor's spouse or civil partner are excluded during the settlor's lifetime.



### IHT planning

The transfer into the FRT is a chargeable lifetime transfer. The settlor's retained rights are expected to have negligible value for IHT purposes, so the transfer is based on the full value placed into trust rather than a discounted value.

This outcome is not guaranteed and depends on the trust being structured and operated as intended, and on HMRC's interpretation not changing.



### Control over legacy

Use of an expression of wishes can help guide the trustees when selecting beneficiaries. Appointing a professional trustee also adds independence and continuity.

# Summary of how the technical structure works

Transact bonds are divided into individual policies, which allows the settlor's retained entitlement to be structured by policy or groups of policies ("Policy Funds").

The FRT deed schedule identifies the policies that make up each Policy Fund and the intended Vesting Date for each Policy Fund.

If the settlor is alive on the Vesting Date, and the trustees have not deferred or defeated the entitlement, the relevant Policy Fund vests in the settlor absolutely.

The trustees may defer a Vesting Date before it arises, or defeat the settlor's entitlement by appointing the relevant policies for beneficiaries before the Vesting Date.

If no action is taken by the trustees, the policies will revert to the settlor.

Policies that are not included in the settlor's retained schedule, and policies where the settlor's entitlement has been validly defeated, are held for the discretionary beneficiaries.

The intended tax outcomes depend on trustees exercising their powers independently and in accordance with the trust terms. Failure to do so could affect the tax treatment of the arrangement.



## Typical cases and planning options

- Consider deferring access in years when income is high and access in years when income is lower.
- Use proceeds for planned expenditures, such as holidays and other capital purchases, without disturbing core assets.

# Setting up a Flexible Reversionary Trust – step by step

## 1 Choose the bond

Select the Transact onshore or offshore bond to match the client's tax profile and that of the likely ultimate taxpayer. The FRT is single settlor only so the bond should not be funded from a joint account; using a joint account could result in adverse inheritance tax consequences.

Consider bond segmentation (e.g. 1,000 policies for maximum flexibility or perhaps a number divisible by the planned number of beneficiaries if known).

The bond should generally not be written on the life of the settlor or the settlor's spouse or civil partner. Advisers should consider the lives assured carefully, as this is an important part of preserving the intended IHT treatment and trustee flexibility.

## 2 Execute the FRT deed and the relevant bond application form

The settlor and trustees should complete the FRT deed, a Transact trust portfolio application form, and the relevant bond application form.

There must be at least one independent trustee, ideally a professional trustee for robust decision-making, administration, and record keeping.

Failure to demonstrate that the trustees are able to act independently in their decision making could have negative consequences in respect of the tax treatment of the Trust.

## 3 Set the entitlement (vesting) schedule

Populate the schedule with the Policy Fund and vesting date details.

## 4 Write a letter of wishes from the settlor

State beneficiary priorities and guidance for trustee discretion (optional).

## 5 Register on the Trust Registration Service (TRS)

The FRT must be registered on the HMRC TRS. Transact require the TRS 'proof of registration' document before allowing a new trust portfolio to be opened.

## 6 Fund and operate

Arrange for the settlor to transfer the bond premium amount to us. Trustees should maintain a clear trust calendar showing each Vesting Date, the deadline for any deferral decision, 10-year anniversary dates and potential exit charge points. Any decision to defer must be made in writing before the relevant Vesting Date. Any decision to defeat the settlor's entitlement must also be completed before the Vesting Date.

# Tax at a glance

## Inheritance Tax (IHT)

- **Entry**

The transfer into the FRT is a chargeable lifetime transfer. The annual IHT exemption is currently £3,000 and the nil-rate band is currently £325,000. Any chargeable transfer above the available nil-rate band is subject to lifetime IHT at 20%. If the settlor dies within seven years, the transfer is recalculated using the death rate of 40%, with credit for lifetime tax already paid and taper relief where available after three years.

- **Periodic charges**

The FRT is within the relevant property regime. A 10-year anniversary charge may apply at an effective rate of up to 6% on value above the available nil-rate band. The settlor's retained rights are expected to have negligible value for this purpose.

- **Exit charges**

Exit charges may apply when relevant property leaves the trust. Vesting to the settlor should not normally be treated as an exit from the relevant property regime, because the settlor's retained entitlement is carved out and held on bare trust for that purpose.

- **Gift with reservation/preowned asset tax**

The structure aims for the settlor's retained rights to be nominal. Independent trustee decisions should support the analysis, and they should continue to monitor guidance.

## Income tax on the bond (chargeable events)

- Surrenders and withdrawals can create chargeable event gains, which are taxed as income.
- During the settlor's lifetime, and in the tax year of the settlor's death, chargeable event gains on trust-held policies are generally assessed on the settlor.
- After that, chargeable event gains will generally fall on the trustees unless the policies have first been assigned to a beneficiary.
- Onshore bond gains carry a basic-rate tax credit. Offshore bond gains do not.
- Assignment by way of gift is not normally a chargeable event. After the settlor's death, trustees may consider assigning policies to an appropriate beneficiary before encashment, where suitable, so that any subsequent gain is assessed on that beneficiary rather than on the trustees. Anti-avoidance rules and the beneficiary's tax position must be considered.

## Key considerations

The intended treatment relies on the settlor's retained rights being treated as separate from the trust fund. If this is not accepted, the arrangement could be treated as a gift with reservation of benefit, potentially resulting in the full value being included in the settlor's estate for IHT.

There is a risk (although considered low) that the arrangement could be subject to the pre-owned assets tax (POAT) rules, which could give rise to an ongoing income tax charge.

HMRC guidance supports this type of structure, but this guidance can change and may not be applied consistently in all cases

Tax outcomes depend on the trust being correctly structured and operated by the trustees at all times.

Please ensure you read the Flexible Reversionary Trust Guidance Notes for more information on the risks involved.

# Practical governance and trustee checklist



Maintain a trust calendar: vesting dates, deferral decision deadlines, 10-year anniversaries and reporting dates.



Minute all trustee decisions (especially any deferral/override of settlor's entitlement).



Keep adequate records of the status of all policies with the vesting schedule; reconcile after any assignments.



Register and maintain TRS data and file tax returns when required.

# Get in touch

 [transact-online.co.uk](https://www.transact-online.co.uk)

 [salesupport@integrafin.co.uk](mailto:salesupport@integrafin.co.uk)

 020 7608 5350

Phone lines are open from 8am to 6pm, Monday to Friday  
(excluding Bank Holidays). Calls may be recorded.

This marketing communication is for general information purposes only and does not constitute financial, investment, legal, regulatory, tax or any other advice.

All information is based on our understanding and interpretation of applicable law and regulation, which is subject to change. The value of investments can go down as well as up and charges and market performance affect outcomes. Tax treatment depends on individual client circumstances and may change.

## M385 Version (1) June 2026

"Transact" is operated by Integrated Financial Arrangements Ltd, 4th Floor, 2 Gresham Street, London EC2V 7AD | Tel: (020) 7608 4900 | Email: [info@transact-online.co.uk](mailto:info@transact-online.co.uk) | Web: [www.transact-online.co.uk](http://www.transact-online.co.uk) |  
(Registered office: as above; Registered in England and Wales under number: 03727592) | Authorised and regulated by the Financial Conduct Authority (entered on the Financial Services Register under number: 190856)