DISCOUNTED GIFT TRUST
CLIENT SUMMARY

INTRODUCTION

This summary is intended to provide general information about a planning opportunity which may reduce the value of your estate that may be assessable to UK Inheritance Tax (IHT).

Because of the complex nature of this subject, this summary is written in such a way that it assumes you already have a basic understanding of IHT. As such, this summary contains terminology which those unfamiliar with IHT may find difficult to understand.

WHAT IS THE DISCOUNTED GIFT TRUST?

The Discounted Gift Trust (DGT) consists of an offshore bond and a specially designed trust. The trust allows you to pass accumulated wealth on to your children or other persons of your choosing, whilst potentially reducing the amount of IHT payable on your death. The trust also provides you with a fixed income for life or until such time as the trust fund has been exhausted.

Usually, where an individual gifts an asset into trust and subsequently continues to retain access or obtain a benefit from it, it is considered by HM Revenue and Customs (HMRC) to be a Gift with Reservation of Benefit (GROB).

However, HMRC do accept that properly executed trusts to which an individual retains specific rights are not subject to the GROB rules and provided they are properly structured, can be an accepted method of reducing the value of your estate which may be assessable to IHT on your death. One such structure is the DGT.

The DGT allows you to gift your policy to a trust, which is held for the ultimate benefit of your nominated beneficiaries whilst providing you with a series of withdrawals for life (or until the trust fund has been exhausted) which once established cannot be varied during your lifetime.

You must spend these withdrawals otherwise they will increase the value of your estate for IHT purposes.

The value of your transfer into the trust is 'Discounted' for IHT purposes by taking into account an actuarial forecast based on your age, health and the level of withdrawals you require to establish the value of what are known as your 'retained rights'.

Your retained rights under the trust are held for you only (or jointly where there are two applicants).

As these amounts are termed to be 'carved out' of the trust for your own benefit, they are not deemed to be part of the trust fund for IHT transfer purposes. As such, the IHT value of the amount you have transferred is usually less than the amount you have actually placed in the Trust should you die within 7 years of creating the trust (providing you are successfully underwritten).

This is why such trusts are referred to as Discounted Gift Trusts.

When you create the trust, you can determine whether the trust fund is allocated to the Gifted Fund or you can choose to create an additional Access Fund from which you can recall capital as and when required. Any amount placed in the Access Fund is not 'discounted' and any amount remaining on your death will form part of your estate for IHT assessment purposes.

The DGT can be established with either fixed or flexible beneficiaries. If you are confident that you will never need to change your beneficiaries you would establish the trust on what is called a 'Bare Trust' basis. If you would like your trustees to have complete flexibility as to who should benefit, the trust would be established on a 'Flexible Trust' basis.

Apart from the difference in the flexibility of your choice of beneficiary, your choice of trust provisions also determines whether there may be any initial and ongoing IHT charges on the trust fund.

When set up under a Bare Trust the value of your Gifted Fund is what is termed a 'Potentially Exempt Transfer' (PET) for IHT purposes. This means that providing you survive 7 full years from the date the trust is established, the full value of the Gifted Fund will be outside of your estate for IHT assessment purposes.

Where the trust is established using the Flexible Trust provisions, the transfer to the Gifted Fund is known as a Chargeable Lifetime Transfer (CLT). If the value of the Discounted Gift is more than your available nil rate band (currently £325,000 and has been frozen at this level until the 2020-21 tax year), then the excess will be chargeable to IHT at 20% (as at 2017/18).

The creation of the Access Fund is neither a PET nor a CLT during your lifetime as any amount remaining upon your death will form part of your estate for IHT assessment purposes.

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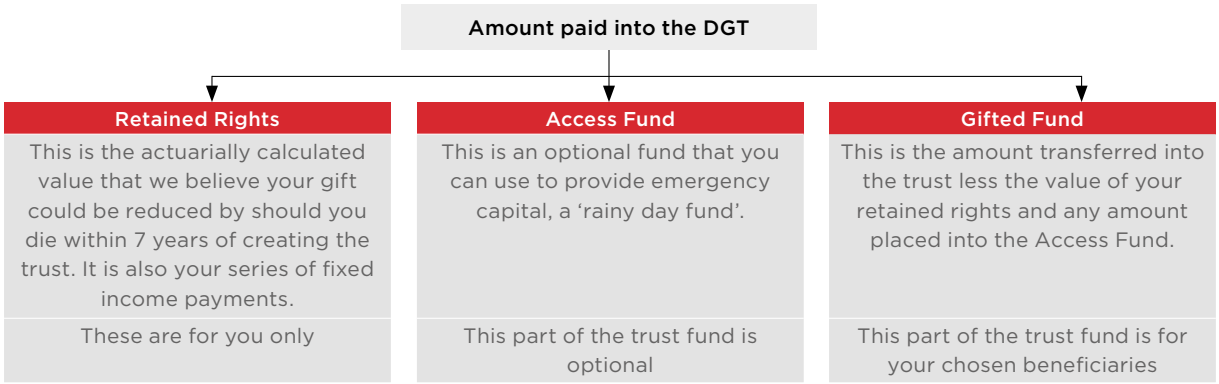
Example



WHO MIGHT IT BE SUITABLE FOR?

Important

The DGT might be suitable for individuals who:

- are or could become UK long term resident for UK IHT purposes
- are looking to reduce the value of their estate for IHT purposes
- can afford to gift away any potential growth on their existing capital
- are in good health
- require an immediate reduction in IHT
- are nervous of making a gift of the whole of their investment and who may require access to pre-determined capital payments from the trust.
- want to ensure that, if necessary, there is access to an emergency cash sum.

Establishing the trust as a Bare Trust might be suitable for individuals who:

- wish to create a discounted potentially exempt transfer for IHT purposes
- wish to avoid reporting requirements to HMRC
- have specific beneficiaries in mind.

Establishing the trust as a flexible trust would be suitable for individuals who:

- require flexibility as regards their choice of beneficiaries.

IMPORTANT NOTES

IHT is a complex area and as such you must take professional advice. You should not make any decision or undertake planning of this nature based on the information contained in this summary alone. If you have made gifts to Flexible/ Discretionary Gift Trusts or Discounted Gift Trusts in the last 7 years in excess of your £3,000 annual exemption, the value of these gifts reduces your available nil rate band.

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 law and HM Revenue and Customs (HMRC) practice as at April 2025. You should also 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.

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