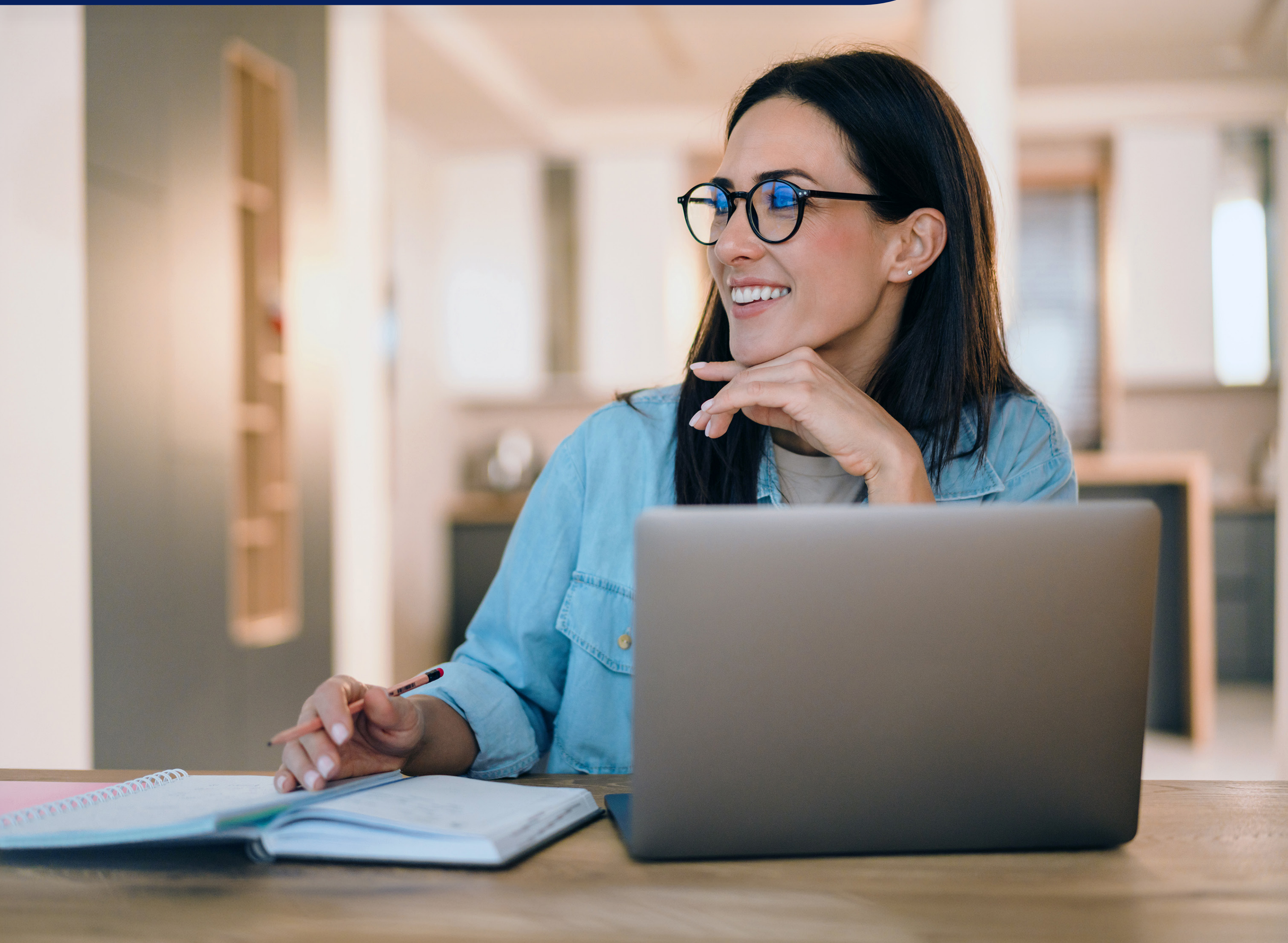
Flexible Reversionary Trust

Client summary



What is the Flexible Reversionary Trust?

The Flexible Reversionary Trust is a flexible form of trust. It allows you (the settlor) to gift a new Transact Offshore or Onshore Bond into trust for your family or other nominated people (the beneficiaries), with the intention of removing it from your estate for Inheritance Tax purposes, whilst also being able to take capital payments at future dates of your choosing.

Important

This is a high-level introduction to the Flexible Reversionary Trust. It is not the full guidance notes and should not be relied on as a complete explanation of the legal, tax or practical implications of setting up the trust.

