Gift Trust

Investor Guide

For use in connection with the
HSBC Life Onshore Investment Bond

HSBC Life

Table of contents

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

It is designed for investors working with their adviser who will guide them on the merits and suitability of the Gift Trust. 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 Life Onshore Investment Bond – Key Features
- HSBC Life Onshore Investment Bond – product brochure

Important note

HMRC requires most trusts to be registered with the Trust Registration Service (TRS). In addition, the TRS must be updated with any amendments to the trust, including any change to trustees or named beneficiaries. A copy of the TRS certificate showing that the trust has been registered and/or updated must be provided to HSBC Life before this form an application can be processed. If you require further information about the TRS, including how to register, please visit our website https://www.life.hsbc.co.uk/customers/trs.

The impact of taxation (and any tax reliefs) depends on your individual circumstances. 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 April 2025. Tax law and practice may change in the future.

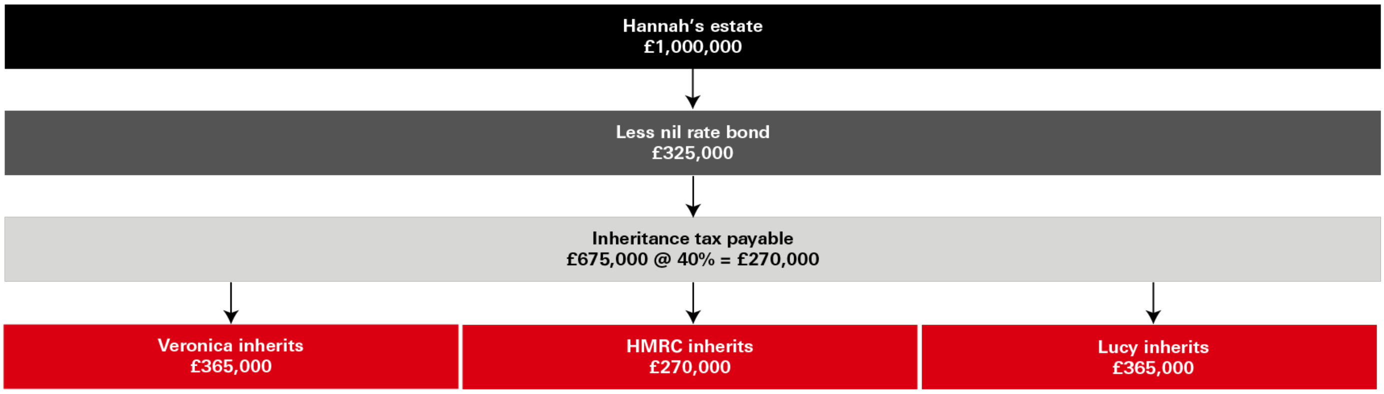
HSBC Life (UK) Limited is not responsible for any action you may or may not take as a result of information contained in this Investor Guide, which you should discuss with your financial adviser.

Why you should consider a Gift 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 'nil rate band') to their beneficiaries, without incurring any inheritance tax. Above this limit, inheritance tax on death is charged at 40%. For an estate of £600,000, for example, the tax liability at 40% would be £110,000 (£600,000 - £325,000 x 40%) - 18% of the gross estate.

Consider Hannah, with an estate of £1,000,000. 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. There are no other inheritance tax reliefs available.
If there was no inheritance tax to pay, her two daughters, Veronica and Lucy, would each inherit £500,000, as shown below:

But, inheritance tax is payable and so as can be seen below, Veronica and Lucy will each lose £135,000 to HMRC



Without careful planning your beneficiaries may receive less than they otherwise might if the estate you leave them is reduced by a liability to inheritance tax.

Some may be unable to give away a lump sum but would be prepared to lend the lump sum to a Loan Trust where the trustees invest the lump sum and any growth on that investment is outside your estate for inheritance tax, but the loan will remain in your estate for inheritance and you can demand repayment of your loan in whole or in part at any time in order to supplement your income. For further information, please refer to the HSBC Life Loan Trust Investor Guide.

Others may wish to begin inheritance tax planning now and have a lump sum to invest but are unable or unwilling to give up complete access to their capital or unwilling to wait for investment growth to build up outside their estate over time. A Discounted Gift Trust (or DGT as it is often referred to) may enable them to achieve an immediate reduction in their estate for inheritance tax purposes, whilst retaining access to a fixed regular stream of payments from the trust to add to their income during their lifetime or until the bond becomes exhausted. For further information, please refer to the HSBC Life Discounted Gift Trust Investor Guide.

However, if you are able to consider giving away a substantial sum, a Gift Trust will have the effect of reducing your potential tax inheritance liability.

