Loan Trust

Investor Guide

For use in connection with the HSBC Onshore Investment Bond

HSBC

Contents

The purpose of this Investor Guide is to explain how a Loan Trust can be used with the HSBC Onshore Investment Bond (the Bond) to help you reduce your potential inheritance tax liability.

It is designed for investors working with their adviser who will guide them on the merits and suitability of this trust arrangement. HSBC Life (UK) Limited does not give advice on trusts and investors are responsible for obtaining their own tax and legal advice before proceeding.

You should also read the following documents:

- HSBC Onshore Investment Bond – Key Features
- HSBC Onshore Investment Bond – product brochure

Important note
The information contained in this Investor Guide is based on our understanding and interpretation of current UK tax law and HM Revenue & Customs practice as at May 2017. Whilst every care has been taken to ensure accuracy, HSBC Life (UK) Limited cannot accept any responsibility for any action taken or refrained from being taken as a result of the information contained in this Investor Guide. UK tax law and practice are subject to change. The value of any tax advantages will depend on individual circumstances.

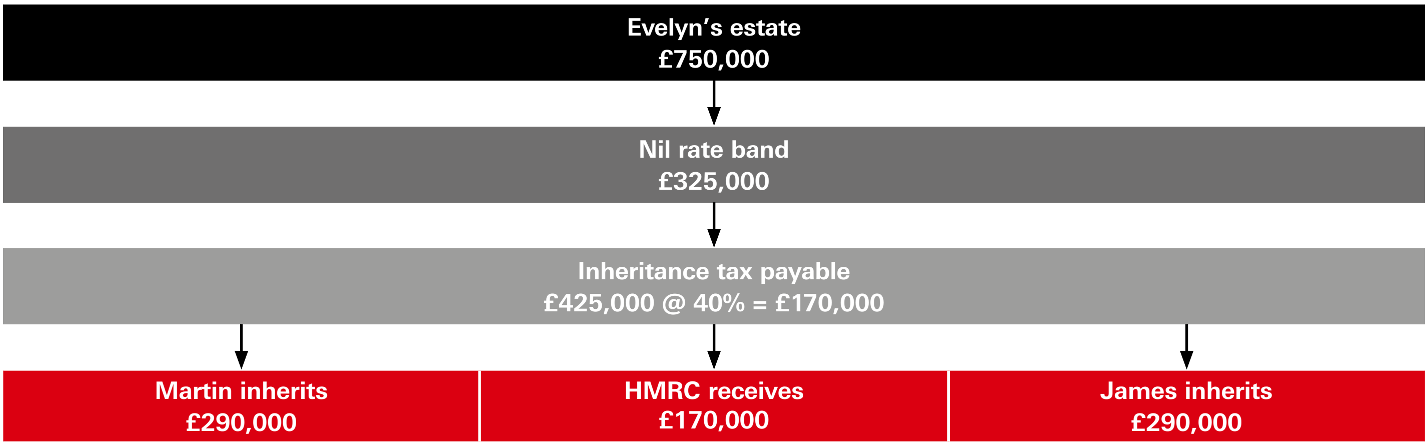
Why you should consider a Loan Trust

Increasing numbers of people are finding that their estates may be subject to inheritance tax. Everyone is allowed to leave an amount up to £325,000 (the current 'nil rate band' fixed until the end of the 2020/21 tax year) to their beneficiaries, without incurring any inheritance tax. Above this limit, inheritance tax is normally charged at 40%. For an estate of £750,000, for example, the tax liability could be as much as £170,000, nearly 23% of the gross estate.

Consider Evelyn, with an estate of £750,000. She is a 75 year old widow who has made no previous gifts for inheritance tax purposes and, since her late husband's entire nil rate band was used on his death, there is nothing left to transfer to her.

If there was no inheritance tax to pay, her two sons Martin and James would each inherit £375,000 as shown below.

