

FOR FINANCIAL ADVISERS ONLY.

# LIFESTYLE TRUST



A WEALTH *of* DIFFERENCE

utmost<sup>™</sup>  
WEALTH SOLUTIONS

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### SUMMARY

UTMOST INTERNATIONAL ISLE OF MAN  
LIMITED'S LIFESTYLE TRUST CAN BE USED  
WITH THE FOLLOWING BONDS:

- › A former Quilter International Isle of Man Limited or Quilter International Ireland dac life assurance policy (written on life of another only) or capital redemption bond.
- › New or existing Utmost International Isle of Man Limited or Utmost PanEurope dac policies written on a capital redemption basis only.

# GLOSSARY

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**Available nil-rate band** - The value of the nil-rate band minus any previous chargeable lifetime transfers made by the Settlor in the last 7 years.

**Bare trust** - A trust where the beneficiaries are named at outset and cannot be changed at any time in the future. At age 18 the beneficiary can demand their share of the trust fund.

**Beneficiary** - Someone who will or may benefit from a trust fund.

**Chargeable event** - A liability to income tax may arise if a chargeable event occurs. A chargeable event for a non-qualifying policy arises on:

- a. death of the relevant life assured,
- b. partial withdrawals across a whole policy or bond which exceed the 5% per annum allowance,
- c. maturity or surrender of a policy.

**Chargeable lifetime transfer** - A transfer of value which is made by an individual and is not an exempt or potentially exempt transfer. If the transfer exceeds the available nil-rate band of the transferor then a charge of 20%<sup>1</sup> on the excess is payable (grossed up to 25% if paid by settlor). A transfer into a discretionary trust is a chargeable lifetime transfer.

**Discretionary trust** - A trust that your client, the Settlor, creates by means of a gift and to which beneficiaries can be added. The trustees use their discretion to decide who may benefit from the trust and when. The beneficiaries cannot demand benefits from the trustees.

**Estate** - All the assets that a person owns, in full or part, at the time of their death.

**Exit charge** - If an entry charge or 10-yearly periodic charge has given rise to a tax charge, an exit charge will be paid on any distributions made by the trustees out of the trust fund. The rate charged is dependent on the entry and 10-yearly periodic calculations but can never be greater than 6%.

**Nil-rate band** - The value of an individual's estate that is not chargeable to UK inheritance tax (IHT). The amount is set by the Government and is currently £325,000, which is frozen until 5 April 2028.

**Periodic charge** - Every ten years the value of the trust, less the available nil-rate band, will be assessed for IHT at a maximum rate of 6%.

**Policy Fund** - A group of individual policies which the Settlor has asked to be entitled to at a pre-defined future date - the Vesting Date.

**Potentially Exempt Transfer (PET)** - Some gifts are considered as PETs and are not liable to immediate IHT. These can be outright gifts, or gifts into bare trusts. After seven years the PET will fall outside your client's estate for IHT purposes. However, should your client die within seven years, the PET will become chargeable and IHT will be due at 40%<sup>1</sup> on the gift amount after deduction of any available nil-rate band.

**Second schedule** - The Lifestyle Trust deed is a document which includes four sections known as 'schedules', in which the provisions of the trust and its management are detailed. The Second Schedule is where the Settlor specifies the future entitlements they will receive and when they will be able to access them.

**Settlor** - The Settlor is the person or persons who sets up the initial investment. The Settlor(s) transfers the ownership of the assets to their chosen trustees.

**Trustee(s)** - The person/people/firm to whom the Settlor transfers the trust assets and who administer the trust. The Settlor, or their spouse or civil partner, is not able to be a trustee. Where a trust corporation is not being appointed, it is recommended that at least two Trustees are appointed at the outset.

**Vesting Date** - The date on which the Settlor becomes entitled to a Policy Fund.

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<sup>1</sup> Taper relief may reduce the tax due.

# INTRODUCING THE LIFESTYLE TRUST

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This brochure describes how a Lifestyle Trust can provide tax-efficient benefits for your clients and those they care about.

## FLEXIBILITY

The Lifestyle Trust is designed to help clients achieve their required balance between access to capital, inheritance tax planning and control over the eventual distribution of assets, whilst giving them a certain amount of flexibility in the future.