Before applying, you should read the full Flexible Reversionary Trust guidance notes (www.transact-online.co.uk/documents/flexible-reversionary-trust-guidance) with your financial adviser and seek appropriate legal and tax advice based on your circumstances.

You can choose how much capital you become entitled to and when, for example to cover expected life events or as a periodic top-up. There also is the option for the trustees (the people responsible for the trust) to defer your entitlements if a payment is not required, but they also have the ability to override your entitlement if they think fit – this power is important for tax purposes, which we explain in more detail later in this document.

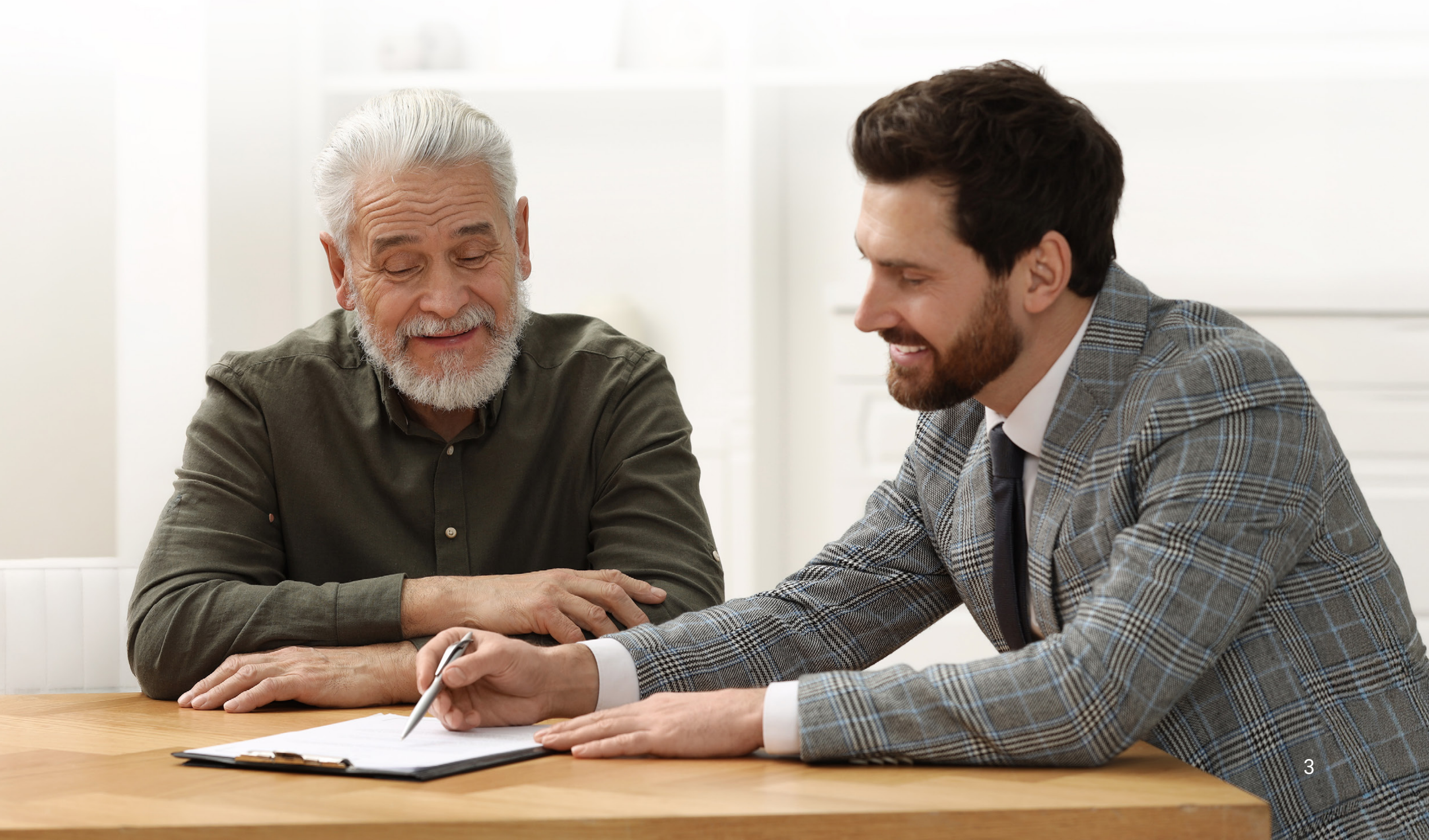
The remaining funds are held for the beneficiaries at the discretion of the trustees. The trust deed automatically includes some beneficiaries but you can add additional people by completing their details in the trust deed.

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.

