

Techzone guide: Estate planning with trusts

For UK adviser use only.



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About Techzone

Techzone is brought to you by our technical consulting team. The team has a wealth of experience across all areas of financial planning including retirement, tax, trusts and wealth transfer.

Helping you to deliver advice more easily

We take the complexity out of tax and retirement planning. We monitor change and do the analysis, so you're aware of the potential impact on the advice you provide to your clients. Our market-leading Techzone site offers an extensive catalogue of technical content, covering all key areas of advice. There you'll have access to around 200 technical and practical guides, insight articles and accredited-CPD modules. We also regularly host webinars and live events. Find out more about how Techzone can support you



Find out more about **Techzone**





Welcome to our guide to estate planning with trusts



David Downie
Technical Manager
Techzone

Inheritance Tax (IHT) receipts have more than doubled to £7.5 billion over the past 10 years¹, driven largely by rising property prices and frozen nil rate bands. But that level of increase is set to soar following the capping of 100% relief on agricultural and business property from April 2026 and the inclusion of inherited pension pots from April 2027.

The Government estimates that cuts to agricultural and business relief will raise an additional £230 million in 2026/27. The introduction of IHT on pensions will add a further £640 million in its first year. By 2029/30 it is estimated that the combined effect of these two measures will add a shade under £2 billion a year into the public coffers.

Opportunities to build relationships with current and future generations

This has naturally triggered a surge in clients seeking help with estate planning. Perhaps surprisingly, the use of trusts has undergone a decline over the same period. But family trusts remain one of the most effective estate planning tools available to clients and create opportunities for advisers to build relationships with both current and future generations. Used with investment bonds, trusts provide a relatively simple and cost-effective solution.

As an adviser, you're in the best position to help more clients understand the range of estate planning solutions available to meet their needs and reduce IHT liability.

How Aberdeen Wrap can support your estate planning for clients

Aberdeen Wrap brings together the tools and insights to help you navigate the recent estate planning changes and deliver the peace of mind your clients are looking for.

We hope you find the guide a useful resource to help you demonstrate the value of your advice and build even stronger client relationships.

¹ Inheritance tax - Office for Budget Responsibility.



Why the use of trusts has fallen

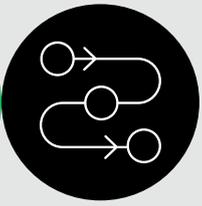
While IHT receipts have continued to rise, the use of trusts has been declining. HMRC attributes the fall in numbers to the increase in the rate of tax on trust investments allied to the 2006 IHT changes which dragged more trusts into the world of periodic and exit charges².

The administration of trust taxation is also perceived to be complex. Trustees may need to keep accounts and file tax returns and this may incur costs. The potential IHT savings to be made by making a gift into trust, need to be weighed against the ongoing tax charges on the trust together with any professional fees.

More recently, the requirement to register a trust with the relevant authorities appears to have become another barrier. While this may be an 'inconvenience', even if the motives behind the register are well intended, clients should not blind themselves to the benefits a trust can offer over making direct gifts to family members.

² Statistics on trusts in the UK November 2024 - GOV.UK.





Benefits of using a trust

The main benefits associated with lifetime gifting are:

01

A smaller estate on death, potentially reducing IHT.

02

Clients can help their children and grandchildren financially and enjoy watching them spend it.

03

The need for Grant of Probate or Grant of Confirmation is avoided.

04

Control over who benefits and when they receive it.



Types of trust



Aberdeen Wrap offers three types of underlying trust, each with differing levels of control. All three trust types are available under each of our estate planning solutions.

Absolute trusts

These give the beneficiary an immediate vested interest and the trustees cannot change the beneficiary once chosen at outset. This means the chosen beneficiary is entitled to all the capital and income from the investment. They are frequently used when making gifts to minors.

Trustees will have control over where the money is invested, but not over who benefits or when. Minor beneficiaries are normally entitled to have the policy transferred to them on reaching 18. However, it's possible for trustees to continue to hold the policy beyond the beneficiary's 18th birthday with the agreement of the beneficiary.

Absolute trusts are also used to ensure that gifts are regarded as Potentially Exempt Transfers (PET) for IHT and therefore will not attract an immediate lifetime charge.

Inheritance tax

Gifts into an absolute trust are a PET, with no upfront IHT charge, and it will be outside the estate if the donor survives it by seven years.

The trust is not subject to the relevant property regime and therefore there are no periodic and exit charges.

Tax on trust investments

All income and capital gains from a personal portfolio are taxed on the beneficiary unless the parental settlement rules apply.

If there is a chargeable event on a bond while in trust, for example the trustees make a withdrawal to use for the benefit of the beneficiary, any gain will be assessed on the beneficiary.

Parental settlements

Gifts made by a parent for the benefit of their minor child will remain taxable on the parent if income or bond gains are more than £100.

Discretionary trusts

The trustees decide who benefits from trust capital and income from a wide range of potential beneficiaries and when such distributions are made. Potential beneficiaries can include descendants not yet born, such as grandchildren. Beneficiaries do not have any rights to capital or income.

