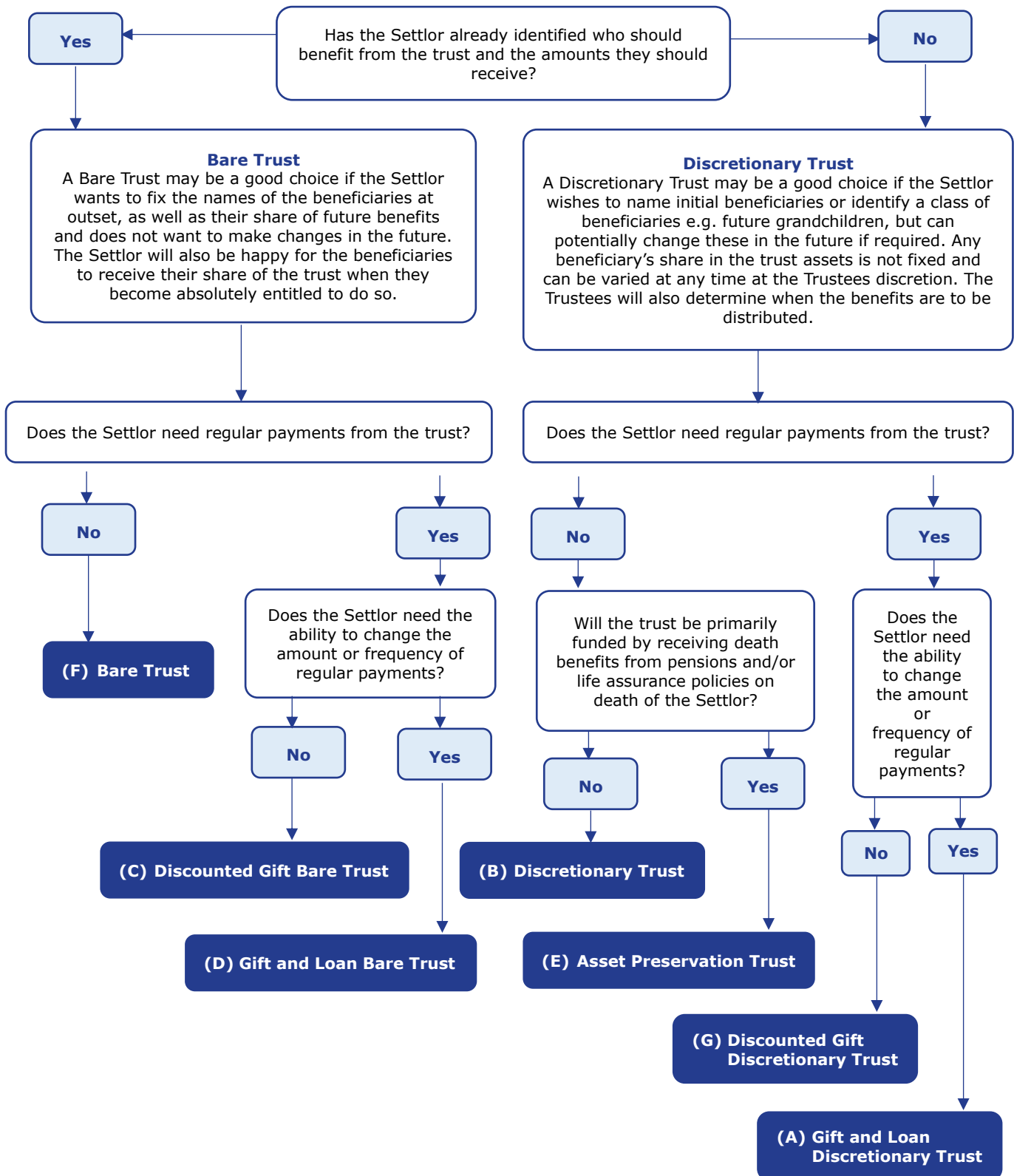


# Trust Planning Guide

This trust planning guide can be used to help identify the type of trust best suited to your client and their situation. The key points and typical uses of each type of trust are then detailed in subsequent sections within this document.



## Bare Trust

### Key points:

- Trust is set up with a gift to the Trustees.
- Gift is a potentially exempt transfer and will fall outside of the estate after seven years.
- Trust fund is entirely for named beneficiaries.
- Beneficiaries are chosen at outset and cannot subsequently be changed or added to.
- Adult beneficiaries can have immediate access to the trust fund.

### Typical uses

- Trust funds set up for specific children or grandchildren, accessible when they reach 18 (16 in Scotland).
- The trust fund can be used for a variety of purposes such as university fees, car, deposit for first house, gap year etc.

## Discounted Gift Bare Trust

### Key points:

- Trust is set up with a gift to the Trustees.
- Gift is normally discounted for Inheritance Tax ("IHT") purposes following underwriting subject to the Settlor's health and personal circumstances.
- Discounted gift is a potentially exempt transfer for IHT and will fall outside of the estate after seven years.
- The Settlor retains the right to periodic payments from the trust that have a set frequency and amount. These payments will continue for the lifetime of the Settlor, or until the trust fund is extinguished if this occurs first.
- Settlor decides at outset who the beneficiaries are.