## ACCESS

The Lifestyle Trust allows your clients access to their wealth by taking payments on pre-determined dates – or to defer or waive those payments if they decide they don't need the money when the payment becomes available.

## ABOUT US

Utmost International is a leading provider of insurance-based wealth solutions through its Utmost Wealth Solutions business, and provides employee benefit products through its Utmost Corporate Solutions business. Utmost International operates across the UK, Europe, Latin America, Asia and the Middle East. Its wealth management solutions are based on unit-linked insurance policies. Utmost International manages c. £52bn (c. €58bn) assets under administration as at 31 December 2022.

Utmost International's solutions are designed to preserve our clients' assets and safeguard them for future generations. Our propositions provide effective and reliable solutions for clients who wish to control the wealth they have accumulated and manage the proceeds when planning succession.

For more information about Utmost International and Utmost Group please visit [www.utmostinternational.com](http://www.utmostinternational.com).

# WHAT IS A TRUST?

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A trust allows an individual ('the Settlor'), to transfer money out of their estate ('the gift') and entrust it to 'the trustees' they have chosen. This gift becomes the 'trust fund'. The responsibility of the trustees is to manage the trust fund for the benefit of 'the beneficiaries'.

## THERE ARE TWO MAIN TYPES OF TRUST - DISCRETIONARY TRUSTS AND BARE TRUSTS.

A discretionary trust, such as the Lifestyle Trust, has flexibility as to who can potentially benefit. Generally there is a class of beneficiaries specified, typically groups of people such as grandchildren or other family members. No beneficiary is entitled to any benefits until the trustees exercise their discretion to provide benefits for a particular beneficiary. The potential beneficiaries therefore have no control over if or when they might receive anything from the trust fund.

A bare trust has named beneficiaries who cannot be changed and who become absolutely entitled to the trust property at age 18. The trustees on a bare trust have no discretion over if or when the beneficiaries will receive their benefits.

## THE LIFESTYLE TRUST

The Lifestyle Trust is a discretionary trust. It is a tax-efficient<sup>2</sup> solution for leaving wealth to future generations. Any growth on the gift into the trust is immediately outside the Settlor's estate for inheritance tax purposes and, if they survive for seven years after the gift is made, its original value will not be liable to inheritance tax.

## WHO IS THE LIFESTYLE TRUST SUITABLE FOR?

### A client who:

- › requires potential access to their gift into the trust
- › requires flexibility over how they access it
- › requires control over who benefits from their wealth and when
- › is concerned about the IHT position of their estate and wants to take action.

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<sup>2</sup> The value of any tax relief will depend on the client's individual circumstances and may change.





# HOW THE LIFESTYLE TRUST WORKS

The Lifestyle Trust has been designed to help reduce potential inheritance tax liability while also providing the Settlor with as much flexibility as they may require in respect of future payments from the trust fund. It is effectively split into two elements:

- › The discretionary trust that lets the Settlor pass on some of their wealth tax-efficiently to their chosen beneficiaries
- › The Settlor's interest (in the form of access to a pre-agreed series of payments, (referred to as 'entitlements')

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## INVEST IN A SINGLE PREMIUM BOND.

The client invests in a single premium bond from Utmost International Isle of Man Limited or Utmost PanEurope dac<sup>3</sup>, with the intention of achieving long-term capital growth.

Single premium bonds are issued as a series of individual policies. This allows greater flexibility and tax-efficiency when taking withdrawals. For example, an investment of £100,000 could on request be held as 100 policies, each policy worth £1,000 at outset<sup>4</sup>. With the Lifestyle Trust, it is usually more efficient to request the largest multiple of policies as possible. This needs to be requested at the bond application stage.

Neither the Settlor nor the Settlor's spouse should be included as lives assured.

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## TRANSFER THE BOND TO THE TRUST.

Once a bond has been set up, a request is made to gift it into a Lifestyle Trust and legal ownership is transferred from the client to the trustees.

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## SPECIFY YOUR ENTITLEMENT SCHEDULE.

At this stage the client will be required to specify how they wish the schedule of future entitlement payments to work. You should discuss with your client how best to structure this part of the trust deed, known as the 'Second Schedule'. (Please see 'The Settlor's interest in the entitlements' on page 9 and our illustrative example on page 12).

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## CONSIDER WRITING A LETTER OF WISHES.