But, inheritance tax is payable and so, as can be seen below, Martin and James will each lose £85,000 to HMRC.



There are some significant reliefs and exemptions available most notably for gifts/bequests to a spouse or civil partner. In addition, a residence nil-rate band is broadly available where the main residence is inherited by lineal descendants subject to the estate not being in excess of £2 million (please refer to page 15 for more details). However, without careful planning, your beneficiaries may still receive less than they otherwise might if the estate you leave them is reduced by a liability to inheritance tax.

Some people are, of course, able to consider giving away a substantial sum, either outright or via a Gift Trust, which would have the effect of reducing their potential tax liability. For further information, please refer to the HSBC Gift Trust Investor Guide.

However attractive this may be, not everyone will be able to give up access to large amounts of capital. Some people may have a lump sum to invest but be unable or unwilling to give up complete access to their capital. A Discounted Gift Trust would enable them to achieve an immediate reduction in their estate for inheritance tax purposes, whilst retaining access to a regular stream of capital payments to provide them with an income during their lifetime. For further information please refer to the HSBC Discounted Gift Investor Guide.

Alternatively, if you are unable to give away any assets you can consider a Loan Trust. Under this arrangement you create a trust with a loan which your trustees then invest. Although a Loan Trust will not provide any immediate saving in inheritance tax, it will ensure that any growth on the investment made by your trustees will be outside your estate for inheritance tax purposes.

Your adviser will advise you of the suitability of a Loan Trust but, generally, an investor for whom this trust arrangement would be appropriate will:

- have a net estate exceeding £325,000;
- not wish (or be unable) to give assets away;
- have surplus capital to which they may need access in the future;
- want to prevent any growth on the amount represented by the loan adding to their estate; and
- be at least 18 years of age.

Benefits at a glance

What the trust offers
The Loan Trust is a lump sum investment, held under trust, which enables you to:

- prevent any growth on the amount represented by the loan creating a potential liability to inheritance tax;
- retain access to the amount represented by the loan during your lifetime; and
- select trustees who will administer the trust and distribute any remaining trust fund to your beneficiaries after your death.

What the HSBC Onshore Investment Bond offers

- **Direct investment into the fund** – the bond invests directly into collective investments such as open-ended investment companies (OEICs) and unit trusts not 'mirror funds'.
- **Flexibility** – your bond can be split into a maximum of 1,200 segments to allow tax planning flexibility.
- **Transparent charging structure** – all transactions are undertaken through a cash account showing charges for investment, administration and advice.
- **Individual tax calculations** – we calculate the tax liability individually for each bond, according to funds held.
- **Comprehensive online facilities** for your adviser to set up and administer your bond.
- **Convenient regular withdrawal options** for your fixed regular payments.
- **Simplified administration** – all transactions are undertaken though a cash account making it easy for your trustees to monitor and administer your bond.
- **Value for money** – by linking to the actual funds offered by fund managers (rather than replicating those funds ourselves), we are able to offer a competitively priced proposition with minimal administration costs.
- **Multi-life/multi-owner financial planning** – the ability to have combinations of up to 10 lives insured and 10 policy owners, gives flexibility that will be particularly attractive to trustees.
- **Extensive range of withdrawal options** – annual withdrawals can be set for up to 10% of the original investment and can be taken on a monthly, bi-monthly (every other month), termly (every four months), quarterly, half-yearly or yearly basis.
- **Minimum age three months for a life insured** and 18 years for an applicant.

The value of investments can fall as well as rise and you may not get back what you invested. For some investments this can also happen as a result of exchange rate fluctuations as shares and funds may have an exposure to overseas markets. HSBC Life (UK) Limited cannot be held responsible for the investment performance of your bond.

The value of any tax benefits described depends on your individual circumstances. Tax rules and rates may change in the future. HSBC Life (UK) Limited cannot be held responsible for any future changes in legislation.