The benefits of using a discretionary trust include:

- protecting a beneficiary who they consider incapable or too immature to manage a direct gift wisely
- benefiting groups such as grandchildren, whenever born
- guarding against family disputes
- protection against a beneficiary getting divorced or declared bankrupt in the future.

Inheritance tax

Gifts into a discretionary trust are a Chargeable Lifetime Transfer (CLT). This means that if it exceeds the settlor's available nil rate band (NRB), there will be an immediate IHT charge at 20% of the excess. It is common practice to keep the gift within the client's NRB to avoid this charge (currently the maximum NRB is £325,000 – this will be reduced by any other chargeable transfers made in the previous seven years).

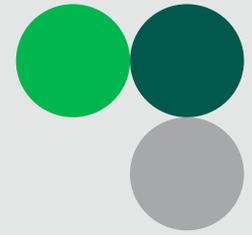
Gifts by married couples or civil partners will usually be regarded as made on a 50/50 basis and each is assessed separately to determine whether a 20% tax charge will apply to their share.

The trust will be subject to the relevant property rules meaning that there could be a charge to IHT on each 10th anniversary and each time payments are made to beneficiaries.





Types of trust



Tax on trust investments

Trustees of a discretionary trust are taxed at 45% on interest and 39.35% dividends from a personal portfolio. The tax paid by the trustees will form part of a 'tax pool' available as credits for when income is distributed to a beneficiary.

All income distributions to a beneficiary must be paid with a 45% tax credit which can result in a shortfall in the tax pool where dividend income is regularly distributed meaning not all of the dividend income received can be distributed as income.

Capital gains on disposals from a personal portfolio are taxed at the trust rate of 24%.

If there is a chargeable event on a bond in trust, any gain will be assessed on the:

- settlor(s) if alive in the tax year the gain arises
- the trustees if the settlor is deceased.

Gains assessed on the trust will be taxed at the trust rate of 45% with no top-slicing relief. However, it may be possible to assign the bond segments to a beneficiary and gains will be assessed upon the beneficiary with the top slicing relief available.

Flexible trusts

Flexible trusts are similar in many ways to discretionary trusts. The main difference is that at least one beneficiary must be chosen as the 'default' beneficiary. The default beneficiary will be entitled to any true income generated by investments such as interest or dividends from personal portfolios. Investment bonds do not generate a true income.

Trustees can use their powers to change the default beneficiary in favour of someone from a wide range of potential beneficiaries (similar to the range under the discretionary trust).

Inheritance tax

Gifts into a flexible trust are a Chargeable Lifetime Transfer (CLT). This means that if it exceeds the settlor's available NRB, there will be an immediate IHT charge at 20% of the excess. It is common practice to keep the gift within the client's NRB to avoid this charge (currently the maximum NRB is £325,000 – this will be reduced by any other chargeable transfers made in the previous seven years).

Gifts by married couples or civil partners will usually be regarded as made on a 50/50 basis and each is assessed separately to determine whether a 20% tax charge will apply to their share.

The trust will be subject to the relevant property rules meaning that there could be a charge to IHT on each tenth anniversary and each time payments are made to beneficiaries.

Tax on trust investments

All income from a personal portfolio must be distributed to the named beneficiary as it arises and cannot be accumulated. The trustees are taxed at basic rate on income received and the tax paid is available as credit to the beneficiary when the trustees distribute the income. Alternatively, the income can be paid directly to the beneficiary, and they declare the income on their own tax return.

Capital gains on disposals of funds within a personal portfolio are taxed at the trust rate of 24%.

The taxation of bonds held in a flexible trust is the same as a discretionary trust. If there is a chargeable event on a bond in trust, any gain will be assessed on the:

- settlor(s) if alive in the tax year the gain arises
- the trustees if the settlor is deceased.

Gains assessed on the trust will be taxed at the trust rate of 45% with no top-slicing relief. However, it may be possible to assign the bond segments to a beneficiary and gains will be assessed upon the beneficiary with the with top slicing relief available.