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

- have a net estate exceeding £325,000;
- are able to give away a lump sum;
- have surplus capital to which they need no access in the future; and
- be at least 18 years of age.

Benefits at a glance

What the trust offers

The Gift Trust is a lump sum investment, held under trust, which enables you to:

- give away a lump sum;
- achieve a reduction in the value of your estate for inheritance tax purposes provided you survive for seven years from the date you make the gift;
- prevents any growth on the lump sum creating a potential liability to inheritance tax; and
- select trustees who will administer the trust and distribute any remaining trust fund to your trust beneficiaries either during your life or after your death.

Please remember you will have no access to the investment once you have created the trust.

What the HSBC Life 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 adviser fees.
- **Individual tax calculations** – we calculate the corporation tax liability individually for each Bond, according to funds held.
- **Transaction Details** – all transactions are undertaken through a cash account making it easy for your trustees to monitor and administer your Bond.
- **Multi-life financial planning** – the ability to have combinations of up to 10 lives insured gives flexibility that will be particularly attractive to trustees.
- **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 Life 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.

How the Gift Trust works

To establish your Gift Trust you (the person creating the trust and described as the settlor in the trust) will make a gift to your trustees. Please see 'Creating your Gift Trust' on page 8 as there are two ways of creating the Gift Trust.

There are two types of Gift Trust available and 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 5.

Paying the benefits

The trust will be administered by the trustees who are responsible for benefiting the trust beneficiaries from the trust fund either during your lifetime or after your death. As the settlor of the trust, you will automatically be a trustee, but you will need to appoint at least one additional trustee.

Please refer to page 11 for more details about the role and responsibilities of the trustees.

Joint settlor trusts

It is possible for the Gift Trust to be set up on a joint settlor basis with your spouse or civil partner. For joint settlor trusts, you should appoint at least one additional trustee.

If each of you intends to create your own Gift Trust, your adviser should recommend that you exclude each other from your respective trusts for inheritance tax reasons. This can be accomplished by signing the appropriate box on the HSBC Life Gift Trust trust deed. Please refer to your adviser for guidance on this.

Your choice of trusts

A Gift Trust can be set up either as a discretionary trust or an absolute 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 trust 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 either during your lifetime or after your death. When creating the trust, you must name the trust beneficiaries and specify their share of the trust fund to which they are each entitled.

An advantage of an absolute trust is that your gift into the Gift Trust will be treated as a potentially exempt transfer (PET) for inheritance tax purposes. This means that there will be no immediate inheritance tax charge and, provided that you survive for at least seven years after making the gift, the whole of your gift will be free from inheritance tax on your death. But if you die within seven years after making the gift, the PET will be classed as a chargeable transfer and may result in a charge to inheritance tax. For further details please refer to the 'What about tax?' section on page 14 and 15.

A drawback is that you cannot change the trust beneficiaries or their share of the trust fund once the trust is established.

If a beneficiary dies, their share of the trust fund will pass under the terms of their will or on intestacy and you will have no control over who then benefits.

The value of their share of the trust fund will form part of the trust beneficiaries estate for inheritance tax.

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 flexibility over who will benefit.

The discretionary trust has a trust period of 125 years and can benefit many generations of your family.

No beneficiary will have a fixed right to anything; instead it will be up to the 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 Gift Trust the following inheritance tax implications will arise:

- There will be an immediate inheritance tax charge at the lifetime rates (either 20% or 25%) on any amount of the gift which, when added to any other chargeable transfers you have made in the past seven years, exceeds the nil rate band. However, no inheritance tax charge arises if the transfer value is below the nil rate band. The transfer value, during the seven years following the creation of the trust, will mean that the nil rate band available to the rest of your estate will be reduced by the value of that transfer;
- There could be a further inheritance tax charge if you die within seven years of setting up the trust; and
- Inheritance tax will potentially be payable in respect of the trust fund on every tenth anniversary of the trust and in respect of exit charges when capital distributions are made to the trust beneficiaries but 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;
- The value of the gift will fall outside your estate provided you survive for seven years from the date of making the gift into the trust.

For further details please refer to the 'What about tax?' section on page 14 and 15 and refer to your adviser for guidance on this.

The Gift Trust in action

How might the Gift Trust help Hannah?

As previously mentioned, Hannah is a 75 year old widow with an estate worth £1,000,000. 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.