The bond then forms the trust fund. The trustees have discretion to decide whether potential beneficiaries will benefit from the trust fund and when. The Settlor can decide to complete a 'letter of wishes' addressed to the trustees to give them guidance to take into account when making future decisions about the trust. The letter of wishes is not legally binding.

Apart from their interest in the 'entitlements', the Settlor cannot benefit from the Lifestyle Trust in any other way.

<sup>3</sup> Product selection varies per region

<sup>4</sup> There may be limits to the number of policies available on some products.

## THE SETTLOR'S INTEREST IN THE ENTITLEMENTS

At outset, the Settlor can specify what future entitlements they will have under the trust fund and when they will receive them. The trust allows the Settlor the flexibility to determine the size of each entitlement as well as the frequency of the entitlements, i.e. it is not required to be each and every year and not limited to one a year. See example in the table below.

The example table below, that can be found in the second schedule of the Lifestyle Trust deed, specifies the settlor's entitlements.

POLICY NUMBER(S)	TOTAL NUMBER OF POLICIES	YEAR OF ENTITLEMENT	POLICY FUND
1-5	5	2021	A
6-12	7	2022	B
13-20	8	2023	C
21-24	4	2024	D
25-30	6	2025	E

Each agreed entitlement is held within the Lifestyle Trust as a series of policies in what are known as 'Policy Funds'.

The trust gives the Settlor the flexibility to adapt to changing circumstances. As their needs change, they can adapt their entitlements accordingly by delaying them or waiving them entirely.

The Settlor can also choose to set up more than one Policy Fund for any year so as to increase their options in the future. For example, they could have two Policy Funds in a year, one of which they receive and another which they defer to a future date.

### Entitlement options

Once the Settlor has defined the Policy Funds, they have two choices prior to the date they become entitled to receive them (the 'vesting date'):

1. Defer the vesting date.
2. Allow it to reach the vesting date.

Before the vesting date the trustees have the power to 'defeat' the Settlor's interest and appoint benefits to the beneficiaries, thereby reducing or removing the Settlor's entitlement. For example appointing policies 1-5 to one of the beneficiaries.

Once the Settlor becomes entitled to the relevant Policy Fund on the vesting date, the trustees will hold the policies in a bare trust for the Settlor.

They then have three options:

1. Decide to do nothing; in which case the policies remain invested in the name of the trustees for the benefit of the Settlor; or
2. Surrender the individual policies that make up the Policy Fund and pay the Settlor the money; or
3. Assign the individual policies that make up the Policy Fund to the Settlor. The Settlor can then re-assign the policies to someone else, such as a member of their family, or surrender the policies themselves at a later date.

The Lifestyle Trust is a discretionary trust and may be subject to periodic and exit tax charges. (Please see the glossary on page 4.)

## IMPORTANT INFORMATION

### Tax considerations when taking entitlements

The surrender of policies which make up a policy fund is considered a chargeable event in the UK. Any gain made on the policies surrendered are potentially liable to income tax depending on your client's other income in the year of surrender. You should review any potential surrender instruction with your client to ensure they understand the tax consequences.

# THE INHERITANCE TAX TREATMENT OF THE LIFESTYLE TRUST

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## LUMP SUM PAYMENTS INTO THE LIFESTYLE TRUST

Assigning the ownership of the bond from the Settlor into the trust will be treated as making a gift for inheritance tax (IHT) purposes. As the trust is a discretionary trust, this will be a chargeable lifetime transfer (CLT) unless any exemptions are available to cover some of the gift.

Any CLT into the Lifestyle Trust which would cause the Settlor to exceed their available IHT nil-rate band (NRB)<sup>5</sup> must be reported to HM Revenue and Customs (HMRC). The forms are available at [www.gov.uk/government/collections/inheritance-tax-forms](https://www.gov.uk/government/collections/inheritance-tax-forms)

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<sup>5</sup> Available NRB is the current allowance, £325,000 (frozen until 2026) minus any CLTs made in the 7 years prior to the gift.

#### WHEN THE SETTLOR RECEIVES THEIR ENTITLEMENT

The Lifestyle Trust is designed so there should be no immediate IHT liability for the Settlor when they receive their entitlement to the Policy Fund. However, once the Policy Fund vesting date has passed, then the value of that Policy Fund will form part of the Settlor's estate for IHT purposes.

