Zurich International Portfolio Bond
Discretionary Discounted Gift Trust customer guide
You should read this guide in conjunction with the Discretionary Discounted Gift Trust Deed, health questionnaire and Zurich International Portfolio Bond application form (marked ‘Application form for use with a Discretionary Discounted Gift Trust’) and consult with your professional adviser in order to determine its potential suitability for you.
A. General principles

Objectives
The Discretionary Discounted Gift Trust (DDGT), when used with the Zurich International Portfolio Bond (the Plan), enables you to:

• make an effective gift for inheritance tax, provided you do not give away too much;
• continue to enjoy a tax efficient stream of capital payments from the Plan whilst keeping its capital value out of your estate for inheritance tax; and
• retain flexibility over who will ultimately benefit from your gift after your death.

How does the DDGT work?
When you set up a DDGT you make a cash gift (called the ‘Initial Gift’) to your Trustees and the Trustees (including you) invest the cash in a Plan. Under this Trust:

• you will be entitled to regular capital payments as specified by you in the Trust. These will be funded by regular withdrawals from the Plan; and
• subject to this right, 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. No Beneficiary is entitled to anything until you (or the Trustees after your death) make an appointment in their favour.

If the appointment is in favour of your spouse or civil partner, it must always be made by the Trustees.

You can set up a DDGT as an individual or jointly with your spouse or civil partner, in which case ‘You’ throughout this guide means both of you. For joint cases, the capital payments will continue in full until you both die.

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. You must, however, appoint at least one other person (preferably two) to act with you as Trustees.

The value of the gift you make for inheritance tax is less than the actual value of the investment you make subject to the Trust.

It is your right to receive the regular capital payments under the Trust (funded by withdrawals from the Plan) that creates the ‘discount’. This right has a value and, as it is retained by you, it reduces the value of what you give away.

When calculating the value of this discount, a number of factors will be taken into account including:

• the amount and frequency of the capital payments you are entitled to;
• your age;
• your state of health;
• your anticipated life expectancy.

Once we have carried out an assessment of you through underwriting, we issue a Discount Certificate. The actual size of the discount may still be a matter for negotiation with HM Revenue & Customs (Inheritance Tax) if you die within seven years of setting up the Trust.

If the Plan is based on the life insurance version, it should be established with some or all of the Beneficiaries as the lives insured. Should all of the lives insured die before you, the Plan must end and the Plan proceeds will be paid to the Trustees. This will not affect your entitlement to the capital payments under the Trust but may have unwanted income tax consequences (as explained later in this guide) and will require reinvestment of the funds by the Trustees. In order to minimise the risk of an early termination of the Plan, you should always seek to have more than one life insured. However, neither you nor your spouse should be a life insured. Please also see below for more details about investing in the Plan.
Using discretionary trusts

When using a discretionary trust (such as the DDGT) 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 if the gift (together with other similar gifts made by you in the previous seven years) exceeds the nil rate band (see below for a further explanation of this).

- In addition, there may be charges to IHT every ten years and when benefits are paid to trust Beneficiaries (but not when payments to which you are entitled are made to you).

- It is not possible to make additional payments into the Zurich International Portfolio Bond. Any additional investments would have to be paid into a new Trust and Plan.
Investing in the Zurich International Portfolio Bond (the Plan)
As already stated, if you choose the life insurance version for your Plan, you must set up the Plan on the lives of some or all of your intended Beneficiaries. Up to ten lives can be included. It is important that neither you nor your spouse or civil partner should be a life insured though. You can also use the DDGT with a Plan based on the capital redemption version under which no lives insured are required.

You would specify in the Trust Deed the level of regular payments you would like – up to 7.5% per annum of the amount originally invested. These capital payments will be funded by withdrawals from the Plan and can be paid yearly or monthly or monthly deferred for one year; but once the amount and the frequency of payment is chosen you cannot change it in the future.

You will also have to complete the health questionnaire to allow us to underwrite the application.

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

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. This should be done before the Trustees make an application for the Plan. To help you, a completion guide is included at the front of the draft Trust Deed.

You must name the Default Beneficiaries of the DDGT 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.

Your right to the fixed capital payments stated in the Trust (referred to as the ‘Settlor’s Fund’) is a distinct and separate right from the rights of the Beneficiaries (such as children and/or grandchildren) which comprise the ‘Beneficiaries’ Fund’. Those rights are, in effect, the right to the trust capital (and any income produced by that trust capital) remaining after your death (or where there are two of you, after both of you have died). The Beneficiaries’ Fund is held on a discretionary trust and you (during your lifetime) and the Trustees (after your death) can choose which of the Beneficiaries can benefit and to what extent.
Inheritance tax (IHT)

Setting up the Trust

By creating the Trust you will be making a chargeable lifetime transfer (CLT) equal to the value of the Initial Gift less the value of your retained right to regular capital payments (‘the discounted gift’).