For more details, please refer to the HSBC Onshore Investment Bond product brochure and Key Features which can be obtained from your Financial Adviser or from our website **www.life.hsbc.co.uk/oib**

How the Loan Trust works

To establish your Loan Trust you (the person creating the trust) will make an interest free loan to your trustees. The loan is repayable on demand. Your trustees invest the loan monies in an HSBC Onshore Investment Bond. Any growth on the Bond will fall outside your estate, thereby reducing your potential inheritance tax liability, and be held for the benefit of your beneficiaries. Depending on your needs, you can ask your trustees to repay your loan in instalments, for example at the rate of 5% per year. To maximise inheritance tax savings any loan repayments should be taken and spent. Any outstanding loan amount will continue to be an asset of your estate for inheritance tax purposes, so if no repayments are taken the original loan amount would still form part of your taxable estate for inheritance tax purposes.

Depending upon your requirements, you can choose between an absolute and a discretionary trust. For more details about the differences between these two types of trust please refer to page 6.

Paying the benefits
The trust will be administered by your chosen trustees who are responsible for distributing to the beneficiaries whatever is left in the trust fund after your death. As the creator of the trust, you will automatically be a trustee, but it is essential that you appoint at least one other trustee who can deal with the trust after your death.

Please refer to page 12 for more details about the role and responsibilities of the trustees.

Joint arrangements
It is possible for the Loan Trust to be set up on a joint basis with your spouse or civil partner. If each of you intends to create your own trust arrangement, your adviser will probably recommend that you exclude each other from your respective trusts. This can be accomplished by signing the appropriate box on the HSBC draft trust deed. Please refer to your adviser for guidance on this.

Your choice of trusts

A Loan Trust can be set up either as an absolute trust or a discretionary trust. When deciding which type of trust, you will need to consider:

- how much flexibility you wish to have in changing the beneficiaries at a later date;
- how much control you wish your trustees to have over the trust fund and how your chosen beneficiaries may benefit from it; and
- how the trust will be treated for inheritance tax purposes.

Your adviser will provide guidance on which trust will be most suitable for your circumstances, but the key differences are as follows:

Absolute trust
This trust can be used if you know exactly who should benefit from the trust fund after your death. When creating the trust, you must specify the beneficiary(ies) and, if more than one, the share of the trust fund to which they are each entitled. You cannot change your mind at a later date.

An advantage of an absolute trust is that your Loan Trust will not be subject to inheritance tax – either on creation, on each tenth anniversary or when payments are made to a beneficiary. For further details please refer to the 'What about tax?' section on page 15.

A drawback is that you cannot change the beneficiaries once the trust is established. If a beneficiary dies, their share of the trust fund will pass to their heirs and you will have no control over who then benefits. The value of their share of the trust fund (the Bond less any outstanding loan) will form part of their estate and may be liable to inheritance tax, but the trustees will be under no obligation to release any funds to help with the increased liability on the remainder of their estate.

Also, a beneficiary's share of the trust fund could be at risk if he or she is involved in marital break-up or a dispute with creditors. The trust fund could potentially be taken into account for any means-tested benefits to which a beneficiary might otherwise be entitled.

Discretionary trust
This trust may be chosen if you want to retain some flexibility over who will benefit.

No beneficiary will have a fixed right to anything; instead it will be up to your trustees to decide who will benefit, in what proportion and when the trust fund is to be distributed. The trust deed sets out the classes of beneficiaries who can benefit and you can add named individuals to this list. It is normal to provide your trustees with a letter outlining your wishes about who should benefit but, although they can take your wishes into account, they are not bound to act in accordance with them.

As a result of the flexibility offered by a discretionary Loan Trust, inheritance tax will potentially be payable on every tenth anniversary of the trust and when the trust fund is eventually distributed. For further details please refer to the 'What about tax?' section on page 15.

Whichever trust is used, the value of the outstanding loan will remain in your estate for inheritance tax purposes.