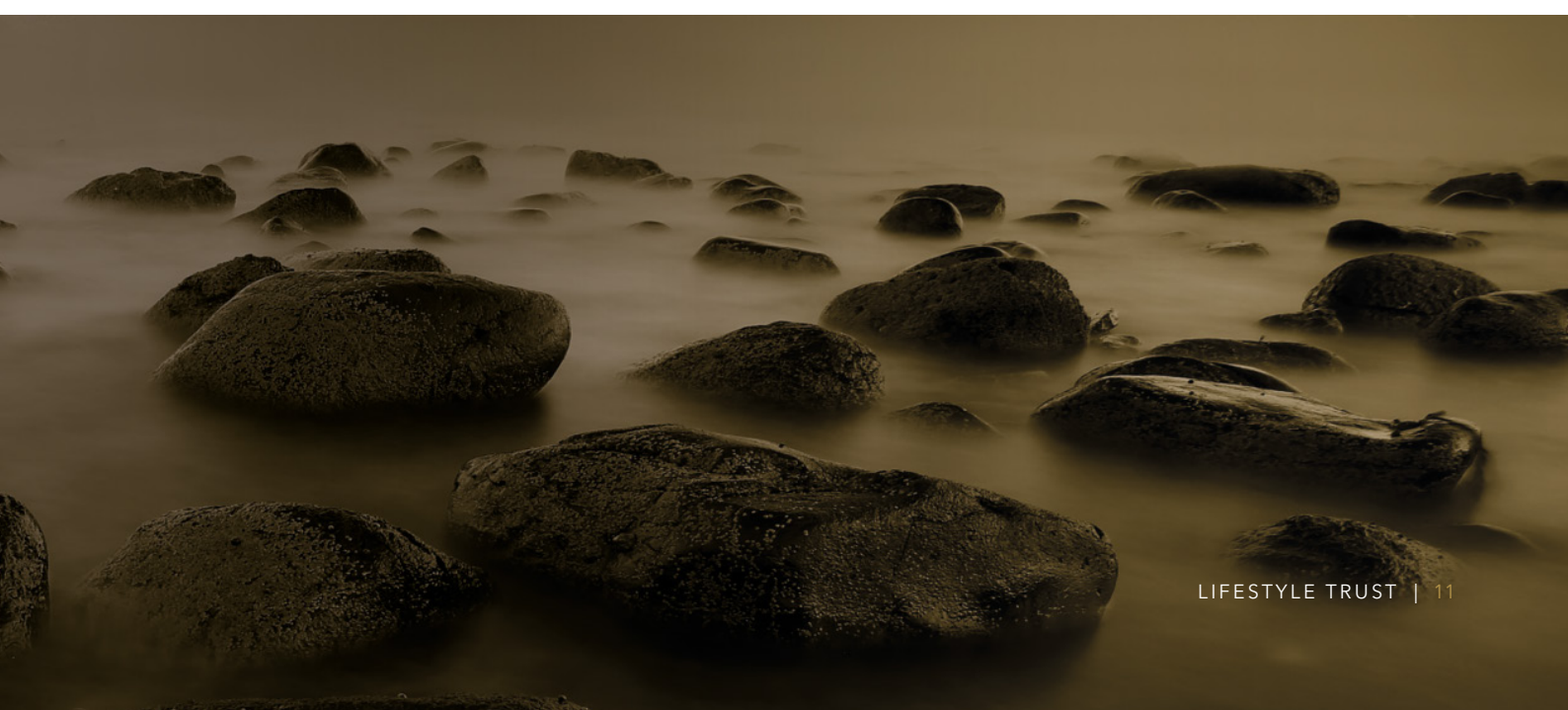
#### WHEN THE SETTLOR DIES

One of the conditions for receiving an entitlement to the Policy Funds is that the Settlor is alive on the date they become entitled to receive them. If not, the value of the Policy Funds that are yet to be vested will be outside the Settlor's estate for IHT purposes assuming seven years have passed since the original gift was made.

#### DISCRETIONARY TRUST TAXATION

**Discretionary trust taxation can be complex, but in summary:**

- › A chargeable lifetime transfer charge may arise on setting up a trust but only if the amount being settled exceeds the Settlor's available nil-rate band;
- › A periodic charge may arise every 10 years; and
- › An exit charge may arise when benefits leave the discretionary trust. This does not include benefits that the Settlor receives as entitlements. However, if the trustees make a payment to a discretionary beneficiary, this may be subject to this charge.



