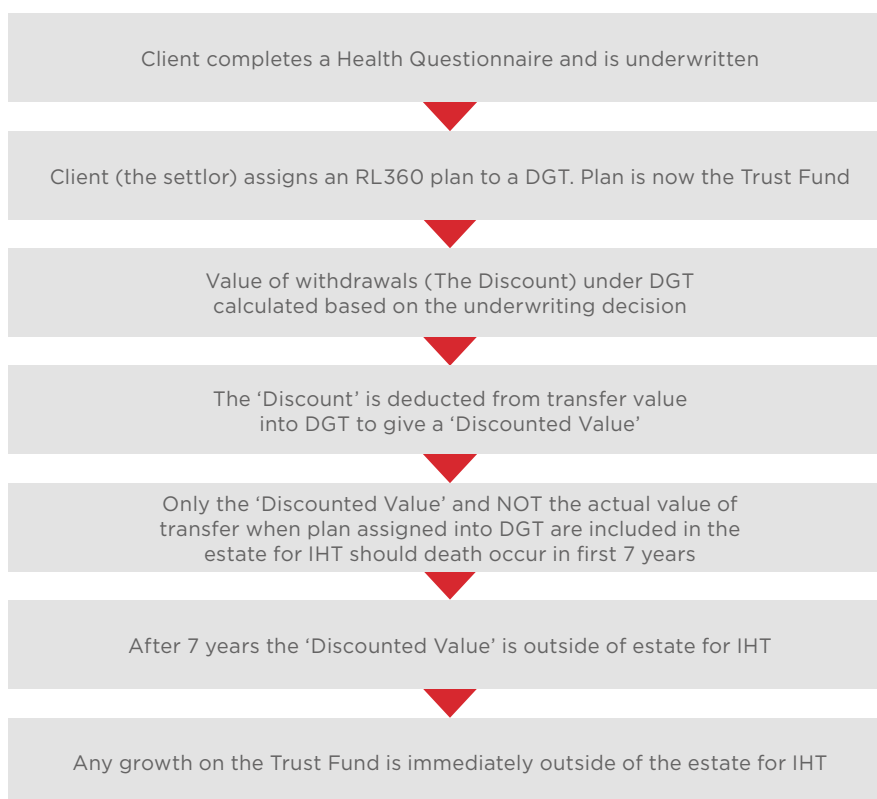


DISCOUNTED GIFT TRUST

HOW DOES IT WORK?

RL360's Discounted Gift Trust (DGT) allows UK domiciled individuals to gift a plan into a trust¹, receive an income for life (or until funds have been exhausted), and, subject to successful medical underwriting, immediately reduce the value of their estate for UK Inheritance Tax (IHT) purposes.

THE DGT PROCESS



¹ Depending on trust provisions, transfer of the plan will either be a potentially exempt transfer (PET) if a Bare Trust (Absolute Beneficiaries) or a chargeable lifetime transfer (CLT) if a Discretionary Trust (Flexible Beneficiaries).

EXAMPLE

The problem

Mr Smith's (aged 62) wealth of £1,000,000 exceeds the current nil rate band (NRB) which is fixed at £325,000 until at least April 2026.

He is concerned about the IHT charge that might befall his estate on death. If Mr Smith were to die today, he would have a potential IHT liability of £270,000.

The current liability is calculated as follows:

- £1,000,000 less £325,000 (NRB allowance) = £675,000
- £675,000 x 40% (current IHT tax charge) = £270,000

The RL360 DGT solution

He makes an investment of £450,000 into an RL360 DGT. He decides to carve out an immediate yearly income of £22,500 (£450,000 x 5%)* from the trust, payable on a monthly basis.

* 5% is selected to ensure withdrawals are kept within the cumulative 5% allowance rule for UK chargeable event purposes.

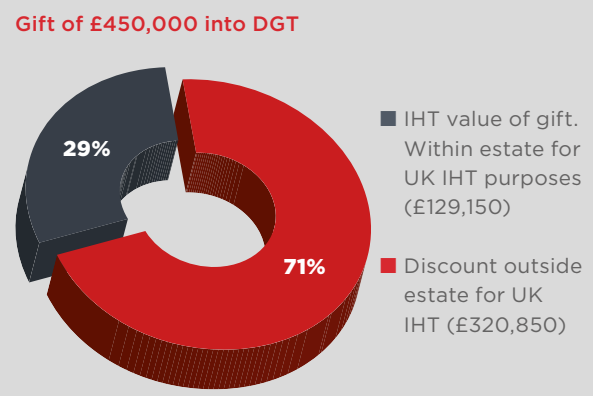
In accordance with HM Revenue and Customs (HMRC) guidance, the withdrawals to be paid to the settlor in his lifetime are valued at **£320,850** and so the value of their gift is discounted down to **£129,150** (£450,000 - £320,850).

The discounted value of **£129,150** will be the amount that is used to calculate their IHT liability, should Mr Smith die within 7 years of making the gift.

The IHT payable on death is calculated as follows:

- £1,000,000 (original estate value) - £320,850 (DGT discount) = £679,150
- £679,150 (new estate value) less £325,000 (NRB allowance) = £354,150
- £354,150 x 40% (current IHT tax charge) = £141,660

The result is an **immediate** reduction of IHT payable if death occurs within the first 7 years, saving the estate: **£127,478.80** (£270,000 - £141,660)



After 7 years, the remaining £129,150 will then be outside of the settlor's estate for IHT purposes.

Any growth of the investment is immediately outside of the settlor's estate for IHT purposes.

IMPORTANT NOTES

The information contained in this document is based on our current understanding of the law and HMRC practice as at October 2023. RL360 does not provide tax or legal advice. Anyone using this document or relying on the information contained within it, should ensure that they are appropriately advised before they decide to use it or not. RL360 cannot be held responsible for any unintended consequences as a result of using this document or the information contained within it.