RL360°'s Discounted Gift Trust (DGT) allows UK domiciled individuals to gift a policy into a trust, receive an income and immediately reduce the value of their estate for inheritance tax (IHT) purposes.

Learn more about our DGT and the Gifted and an Access Fund in the following case studies and by reading our separate *Guide to Trusts*.

- **Case study 1** illustrates how it's possible to immediately reduce your client's IHT liability using the RL360° DGT.
- **Case study 2** expands on case study 1 by showing how clients can also retain access to some of their capital.
- **Case study 3** discovers how retaining access to some of the capital can allow your client to make a one-off payment or deal with an unexpected expense.
- **Case study 4** discusses how regular income payments can be deferred and shows the potential impact of deferment.
- Finally, **Case study 5** shows the flexibility of the trust accepting other assets.

Important notes

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

Whilst these case studies highlight the opportunities for planning, they are not intended to provide an exhaustive analysis of all the opportunities or pitfalls. Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the UK law and Her Majesty's Revenue and Customs (HMRC) practice as at April 2015.

You should note however, that we cannot take on the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.

ESTATE PLANNING THAT COVERS ALL ANGLES

In this first case study, Mr and Mrs Hawthorn find out how they could benefit from the Discounted Gift Trust (DGT) and make a £117,923 Inheritance Tax (IHT) saving.

The problem
Mr and Mrs Hawthorn's joint wealth of £1,020,000 exceeds the current nil rate band (£325,000 x 2 for 2015/2016) and they are concerned about the inheritance tax charge that might befall their estate on death. If Mr and Mrs Hawthorn were to die today, they would have a potential IHT liability of £148,000 on their combined estate of £1,020,000.

The liability is calculated like so:

- £1,020,000 less £650,000 (their joint nil rate band allowance) = **£370,000**
- £370,000 x 40% (current IHT tax charge) = **£148,000**

The RL360° DGT solution
Should Mr and Mrs Hawthorn invest their £450,000 worth of bank deposits into an offshore bond which they then place in the RL360° Discounted Gift Trust (DGT), they could potentially reduce their IHT liability. They decide to do this and place the full £450,000 into the Gifted Fund of the trust. They also decide to carve out a yearly withdrawal of 5% (£22,500) from the trust.

In accordance with HMRC guidance, the withdrawals from the trust are valued at £294,807 and so the value of their gift is discounted to £155,193 (the discounted value equals £450,000 minus £294,807).

The discounted value will be the amount that is used to calculate their IHT liability should both Mr and Mrs Hawthorn die within 7 years of making the gift. After 7 years the gift is completely outside of their estate for IHT purposes.

The result is an immediate reduction of IHT payable on death of **£117,923**, calculated like so:

- £725,193 (value of net worth) less £650,000 (joint nil rate band allowance) = **£75,193**
- £75,193 x 40% (current IHT tax charge) = **£30,077**

Income tax situation
If Mr and Mrs Hawthorn, as Settlors of the DGT, were both to die before the 21st annual payment is due, no chargeable event would occur and no income tax liability would arise.

However, should one or both of them survive to receive more than 20 annual payments from the trust, each successive payment would be in excess of the cumulative annual allowance and, therefore, provided they are still UK resident, they would be liable to income tax on the full payment received at their highest marginal rate.

Current financial position

Assets	
Home (no mortgage)	£380,000
Home contents	£40,000
Bank deposits	£450,000
Other investments	£150,000
Total net worth	**£1,020,000**

Income	
Pension income (net)	£15,000
Deposit income (net)	£15,500
Other investments	£5,000
Net income	**£35,500**

Revised financial position

Assets	
Home (no mortgage)	£380,000
Home contents	£40,000
Other investments	£150,000
RL360° DGT	£155,193
Total net worth	**£725,193**

Income	
Pension income (net)	£15,000
Other investments	£5,000
RL360° DGT withdrawals	£22,500
Net income	**£42,500**

THE HAWTHORNS TACKLE THEIR IHT LIABILITY

immediate reduction in IHT payable (GBP)

117,923

Mr and Mrs Hawthorn's IHT liability using the RL360° DGT and without

Assumptions
Mr Hawthorn and Mrs Hawthorn are both aged 65 and both are in good health. The calculation is on a joint life last death basis (with Mr and Mrs Hawthorn appointing their two grandchildren as lives assured), and based on HMRC guidance.

Mr and Mrs Hawthorn have already found out how they could benefit from the RL360° DGT and make an IHT saving. But what they really need is some access to their capital as they are unsure about their future spending requirements.