The Loan Trust in action

How might the Loan Trust help Evelyn
As previously mentioned, Evelyn is a 75 year old widow with an estate worth £750,000. She has made no previous gifts for inheritance tax and, since her late husband's entire nil rate band was used on his death, there is none left to transfer to her.

Evelyn's house is worth £500,000 and she has £200,000 sitting on deposit earning very little interest. The rest of her estate is made up of national savings certificates and premium bonds.

Although she has substantial assets, Evelyn's income is insufficient for her needs and she regularly dips into her capital to fund holidays and other treats. She has been taking about £10,000 a year from her capital to supplement her income.

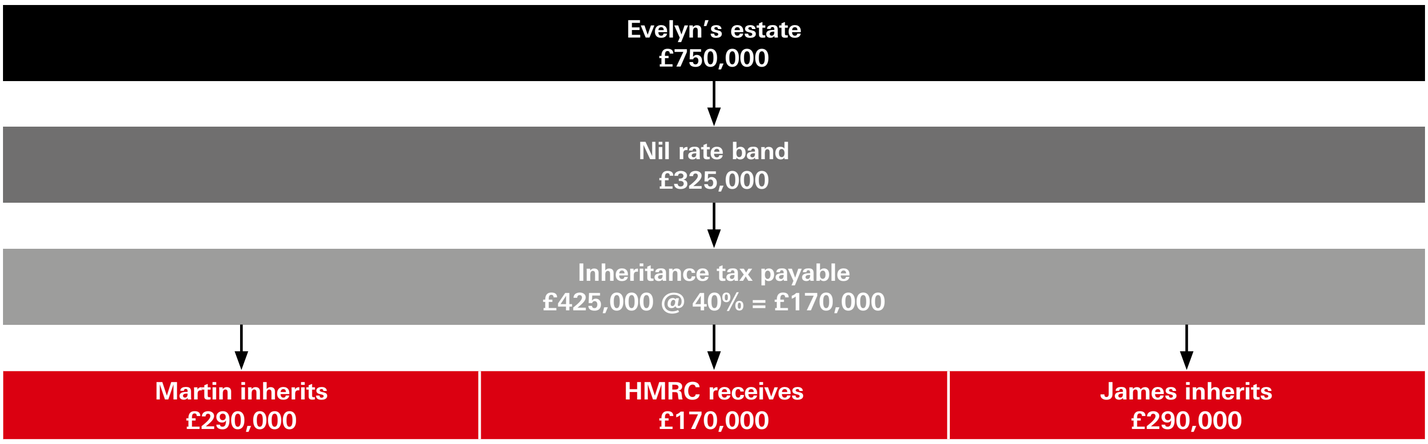
She is prepared to consider mitigating her inheritance tax liability, provided she can retain access to her capital. On the advice of her adviser, she decides to transfer £200,000 into a Loan Trust, with her two sons being her principal beneficiaries.

Whichever type of Loan Trust Evelyn chooses, all the investment growth on the Bond will be outside her estate for inheritance tax purposes. Evelyn chooses a discretionary trust because she wants to retain some flexibility over who will benefit.

While the trust fund will be assessed for periodic charges at each tenth anniversary and for exit charges when payment is made to her beneficiaries, it is unlikely that the trust will attract any inheritance tax charge if its value remains below the nil rate band available at the time of each assessment.

Evelyn creates her Loan Trust by lending her trustees £200,000 which is then invested in the HSBC Onshore Investment Bond. When completing the trust deed she specifies that she wishes to have her loan repaid at the rate of 5% of the original loan per year.

Of course, the creation of a Loan Trust will have no immediate impact on the value of her estate for inheritance tax purposes or the potential liability to that tax. This is because the outstanding loan remains an asset in her estate until it has been repaid.



The potential of Evelyn's Loan Trust in reducing her liability to inheritance tax will be seen as time elapses, as the following example demonstrates.