# THE LIFESTYLE TRUST IN ACTION

Having considered Mrs Stone's needs and attitude, her financial adviser recommends that she invests into a bond issued by Utmost International Isle of Man Limited or Utmost PanEurope dac<sup>6</sup> which is settled into a Lifestyle Trust.

The trust does not oblige her to specify the names of her beneficiaries at outset so it can be used (for example) to benefit any grandchildren (current and future). It also means that she can limit her inheritance tax liability.

## SETTING UP THE TRUST

The gift into trust is £300,000 which is below the nil-rate band. Therefore, there is no immediate charge to inheritance

tax (under the CLT rules). Any growth will be immediately outside her estate for inheritance tax purposes. If she lives for seven years, there will be no further inheritance tax charge on her estate in respect of the £300,000 gift.

The bond, which was taken out on 6 July 2021, is segmented into 300 equal policies. Mrs Stone has specified in the trust documentation, how and when she wants the policies to revert to her. (See table on the next page.)

This case study is fictional and used purely to illustrate possible real-life scenarios. The value of investments can fall as well as rise and investors may not get back what they put in. Growth figures do not include bond charges.

### AN ILLUSTRATIVE EXAMPLE

**Mrs Stone is aged 55 and divorced. She is working full-time, has two children and three grandchildren.**

#### Assets

- › **House:** £800,000
- › **Savings and investments:** £500,000

#### Income

- › **Annual salary:** £100,000

#### Goal

- › To reduce her estate and inheritance tax bill

#### Amount to invest

- › Lump sum of £300,000. Does not require a regular income from it

#### Attitude

- › Reluctant to gift all £300,000 as may require access in the future

#### Gifting history

- › None

<sup>6</sup> Product selection varies per region

POLICY NUMBER(S)	TOTAL NUMBER OF POLICIES	YEAR OF ENTITLEMENT	POLICY FUND
1-5	5	2025	A
6-8	3	2026	B
9-15	7	2030	C

Note that not all policies need to be specified. Those that are not specified can never revert to the settlor and will be held by the trustees for the beneficiaries.

#### ACCESSING THE ENTITLEMENTS

Mrs Stone becomes entitled to Policy Fund A (which contains policy numbers 1-5) on the anniversary date of the policy in the specified year of entitlement (i.e. 6 July 2025) as she is intending to visit Brazil at this time.

The Policy Fund is held by the trustees who choose to surrender the policies and send the proceeds to Mrs Stone.

Mrs Stone inherits some money in late 2025, and therefore would like to delay when she becomes entitled to Policy Fund B. She writes to the trustees and requests a deferral until 2033.

Mrs Stone becomes entitled to Policy Fund C (which contains 7 policies 9-15) on the anniversary date of the policy in the specified year of entitlement (i.e. 6 July 2030) as she is intending to visit Australia at this time.

#### AFTER MRS STONE'S DEATH

If Mrs Stone dies aged 85, having lived more than seven years since creating the trust and having spent all the proceeds from the Policy Funds to pay for her adventures, including Policy Fund B, the value of the trust will be outside her estate for inheritance tax (IHT) purposes.

On Mrs Stone's death, taking into account the value of the Policy Funds which have also been paid to Mrs Stone over the last 30 years, the value of the remaining investment in this scenario would be £550,000. So, compared to Mrs Stone doing no IHT planning, she has saved  $£550,000 \times 40\% = £220,000$  (assuming the nil-rate band is used elsewhere).

The trustees are now free to distribute the trust fund to the potential beneficiaries at their discretion.

# UTMOST INTERNATIONAL TRUSTEE SOLUTIONS LIMITED - EXPERTS YOU CAN TRUST

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Utmost International Trustee Solutions Limited is one of the companies that make up Utmost International. It offers an independent trustee service that can help give you peace of mind that the assets of the trust will be dealt with in a professional and unbiased manner.

The services of Utmost International Trustee Solutions Limited are available with the Lifestyle Trust when you invest in a bond issued by Utmost International Isle of Man limited or Utmost PanEurope dac.

By appointing Utmost International Trustee Solutions Limited you and your clients do not have the dilemma of who to select as personal trustees; all decisions will remain objective and they will be kept in line with the aims of the trust.

