Zurich International Portfolio Bond
Discretionary Loan Trust customer guide
You should read this guide in conjunction with the Discretionary Loan Trust Deed and Loan Agreement and consult with your professional adviser in order to determine its potential suitability for you.
Objectives
The Discretionary Loan Trust (DLT), when used with the Zurich International Portfolio Bond (the Plan), enables you to:

• make a declaration of trust and appoint Trustees;
• make an interest-free loan to those Trustees, which they invest in the Plan;
• ensure that the value of any growth of the Plan is outside of your estate, and therefore not subject to inheritance tax;
• receive loan repayments in a tax efficient way;
• ensure that each loan repayment (if you spend it) reduces your taxable estate for inheritance tax purposes;
• ensure that you retain access to the outstanding loan at any time on demand; and
• retain flexibility over who will ultimately benefit from the Trust.

How does the DLT work?
You create a discretionary trust by declaration and agree to make a loan to the Trustees. You satisfy this by giving the Trustees a cheque payable to Zurich. The Trustees then invest the amount you have lent to them in a Zurich International Portfolio Bond (the Plan). The loan is interest-free and repayable on demand. You will not be making a gift into trust for inheritance tax purposes.

Under this Trust, the person or persons chosen by you (and, after your death, chosen by the Trustees) from the list of Beneficiaries specified in the Trust will be entitled to the Trust Fund, which will be looked after on their behalf by the Trustees. No Beneficiary is entitled to anything until you (or the Trustees after your death) make an appointment in their favour.

A. General principles

As the person who establishes the Trust, you are known as the Settlor. To ensure that the Trust is effective for inheritance tax, you (as Settlor) cannot benefit from the Trust in any way, although, of course, you are entitled to have your loan repaid to you.

You can only set up a DLT as an individual, i.e. it is not available for joint Settlors.

You will be one of the Trustees (unless you resign) and so nothing can be done with the Plan during your lifetime without your consent. However, you must appoint at least one other person (preferably two) to act with you as Trustees. This is to ensure that you can make a valid Loan Agreement with the Trustees and to ensure that there are no delays in dealing with the Trust Fund in the event of your death.

Using discretionary trusts
When using a discretionary trust (such as the DLT) to make future provision for others, there are some important points to be considered:

• Gifts to discretionary trusts are chargeable lifetime transfers (CLTs) which means that an immediate liability to inheritance tax (IHT) could arise. However, in the case of the DLT, you do not make a gift and so this point is not relevant.

• In addition, there may be charges to IHT every ten years and when benefits are paid to trust Beneficiaries. These charges may be relevant to your DLT – see below.

Additional amounts can be invested into the Plan, but only by way of further loans.
B. Details

The DLT consists of three main elements, the Trust, the loan and the Plan.

(i) The Trust
To create the Trust (assuming you and your legal advisers are happy that the draft is appropriate in your circumstances) you and your additional Trustees should complete and sign the Trust Deed. To help you, a completion guide is included at the front of the draft Trust Deed.

You must name the Default Beneficiaries of the DLT and, if there are more than one, you need to specify the percentage share of each. These are the persons who will benefit at the end of the Trust Period if no other appointment is made. Potential Beneficiaries (the persons to whom trust benefits can be appointed) are listed in the Trust Deed. You can add other Beneficiaries later, but cannot add yourself.

You will be one of the initial Trustees and you must appoint at least one additional Trustee (preferably two) to act with you. The Trustees have the legal control over the trust assets (the Plan), so they are the persons who are authorised to deal with Zurich Life Assurance plc (Zurich) in respect of the Plan. It is important that you choose your Trustees carefully. Anyone over 18 and of sound mind can be a Trustee. You may wish to appoint a professional person, such as your solicitor, but be aware that such persons are likely to charge a fee.

(ii) The loan
You and your additional Trustees execute a Loan Agreement. You lend the Trustees a sum of money which they invest in the Plan.

The loan is interest-free and repayable on demand. When you want a part, or the whole, of the loan repaid, you request this from the Trustees and they make an encashment from the Plan and make the repayment to you.

You cannot get more from the Plan than the amount of the loan.

(iii) The Zurich International Portfolio Bond (the Plan)
The Trustees use the loan moneys to invest in the Plan. If they choose the life insurance version for your Plan, it is recommended that they set up the Plan on the lives of your intended Beneficiaries. This will help to minimise the risk of an unplanned and inconvenient or detrimental encashment. Up to ten lives may be included. You can also use the DLT with a Plan based on the capital redemption version under which no lives insured are required.

Your financial adviser will assist you with the completion of the relevant forms.

The taxation implications of the DLT

(i) Inheritance tax (IHT)
Please note: HMRC intend to change the IHT treatment of relevant property trusts. If their proposals become law, this will affect the way in which the ten yearly and exit charges are calculated from 6 April 2015. In addition, it is proposed that each trust will no longer benefit from its own IHT nil rate band but, instead, the settlor of a trust will be entitled to one ‘settlement nil rate band’ (in addition to, and at the same level as, the personal nil rate band). So, if the settlor has created more than one trust, they will need to choose the amount of the settlement nil rate band that should be allocated to each trust. If this proposal becomes law, it will apply to new trusts (and additions to existing trusts) made after 6 June 2014. If you need more information, please speak to your adviser.