If Evelyn dies 15 years after creating her loan trust then, assuming she asked for her loan to be repaid at the rate of 5% per annum and provided she has actually spent the loan repayments as they were made, the liability to inheritance tax will have been reduced by £150,000. For simplicity, the figures have not been changed.

Evelyn's estate 2031
£750,000-£150,000 = £600,000

Nil rate band
£325,000

Inheritance tax payable
£275,000 @ 40% = £110,000

Martin inherits	HMRC receives	James inherits
£245,000	£110,000	£245,000

Martin and James will, of course, also benefit from any investment growth under the loan trust.

In addition, Martin and James should be able to benefit from the new residence nil rate band (currently £125,000 increasing to £175,000 by April 2020) which applies to individuals who pass on their main residence to direct descendants. This would have the effect of reducing the tax charge to £40,000 and increasing Martin and James's inheritance to £280,000 each.

Please note that this example is provided for illustration only and should not be used as a guide for any particular course of action. The tax implications will vary according to individual circumstances and you will need to consider your personal tax situation in detail with your adviser before proceeding.

Creating your Loan Trust

In order to create your Loan Trust you need to complete the appropriate deed, either the absolute or discretionary version.

Whichever version you choose, any growth on the Bond will fall outside your estate, thereby reducing your potential inheritance tax liability, and be held for the benefit of your beneficiaries.

Whether you are creating your Loan Trust on your own, or jointly with your spouse or civil partner, you must appoint at least one additional trustee to act with you in investing the loan monies and administering the trust for the benefit of your chosen beneficiaries.

Once the trust has been completed and all parties have signed the deed, the document can be dated in Section 1.

In addition to creating your trust, by completing the trust deed you also make a loan from yourself to you and your chosen trustees. Under the terms of the trust, the trustees agree to invest the money lent to them in the HSBC Onshore Investment Bond. The trustees are now in a position to complete the appropriate bond application form.

As creator of the trust you will be the first trustee. Your additional trustee(s) will be the second and/or subsequent trustees.

The lives insured will often be the named beneficiaries of the trust but you and/or your trustees can also be lives insured.

HSBC will issue the Bond to you and your chosen trustees as policy owners.

Receiving your regular repayments

Convenient repayment options
You can choose between monthly, bi-monthly (every other month) quarterly, termly (every four months), half-yearly or yearly options for your regular loan repayments which can be commenced immediately or deferred. If you wish your repayments to be deferred, you should put 0% in the appropriate box on the HSBC draft trust deed. Once commenced, your regular payments will continue until your loan has been repaid or until the value of the Bond falls to nil, if earlier. You can, of course, instruct your trustees to discontinue making these repayments at any time.

You could also release your trustees from their responsibility to repay some or all of the outstanding loan but this will have an impact for inheritance tax purposes which your adviser will be able to explain to you.

You can choose any level of payment up to 10% yearly of your investment amount. Please remember, however, that the value of the Bond will reduce if the amount withdrawn exceeds the rate at which the Bond grows. As explained in the next section, there may also be income tax implications where repayments exceed 5% each year.

Income tax treatment
You can arrange to receive regular payments of up to 5% of the original investment every year without any immediate income tax charge. Any part of this allowance which is unused can be carried forward; so you can potentially defer any higher or additional rate income tax liability until 100% of your original investment has been withdrawn, or the Bond comes to an end.

Any amount over the 5% yearly allowance may be subject to income tax. Personal allowances on income exceeding £100,000 may also be affected.

Because we pay corporation tax on any income and capital gains realised on the underlying investments in the Bond, basic rate income tax is treated as already paid on this investment. We calculate the underlying tax charge daily and collect a monthly tax deduction from the Bond to account for this. As a result, tax administration is simplified for the trustees and any liability you face will be restricted to higher or additional rate income tax.