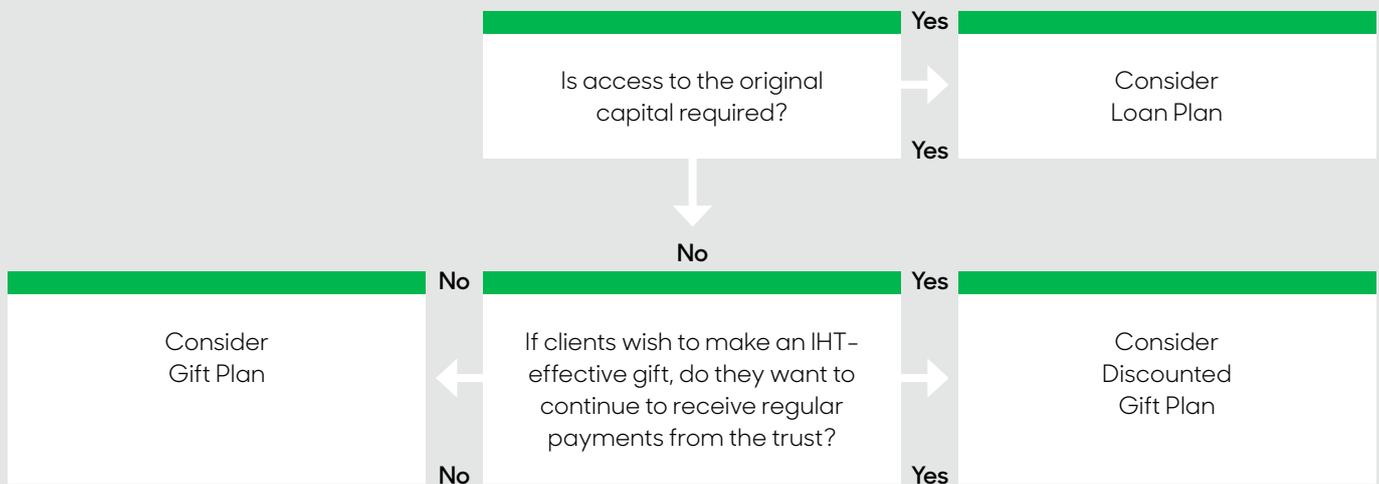


Our estate planning solutions

Our estate planning solutions

Aberdeen Wrap offers three packaged trust plans, each providing a slightly different solution for mitigating IHT. Each plan is available with absolute, discretionary and flexible trust types and in most cases will be set up with an investment bond. The basic tax treatment detailed above is common to all the trust plans. The following considers each of the trust plans available where the investment purchased is an investment bond.

Choosing the right solution



01

Gift Plan

Suitable for those:

- wishing to make an outright gift.
- who do not require access to capital or income.

02

Loan Plan

Suitable for those:

- who are not ready to make an outright gift.
- who may require access to capital as a lump sum or regular payments.

03

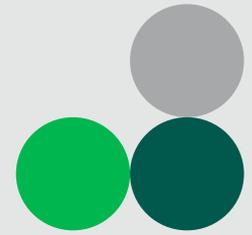
Discounted Gift Plan

Suitable for those:

- who wish to make an IHT-effective gift.
- but require regular payments for life.



Gift Plan



Overview

It provides a simple way to reduce IHT on an estate by gifting a cash amount to trustees to purchase a bond or personal portfolio. The cash amount gifted is the transfer of value for IHT.

Gifts made to an absolute trust will be PETs. There will not be an immediate charge to IHT whatever the value, and there will be no charge at all if the settlor survives the gift by seven years.

Example



Gift to absolute trust

John gifts £500,000 to an absolute trust today. If survived by seven years, this could save the client up to £200,000 in IHT. There will be a further saving on the growth which will be immediately outside the estate.

Gifts made to a discretionary or flexible trust will be classed as CLTs. This means that gifts in excess of the client's available NRB will be subject to an immediate IHT charge of 20%.

Example



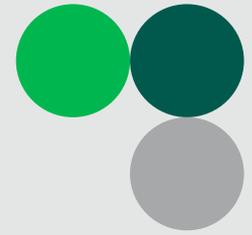
Gift to discretionary trust

If John gifts £500,000 into a discretionary trust instead of an absolute trust, having made no chargeable transfers previously, there will be an immediate charge of £35,000 $[(£500,000 - £325,000) \times 20\%]$. If he survives seven years, there will be no further IHT on this gift. Any growth on the gift will again be outside the client's estate immediately. The extra tax paid could be viewed as the cost of retaining control.





Gift Plan



Initial considerations

Type of trust to use. How much control and flexibility does the client wish to have with regards to paying benefits? Maximum flexibility and control will be achieved with a discretionary trust.

Investment choice. With the choice of personal portfolio and both onshore and offshore bonds, the trustees must consider which option best suits the ultimate purpose of the trust and the tax position of the trust and its beneficiaries.

A Personal Portfolio may be appropriate if the trust requires an income but if it is a discretionary Gift Plan, an income would mean tax returns and additional admin.

Bonds are simple and avoid the need for trust tax returns. If any of the beneficiaries may be a non-taxpayer at some point, offshore bonds may provide an opportunity to extract some of the gains tax-free. If the beneficiary is and always will be, a higher or additional rate taxpayer, onshore bonds may also be a viable option.

Amount to be gifted. Clients should only gift a sum of money that they will not need access to themselves anytime in the future and do not rely on the income from the capital sum they intend giving away. Once the trust has been established, it cannot be cancelled.

Upfront IHT charge. There will be no immediate charge on gifts to absolute trust – these will be PETs. There could be an immediate lifetime IHT charge on gifts into discretionary or flexible trusts if the gift is greater than the client's NRB. This may mean some clients will restrict the amount of the gift.

This can be avoided by making a gift with a spouse or civil partner, potentially doubling the NRB or splitting it between an absolute trust and discretionary trust, but this will depend on the client's views on control.