Setting up the Trust
As you will be making a loan to the Trustees, as opposed to making a gift, you will not be making a transfer of value for IHT purposes when you set up the Trust.
Death of the Settlor before the loan is repaid in full
If you die before the loan is completely repaid, the Trustees will need to repay the outstanding amount of the loan to your estate. The amount of the outstanding loan will be added to the value of your estate for IHT purposes. However, if you specifically bequeath the outstanding loan to a beneficiary under your Will and that beneficiary does not then demand full repayment, there will be no need for the Plan to be encashed to repay the loan.

Other charges
As the DLT is a discretionary trust, special IHT charging rules apply during the Trust’s existence. There may be ‘periodic charges’ every ten years from the setting up of the Trust as well as ‘exit charges’ (also called ‘proportionate charges’) whenever property leaves the Trust. However, please remember that:

- the loan repayments will not give rise to any exit charges, as these are merely repayments of an amount that is owed to you, and
- the value of the Trust Fund for the purpose of calculating periodic charges is reduced by the amount of the outstanding loan.

In most cases, as there is no initial gift to the DLT, if the value of the Plan less the amount of your outstanding loan remains below the nil rate band (currently £325,000), there should be no IHT charges. If a charge does arise, the maximum rate of tax will be 6%.

The rules on the taxation of discretionary trusts are quite complex. You should discuss them in more detail with your professional adviser if you think they may apply in your situation. The IHT rules are explained fully in the Adviser Guide to this Trust which is available to your adviser.

(ii) Income tax
Under the Plan an income tax charge can only arise when what is known as a ‘chargeable event’ occurs. Chargeable events include a surrender of the Plan, death of the last life insured to die (under the life insurance version), maturity (under the capital redemption version) and withdrawals in excess of 5% each year of the amount originally invested up to a cumulative total of 100%. In other words, each year, for 20 years, up to 5% of the amount originally invested will be treated as a return of capital. This will be relevant when the Trustees need to withdraw cash from the Plan to repay your loan.

If a chargeable event occurs while you are alive and UK resident for tax purposes, the amount that exceeds the available cumulative total of 5% yearly allowances (or the whole of each amount withdrawn after 100% of the capital has been returned) is deemed to form part of your income for the tax year in which the chargeable event occurs. If the whole Plan is encashed (or a part of it represented by a whole policy(ies)) then any gain will also be treated as forming part of your income for the tax year in which the encashment takes place. Liability to tax will be at your highest marginal rate(s).

As the Plan is an offshore investment plan that will not have been subject to any UK tax on its growth, there is no UK tax deemed to have been paid on any gain, with the result that the full amount of the gain is subject to UK income tax when a chargeable event occurs. However, for the purposes of the liability to higher rate or additional rate (income over £150,000) tax only, top-slicing relief will apply which means that the gain will be divided by the number of whole years the Plan has been in force in order to determine how much tax is payable at the higher or additional rate. You are entitled to recover the tax on any chargeable event gain from the Trustees.
If you are not alive in the tax year in which the chargeable event occurs, or not resident in the UK for tax purposes, the Trustees, if they are UK resident, will be liable for any tax on the gain. The gain will be taxed at the trust rate – currently 45% – except for the gains falling within the £1,000 standard rate tax band available to the Trustees, when the tax charge will be at the rate of 20% only.

If the Trustees are not UK resident, the gains will be assessed on any UK ordinarily resident Beneficiaries when, and to the extent that, they receive any benefits from the Trust.

The taxation of chargeable event gains under the Plan is relatively complex and is covered in a separate Adviser Guide to this Trust which is available to your professional adviser. It is recommended that you discuss this aspect of taxation with your adviser.

Key points to remember when setting up a DLT

• You are the Settlor of the Trust and you set up the Trust by making a promise to make a loan to the Trustees.

• You and your additional Trustee(s) must complete the Trust Deed.

• You must name the Default Beneficiaries of the Trust and, if more than one, their shares. These are the persons who will benefit only if no other appointment is made by the end of the Trust Period.

• You and your Trustees enter into a Loan Agreement.

The loan is completed when you give the Trustees your cheque. The cheque should be made payable to Zurich. You can request the repayment of the loan at any time. As you do not make a gift to the Trust, there will be no immediate inheritance tax implications and no immediate reduction of your estate for inheritance tax.
Creating a trust is an important matter and has lasting legal and tax consequences. This guide is for your general information only and cannot cover every situation. If you are in any doubt about the purpose or effect of this Trust, or any actions after it has been created, you should consult your own professional advisers such as a solicitor or an accountant.

The Trust, once created, is irrevocable and the Plan and its benefits must be held according to the terms of the Trust. The Trustees will be in control of the operation of the Trust, which means that they may need to set up a Trustee bank account. Any benefits arising because of the exercise of options available under the Plan will also be held subject to the Trust.

Taxation law is subject to change. Such changes cannot be foreseen. The information in this guide is based on our understanding of current law and HM Revenue & Customs’ practice (September 2014). Although every care has been taken in the preparation of this guide and the draft Trust Deed, neither Zurich Life Assurance plc nor any of its officers, employees or agents accept responsibility for the operation of the Trust. Before proceeding with this Trust, you are recommended to refer the Trust to your own legal advisers to ensure it meets your needs.

Your attention is drawn to the ‘Important information for the Settlor’ section of the Trust Deed.

Zurich Life Assurance plc does not provide individual advice – please contact your relevant financial professional.
The Zurich International Portfolio Bond is provided by Zurich Life Assurance plc.

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