Once you become entitled to the policies, they will not automatically be paid to you. If you wish to access the money, the trustees can request that the policies are surrendered (cashed in), or they can transfer them into your name.

If you do not need the funds at a particular time, you can ask the trustees to defer your entitlement. However, the trustees are not required to agree as the final decision rests with them. This provides flexibility over when benefits are paid.

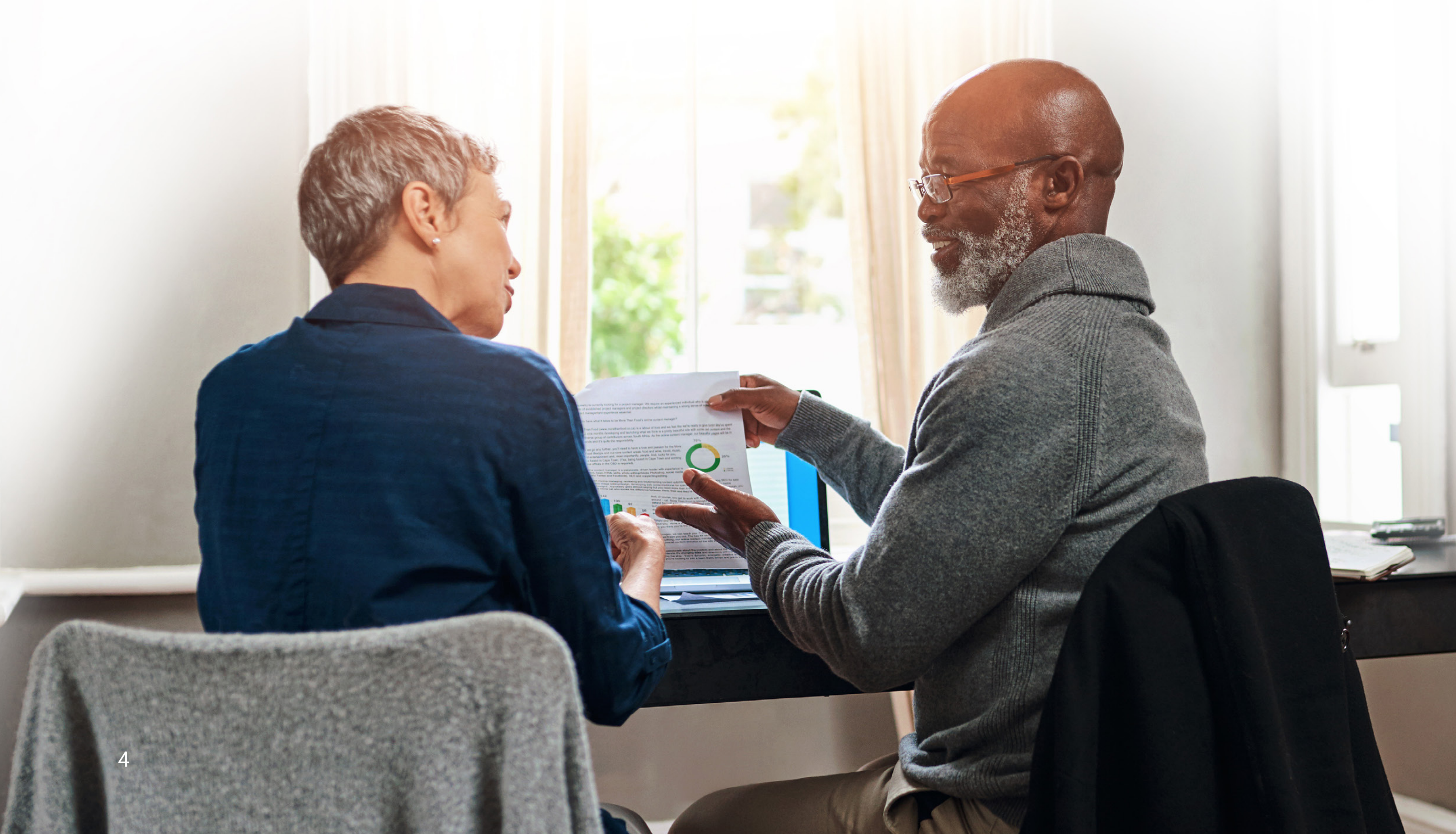
Following your death, any future entitlement to any policies falls away and the whole trust fund (except for any policies that have already vested) will just be held for the beneficiaries. The trustees will then decide how the trust fund is distributed among the beneficiaries, in line with the terms of the trust.



Who is the Flexible Reversionary Trust for?