Joint gifts. Couples can jointly gift up to £650,000 during their lifetime to a discretionary or flexible trust without suffering an immediate charge. They will save themselves IHT on any future growth, and if they survive seven years, they could save £260,000 in IHT in respect of the gift.

Joint settlement or two single settlements? If a couple do wish to make a joint gift to a discretionary trust to double the NRB available, they can do this as 'joint' settlors or two 'single' settlors. Both will achieve the same result for IHT, but the joint settlor option will mean neither party can ever benefit from the trust. This is to avoid the possibility of HMRC treating the transfers as 'Gifts with a reservation of benefit' (GWR).

If done as two single settlements, on first death, the survivor becomes a beneficiary of the deceased's trust as widow/widower or surviving civil partner and so could benefit from the trust if their financial circumstances have changed. This would not be a GWR as neither settlor can benefit during the other settlor's lifetime.

Trust registration. Trustees will be required to register their trust with the Trust Registration Service (TRS). If an offshore bond is the chosen tax wrapper, registration will also be required with the Central Register of Beneficial Ownership of Trusts (CRBOT) in Ireland.





Gift Plan

Example



Multiple gifts in a seven-year period

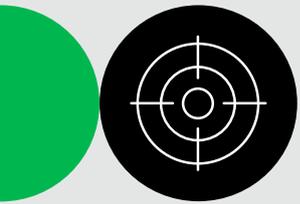
Isla made a cash gift of £50,000 to her daughter five years ago. Three years ago, she gifted £150,000 into a discretionary trust. She now wishes to make a further gift of £200,000 into a new discretionary trust but does not want to pay any lifetime IHT.

Assume she does not need personal access to the gift and uses her annual £3,000 exemption every year on other smaller gifts.

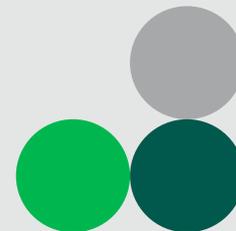
Isla's options are:

- Make the new gift of £200,000 and suffer a lifetime charge of £5,000 ($£25,000 \times 20\%$) and retain control as trustee.
- Restrict the new gift to £175,000 so that she stays within her NRB and avoids a lifetime charge but still retains control.
- Make two gifts, £175,000 to a discretionary trust and £25,000 into an absolute trust. There will be no lifetime charge, but an element of control and flexibility is lost over the money in the absolute trust. If she chooses this option, it would be preferable to set up the discretionary trust first – this will maximise the NRB available to the trust in the event she dies in the next seven years.
- The PET made five years ago will be exempt in two years' time, but should Isla die within that period, it will become chargeable and would mean that the IHT on the proposed gift into discretionary trust would need to be recalculated. It would also reduce the NRB available to the two trusts by £50,000.





Loan Plan



Overview

It works by the settlor lending money to the trustees rather than gifting it. The trustees invest the money in a bond with the aim of both being able to repay the loan when the settlor demands it while at the same time producing a profit for the beneficiaries. The settlor can ask for some or all the loan to be repaid at any time. Loans are made on an interest-free basis.

There is no immediate IHT to pay as the right to the outstanding loan remains in the estate, so there is no PET or CLT. The client can ask for repayment of the loan at any time should they need access to capital or set up regular payments if they require an income.

Because the payments to the settlor are in respect of the loan, there is no 'gift with reservation', meaning the growth will not be included in their estate for IHT.

All the investment growth is outside the estate. The outstanding loan will be included in the settlor's estate on death. Repayments of the loan during the settlor's lifetime which are spent will reduce the value of the estate subject to IHT.

Once the loan has been fully repaid, the settlors must not take any further payments from the trust.

Example



Loan Plan

Anne, 70, creates a loan trust by lending £100,000. The trustees invest in an investment bond and loan repayments are set at 4% a year giving her an annual 'income' of £4,000. Anne dies at age 85 and the value of the bond on her death is £65,000.

- Anne has had loan repayments of £60,000 over 15 years.
- The trustees repay the outstanding loan of £40,000 to her estate.
- The investment growth of £25,000 (£65,000 – £40,000) is held for her beneficiaries.

Initial considerations

Type of trust to use. The choice of trust may be more heavily influenced by the settlor's wish for control and flexibility because there is no immediate IHT for any of the trust types. Maximum flexibility and control will be achieved with a discretionary trust.

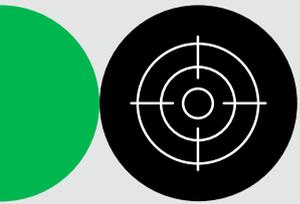
Investment choice. This is a straight choice between onshore and offshore bonds. The key consideration is the likely tax position of the beneficiaries if the bond or segments are to be assigned to them in the future.

Offshore bonds benefit from gross roll up so will provide a higher like for like return before tax. It may be possible to assign to a non-tax paying beneficiary to extract some of the gains tax-free.

Onshore bonds will pay corporation tax on income and gains within the fund. A 20% non-reclaimable tax credit is available to the beneficiary to reflect the tax already paid.

