

Flexible Reversionary Trust

Guidance notes

What is the Flexible Reversionary Trust?

The Flexible Reversionary Trust is a flexible form of trust. It allows you (the Settlor) to gift a Transact Offshore or Onshore Bond into trust for your family or other nominated people (the Beneficiaries), and remove it from your estate for inheritance tax purposes, whilst also being able to take capital payments at future dates of your choosing.

You can choose how much you become entitled to and when – e.g. to cover expected life events or as a periodic top-up. There is the option for the Trustees to defer your entitlements if a payment is not in fact required. Please note that the Trustees do also have the ability to override your entitlement if they think fit – this power is important for tax purposes (see further below).

The remaining funds are held for the Beneficiaries at the discretion of the Trustees. This includes any policies which vest on or after your death. The trust deed automatically includes some Beneficiaries but you can add additional people by completing their details in the trust deed.

What does the Flexible Reversionary Trust do?

The Flexible Reversionary Trust is designed for use with the Transact Offshore or Onshore Bond only. It is not possible to use this Trust with another investment product. It can only be used for new Bonds.

The Bond is comprised of up to 1,000 individual policies, and you can choose to have different 'batches' of policies vest on different dates - at which point you become entitled to those policies. The policies can then be surrendered if you wish (although the Trustees would need to formally request that, as the policies won't automatically mature). Or alternatively they could be transferred into your own name. As noted above, the Trustees can elect to defer your entitlement if you do not require the funds, although you cannot require them to do so. This is therefore considerably more flexible than a discounted gift trust, where your entitlement is to fixed, regular payments.

Following your death, any future entitlement to any policies falls away and the whole trust fund (except for any policies that have already vested) will just be held for the Beneficiaries and can be applied by the Trustees at their discretion.

Please note that this Trust is not suitable for joint settlors (for instance, you and your spouse or civil partner cannot make a joint application for this Trust). The application must be by one individual. This also means that the Bond should not be funded from a joint account; if you do, that could result in adverse inheritance tax consequences.

Note also that the flexibility described above does make this more complex than a discounted gift trust, for example, and whilst we have set out below our understanding of the benefits and the tax treatment, there is no guarantee that these will be obtained. In particular, it is very important that the Trustees operate the Trust correctly, and that at least some of the Trustees are independent, in order to make it robust. It is therefore very important that you seek professional legal and tax advice in advance of applying for the Trust, so that you fully understand how it needs to work and the potential risks.

Benefits in more detail

On the assumption that you are resident in the United Kingdom for tax purposes, use of the Flexible Reversionary Trust offers the following features:

- **Reduction in value of estate** – the whole value of the Bond transferred into the Flexible Reversionary Trust should be a chargeable lifetime transfer (CLT) for inheritance tax (IHT) purposes. This means that if you survive for seven years from the date that the Trust is established, the value of the Bond will fall outside your chargeable estate for IHT purposes.
- **Flexibility to benefit you and your Beneficiaries** – you can receive the specified capital payments from the Trust at your chosen vesting dates, though the Trustees retain the power to defer or override your entitlement, and so there is no guarantee that you will receive the specified policy value. Subject to that, the Bond is held for the Beneficiaries and the Trustees can choose which of them to benefit, when and how much - the Trust is very flexible to adapt to changing needs and circumstances. You and your spouse/civil partner cannot be Beneficiaries – your entitlement is therefore limited to the policies specified at the outset, and so it is important to plan carefully when creating the Trust.
- **Not subject to probate** – property held in the Flexible Reversionary Trust will not be subject to probate on your death. Therefore, the Trustees will be able to manage the Trust and apply the trust fund without the restrictions and delays which arise whilst a grant of probate is obtained over the rest of your estate.

Tax treatment of the Flexible Reversionary Trust

We have summarised below our understanding of the tax treatment of the Trust and the Bond. However, this is a complex area, and this is only a high-level summary provided for general information. The tax treatment will depend on your individual circumstances and the way in which the Trust operates in practice, and the anticipated tax outcome cannot be guaranteed. You should only proceed if, having taken appropriate professional advice, you are satisfied that you understand and are comfortable with the legal, tax and practical risks associated with this Trust. We cannot advise you on what the tax treatment will be in your specific circumstances, or accept any liability if that is different from the summary outlined below. It is strongly recommended that you seek your own tax advice from a specialist advisor.

Inheritance tax

Charge on transfer into Trust

The gift of the Bond into the Flexible Reversionary Trust will be a chargeable lifetime transfer for IHT purposes. The annual exemption for chargeable lifetime transfers (currently £3,000), if available, may be used to reduce the chargeable value.

Because the Trustees have the ability to effectively 'override' your entitlement to payments (see above), the intention is that the value of your retained rights will be nominal and that the gift for IHT purposes should be for the full value of the Bond. You should therefore take that into account when considering the availability of your nil rate band to set against the gift.

