**SCENARIO**

- Want to gift to reduce Inheritance Tax liability on death.
- Want to provide a deposit for a beneficiary's house purchase (See Technical Sheets 14.1 & 14.2).
- Want to make provisions whilst alive for children and/or grandchildren.

**GIFTING OPTIONS:**

1. **'ABSOLUTE' GIFT (POTENTIALLY EXEMPT TRANSFER)**

   - The gift is at risk from the recipient’s future divorce/separation, creditor/bankruptcy claims, care fees and Inheritance Tax.
   - The donor of the gift has no control over the gift once it has been made.
   - To be IHT efficient the donor cannot then benefit from the gift made. Otherwise the gift would be a gift with reservation of benefit (GWROB) and not efficient for the clients IHT planning.
   - Need to survive 7 years from making the gift for the gift to be out of the estate for IHT.
   - Pending the gift value it will utilise part/all of the donors Nil Rate Band (NRB).
   - The gift is a Potentially Exempt Transfer (PET).

   - The gift would be a ‘disposal’ from the donor. Pending the asset type that is gifted, the gift could be subject to Capital Gains Tax (CGT). Gifting ‘money’ would not create CGT.

   - If the gift generates income (rental income) then Income Tax would apply. The donor could not benefit from the income to be IHT efficient. (The donor would be maintaining a benefit of their gift).
2. FAMILY GIFT TRUST. GIFTING ‘MONEY’

**STEP 1**
Single Settlor Family Gift Trust established

**STEP 2**
Trustees establish Trustee Bank Account

**STEP 3**
Trustees could loan and/or Invest Trust Assets

**£10**

Settlor is ‘specifically excluded’ as a beneficiary from the Trust

**£**

The Settlor transfers the ‘gifted’ monies to the Trustee Bank Account

**Children**

**BENEFITS OF SETTLING THE ‘GIFT’ TO TRUST:**

- The Settlor (the donor of the gift) of the Trust can maintain control of the gift by being a Trustee of the Trust as well. (It is recommended to have more than 1 Trustee).
- By the use of non-commercial ‘loans’ the Trust provides the maximum protection from the beneficiary’s remarriage, divorce/separation, creditor/bankruptcy, long term care fees and their IHT.
- Trust Funds can be managed by the Trustees for minor beneficiaries.
- If used to fund new property purchases and/or mortgage repayments, then the Trustees can secure the loan on the property to maintain the protection of the Trust Funds. (See Technical Sheets 14.1 & 14.2).

**WHEN MAKING A GIFT TO TRUST FOR IHT EFFICIENCY**

- The Settlor is ‘specifically excluded’ from being a beneficiary of the Trust.
- The Settlor needs to survive 7 years from making the gift for it to be out of their estate for the calculation of their IHT. (Does the Settlor need to consider a 7 year level term assurance assigned to Trust? See Technical Sheet 8).
- The gift will utilise part/all of the Settlors Nil Rate Band (NRB).
- The gift to Trust is a Chargeable Lifetime Transfer (CLT) so to avoid any immediate tax charge at half the death rate (20%) the total of all settlement to Trust during the NRB should be restricted to less than the NRB.

**ADDITIONALLY IF THE GIFT IS NOT ‘CASH’, E.G. LAND/PROPERTY OR SOME INVESTMENTS:**

- If the gift generates income (rental income) then Income Tax is also a consideration. The Settlor couldn’t still benefit from the income to be IHT efficient. Any income generated would be Trust income and would need to be managed by the Trustees. Strongly consider appointing Professional Trustees to assist. (See Professional Trustee Sales Aid 12).
- The gift would be a disposal for Capital Gains Tax. (CGT). (See Family Holdover Gift Trust Technical Sheet 25)

3. RECIPROCAL GIFT TRUST

**Spouse 1**

Up to NRB

**Family Gift Trust**

Up to NRB

**Spouse 2**

Up to NRB

**Family Gift Trust**

Up to NRB

- Ideally all gifts would be recommended to be individual rather than a ‘joint’ gift.
- However there is nothing to prevent both spouses gifting up to the NRB to their own Gift Trust(s). (See Multiple Trusts Technical Sheet 22).
- With such planning, the Trusts need to be carefully managed to ensure the Settlor does not benefit from their own Gifts. Strongly consider appointing Professional Trustees to assist.

Please consider the information in Technical Sheet 22 to understand whether using Multiple Trusts may be applicable to your circumstances.

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