Amount of loan and IHT. Because there is no immediate IHT charge, the amount loaned does not have any impact on any other IHT planning at outset. However, the bigger the loan the greater the potential is for growth, which could mean a periodic charge on the trust at the 10-year anniversary is more likely, along with exit charges after the first 10-year anniversary when payments are made to beneficiaries (but not on loan repayments to the settlor).

Loan repayments. The loan is repayable on demand. The settlor can choose to take an annual repayment, typically up to the 5% of the amount invested in line with the tax deferred allowance on the bond. Instead of taking regular withdrawals to repay the loan, the settlor can defer repayment until such time it is required.



Loan Plan



Joint settlement or two single settlements? If a married couple or civil partners couple both wish to apply for Loan Plan, they can do this as joint settlors or as two single settlements. The main difference is that if the application is done as two single settlors, the survivor will be able to benefit from growth on the deceased's trust.

A joint settlement will mean that on first death, the survivor will not be able to benefit from any growth on the trust. It should also be noted that on first death, the balance of the deceased settlor's loan does not automatically transfer to the survivor – provisions must be made in Wills for this to happen.

Dealing with the loan on death. The loan outstanding on the death of the settlor will be included in their estate for IHT. At the time of creating the trust, settlors should consider who is to have the right to the remaining loan.

The right to the loan could be left to someone else or waived in favour of the trust itself.

If leaving to another individual, the settlor should make provisions in their Will. If left to a spouse or civil partner, the spousal exemption will apply and there will be no IHT.

If it is to be gifted or 'waived' to the trust, this can be accommodated on the trust application at outset.



For more details on dealing with the outstanding loan on death see our Guide – **Loan trusts: options when dealing with the loan**

Trust registration. Trustees will be required to register their trust with the Trust Registration Service (TRS). If an offshore bond is the chosen tax wrapper, registration will also be required with the Central Register of Beneficial Ownership of Trusts (CRBOT) in Ireland.

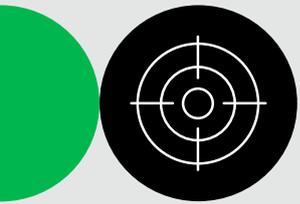
Considerations during the period in trust

Repaying the loan. The settlor can ask for full or part payment of the loan at any time. The trustees must withdraw money from the bond to make the repayment, and they can do this by either surrendering segments, making a partial surrender across all segments or a combination of both.

IHT on the trust. Discretionary and flexible trusts could be subject to 10-yearly periodic charges. This will be calculated on the value of the loan trust after deduction of the outstanding loan. Broadly speaking, this will be 6% on the value above the available nil rate band of the trust. However, the trustees must complete an IHT100 form if the value of trust before deduction of the loan exceeds 80% of the nil rate band (even if no IHT is due).

There could also be exit charges on any payments to beneficiaries after each 10-year anniversary if there was a periodic charge on that anniversary. There will be no exit charges in the first 10 years. Repayments of the loan to a settlor are not exits and will never suffer an IHT charge.

Keep records of loan repayments. It's important for the trustees and settlor to keep a record of loan repayments. If more than the amount loaned to the trustees is taken, it could lead to a gift with reservation and bring the entire trust value back into the estate. It should be noted that any regular withdrawals taken from the bond to pay ongoing adviser fees will not count as a repayment of the loan.



Loan Plan



Giving up the loan. If the settlor no longer needs access to the outstanding loan, they can give up the right to some or all of it – i.e. make a gift of the outstanding loan. There are two options for giving away the right to the loan.

- **Waive the right to the loan.** The settlor can give up the right to some or all of the loan in favour of the trust. Once the whole loan has been waived, all the assets will be held for the beneficiaries – effectively it continues as a Gift Plan.

This will be a transfer of value for IHT. For an absolute trust this will be a PET and for flexible and discretionary Trusts it will be a CLT.

- **Give the right to the loan to another person.** The right to the loan repayments can be given away, for example to a spouse or their children, allowing the recipient to have the same right to recall the outstanding loan.

This will generally be a PET for the settlor regardless of the type of underlying trust. Gifts of the loan to a spouse or civil partner will be covered by the spousal exemption.

Any chargeable gains which arise on repayment of the loan for flexible and discretionary trusts will continue to be assessed upon the settlor.

Example



Gifting the loan

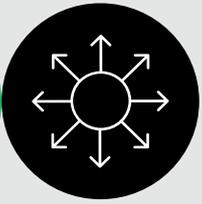
Peter loaned £1,000,000 into a discretionary Loan Trust several years ago. His financial situation has now changed, and he no longer requires the loan to be repaid. He would like to give up the loan now and save IHT on his estate on death.

If Peter gives up the loan into trust, this will be a CLT of £1,000,000 and will attract a lifetime IHT charge of 20% on the excess above the NRB. Broadly this could be $(£1,000,000 - £325,000) @ 20\% = £135,000$.

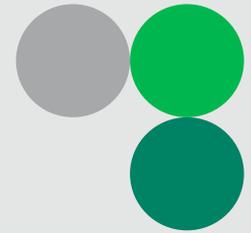
Another option is for Peter to assign the right to the loan to an individual, say family member. This would be a PET and therefore no lifetime IHT and a saving of potentially £135,000.