The problem

Mr and Mrs Hawthorn are aware that DGT could reduce their inheritance tax bill, but are concerned because most, if not all DGTs, prevent any further access to capital. This is something that Mr and Mrs Hawthorn would like to have as they are unsure about their future spending needs. Thankfully, they are considering a RL360° DGT, so a solution is at hand!

To recap

In our first case study, Mr and Mrs Hawthorn invested £450,000 into the Gifted Fund of a RL360° DGT but this didn't include any access to their capital. They managed to reduce their immediate IHT bill by £117,923.

The RL360° DGT solution

Mr and Mrs Hawthorn invest their £450,000 of bank deposits into an offshore bond with a RL360° DGT, but this time £375,000 is allocated to the Gifted Fund and £75,000 is retained in the Access Fund (or rainy day fund). Again, they decide to take yearly withdrawals from the trust of 5% (£22,500), but this time the discount is only calculated on the amount they have placed into the Gifted Fund of the trust.

In accordance with HMRC guidance, the withdrawals from the trust are valued at £245,673 and so the value of their Gifted Fund is discounted to £129,327 (the discounted value equals £375,000 minus £245,673).

The discounted value of the Gifted Fund plus the £75,000 retained in the Access Fund totals £204,327. This will be the amount that is used to calculate their IHT liability should both Mr and Mrs Hawthorn die within 7 years of making the gift. After 7 years only the amount placed in the Gifted Fund is completely outside of their estate.

The result is a reduction of IHT payable on death of **£98,269**, calculated like so:

- £774,327 (value of net worth) less £650,000 (joint nil rate band allowance) = **£124,327**
- £124,327 x 40% (current IHT tax charge) = **£49,731**

By creating an Access Fund, the Hawthorns have ultimately reduced their immediate IHT saving, but they now have £75,000 which they can access at any time.

This means that, should their current income of £22,500 per annum be insufficient for any reason, the trustees can appoint some or all of the Access Fund back to Mr and Mrs Hawthorn.

Of course, should it turn out that some, or all, of the Access Fund isn't required, Mr and Mrs Hawthorn can gift it away. This would increase the overall trust fund available for their beneficiaries, whilst potentially further reducing the Hawthorn's estate for IHT purposes.

Mr and Mrs Hawthorn's financial position

Assets	
Home (no mortgage)	£380,000
Home contents	£40,000
Other investments	£150,000
RL360° DGT	£204,327
Total net worth	**£774,327**

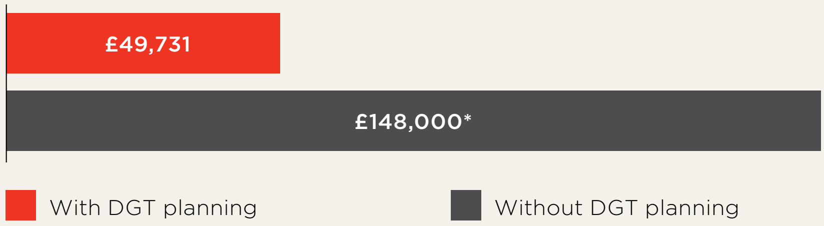
Income	
Pension income (net)	£15,000
Other investments	£5,000
RL360° DGT withdrawals	£22,500
Net income	**£42,500**

MR AND MRS HAWTHORN NEED MORE ACCESS TO THEIR CAPITAL

immediate reduction in IHT payable (GBP)

98,269

Mr and Mrs Hawthorn's IHT liability using the RL360° DGT and without



* Please refer to case study 1

Impacts on the transfer

The Access Fund is held by the trustees for Mr and Mrs Hawthorn absolutely, and so it remains within their estate for IHT valuation purposes. As such the Access Fund is neither a Potentially Exempt Transfer (PET) nor a Chargeable Lifetime Transfer (CLT), therefore it is tax neutral.

If the Hawthorn's gift all or part of the Access Fund, it will be deemed a PET or CLT at that time, depending on the trust provisions. When Mr and Mrs Hawthorn die, the trustees do not need to appoint any part of it to their estate, this is despite it being taken into account for IHT valuation purposes.

On death the Access Fund is automatically held for the Hawthorn's chosen beneficiaries. This would be a PET or CLT at that time, depending on the trust provisions selected at outset.

Income tax situation

If Mr and Mrs Hawthorn (as Settlors) were both to die before the 21st annual payment is due, no chargeable event would occur and no income tax liability would arise. However, should one or both of them survive to receive more than 20 annual payments from the trust, each successive payment would be in excess of the cumulative annual allowance and therefore, provided they are still UK resident, they would be liable to income tax on the full payment received at their highest marginal rate.

Assumptions

Mr Hawthorn and Mrs Hawthorn are both aged 65 and both are in good health.

The calculation is on a joint life last death basis (with Mr and Mrs Hawthorn appointing their two grandchildren as lives assured), and based on HMRC guidance.