## THE ADVANTAGES OF USING UTMOST INTERNATIONAL TRUSTEE SOLUTIONS LIMITED INCLUDE THE FOLLOWING:

- 1 All trust paperwork will be dealt with professionally so there is no need for a lay trustee to spend time understanding the terms of the trust and trust law when dealing with any paperwork. The trustees will liaise with the settlor prior to any entitlement date to understand their wishes with respect to any reversionary rights and balance this with the potential needs of the beneficiaries.
- 2 The trust assets will be held in an offshore location, which can provide a number of tax advantages.
- 3 Utmost International Trustee Solutions Limited is based in the Isle of Man so the trust assets are held in a well-regulated, politically and legally stable offshore jurisdiction.
- 4 A trustee account is included so there is no need for you to open a separate trustee bank account.



Please note that Utmost International Trustee Solutions Limited's service does not include tax or investment advice.

## TRUST REGISTRATION – IMPORTANT INFORMATION

Once the trust is set up, it may need to be registered. Failure to do so could result in a fine.

Under the EU's fifth money laundering directive (5MLD) a trust may be required to register, where it is deemed to be resident in a participating EU Member State, and in this context includes the UK despite no longer being part of the EU. This is generally driven by the residency of the trustees and the settlor, and the location of the trust's property or other business relationships.

Each country/EU Member State has its own rules regarding residency of a trust. For example, where the trustees are all UK resident, or there are some trustees UK resident and the settlor was both resident and domicile at the time of settlement, the trust will be deemed to be resident in the UK and is required to be registered with HMRC's trust registration service within 90 days of the declaration of trust. Where the policy forming the trust property is issued by Utmost PanEurope dac then the trust will also be required to register on the Irish register, the Central Register of Beneficial Ownership of Trusts

Further information regarding trust registration can be found in **'Your guide to the UK Trust Register'**.



# SUMMARY

The Lifestyle Trust could be right  
for your clients if they want to:

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reduce their inheritance tax liabilities

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leave their wealth, tax efficiently, to future generations

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fund a dream holiday or perhaps their grandchildren's education, by having  
access to trust fund 'entitlements' at pre-determined dates

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have the flexibility to defer accessing entitlements if circumstances change.

**This brochure deals only with the inheritance tax applicable to the Lifestyle Trust. Other taxes such as income tax which may apply to the Bond are addressed in the relevant product brochure.**

**This document is based on our interpretation of the law and HM Revenue & Customs practice as at October 2023.**

We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change. The value of any tax relief will depend on the investor's financial circumstances. Full details of the range of trusts and investment products available from Utmost International can be obtained from our website or from your usual sales consultant.

Investments may fall or rise in value and your client may not get back what they put in.

Neither Utmost International Isle of Man Limited nor Utmost PanEurope dac, or any other companies within the Utmost Group, accept any responsibility for any losses or liabilities arising from actions taken as a result of the information contained in this document.

## A WEALTH *of* DIFFERENCE

[www.utmostinternational.com](http://www.utmostinternational.com)

Calls may be monitored and recorded for training purposes and to avoid misunderstandings.

Utmost International Isle of Man Limited is registered in the Isle of Man under number 024916C.

Registered Office: King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 1NU, British Isles.

Tel: +44 (0)1624 655 555 Fax: +44 (0)1624 611 715. Licensed by the Isle of Man Financial Services Authority.

Utmost Wealth Solutions is registered in the Isle of Man as a business name of Utmost International Isle of Man Limited.

Utmost PanEurope dac (registered number 311420) is regulated by the Central Bank of Ireland.

Registered Office address: Navan Business Park, Athlumney, Navan, Co. Meath, C15 CCW8, Ireland.

Utmost PanEurope dac is a Category A Insurance Permit holder with the Jersey Financial Services Commission.

Utmost Wealth Solutions is registered in Ireland as a business name of Utmost PanEurope dac.

Utmost International Trustee Solutions Limited is registered in the Isle of Man under number 095926C.

Registered Office: King Edward Bay House, King Edward Road, Onchan, Isle of Man, IM99 3DJ, British Isles.

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Utmost Wealth Solutions is registered in the Isle of Man as a business name of Utmost International Trustee Solutions Limited.

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The rules made under the Financial Services and Markets Act 2000 (as amended) for the protection of retail clients in the UK do not apply

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