The nil rate band is currently £325,000, but this will be reduced by the aggregate value of your chargeable lifetime transfers over a seven-year period. To the extent that the value of the Bond exceeds the available nil rate band and annual allowance, inheritance tax is payable on the excess at half the death rate (i.e. currently at 20%). If you die within seven years, a further liability to IHT may then arise; the value of the transfer will become chargeable to inheritance tax at the rate applying on death (currently 40%), less any available nil rate band and less the IHT paid when the Trust was established. However, if you die three or more years after the transfer, tapering should reduce the effective rate of IHT.

10-year charges

The trust fund may also be subject to periodic IHT charges every 10 years from the date you created the Trust. Broadly, this will be on the value of the trust fund that exceeds the then available nil rate band, at an effective rate of 6%, taking into account any chargeable lifetime transfers you made in the seven years up to creating the Trust. Note that your entitlement to the specified policies is unlikely to reduce the value of the trust fund for these purposes, because the value of your retained interest is treated as nominal as explained above.

Exit charges

Exit charges might also apply when capital is distributed to Beneficiaries. This should not apply to reversions to you when your entitlement to policies vests, on the basis that your interest should be treated as held on bare trust and so not 'relevant property'. HMRC's published views on reversionary interest trusts appear to be consistent with this understanding.

Your entitlement to policies

Once you become entitled to a policy (i.e. on vesting), its value will of course form part of your estate for IHT purposes.

Gift with reservation of benefit and pre-owned asset tax ('POAT')

Please note that the above analysis may be affected if the Trust were to be caught by the gift with reservation regime. Very broadly, this can apply if you make a gift which is not 'virtually to your entire exclusion' and can result (amongst other things) in the gifted assets remaining part of your estate for IHT purposes.

The gift with reservation regime is very complex. However, our understanding is that it should not apply in the context of this type of reversionary interest trust, where your only entitlement as Settlor is to the value of the specified policies on vesting at fixed future dates, albeit that this entitlement can be deferred or defeated by the Trustees. HMRC acknowledges that reversionary interests are not subject to the gift with reservation rules where that interest is specified and carved-out from the gifted property at the outset. Their guidance also suggests that they accept that to be the case in a trust of this type.

For similar reasons, we consider the risk of POAT applying to be low. HMRC also accepts in its published guidance that a POAT charge does not arise in the context of flexible reversionary trusts. We also note that the effect of the Trustees' right to override the Settlor's interest and appoint to the Beneficiaries instead means that this should be accepted as having a negligible value.

The position is not, however, beyond doubt and HMRC could potentially take a different view in the future. The quid pro quo of the flexibility offered by flexible reversionary trusts is a somewhat higher degree of risk, compared to a discounted gift trust, for example.

This (and other tax risks) can be reduced by making the Trust as robust as possible. To that end, we require that there be at least one independent Trustee to take decisions, particularly with regard to deferral of capital payments to you or applying the specified policies for the Beneficiaries instead. The strongest position would be to use professional Trustees.

Income and Capital Gains Tax

Please refer to the Guidance Notes to Tax and the Transact Offshore Bond and the Guidance Notes to Tax and the Transact Onshore Bond.

How to set up the Flexible Reversionary Trust

After discussion with your financial adviser, the first step is to decide on (i) who you wish to act as Trustees and (ii) which policies you want to vest for your benefit and when. You will then need to complete the Flexible Reversionary Trust Deed. You will also need to complete and submit the relevant Bond application form, and fill in the date of application where indicated in Schedule A of the Trust Deed.

These documents then need to be sent to Transact. We will carry out standard anti-money laundering checks, then set up your Bond and request payment.

Frequently asked questions

Should I be a Trustee?

It is possible for you to be a Trustee. However, some of the Trustees should be independent in order to make the Trust more robust for tax purposes. That is because the Trustees need to be able (and be seen to be able) to independently make decisions, particularly in relation to deferral of vesting or deciding to apply the specified policies for the Beneficiaries instead of you as Settlor – this is quite key to the inheritance tax analysis (see the IHT section above).

For that reason, we require at least one (but preferably all or most) of the Trustees to be independent, by which we mean someone other than you, your spouse, civil partner or cohabitee, your children and your financial advisor. You may also want to consider using a professional Trustee. This would help to demonstrate proper independent decision making and exercise of the Trustees' powers, and avoid the inherent conflict of interest which would arise from you acting as Trustee. It should also avoid the risk of deadlines being missed (such as the deadline to defer a particular policy, and therefore avoid it vesting in you if that isn't what is intended), and help with record keeping. It is important to understand that this Trust requires more actively managing, and more decisions to be taken by the Trustee, than other types of trust – and if HMRC did ever challenge our understanding of the tax analysis, then having independent, ideally professional, Trustees would help in demonstrating that the Trust has been operated as intended.

Note also that a Trustee who is or may be a Beneficiary can only exercise powers for his or her benefit if at the time of exercise there is an additional Trustee who is not benefitting – so again having some independent Trustees who aren't immediate family members will make that easier to manage.

If you are a Trustee, it is critical to understand that you would be acting as a fiduciary – meaning that you must consider the interests of the Beneficiaries of the Trust (and not your own interests) when managing the Trust.