So far, Mr and Mrs Hawthorn have found out how they could benefit from the RL360° DGT; the access it could offer and the IHT saving it could provide. Now, they would like to make a one-off payment to their grandson, Philip, for his Peruvian adventure.

The problem
Mr and Mrs Hawthorn's grandson, Philip, has the opportunity to trek the Inca Trail in Peru through his school. The cost of the trip is £5,000 but Philip's parents cannot afford the lump sum at this time.

Current situation
In case study 2, Mr and Mrs Hawthorn invested £450,000 into a RL360° Discounted Gift Trust with £375,000 allocated to the Gifted Fund and £75,000 allocated to the Access Fund. As trustees, along with their accountant, they have determined that the trust fund is more than sufficient to maintain their income payments even if they advance £5,000 to pay for Philip's trip. There are 3 options available to the Hawthorns, as shown opposite.

Assumptions
Mr Hawthorn and Mrs Hawthorn are both aged 65 and both are in good health. The calculation is on a joint life last death basis (with Mr and Mrs Hawthorn appointing their two grandchildren as lives assured), and based on HMRC guidance.

RL360° DGT option 1
Raise £5,000 across the entire trust fund. This would create an exit payment of £4,167 and a PET of £833, it would also create a chargeable excess, which would fall on the Hawthorns.

RL360° DGT option 2
Appoint/assign a specific number of segments to Philip from the Access Fund. This would be a PET and effectively create a Bare Trust for Philip. The Bare Trustees could then surrender the segments and any chargeable event gain would fall on Philip.

RL360° DGT option 3*
Appoint/assign a specific number of segments to Philip from the Gifted Fund. This would be an exit payment and effectively create a Bare Trust for Philip. The Bare Trustees could then surrender the segments and any chargeable event gain would fall on Philip.

* only an option where the value of the Gifted Fund is large enough to maintain the specified withdrawals to Mr and Mrs Hawthorn.

MR AND MRS HAWTHORN HELP OUT A LITTLE

As a good friend of Mr and Mrs Hawthorn, Captain Berry recently found out about their RL360° DGT. The Captain was keen to find out more as he believed he too could benefit from the DGT, but was concerned because he didn't have the need for withdrawal from outset.

The problem

Like the Hawthorns, Captain Berry's wealth exceeds the current nil rate band (£325,000 2015/2016) with his total assets valued at £640,000.00. He is anxious to start some inheritance tax planning, especially after hearing from the Hawthorn's about the RL360° DGT. Fortunately for the Captain, he has an adequate level of income for the time being and doesn't require access to withdrawals straight away.

If Captain Berry were to die today, he would have a potential IHT liability of £126,000 on his estate of £640,000.

The liability is calculated like so:

- £640,000 (value of his estate) less £325,000 (current nil rate band allowance) = **£315,000**
- £315,000 x 40% (current IHT tax charge) = **£126,000**

The RL360° DGT solution

Captain Berry invests his £400,000 worth of bank deposits into an offshore bond with a RL360° DGT. He decides to take yearly withdrawals from the trust of 5% (£20,000), but opts to defer them for maximum period allowed, 5 years.

In accordance with HMRC guidance, the withdrawals from the trust are valued at £124,429 and so the value of his gift is discounted to £275,571 (the discounted value equals £400,000 – £124,429).

The discounted value will be the amount that is used to calculate his IHT liability should Captain Berry die within 7 years of making the gift. After 7 years the gift is completely outside of his estate for IHT purposes.

The result is an immediate reduction of IHT payable on death of £49,772, calculated like so:

- £515,571 (value of net worth) less £325,000 (nil rate band) = **£190,571**
- £190,571 x 40% (current IHT tax charge) = **£76,228**

Income tax situation

If Captain Berry (as Settlor) were to die before the 21st annual payment is due, no chargeable event would occur and no income tax liability would arise. However, should he survive to receive more than 20 annual payments from the trust, each successive payment would be in excess of the cumulative annual allowance and therefore, provided he is still living in the UK, he would be liable to income tax on the full payment received at his highest marginal rate.

Assumptions

Captain Berry is aged 65 and in good health. The calculation is on a single life basis (with Captain Berry appointing his grandchildren as lives assured), and based on HMRC guidance.