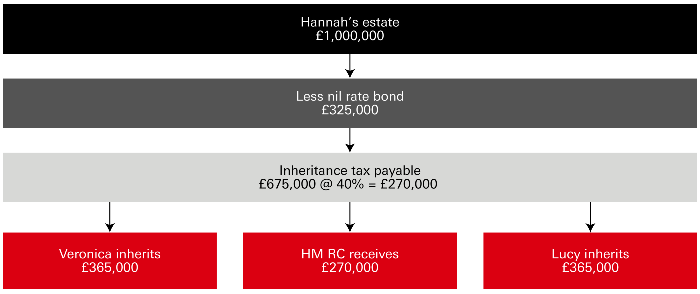
Hannah's estate is worth £1,000,000 including £200,000 sitting on deposit earning very little interest.

She is prepared to consider mitigating her inheritance tax liability. On the advice of her adviser, she decides to transfer £200,000 into a Gift Trust, with her two daughters being her principal beneficiaries.

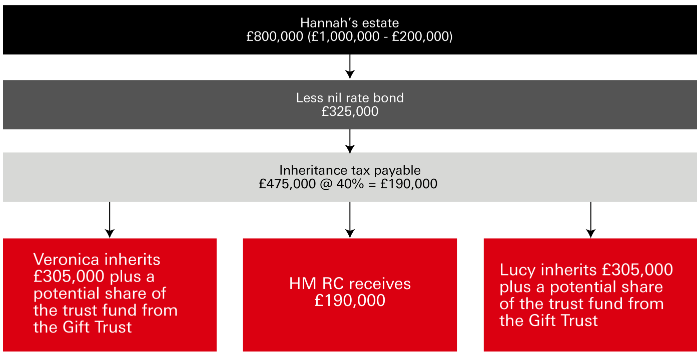
All the investment growth on the Bond will be outside her estate for inheritance tax purposes.

Hannah chooses a discretionary trust because she wants to retain flexibility over who will benefit.

Hannah creates her discretionary Gift Trust with £200,000 which is invested in the HSBC Life Onshore Investment Bond. Please refer to 'Creating your Gift Trusts' section on page 8.



After seven years, the gift of 200,000 will have fallen outside of Hannah’s estate completely.



Veronica and Lucy may also benefit from the money held in the Gift Trust at the trustees discretion. This means that their overall position has (potentially) improved by £40,000 (inheritance tax £270,000 - £190,000/2) each, before taking into account any investment growth achieved.

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 Gift Trust

In order to create your Gift Trust you will need to complete the appropriate trust deed, either the discretionary or absolute Gift Trust deed.

As the settlor you will automatically be appointed as a trustee.

Where you are creating your Gift Trust by yourself, as a sole settlor, you must appoint at least one additional trustee to act with you in investing the gifted monies and administrating the trust for the benefit of your chosen trust beneficiaries. Where you are creating your Gift Trust jointly with your spouse or civil partner as joint settlors, you should consider appointing an additional trustee.

The Gift Trust may be created in one of two ways:

- The trustees direct the settlor to complete the HSBC Life Onshore Investment Bond application form using the gifted monies. The settlor will instruct HSBC Life to issue the Bond in the name of the trustees of the Gift Trust
- The settlor has already set up the HSBC Life Onshore Investment Bond and transfers the Bond into the names of the trustees by completing the Gift Trust deed

The lives insured will often be the named beneficiaries of the trust but you and/or your trustees can also be lives insured.
For tax planning flexibility there should be more than one life insured. Please refer to your adviser for guidance on this.

The settlor can make further monetary gifts to the Gift Trust in order for it to be placed in the Bond. Please refer to your adviser for guidance on this.

Your adviser will explain the application process and how to complete the documentation.

Making payments to the trust beneficiaries

Payment options

You can choose between monthly, bi-monthly (every other month), quarterly, termly (every four months), half-yearly or yearly options for the payments from the Gift Trust to the trust beneficiaries.
You as the settlor cannot benefit from the trust fund.

The trustees can arrange regular payments from the bond in order to benefit a trust beneficiary and provided they do not exceed the 5% a year allowance then no immediate income tax charge will arise. Alternatively, the trustees can assign the bond to a trust beneficiary.

The trustees can choose any level of payment up to 10% yearly of the 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. There may also be income tax implications where payments exceed 5% each year.

Income tax treatment

The trustees can arrange 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.

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. This means a credit for basic rate income tax at 20% is received and only income tax at higher or additional rate may be payable.

We calculate the underlying corporation 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 the 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 14 and 15 as well as to the HSBC Life Onshore Investment Bond product brochure.

Investing the trust fund

A Gift Trust is a long term arrangement, so it is essential that the widest investment choice is available. With the HSBC Life Onshore Investment Bond you and your co-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 the trust fund portfolio

Initially the investment will be allocated to the cash account in the Bond pending purchase of fund holdings. This cash account, apportioned equally across the policies in the Bond, 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 investment is invested into the Bond you and your co-trustees can then build a portfolio from a choice of collective investments such as Open Ended Collective Investments (OEICs) and unit trusts.

