Strength through choice

Overview of the Discounted Gift Scheme Discretionary Trust

What is the Discounted Gift Scheme?

The scheme is designed for people who wish to reduce the potential inheritance tax (IHT) liability on their estate, by making a lifetime gift into a trust while at the same time, the person (called the 'Settlor') retains the right to receive fixed regular payments at specified intervals from the gift. The gift may be discounted for IHT purposes.

Setting up the Discounted Gift Scheme with a Discretionary Trust

The Settlor sets up a Discounted Gift Discretionary Trust and makes a gift of money to the Trustees.

The Trustees invest the gift of money into a Discounted Gift Portfolio Bond.

Discounted Gift Discretionary Trust creates two sets of rights:

Retained rights (the Settlor's rights under the Trust)

- The Trustees provide fixed regular payments from the Bond, at specified intervals;
- These payments are actuarially calculated (based on the Settlor's age, gender and amount and frequency of the regular payments);
- These regular payments will be made during the Settlor's lifetime, or until the value of the Bond is exhausted, whichever comes first;
- These rights are described as the 'discount'; and
- The discount is immediately outside the Settlor's estate for IHT purposes.

Beneficiaries' rights under the Trust

- This is the cash gift less the 'discount';
- Represents the part of the gift for IHT purposes and for the benefit of one or more beneficiaries;
- This is called the 'discounted gift' and is a chargeable lifetime transfer (CLT); and
- If this CLT, plus all CLTs made by the Settlor in the seven years prior to setting up the trust, exceeds the NRB applicable at the time the trust is created, IHT will be due on the excess value of the discounted gift at the lifetime rates.

How can the Discounted Gift Scheme help your clients?

- It provides IHT planning for people who can sacrifice access to their capital, but don't want to give up the 'income' it generates.
- Provides the potential for an immediate reduction in the value of the Settlor's estate for IHT purposes.
- The entire cash gift will be outside the Settlor's estate for IHT purposes after seven years.
- Any growth on the Bond will immediately be outside the Settlor's personal estate.
- It provides the right to receive fixed regular payments at specified intervals for life or until the value of the Bond is exhausted, whichever comes first.
- The trust fund can pay any IHT or income tax charges that are attributable to the trust fund.
- Provides the ability to take regular payments of up to 5% a year of the original investment amount cumulatively (up to a maximum of 100% of the original investment) without any immediate income tax charge. Full or partial surrenders by the Trustees to meet specified trust expenses will reduce the amount of regular payments that can be taken without incurring an immediate income tax charge.
- After the Settlor's death, the Bond in the trust fund will be held for the benefit of their beneficiaries.

This document should be read in conjunction with the Discounted Gift Scheme Technical Guide.

All the growth in the value of the Bond in the trust is outside the Settlor's estate for IHT purposes, as long as it does not exceed the nil rate band (NRB) at each 10 year anniversary, starting from the date the trust was set up.

Legal & General

Important information

A General Practitioner's Report (GPR) is obtained for the Settlor with every application for the scheme. This is so that we can make an assessment of their health and calculate a value for the 'discount'. Whilst there can be no guarantee that HMRC will not challenge the Discounted Gift Value of the Investment, we are committed to ensuring that our procedures are robust enough to protect our customers' expectations and defend the adviser's position as far as possible. We believe that obtaining a GPR for the Settlor is the best method to ensure this.

The Discounted Gift Portfolio Bond has no fixed term, but should be held for the longer term, that is at least five years. The value of the bond can fluctuate, is not guaranteed, and customers may not get their full money back. Regular payments to the Settlor for their lifetime are dependent on the level and duration of the payments, as well as the assets available within the bond, so they cannot be guaranteed.

Details of the general tax position and the risks involved with setting up a Discounted Gift Scheme are included within the Discounted Gift Scheme Key features.

To find out more about our IHT planning solutions, talk to your usual Legal & General representative, call 0845 273 0008 or visit www.legalandgeneral.com/IHTpromotions

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