### Typical uses:

- Older/retired individuals who want to reduce the value of their estate immediately by the value of the discount and who require an 'income'.
- On death of the Settlor the remaining trust property will continue to be held on trust for the beneficiary/s specified within the deed.

## Gift and Loan Bare Trust

### Key points:

- Trust is set up with a gift followed by an interest free loan to the Trustees.
- Gift is a potentially exempt transfer and will fall outside of the estate after seven years.
- Growth will be outside of the estate for IHT purposes.
- Settlor retains access to the loan and can take repayments at any time.

- Any outstanding loan on death remains part of the estate.
- Settlor decides at outset who the beneficiaries are.

## Typical uses:

- The sum of the gift and loan is commonly invested into a bond. An advantage of this is that loan repayments can be set up to fall within the annual tax deferral allowance (5% of the bond premium).
- On death of the Settlor the outstanding loan amount is paid to the estate and the remaining trust property will continue to be held on trust for the beneficiary/s specified within the deed.

## Discretionary Trust

### Key points:

- Trust is set up with a gift to the Trustees.
- Gift is a chargeable lifetime transfer. A gift in excess of the nil-rate band is likely to trigger an immediate IHT liability. Further IHT may apply if the Settlor dies within seven years of making the gift.
- Trust fund is held entirely for the benefit of the beneficiaries and the Settlor cannot benefit at all
- Settlor writes a letter of wishes to the Trustees.
- Only the Trustees can decide who can benefit, when and the amount.

### Typical uses:

- Minimises IHT exposure on death of high value clients.
- Nil-rate band planning i.e. the Settlor gifts £325k from their assets which is put into a trust fund.
- After seven years another £325k could be gifted into trust without triggering an immediate IHT liability.
- The trust fund can be used for a variety of purposes such as education/maintenance of current and future grandchildren, bloodline protection against divorce, remarriage etc.

## Asset Preservation Trust

### Key points:

- Trust is set up to receive death benefits.
- On death, life assurance, death in service and/or proceeds of a pension fund are paid into a trust rather to an individual (e.g. spouse).
- The Trustees have absolute discretion as to who is to benefit from the trust assets and to what extent (subject to the terms of the trust deed).
- In addition to the trust deed, there should normally be a letter of wishes written to the Trustees and a guidance letter to the pension/life company telling them where to direct funds on death.

### Typical uses:

- Minimises IHT exposure on death of high value clients.

- Death benefits can be paid to the trust and a beneficiary can receive advances of income and/or capital or loans from the trust.
- As benefits can be large, an APT can preserve the value of the Residential Nil-Rate Band which is eroded on estates above £2m.
- The trust fund can be used for a variety of purposes such as education/maintenance of current and future grandchildren, bloodline protection against divorce, remarriage etc.

## Discounted Gift Discretionary Trust

### Key points:

- Trust is set up with a gift to the Trustees.
- Gift is normally discounted for IHT purposes following underwriting subject to the Settlor's health and personal circumstances.
- Gift is a chargeable lifetime transfer. A gift in excess of the nil-rate band is likely to trigger an immediate IHT liability. Further IHT may apply if the Settlor dies within seven years of making the gift.
- The Settlor retains the right to periodic payments from the trust that have a set frequency and amount. These payments will continue for the lifetime of the Settlor, or until the trust fund is extinguished if this occurs first.
- Only the Trustees can decide who benefits, when, and the amounts on death.

### Typical uses:

- Older/retired individuals who want to reduce the value of their estate immediately by the value of the discount and who require an 'income'.
- On death of the Settlor the remaining trust property will be distributed at the discretion of the Trustees.
- The trust fund can be used for a variety of purposes such as education/maintenance of current and future grandchildren, bloodline protection against divorce, remarriage etc.

## Gift and Loan Discretionary Trust

### Key points:

- Trust is set up with a gift followed by an interest free loan to the Trustees.
- Gift is a chargeable lifetime transfer. A gift in excess of the nil-rate band is likely to trigger an immediate IHT liability. Further IHT may apply if the Settlor dies within seven years of making the gift.
- Growth will be outside of the estate for IHT purposes.
- Settlor retains access to the loan and can take repayments at any time.
- Any outstanding loan remains an asset of the estate on death of the Settlor.
- Only the Trustees can decide who benefits, when, and the amounts.

### Typical uses:

- The sum of the gift and loan is commonly invested into a bond. An advantage of this is that loan repayments can be set up to fall within the annual tax deferral allowance (5% of the bond premium).

- On death of the Settlor the outstanding loan amount is paid to the estate and the remaining trust property will be distributed at the discretion of the Trustees.
- The trust fund can be used for a variety of purposes such as education/maintenance of current and future grandchildren, bloodline protection against divorce, remarriage etc.

Please note that this document and guide does not constitute tax, trust or legal advice. The circumstances and estate-planning requirements of each Settlor are unique and it is the responsibility of the Settlor and his/her professional advisers to consider the full circumstances of the Settlor and obtain the appropriate tax and trust advice where relevant.

The tax treatment of trusts is subject to tax legislation, cases law, HMRC rules and regulations which are subject to change. Transact strongly recommends professional advice is sought for all persons who embark on trust, tax and wealth planning, however it must be appreciated that Integrated Financial Arrangements Ltd, the operator of Transact does not accept responsibility (liability) for any loss, however caused or suffered by any person who uses this guide



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