Both options will mean the £1,000,000 value will be outside of Peter's estate after seven years.





Discounted Gift Plan



Overview

The client will decide on the amount they wish to transfer and the amount of fixed income they require annually for their lifetime. This is known as the 'retained payment' (or retained interest).

The discount received depends on the client's age and health and the amount of 'income' they need. The discount reduces the value of the transfer made for IHT. The discount offer will be made following underwriting. If acceptable, the plan can go ahead, and cash will be transferred to the trustees to purchase a bond.

Clients can choose from an absolute, flexible or discretionary trust depending on their wishes and circumstances.

Example



Discounted Gift Plan

Joe gifts £500,000 into a discounted gift plan (discretionary) and retains a right to £20,000 'income' each year. Following underwriting to determine Joe's life expectancy, it is estimated that the market value of future payments Joe will receive throughout his lifetime is £200,000.

This means the amount Joe has given away for IHT is £300,000. As he has not made any earlier gifts, there is no immediate IHT charge.

If Joe dies within seven years of setting up the trust, then only £300,000 (and not £500,000) would be included in his estate. Any growth would be outside his estate from day one. The potential tax saving due to the discount could therefore be up to £80,000 (£200k x 40%).

If Joe dies after seven years, then the whole £500,000 is outside his estate.

In summary, Joe benefits from:

- an immediate saving in IHT due to the discount of £200,000
- no IHT if he survives the gift by seven years
- a 5% tax deferred allowance on the bond based on £500,000. The £20,000 annual income represents only 4%, and on this basis, there will be no chargeable events and therefore no income tax for 25 years.

Initial considerations

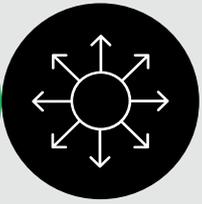
Type of trust to use. How much control and flexibility does the client wish to have with regards to paying benefits. Maximum flexibility and control will be achieved with a discretionary trust. This is only important after the death of the settlor and the retained right to income has ended as no payments can be made to beneficiaries until then.

Investment choice. This is also a straight choice between onshore and offshore bonds. The key consideration is the likely tax position of the beneficiaries if the bond or segments are to be assigned to them in the future.

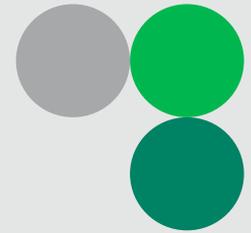
Offshore bonds benefit from gross roll up so will provide a higher like for like return before tax. If it may be possible to assign to a beneficiary who may be a non-taxpayer, some of the gains can be extracted tax-free.

Onshore bonds will pay corporation tax on income and gains within the fund. A 20% non-reclaimable tax credit is available to the beneficiary to reflect the tax already paid.

Level of retained income chosen. The client must choose a fixed annual amount they wish to receive. This can be taken monthly, quarterly, six monthly or annually by part surrender across all segments of the bond.



Discounted Gift Plan



Typically, clients will ask for an income of 5% or less so that there are no chargeable event gains each year, but any adviser fees taken by part surrender will be included in this. If there are any chargeable event gains on these regular withdrawals, they will be assessed on the settlor (even for absolute trusts).

Amount to be gifted. Clients can only have the retained income requested. This will be fixed at outset and can't increase or decrease. If they think they may need access to larger amounts in future, they may wish to limit the amount gifted, or perhaps set up a Loan Plan in conjunction with the Discounted Gift Plan. Once the trust has been established it cannot be cancelled.

Upfront IHT charge. The amount gifted for IHT will be the value transferred to the trustees less the discount given. If using an Absolute trust, the value of this gift will be a PET with no immediate charge and no charge at all when the gift becomes exempt after seven years.

There could be an immediate lifetime IHT charge on gifts into discretionary or flexible trusts if the gift after the discount is greater than the client's NRB. This may mean some clients will restrict the amount transferred such that the gift after discount is less than their NRB.

Joint settlement or two single settlements? Discounted Gift Plans (DGP) may be set up on a single or joint settlor basis (for spouses and civil partners only).

The right to the retained payments on a joint settlor Discounted Gift Plan will typically continue at the full amount after the first settlor's death. The survivor will not be able to access any capital from the trust.

Joint discounts are calculated based upon combined life expectancy, that is, on the probability of both settlors dying. The discount is not appointed equally but split based upon each settlor's own life expectancy. This may give a slightly different overall discount compared with two single settlor Discounted Gift Plans and will depend upon individual circumstances.

If two single settlor Discounted Gift Plans are chosen, the right to the retained payments on the deceased's trust will stop on first death. The survivor will however be a potential beneficiary of this trust as widow/widower and can benefit from the remaining trust fund in full should it be required. This will not be a gift with reservation.

Trust registration. Trustees will be required to register their trust with the Trust Registration Service (TRS).

If an offshore bond is the chosen tax wrapper registration will also be required with the Central Register of Beneficial Ownership of Trusts (CRBOT) in Ireland.