The use of a new Offshore or Onshore Bond with the Flexible Reversionary Trust specimen deed may be suitable for UK-domiciled clients who:

- Seek to reduce the value of their estate for inheritance tax purposes.
- Have surplus capital not required for day-to-day living.
- Are willing to make a chargeable lifetime transfer, placing the gift outside their estate for Inheritance Tax (IHT), on the assumption they survive seven years. Further information is explained on the next page.
- Wish to retain income flexibility through scheduled payments that can be deferred or waived.
- Are comfortable appointing trustees, including at least one independent trustee (not the settlor, spouse/civil partner, co-habitee or child), who control the management of the trust including whether and when payments vest.
- Have a medium to long term planning horizon (typically over seven years).
- Understand that additional premiums cannot be made once the bond has been set up.
- Are advised by a UK-authorised financial adviser and have access to appropriate tax and legal advice.



Benefits in more detail

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 for 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. 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.

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.

*On the assumption that you reside in the UK for tax purposes.

Considerations and risks

These are a few of the points and risks you may want to consider when applying for the Flexible Reversionary Trust.

Further information can be found in our Flexible Reversionary Trust guidance notes (www.transact-online.co.uk/documents/flexible-reversionary-trust-guidance).

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.

For more information on Transact's Onshore or Offshore Bonds, please see the appropriate Key Features Document and Terms and Conditions, available via your financial adviser.

The trust application must be made by one individual as it is not suitable for joint settlors, such as married couples or civil partners applying together. Neither can the bond be funded from a joint account, as doing so could result in adverse Inheritance Tax consequences.

It is important that at least one of the trustees is independent, to make it robust and to help ensure the trust is managed correctly. We strongly encourage you to seek professional legal and tax advice in advance of applying for the trust, to help you fully understand how the trust must operate and the potential risks involved.

When you gift your assets into trust you no longer control the assets and your instructions cannot typically be unwound.

The trustees have the discretion to defer or override your entitlement to policies that vest and therefore receipt of these policies by you cannot be guaranteed.

Tax treatment

Please note

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 adviser.

Inheritance Tax (IHT)

Entry IHT 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 combined 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, IHT 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 IHT 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.

It's important to note that there may be a need to inform HMRC of the gift, even if it doesn't attract an IHT entry charge. If the value of the bond, when added to any other chargeable lifetime transfers in the previous seven years, exceeds £260,000 (80% of the IHT nil-rate band), then the settlor must complete HMRC form IHT100a and send it to HMRC within 6 months of the gift being made.

10-year periodic IHT charge

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 IHT charges

Exit charges might also apply when capital is distributed to beneficiaries. However, policy reversions to you as settlor should not attract an IHT exit charge. This is because the payment is treated as belonging to you rather than being part of the trust fund for IHT purposes. 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 form part of your estate for IHT purposes.

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

You should be aware that this position could be affected if the trust were to be caught by the gift with reservation regime. 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 complex. Our understanding is that it should not apply to this type of reversionary interest trust. 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. The position is not, however, beyond doubt and HMRC could potentially take a different view in the future.

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 (not the settlor, spouse/civil partner, co-habitee or child) 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 Tax and Capital Gains Tax

For bond policies that have yet to vest, income tax arising on investment bonds following a chargeable gain will be paid by you as settlor at your marginal rate. You can reclaim the tax paid from the trustees. If a chargeable gain arises following your death, the tax will be payable by the trustees if the gain occurs in a tax year following the tax year of your death but will be payable by your personal representatives if due in the tax year of death.

For bond policies that have vested, any chargeable gain will always fall upon you as settlor.

As the FRT is designed for use with a Transact bond only, Capital Gains Tax will not apply.

Frequently asked questions

1 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 on pages 7–8).

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 adviser. 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 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. The trust needs to be actively managed, with more decisions required by the trustee, than other types of trust.

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.

2 Do I need legal advice and tax advice on the trust deed?

Yes, this is strongly recommended due to the type of trust. It is important that you seek professional legal and tax advice prior to your application. This is to ensure you fully understand how the trust works and the potential risks associated with it.

Transact provides a specimen trust deed for 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.

3 Can I put an existing bond into the trust?

No.

❹ 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 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 be brought forward. Note that a deferral must occur before the vesting date, for it to take effect.

Please note that the trustees could decide to apply some or all of the policies for the beneficiaries instead of you, and as a result you are not guaranteed to receive anything.

❺ 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.

❻ 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.

❼ What happens if I die?

Following your death, any policies listed in the trust deed 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 the trust deed. Your estate will not have any entitlement when the vesting date arrives.

❽ 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. Trustees have discretion over which beneficiaries receive benefits, but you may provide guidance through an Expression of Wishes form.