The Bond will be issued as a series of separate but identical policies, each of which is treated independently of the others. This segmentation gives your trustees considerable flexibility to undertake strategies which can minimise any income tax liability arising from any gains made.

For more details on the tax treatment please refer to pages 15 and 16 as well as to the HSBC Onshore Investment Bond product brochure. Please note that although it is possible to 'top-up' the HSBC Onshore Investment Bond by paying additional premiums, this is not possible where the Bond is held within a Loan Trust.

Investing the trust fund

A Loan Trust is a long term arrangement, so it is essential that the widest investment choice is available. With the HSBC Onshore Investment Bond your trustees can access the expertise of investment managers across a range of fund management groups. Your adviser will be able to give you and your co-trustees details of the current fund range.

Building your trust fund portfolio
The initial investment will be allocated to the bond and held in a cash account which forms part of the investment portfolio and is used to debit the cost of fund purchases and credit the proceeds from fund sales.

Once the trust fund is allocated to the bond you and your co-trustees can then build a portfolio from a choice of collective investments such as Open Ended Investment Collectives (OEICs) and unit trusts. Other than the minimum investment levels which apply to each asset held in your portfolio, there are no restrictions on how the investment can be spread.

The cash account can also be used to hold monies awaiting investment or as a cash shelter in times of market volatility.

Trading free from capital gains tax
Subject to the minimum investment levels, you and your co-trustees also have complete flexibility to move monies between funds and, because the trust fund is held within the Bond, it is possible to trade between funds without incurring any personal charge to capital gains tax.

About your trustees

Choosing your trustees
As previously mentioned, as the creator of the trust, you will automatically be a trustee but you will need to appoint at least one other trustee to act with you. Joint creators will also need to appoint at least one additional trustee to act with them.

A trustee must be someone you can rely on to act in accordance with your wishes, so you should make your choice with care.

You can appoint anyone to be a trustee provided they are over the age of 18 years and have full mental capacity. There must be at least two trustees to administer the trust. If you wish, you can appoint a beneficiary under the trust as trustee.

You may prefer to appoint a professional trustee, such as your solicitor but please bear in mind professional trustees are permitted to charge for their services. If the only asset within the trust is the Bond and if a withdrawal is made from the Bond to pay the fees of a professional trustee, this will have an impact on the annual allowance available for chargeable event purposes. Please refer to the 'What about tax? section on pages15 and 16.

During your lifetime, you will be able to appoint new or additional trustees. In the event of your death or incapacity, this power will pass to the remaining trustees. You will also have the power to remove a trustee provided at least one trustee (other than yourself) remains after the dismissal.

Trustees' roles, responsibilities and accounting
The role of the trustees is to manage the trust assets in accordance with the terms of the trust deed.

Whilst the only asset held in your trust is the HSBC Onshore Investment Bond, your trustees will have little to do to administer the trust fund. In particular, they will not need to complete trustee tax returns.

Trustees' liability for the outstanding loan
Your loan to the trust is repayable on demand. However, as with all investments, the value of the Bond could fall as well as rise and could, at some point, be worth less than the value of the outstanding loan.

A provision in the Loan Trust is designed to ensure that the trustees will not be personally liable for any shortfall unless they have paid capital to a beneficiary without either your express consent or the agreement of the beneficiary to repay that money to you on demand. They would, of course, be personally liable if any shortfall arose as a result of any breach of trust or other dishonesty.

About your beneficiaries

Choosing your beneficiaries
The choice of who should benefit from your trust during your life or in the event of your death rests with you and your trustees. Anyone, other than the creator of the trust, can be a beneficiary.

Whether or not the beneficiaries are fixed at the outset and how a beneficiary will be treated for tax and other purposes, will depend on whether you have created an absolute or discretionary trust.

Absolute beneficiaries
Under an absolute trust, you will name those you wish to benefit and the shares they should take. Once you have made this choice, you cannot change your mind.