Considerations during the period in trust

Payments to a beneficiary. The trustees cannot make any payments to a beneficiary while the settlor is alive.

Death of the settlor. On the death of the settlor (or both settlors if the plan is on a joint settlor basis) the right to the retained income ends and the whole trust fund is held by the trustees to manage in the best interests of the beneficiaries. There is no transfer of value for IHT from the settlor to the trust when the right to retained income ends. The trustees can continue with the investment until such time as they wish to make payments to the beneficiaries.

Tax on payments to beneficiaries after death of settlor – absolute trust. Withdrawals made by trustees resulting in a taxable gain (income tax) will be assessed on the beneficiary. There is no 'exit' charge for IHT.

Tax on payments to beneficiaries after death of settlor –discretionary/flexible trusts. Bond withdrawals made by trustees resulting in a taxable gain will be assessed on the settlor(s) if the chargeable event happens in the same tax year as the settlor's death. Chargeable event gains in any tax year after the year of death will be taxed at the trust rate. In this case, there will be no top-slicing relief, and the tax rate will be 45%. This is the only time trustees would need to complete a tax return for the gains. The payment will be regarded as an exit for IHT and could result in a charge.

Alternatively, they could assign the bond to a beneficiary and any gains will be assessed upon the beneficiary with top slicing relief available when they choose to surrender.

IHT charges on the trust. Both discretionary and flexible trusts are regarded as 'relevant property' trusts. This means that there may be a charge at each 10-year anniversary and each time money is paid or policies assigned.

The value of the trust at the 10-year anniversary will be discounted if a settlor is alive. This reflects the fact that 'income' will still be paid out for the remainder of settlor's lifetime and so reduces the notional value transferred for IHT. If this value is less than the NRB available to the trust, the charge will be zero but will still need to be reported on the IHT100 if it is more than 80% of the NRB available to the trust.



Investment wrapper choice

Our estate planning solutions offer a choice of investment tax wrappers.

Gift Plan	Loan Plan	Discounted Gift Plan
Offshore bond	Offshore bond	Offshore bond
Onshore bond	Onshore bond	Onshore bond
Personal portfolio		

Investment bonds are non-income producing which makes them a perfect investment choice for trustees. **Income and gains roll up within the plan.** This means there are no income or capital gains for the trustees to report and pay tax on each year.

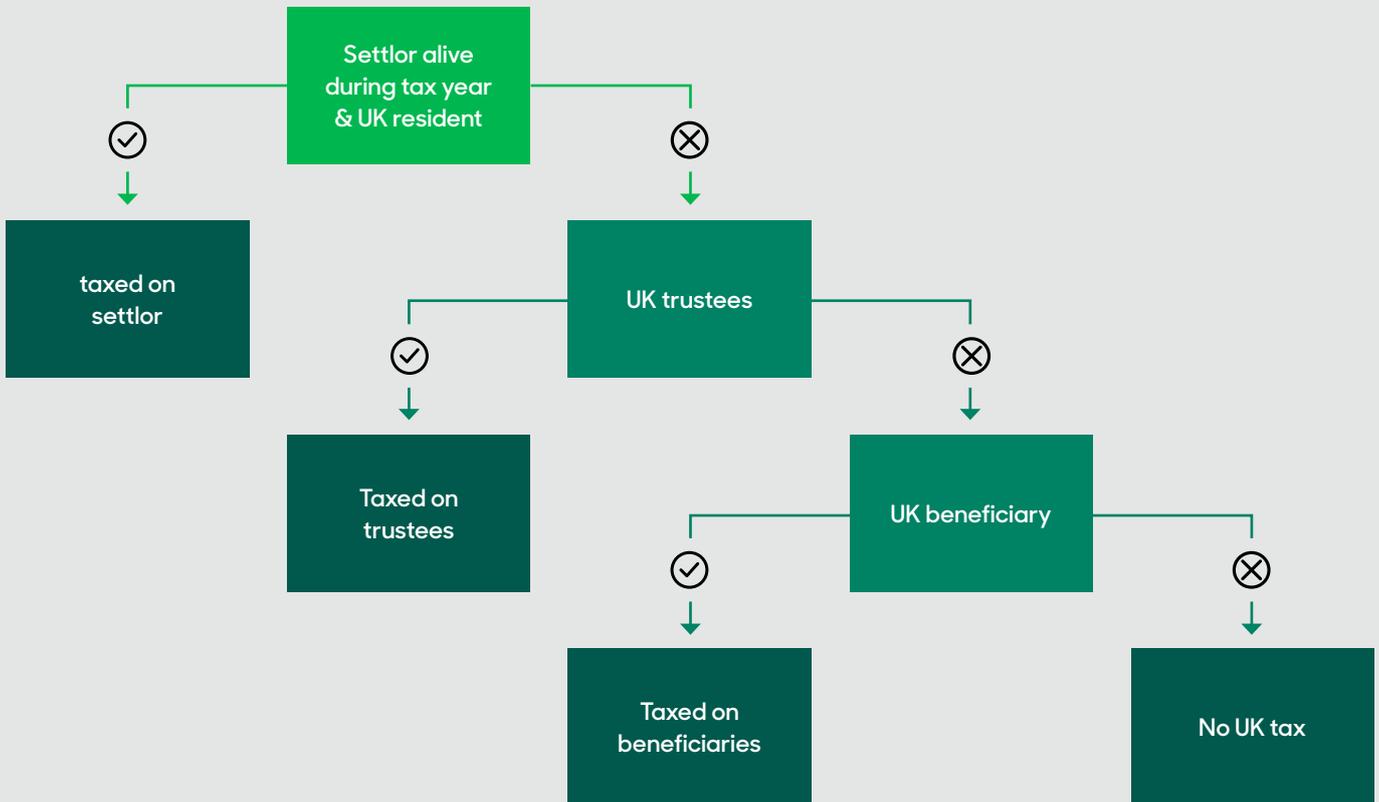
Income tax may only be due when there is a chargeable event on the policy on surrender (or on the death of the last remaining life assured) or if withdrawals are taken more than the 5% cumulative allowance.





