

Trust Selector



For professional advisers only. Not for distribution to retail clients.

The information contained in this guide is based on our understanding of current law, practice and taxation, which may be subject to change.

This document aims to help you select an appropriate trust for a client who is thinking about estate planning, and who currently invests using the AJ Bell Investcentre platform – or intends to do so. You can only decide if a trust is suitable for a particular client if you have full knowledge of their needs, objectives and personal financial and tax position.

The AJ Bell Investcentre Draft Trusts, along with the guidance offered in this Trust Selector and its accompanying notes, is intended for professional advisers only. AJ Bell Investcentre can't accept responsibility for loss of any kind resulting from the use of the Draft Trusts or any of the guidance provided in this Trust Selector and its accompanying notes.

The AJ Bell Investcentre Draft Trusts are only available for use with our GIAs. Each Draft Trust has its own adviser and client guides, which include detailed information about its suitability, tax implications and legal effect.

This Trust Selector assumes that your client is mainly interested in finding the most suitable solution for estate planning with cash or investments held on our platform.

Inheritance tax (IHT) liability will vary according to where the client is long-term resident. For the purposes of this Trust Selector, however, we're assuming that your client, all Trustees and the Beneficiaries are UK long-term residents.

If none of the AJ Bell Investcentre Draft Trusts meet your clients' needs, effective planning could still be achieved in other ways such as through appropriate will provisions; by making a direct gift to the intended recipient; and / or by providing funds to meet any IHT liability through life insurance protection held in trust.

Because the rules and tax implications of each trust differ, and the implications for clients during their lifetime and on their death will be affected by their personal circumstances, it's important that specialist advice is sought.



This document only provides summary information. Please refer to the adviser guides for details of the structure and the tax implications of each trust.

Trust features

Under the **Draft Absolute Gift Trust**, once a Beneficiary (or Beneficiaries) has been named in the trust, neither they nor their beneficial interest in the assets gifted into trust can be changed. The gift to the Absolute Gift Trust, to the extent that it is not exempt, will be a potentially exempt transfer (PET) for IHT purposes. There won't be any periodic or exit charges to consider in relation to the Trust. Income and capital gains produced by the Trust assets will be assessed on the Beneficiary(ies), subject to any relevant anti-avoidance provisions – such as those relevant to parental settlements. If a parent makes a gift to the Trust and the total income in a tax year generated is more than £100 per parent per unmarried minor child, the whole amount will be taxed as income of the parent.

Under the **Draft Discretionary Gift Trust**, the Settlor cannot benefit. The appointor (initially the Settlor and then the Trustees) has the power to appoint and / or remove potential Beneficiaries (including classes of Beneficiaries), and to appoint capital to any of the Beneficiaries specified in the Trust. The Trustees have discretion over whether to distribute any available Trust income to the Beneficiaries, or to accumulate it. Subject to any available annual exemptions, a gift into this kind of trust will be a chargeable lifetime transfer (CLT) for IHT purposes. You'll need to consider the impact of periodic and exit charges, as well as the taxation of any income and capital gains produced by the Trust assets.

Under the **Draft Discretionary Loan Trust**, Beneficiaries and distributions are determined in the same way as they are under the Draft Discretionary Gift Trust, but cash or investments are loaned to the Trustees by the Settlor. As it is an interest-free loan repayable on demand, not a gift, that is made to the Trust at outset, there's no CLT or PET. The Settlor / lender is entitled to repayment of the loan on demand, but can't otherwise benefit under the Trust. The Trustees invest the loan monies, and any growth of the investment sits outside of the Settlor / lender's estate. However, the value of the outstanding loan does remain in their estate. As the lender takes repayments of the loan, the value of the loan will gradually reduce. Any outstanding loan on death is normally repayable by the Trustees into the estate. The Trustees have discretion to distribute the growth on the investment to any of the Beneficiaries, but should take care if doing so before the loan has been fully repaid – the Trustees must ensure the loan can be fully repaid on demand, at any time.

Practical matters

When establishing trusts, record keeping is a key consideration. The Trustees should each be able to easily access a copy of all documents relating to the Trust at any time. The Donor / Settlor should also ensure that suitable records of gifts, loans and trust income (where relevant) are kept during their lifetime, as this will help with any HMRC reporting that may be required and, crucially, will aid their Legal Personal Representatives on their death. For example, good records would help the representative to accurately report any gifts the Donor / Settlor made in the years prior to their death.

Appointing Trustees also requires careful consideration and clear communication. It will be important to ensure that the Trustees understand their roles and responsibilities to the Trust, and that they have the capacity to undertake that role in the future.

Our Entity GIA User Guide and Trust GIA Application Form include some important notes about registering a trust with HMRC's Trust Registration Service (TRS). It's very important for the Trustees to ensure that the details provided in the TRS registration process exactly match what is stated in the Trust Deed, and that the information in the GIA application also matches exactly. When we process the GIA application, if we find any discrepancies between the TRS record, the Trust Deed and the application form, we won't be able to open the GIA until those discrepancies have been addressed. We may also have to report any discrepancies between the Trust Deed and TRS records to HMRC.