Your beneficiaries' entitlement is subject to your outstanding loan. Your trustees can make payment to your beneficiaries before your loan has been repaid in full but only with either your express consent or the agreement of the beneficiary to repay this money to you on demand.

In the event of your death, the trustees will be able to pay the appropriate share of the trust fund to any adult beneficiaries. Where there are minor beneficiaries, the trustees will usually have to retain the trust fund until each beneficiary reaches age 18 (16 in Scotland).

Discretionary beneficiaries
Under a discretionary trust, the beneficiaries are described as a class of individuals such as your children, grandchildren, nieces, nephews, your spouse or surviving spouse (unless you created the trust as joint creators or deliberately excluded your spouse) and the spouse or surviving spouse of any of your beneficiaries. A full description of your discretionary beneficiaries will be found in Clause 2.3 of your trust.

A discretionary beneficiary does not have an automatic right to anything under the trust – they only have the right to be considered by the trustees. The trustees can exclude a beneficiary and you can add to the class of beneficiaries during your lifetime.

You may wish to write a letter to your trustees explaining how you would like your trust fund to be distributed. Although your trustees will usually take your wishes into account, they cannot be bound by them and, ultimately, the decision about who receives what and when will rest with them.

What happens if someone dies?

If someone associated with the trust dies, the trustees should notify us as soon as possible. We need to know if:

- a creator of the trust dies;
- the beneficiary of an absolute trust dies;
- a trustee dies; or
- a life insured dies.

What happens if a creator dies?
If a single (or surviving) creator of an absolute trust dies, the trustees must advise us to stop making the regular withdrawals. The trustees will then be able to distribute the trust fund to the beneficiary(ies).

If the single (or surviving) creator of a discretionary trust dies, the trustees must advise us to stop making the regular withdrawals. The trustees will then be able either to maintain the trust fund or to distribute it to the beneficiaries, possibly in accordance with the creator's letter of wishes.

If one creator of a joint trust dies, the trustees will need to advise us to reduce the regular withdrawals so that only the loan repayments to the survivor continue until their share of the loan has been repaid in full. For example, if a loan trust had been created with £200,000 on a 50:50 basis with 5% withdrawals being paid to the joint creators, the £5,000 payable to the deceased should cease while the £5,000 payable to the survivor will continue.

What happens if a trustee dies?
If a trustee dies, the remaining trustees must notify us of this and provide evidence in the form of a copy of the Death Certificate.

If, following the death of a trustee, only one trustee remains, the settlor or the surviving trustee should appoint a new trustee to act with them. We can provide a suitable deed for this purpose.

What happens if a life insured dies?
If one of the lives insured dies but is survived by other lives insured, there will be no effect on the arrangement and the Bond will continue.

If the last surviving life insured dies during your lifetime, the trustees must claim the Bond proceeds and reinvest these to maintain the regular repayments to you. However, if the loan has been repaid in full, the trustees would not be under this obligation.

If the last surviving life insured dies after your death the trustees must claim the proceeds. If the loan has been repaid in full, whether they distribute or retain the proceeds will depend on whether the trust is absolute or discretionary and the circumstances of the beneficiaries. If any part of the loan remains outstanding, the trustees may need to repay this before taking any further action.

If, as a result of the death of the last life insured, a claim is paid under the Bond during your lifetime, your trustees may need to reinvest the fund in another investment in order to continue making the regular loan re-payments to which you are entitled.

What happens if a beneficiary dies?
If a beneficiary of an absolute trust dies, the value of the trust fund, less the value of your outstanding loan, will be included in the beneficiary's estate for inheritance tax purposes. The heirs of that beneficiary will not, however, be able to benefit from the trust fund until after the death of the settlor (or the survivor). The trustees of your trust could be liable to pay inheritance tax as a result of the beneficiary's death.

What about tax?

