SYCAMORE
WEALTH

DISCOUNTED GIFT AND LOAN TRUSTS

We can advise you on Discounted Gift Trusts (DGT) – a type of UK trust arrangement with the over-arching aim of reducing the eventual Inheritance Tax bill on death. It allows the gifting of a lump sum into a trust whilst retaining a life-long 'income' from that money.

A Discounted Gift Trust (which works together with Offshore Wrappers) is often considered in relation to Inheritance Tax planning strategies and allows the client to benefit from an income stream.

The establishment of a Discounted Gift Trust may enable clients to move assets across to children/grandchildren in a tax efficient way to mitigate IHT, whilst still allowing the person who owns the funds initially (the settlor) to enjoy income from the funds during their lifetime.

Usually, for an asset to be IHT-free, you would no longer have access to it or be able to receive benefits from it. If you were to receive benefit from it, it would be called a "gift with reservation", which would be liable to Inheritance Tax on death. On the other hand, if an asset is given away completely, it would normally be a "Potentially Exempt Transfer" (PET). This means that if you survive for seven years after the gift is made, there would be no IHT payable, but if you pass away within seven years, then some IHT will be due on a sliding scale.

A Discounted Gift Trust however can be used by UK domiciled individuals to provide for beneficiaries, potentially placing some of the investment outside of the Estate immediately whilst also allowing the settlor access to income by way of regular withdrawals from the Trust during their lifetime. Since this type of arrangement is not a "gift with reservation", no Inheritance Tax will be due on death assuming one survives for seven years after the Trust is created. If the settlor survives for seven years, the whole amount falls outside of the Estate – as would be the case with a PET.

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The particular advantage of a DGT however, is that part of the sum placed in Trust might be considered to be outside of the settlor's Estate immediately and therefore not subject to IHT even if the settlor passes away immediately. This determination is made by medical underwriters by reference to HMRC guidance, and is based on life expectancy. The remaining amount is then exempted from IHT across the subsequent 7 years as with a normal PET.

As far as income from the DGT is concerned, the settlors need to select the percentage of the capital they may wish to withdraw at the outset of the Trust. There is a maximum of 10% income per annum.

On death of the settlors, the assets remaining in the DGT passes to the beneficiaries in line with the Trust Deed, eliminating the need to go through the Probate procedure. Any unused rights to withdraw 5% tax free per annum that have not been used up are also passed on the inheritors.

The one major disadvantage of the DGT is that the settlors can only access a maximum of 10% per annum of the Capital sum placed in Trust.

A DGT can be taken out at any time on all or on a proportion of the assets held in an Offshore Wrapper.

Either a Discretionary Trust or a Bare Trust can be used – there are significant differences between the two that must be explored with investors before the Trust is established.

The Financial Conduct Authority does not regulate Taxation and Trusts advice.

Contact us about Discounted Gift and Loan Trusts on 020 3114 2112 or email mail@sycamorewealth.co.uk