Whilst adviser charges may be paid either from the GIA held in a trust or directly by your client (in their capacity as the Trust Donor or Settlor), you should carefully consider the potential tax implications for the Donor or Settlor.

Any other professional business or trade costs and charges incurred by the Trust and payable by the Trustees cannot be paid directly from the GIA. Instead, funds must be withdrawn from the GIA by the Trustees and then used to settle any outstanding fees.

Which AJ Bell Investcentre Draft Trust might meet my client's needs?

My client is happy to give up any potential access to any money or investments they put into the Trust.



They want to decide now who will benefit from the Trust, and not change that in the future.



Draft Trust to consider	Absolute Gift
How can the gift or loan be made?	Cash or existing investments owned by the Donor(s).
What is the likely tax treatment of initial and future payments into the Trust?	Each is a Potentially Exempt Transfer (PET). The payment of adviser charges by the Donor(s) would be a PET. Gifting existing investments is likely to be a disposal by the Donor(s) for CGT purposes. There are no income tax considerations on payment of the gift(s).
Can the Donor / Settlor access the trust funds in future?	No.
Who can be a Beneficiary?	Specific named Beneficiaries and their percentage share of the trust are fixed at outset. Beneficiaries cannot be removed or added in future. Cannot include the Donor(s) or their spouse(s).
When can Beneficiaries receive payments from the Trust?	Beneficiaries can demand payment from aged 18 (16 in Scotland); before then, the Trustees can determine whether to distribute.
How is income on Trust investments taxed?	Income tax usually applies to the Beneficiary in the same way as if they owned the assets personally. Exceptions may apply if the Donor is the parent, or if any offshore non-reporting funds are held – see guide for details.
How does CGT apply to investments in the Trust?	All capital gains made by the trustees on disposal of Trust assets that are in excess of the Trustees' annual CGT exemption, are assessed on the Beneficiaries.
What are the future IHT considerations for Beneficiaries?	Their share of the Trust assets forms part of their estate for IHT purposes.
Are there any future IHT considerations for the Trustees?	No.



They want flexibility to decide in the future who will benefit from the Trust.



Draft Trust to consider	Discretionary Gift
How can the gift or loan be made?	Cash or existing investments owned by the Settlor(s).
What is the likely tax treatment of initial and future payments into the Trust?	Each will be a Chargeable Lifetime Transfer (CLT). The payment of adviser charges by the Settlor(s) may be a CLT. Gifting existing investments is likely to be a disposal by the Settlor(s) for CGT purposes. There are no income tax considerations on payment of the gift(s).
Can the Donor / Settlor access the trust funds in future?	No.
Who can be a Beneficiary?	Classes of Beneficiaries can be used; there's no need to specify named individuals. Default Beneficiaries must be fixed at the outset. Cannot include the Settlor(s).
When can Beneficiaries receive payments from the Trust?	Beneficiaries have no entitlement until capital and / or income are appointed to them.
How is income on Trust investments taxed?	Trustees are responsible for paying income tax. Dividend-type income is taxed at 39.35% and all other income at 45%. Different rules may apply if the Settlor's spouse is a Beneficiary, if offshore non-reporting funds are held or if income is paid out to Beneficiaries – see guide for details.
How does CGT apply to investments in the Trust?	All capital gains in the Trust are assessed against the Trustees.
What are the future IHT considerations for Beneficiaries?	There are no IHT implications for potential Beneficiaries before Trust assets are appointed to them. Once appointed, their share of the Trust assets forms part of their estate for IHT purposes.
Are there any future IHT considerations for the Trustees?	The Relevant Property Regime applies, which may lead to IHT charges falling due on the value of property leaving the Trust if it is above the available nil rate band i.e. payments to Beneficiaries, and / or on every ten-year anniversary of the Trust. The Trustees are liable to pay those charges.



My client needs access in the future to the money or investments they put into the Trust.



They want flexibility to decide in the future who will benefit from the Trust.

Draft Trust to consider	Discretionary Loan
How can the gift or loan be made?	Cash or existing investments owned by the Settlor.
What is the likely tax treatment of initial and future payments into the Trust?	Each loan to the Trustees and any investment growth are not gifts, nor are they a PET or a CLT. The value of the outstanding loan remains part of the Settlor's estate for IHT purposes. The payment of adviser charges by the Settlor may be a CLT. Loaning existing investments is likely to be a disposal by the Settlor(s) for CGT purposes. There are no income tax considerations on the initial loan payment.
Can the Donor / Settlor access the trust funds in future?	Yes, but limited to the value of the initial loan. The loan is interest-free and repayable in part or full only on demand, not by regular installments.
Who can be a Beneficiary?	Classes of Beneficiaries can be used; there's no need to specify named individuals. Default Beneficiaries must be fixed at the outset. Cannot include the Settlor(s).
When can Beneficiaries receive payments from the Trust?	Beneficiaries have no entitlement until capital and / or income are appointed to them.
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