Inheritance tax
There are a number of occasions when a liability to inheritance tax may arise and these are summarised in the following table:

Event/Who pays the tax?	Type of Loan Trust	
	Absolute	**Discretionary**
When the trust is created	As the interest free loan is not a gift for inheritance tax purposes there can be no inheritance tax charge on creating the trust. However, the value of the outstanding loan will remain in your estate.	
Who pays the tax?	n/a	n/a
If you die within seven years	n/a	n/a
Who pays the tax?	n/a	n/a
On the first (and subsequent) tenth anniversary(ies)	n/a	There will be a possible periodic charge at a maximum of 6% on the value of the trust fund (less the value of your outstanding loan) in excess of the nil rate band available to the trust. However, it will be nil where there were no chargeable transfers in the seven years prior to the creation of the trust and the value of the trust is less than the nil rate band at this time.
Who pays the tax?	n/a	The trustees.
Payment to a beneficiary	n/a	An exit charge may be possible. Exit charges may apply each time money is paid out of the trust to your beneficiaries. An exit charge is usually based on the previous periodic tax charge.
Who pays the tax?	n/a	The trustees.

Residence nil rate band
A new nil rate band is being phased in over the four tax years from April 2017 for individuals who pass their main residence onto their direct descendants. It is currently worth £100,000 rising to £175,000 by April 2020, though limitations and exclusions apply. Please refer to your adviser for guidance.

Income tax
The Loan Trust has been designed for use with the HSBC Onshore Investment Bond. As a series of life insurance policies, gains arising under a bond are taxable to income tax under the chargeable event regime. Under that regime, a liability to income tax can only arise if a chargeable event occurs, there is a chargeable event gain and there is a chargeable person to whom the gain can be attributed.

A chargeable event will arise on the death of the last life insured under the policy, assignment or part assignment of the policy for money or money's worth, maturity of the policy, surrender in full of the policy, or when certain part surrenders are made under the policy. Your adviser will be able to explain how any liability is arrived at.

The following table illustrates the tax implication for the three most common events:

Income tax implication	Event		
	Withdrawals within 5% allowance	**Withdrawals greater than 5% allowance**	**Full surrender**
Is there a chargeable event?	No	Yes	Yes
Is there a chargeable event gain?	No	Yes, on excess above 5%	Yes, on any gain realised

Who is liable for the tax?

With an absolute trust, any gain is assessed on the beneficiary, regardless of age. The only exception is where the beneficiary is the minor (unmarried) child of the person who created the trust, in which case any gain in excess of £100 will be assessed on the parent.

For discretionary trusts, the person who is liable for the tax will depend upon the circumstances at the time, as illustrated in the following table:

Discretionary Loan Trust	Who is liable for the tax?
	The creator of the trust, if alive and UK resident, failing whom.
	UK resident trustees, failing whom.
	a UK resident beneficiary when receiving a benefit from the trust.

The rate of tax payable
The rate of tax payable will depend on whom the liability falls. As the person who created the trust, you will be taxed at your highest marginal rate. You will receive a credit for basic rate tax in consideration of the tax paid within the Bond. Where UK resident trustees are liable, the rate of tax is 45% for 2018/19 and they also receive a credit for basic rate tax of 20%.

Where a beneficiary is liable, the tax paid will depend on their personal income tax position and, as above, a credit for basic rate tax will be available.

Capital gains tax
Capital gains tax does not generally apply to investment bonds and there should be no charge to the trustees provided they are the original owners of the bond. No liability to capital gains tax will arise when fund switches are made within the Bond.

Pre-owned assets tax
Pre-owned asset tax (POAT) rules are aimed at discouraging certain inheritance tax planning arrangements by imposing an income tax charge. Since no gift has been made, there can be no liability to pre-owned assets tax.

Gifts with reservation of benefit
A gift with reservation can occur where you continue to enjoy a benefit from an asset. These rules do not apply to a Loan Trust because no gift has been made.

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