❾ Can I make additional contributions to the bond after the trust has been established?

No – only the initial premium is permitted.

⑩ Is it possible to make a partial withdrawal or surrender of a policy?

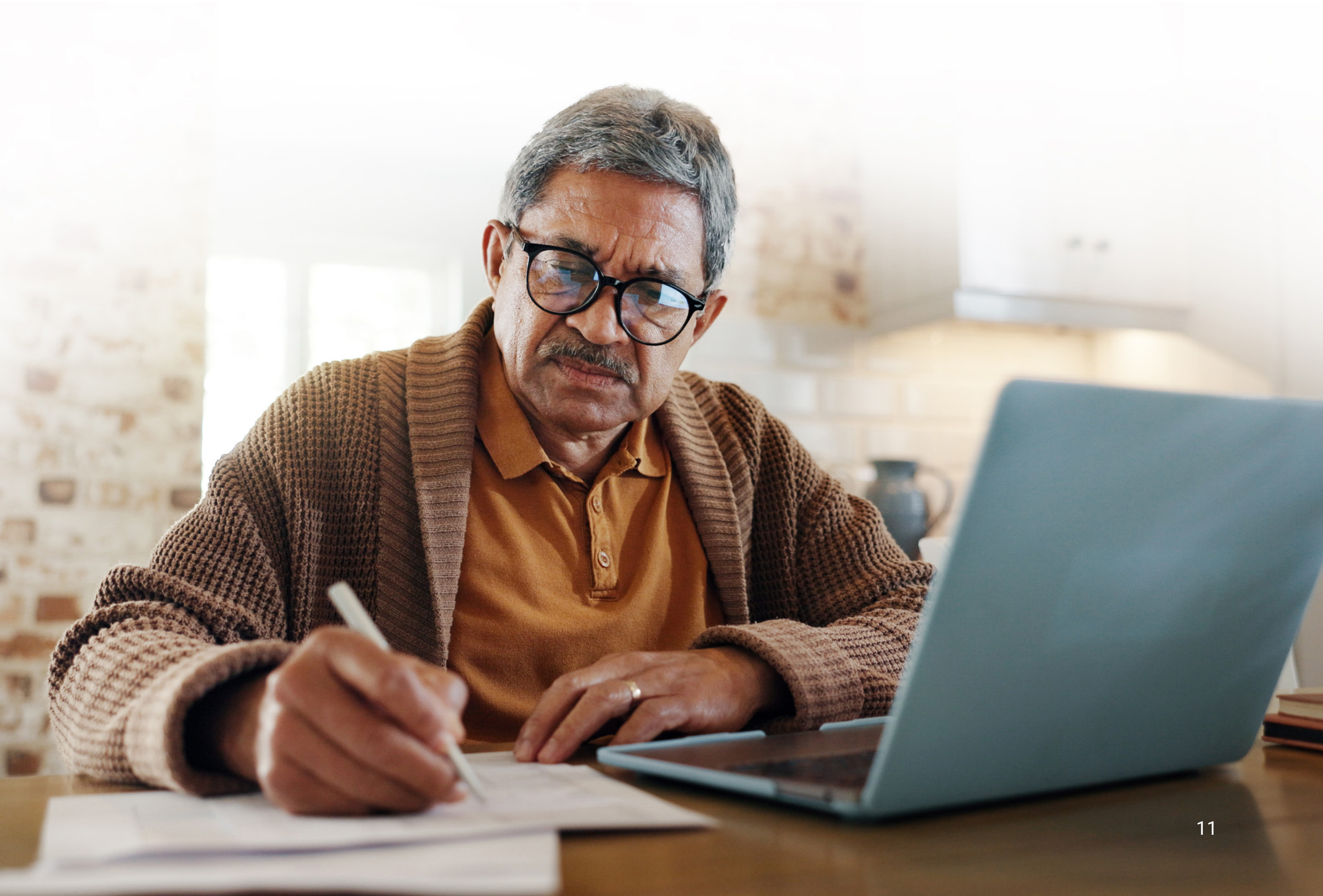
No, whether the policy has vested or not, any surrender or withdrawal must apply to the whole policy – it can't be a partial surrender or withdrawal across multiple policies except for the purpose of paying trustee fees if the trust has a professional trustee.

⑪ 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. To help you we provide a guide on using the Trust Registration Service, which you can obtain from your financial adviser.

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.



Please note

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.

This client summary has been prepared as a basic introduction only to the operation and benefits of the Flexible Reversionary Trust. Clients should also read the Flexible Reversionary Trust guidance notes before applying. 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.

M383 Version (1) September 2026