Other than the minimum investment levels which apply to each asset held in the 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 investment 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 person who created the trust (the settlor), you will automatically be a trustee but you must appoint at least one other trustee to act with you. Joint settlors should also 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. For sole settlor trusts, 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 5% a year allowance available. Please refer to the 'What about tax? section on pages 14 and 15.

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 the Gift Trust is the HSBC Life Onshore Investment Bond, the administration of the trust fund will be simplified for the trustees. In particular, they will not need to complete trustee tax returns.

However, the trustees will be required to register the Gift Trust through HMRC's Trust Registration Service within 90 days from when the trust is established. In addition, the register will need to be updated with any changes to the trust within 90 days of the event.

About your trust beneficiaries

Choosing your trust beneficiaries

The choice of who are the trust beneficiaries of your trust rests with you. Anyone, other than a settlor of the trust, can be a beneficiary.

You cannot benefit from the trust in any way.

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 will take. Once you have made this choice, you cannot change your beneficiaries or their shares of the trust fund.

The trust beneficiary's share of the trust fund will form part of the beneficiary's estate for inheritance tax.

Where an adult beneficiary dies their share of the trust fund forms part of their inheritance tax estate on death and would pass under their will or on intestacy. Where a minor beneficiary dies their share of the trust fund would normally pass under the intestacy rules, usually to their parents.

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 settlors 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 the trust deed.

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 of wishes to your trustees explaining how you would like the 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 trustee dies;
- a life insured dies; or
- the beneficiary of an absolute trust dies.

What happens if a trustee dies?

If a trustee dies including the settlor, the remaining trustees must notify HSBC Life 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.

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, the trustees must claim the bond proceeds. The trustees will then need to decide how to manage or distribute the trust fund.

What happens if a beneficiary dies?

If a beneficiary of an absolute Gift Trust dies, the value of the trust fund will be included in the beneficiary’s estate for inheritance tax purposes. The trustees of the trust could be liable to pay inheritance tax as a result of the absolute beneficiary's death.

If a beneficiary of a discretionary Gift trust dies, there will be no inheritance tax implications.

What about tax?

Inheritance tax

There are a number of occasions when a liability to inheritance tax may arise and these are summarised below:

- When the Gift Trust is created

When the bond is placed in the Gift Trust this will be treated
as a gift for inheritance tax purposes.

For a discretionary Gift Trust the gift constitutes a chargeable lifetime transfer. This means any amount exceeding the nil rate band will be taxable at the lifetime rates (20% if the trustees pay the tax or 25% if the settlor pays the tax). The chargeable lifetime transfer will fall outside the settlor's estate provided the settlor lives seven years from the date of the gift and will recover the nil rate band used in respect of this transfer.

For an absolute Gift Trust the gift constitutes a potentially exempt transfer (PET). This means that no inheritance tax will arise provided that the settlor lives seven years from the date of the gift and the trust fund will become comprised in the estates of the absolute trust beneficiaries. If the settlor dies within seven years then the PET is treated as failed and is classed as a chargeable transfer and further inheritance tax may be payable.

- Discretionary Trust: ten-year anniversary charge

This charge can arise every ten years from the creation of a discretionary Gift Trust. The maximum charge is 6% based on the value of the bond that exceeds the nil rate band available to the trust. This charge is payable by the trustees from the trust fund. However, no charge will arise where no chargeable transfers were made by the settlor in the seven years prior to the creation of the trust and the value of the trust fund (the Bond) is less than the nil rate band at this time.

- Discretionary Trust: exit charge

This charge can arise where capital is paid to a trust beneficiary of a discretionary Gift Trust. An exit charge is usually based on the previous ten-year anniversary charge.

Income tax

The Gift Trust has been designed for use with the HSBC Life Onshore Investment Bond. As a series of life insurance policies, gains arising under the 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 occur 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% a year allowance	**Withdrawals greater than 5% a year 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 parent who created the trust, in which case any gain in excess of £100 will be assessed on the parent. The exception does not apply where a grandparent sets up a trust for grandchildren.

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 Gift Trust	Who is liable for the tax?
	The settlor 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 settlor of 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%, 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.

Capital gains tax

No liability to capital gains tax will arise when fund switches are made within the Bond. Capital gains tax does not generally apply to investment bonds.

Accessibility

To find out more about our accessible services or if you would like this in another format such as large print, Braille, Text relay or audio, please write to us at HSBC Life (UK) Limited, Administration Office, PO Box 1053, St Albans, AL1 9QG, or call us on 0345 603 9164.

hsbc.co.uk

Administration Office, PO Box 1053, St. Albans, Hertfordshire AL1 9QG

INV2203 224-1032 06/25 AC51722