Do I need legal advice and tax advice on the Trust Deed?

Yes, that is very strongly recommended. This is a relatively complex type of trust, and it is important that you seek professional legal and tax advice in advance of applying for it, so that you fully understand how it needs to work and the potential risks.

Transact provides a specimen Trust Deed for consideration by you and your professional advisers. However, the circumstances and estate-planning requirements of each Settlor are different and so the specimen Trust Deed is provided only for guidance and without any acceptance of responsibility by Transact for its use. The law and interpretation in this area is also subject to change in the light of decided cases and changes in HMRC practice.

Can I put an existing bond into the Trust?

No.

When can I access funds from the Trust?

Your entitlement is to the specified policies on the specified vesting dates – which needs to be set out in Schedule B of the Trust Deed. You cannot access any of the policies or associated benefits prior to the specified dates – the Trustees can defer your entitlements until a later date, but they cannot accelerate them.

Please note that you are not guaranteed to receive anything. The Trustees could decide to apply some or all of the policies for the Beneficiaries instead of you. This is fundamental to the IHT analysis as explained above.

What does vesting mean/what is its significance?

Vesting simply means you have become entitled to the relevant policy within the Bond; i.e. it is absolutely yours and the Trustees can no longer defer it or override your entitlement. It does not mean that the policy has 'matured' – it will simply continue as previously unless the Trustees request us to take action. The Trustees could, however, request us to surrender/encash the policy (in which case we will make payment to the Trustees who can pass it on to you), or to assign the policy to you.

What do the Trustees need to do if they wish to defer vesting?

The Trustees must positively resolve to defer vesting of a policy – the default is for it to vest (and you as Settlor to become absolutely entitled to it) on the specified date. The Trustees should keep clear records of decisions to defer vesting, including which policies it applies to and the new vesting date. The Trustees must notify us of deferrals, but fundamentally it is their responsibility and we will not automatically issue reminders.

What happens if I die?

Following your death, any policies listed in Schedule B which have not already vested will be held for the Beneficiaries at the Trustees' discretion, in the same way as any other policies which you did not specify in Schedule B. Your estate will not have any entitlement when the vesting date arrives.

Who are the Beneficiaries and how do I add to them?

The Trust has a set class of Beneficiaries but you as Settlor can choose to add more when you set-up the Trust. You can also agree with the Trustees to add Beneficiaries later. As noted above, the Trustees have a wide discretion as to who to benefit amongst the Beneficiaries, but you could use an 'Expression of Wishes' to provide guidance to the Trustees on your intentions.

Can I make additional contributions to the Bond after the Trust has been established?

No – only the initial premium is permitted.

Is it possible to make a partial withdrawal or surrender of a policy?

No, whether the policy has vested or not, any surrender or withdrawal must apply to the whole policy – it can't be a partial surrender or withdrawal across multiple policies except for the purpose of paying trustee fees if the Trust has a professional trustee.

How quickly can the Trust be set up?

The Trust will come into being following execution of the Trust Deed, and will be fully set up as soon as the Bond has been issued to the Trustees.

How do I register the Trust with the Trust Registration Service?

It is a requirement for both taxable and non-taxable trusts to register with the Trust Registration Service. You can do this by going to: www.gov.uk/guidance/register-a-trust-as-a-trustee.

Once you have registered the Trust you can use the Trust Registration Service to produce a document evidencing registration. You will need to submit this evidence when you apply for a trust portfolio with Transact.

Some trusts are exempt from registration. You can find more details of these trusts at:

www.gov.uk/guidance/trust-registration-extension-an-overview#not-registered.

Notes

- Taxation law is subject to change, and such changes cannot be foreseen. This Trust and the statements in this guide are based on our understanding of the current law and practice as at February 2026.
- These guidance notes have been prepared as a basic introduction only to the operation and benefits of the Flexible Reversionary Trust. Individuals considering use of the Flexible Reversionary Trust for estate planning must take appropriate professional advice on their own circumstances and requirements and on the current effectiveness of the estate planning which is proposed. As such **Integrated Financial Arrangements Ltd** (the operator of **Transact**), IntegraLife International Limited and IntegraLife UK Limited cannot accept any responsibility for actions taken in reliance on these notes.
- The Trust, once created, is irrevocable and the Bond and its benefits must be held according to the terms of the Trust. The Trustees will be in control of the operation of the Trust, which means that they may need to set up a Trustee bank account.
- If you choose to appoint a professional trustee, ongoing trustee fees will apply and will be deducted from the cash held within your Transact bond investment. As a result, this arrangement is generally more suitable where the amount invested is sufficient for the potential benefits of the trust to outweigh these ongoing costs. Your financial adviser will help determine whether this trust, including any trustee charges, represents good value based on your individual circumstances.

Important: Before proceeding, you should be satisfied that, having taken appropriate professional advice, you understand and are comfortable with the legal, tax and practical risks associated with this Trust, including the possibility that the anticipated tax treatment may not be achieved in your particular circumstances.



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