Captain Berry's current financial position

Assets	
Home (no mortgage)	£200,000
Home contents	£40,000
Bank deposits	£400,000
Total net worth	**£640,000**

Income	
Pension income (net)	£30,000
Deposit income (net)	£7,000
Net income	**£37,000**

Captain Berry's revised financial position

Assets	
Home (no mortgage)	£200,000
Home contents	£40,000
RL360° DGT (after 5 years)	£275,571
Total net worth	**£515,571**

Income	
Pension income (net)	£30,000
RL360° DGT withdrawals	£0 now
DGT withdrawals	£20,000
Net income	**£30,000**

CAPTAIN BERRY TAKES A DEFERRED APPROACH

Discounted Gift Trust case study 4

immediate reduction in IHT payable (GBP)

49,772

Captain Berry's IHT liability using the RL360° DGT and without

Other deferral periods
In this case study Captain Berry has chosen to make use of the full 5 year deferred withdrawal period, but he could choose to defer for fewer years and maximise his immediate IHT saving, as shown in the examples below.

1 year deferred withdrawals

Discount	£185,901
Value for IHT purpose	£214,099
Immediate IHT saving	**£74,360**

3 year deferred withdrawals

Discount	£153,013
Value for IHT purpose	£246,987
Immediate IHT saving	**£61,205**

5 year deferred withdrawals

Discount	£124,429
Value for IHT purpose	£275,571
Immediate IHT saving	**£49,772**

Over the years, Dr Woods has accumulated substantial savings in PEPs and ISAs, but a threat to his wealth lies in wait that could potentially cost him £95,836.

Introduction

Dr Woods has dedicated most of his working life to researching new medicines. Now 65 and recently retired, he turns his attention to his portfolio of investments and researching future retirement income options.

He has a total of £250,000 saved in Individual Savings Accounts (ISAs) and Personal Equity Plans (PEPs). He has taken full advantage of the tax breaks offered by them over the last 24 years. He also has a £200,000 Wrap offshore bond via RL360°.

He decides to make an appointment with his financial adviser to discuss his retirement plans.

Potential problem

Having reviewed his current financial position, the adviser calculates that, taking into account his ISAs/PEPs, offshore bond, home and other valuables, the doctor has a total wealth that amounts to £920,000. As a result of this, he points out the following:

- The doctor's assets exceed the nil rate band (currently £325,000, 2015/2016)
- ISAs, whilst extremely practical for generating tax free savings and income, do not shelter investments from IHT.

At present the Doctor's estate has a liability to IHT of £238,000 based on his current assets.

The calculation for this is shown below.

The RL360° Discounted Gift Trust Solution (Part 1)

The adviser suggests that Dr Woods should consider cashing in his ISAs and PEPs to top up his existing Offshore Bond and then place the bond in a RL360° DGT as:

- it could help to mitigate his IHT liability by providing an immediate IHT saving of £95,836 (see assumptions)
- it could provide him with a retirement income, that can be deferred for up to 5 years. The income would be for life or until such times as the trust fund is exhausted

The doctor is pleased to hear that there is a way to reduce his IHT liability whilst also offering him an income.

Calculations

The problem

Dr Woods' current IHT liability calculated as:

£920,000 (value of his estate) less £325,000 (nil rate band) = £595,000

£595,000 x 40% (current IHT tax charge) = **£238,000**

Additional benefits of the RL360° DGT

- Other assets can be held by the DGT without them having to be held in the Select offshore bond.
- A wide range of investments can be held within an offshore bond, therefore portfolio risk can be adjusted over time.
- Holding investments within an offshore bond could reduce the paperwork and administrative burden compared to holding direct investments.
- No need for probate on investments held within the DGT.
- A unique Access Fund is available (see DGT case studies 2 and 3 for details).

WOODS' ISAs SAVED FROM IHT THREAT BY DGT

The RL360° DGT solution (Part 2)

Dr Woods can make a potential IHT saving with the RL360° DGT.

In accordance with HMRC guidance, the withdrawals from the trust are valued at £239,591. This amount is effectively discounted from the doctor's estate for the purposes of calculating his IHT liability.

Estate less Nil Rate Band:
£920,000 less £325,000 = £595,000

Remainder less the Discount:
£595,000 less £239,591 = £355,409

£355,409 x 40% = **£142,164 IHT liability**

Potential IHT saving

£238,000 – £142,164 = £95,836

Assumptions

Dr Woods is aged 65 and in good health. 5% per annum tax deferred withdrawals are taken from the RL360° DGT on payable on a monthly basis. The calculation is on a single life basis and based on HMRC guidance.

immediate reduction in IHT payable (GBP)

225,836

Dr Woods' IHT liability using the RL360° DGT and without

Issued by RL360 Insurance Company Limited. Registered Office: RL360 House, Cooil Road, Douglas, Isle of Man, IM2 2SP, British Isles. Telephone: +44 (0)1624 681681. Telephone calls may be recorded. Website: www.rl360.com. RL360 Insurance Company Limited is authorised by the Isle of Man Financial Services Authority. Registered in the Isle of Man number 053002C.

You can count on us