Investment wrapper choice

The diagram below illustrates who is assessable upon chargeable gains on a bond held in trust.

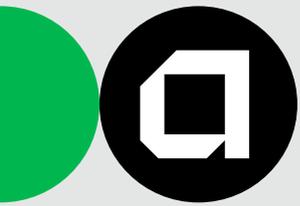


When the trustees wish to distribute trust capital to a beneficiary, bond segments can be assigned to a beneficiary without creating an income tax charge on the trustees or settlor. Any chargeable gains will then be assessed upon the beneficiary with top slicing relief available when they choose to surrender the bond.

Offshore bonds don't suffer any UK tax within the bond and enjoy gross roll up. Chargeable gains are treated as savings income and non-taxpaying beneficiaries may escape tax on any gain which falls within their personal allowance, starting rate for savings or personal savings allowances. That means a beneficiary with no other income could take up to £18,570 (2025/26) in chargeable gains each year tax-free.

Onshore bonds pay corporation tax on income and gains within the bond. Chargeable gains are paid with a 20% tax credit to reflect the tax already paid within the fund. However, the tax credit is non-reclaimable meaning non-taxpayer beneficiaries may have paid tax unnecessarily.

A personal portfolio may be suitable where income may be required. For example, to provide an income to the beneficiary of a flexible trust or to make use of non-taxpaying beneficiaries annual income tax and CGT allowances under an absolute trust.



Why choose Aberdeen Wrap?

Support your estate planning with Aberdeen Wrap

One of the most comprehensive platforms on the market, Aberdeen Wrap can help advisers to create and manage effective estate planning strategies for clients so they can protect and pass on their legacy.

Choosing Wrap means advisers can more easily help clients to reduce IHT liability and manage wealth transfer to the next generation with our suite of estate planning solutions.

From the Wrap Onshore Bond and Wrap International Portfolio Bond as part of packaged solutions to a full suite of investment wrappers, our valuable support is designed to help clients preserve their wealth, provide lifetime access to assets and simplify probate.

Aberdeen Wrap's range of trust options are:

Discretionary: Allows the client to indicate who they would like to benefit from their wealth but the trustees have the final choice.

Absolute: The client specifies the beneficiaries when the trust is first established. These beneficiaries can't be changed by the trustees.

Flexible: Allows the trustees to choose who benefits from the beneficiaries defined in the Trust. At the outset, the client will specify a main beneficiary or beneficiaries. They are entitled to any income (i.e. interest in possession) and will benefit if the trustees don't make any choice about the trust fund.

Packaged solutions such as Loan Plans and Discounted Gift Plans are also ways to reduce IHT and are available to your clients on Aberdeen Wrap.

The plans Aberdeen Wrap offer are:

Discounted Gift Plan: Designed for clients who want to reduce the value of their estate and potential IHT liability but want to continue to receive fixed withdrawals from these assets during their lifetime.

Gift Plan: Wrap's Gift Plan is designed to help your clients reduce their IHT liability by making a gift.

Loan Plan: Designed to help your clients reduce their IHT liability without giving up access to assets.

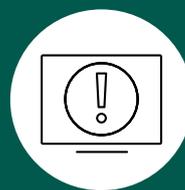
Choosing Aberdeen Wrap means more value for your clients...

Aberdeen Wrap's competitive charging reinforces our commitment to deliver for advisers as well as enhancing client outcomes. The platform's tiered pricing means clients benefit from the fairest charge based on their accumulated portfolios.

...and helps to demonstrate the value of your advice

Now more than ever, the support of an adviser will be vital to help more clients understand the range of estate planning solutions available to meet their needs and reduce IHT liability.

Aberdeen Wrap brings together the tools and insights to help advisers navigate recent estate planning changes and deliver the reassurance and peace of mind their clients are looking for.



Let us show you how Aberdeen Wrap can support your business and your clients by **booking a meeting with our expert team.**

Prefer to **email us?**

For more information visit aberdeenadviser.com

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