If the value of the discounted gift (after taking account of any available annual exemptions) plus any CLTs you have made in the seven years before you set up this Trust is below your available nil rate band (currently £325,000), there will be no IHT to pay. If it is more than your available nil rate band, IHT will be payable on the amount that exceeds the nil rate band at the rate of 20%.

In addition to the possible tax implications, there may be a need to report the transaction to HM Revenue & Customs (Inheritance Tax). If the value of the gift into Trust (the amount invested into the Plan less the value of your retained right to cash payments), when added to other CLTs you have made in the previous seven years, causes you to exceed the nil rate band (see above) and so tax is due, you must report the transfer to HM Revenue & Customs (Inheritance Tax) on forms IHT100, IHT100a and D34. You should discuss this with your professional adviser.

It is generally recommended that gifts that could result in an immediate tax liability should not be made.

Other IHT implications

Death within seven years from the gift

If you survive for seven years from the date of the gift, no IHT liability will arise in respect of the gift assuming no IHT was paid at the time the gift was made.

If you do not survive your gift by seven years, the potential IHT liability on the original CLT will have to be recalculated. However, no IHT will arise if the gift was within your available nil rate band. If the nil rate band was exceeded, so that lifetime tax at 20% was payable when you made the gift, the charge will increase to 40%. IHT taper relief may be available, in which case the IHT liability may start to reduce after the third year. Additionally, any lifetime tax previously paid will be deducted from the IHT liability.

Even if there was no IHT on the gift, because it fell within your nil rate band, but you die within seven years of setting up the Trust, the IHT liability paid by your estate is likely to be higher, depending on who inherits your estate. This is because the nil rate band available to your estate will be reduced to the extent that it was used up by your gift. There will not be any IHT liability on any growth in the value of the Plan between the date the DDGT was established and the date of your death.

Other charges

As the DDGT 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.

In most cases, if the Initial Gift was within your nil rate band and the value of the Plan remains below the nil rate band, there should be no IHT charges. If a charge does arise, the maximum rate of tax will be 6%.

Most importantly, there will be no charges when capital payments are made to you in accordance with the Trust.

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.

Not a gift with reservation of benefit

It is generally difficult to make an IHT effective gift and continue to enjoy a benefit, because such a gift is likely to be treated as a ‘gift with reservation’ (GWR) which will negate any intended IHT advantage as the gifted property will be treated as remaining in your taxable estate for IHT purposes.

However, the GWR rules generally will not apply where you make a gift of identifiable property from which you cannot benefit and keep back identifiable property from which you can benefit and which remains in your estate – this is the position under your DDGT.
You retain the right to a stream of capital payments provided you survive to a series of future dates. This is an identifiable and separate right. However, the balance of benefits, including any investment growth, which is a separately identifiable right, is given away. You are specifically excluded from those benefits and so there is no GWR.

**Income tax**

Provided that the total payments you are entitled to under the Trust in a policy year do not exceed 5% of the amount originally invested in the Plan, there will, under the current law, be no income tax to consider in connection with the Plan for twenty years from the Plan being effected.

This is because under a Plan an income tax charge can only arise on what is known as a ‘chargeable event’. These 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, up to 5% per annum of the amount originally invested will be treated as a return of capital.

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 received 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. 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.

The taxation of chargeable events 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.

As mentioned above, the Trustees will make withdrawals from the Plan to make the capital payments to you. The Trustees can take a withdrawal of up to 5% of the initial investment made into the Plan every year for 20 years and pay that amount to you without any immediate liability to tax under the chargeable event rules. However, these withdrawals will be included in the calculation of any gain when the Plan is finally surrendered or pays out on death (under the life insurance version) or maturity (under the capital redemption version).

If the capital payments exceed 5% of the amount invested in a year you may be liable to pay tax on the amount above that 5%. As stated above, the whole of any payment made after 100% of the capital is repaid (20 years if withdrawals are taken at 5% per annum) will be subject to tax. 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 rate applicable to trusts – 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 pre-owned assets income tax charge will not apply as the fund to which you are entitled under the DDGT (the ‘Settlor’s Fund’) is not a settlement.
Key points to remember when setting up a DDGT

- You are the Settlor of the Trust and you gift cash to the Trustees (but the cheque should be made payable to Zurich).

- You specify in the Trust the amounts and frequency of the capital payments you want to receive. These cannot later be changed. These must not exceed 7.5% per annum of your investment into the Plan. Remember that if the withdrawals are more than 5% per annum there will be income tax implications every time you receive a payment.

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

- The Trustees (including you) make an application for the Plan.

- You must complete the health questionnaire. The health questionnaire is completed and submitted initially. After we’ve completed our underwriting and issued a Discount Certificate, only then should the Trust Deed and Plan application form be completed and submitted to us with the Settlor’s cheque.

- 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.

- As the gift to the DDGT is a chargeable lifetime transfer, there may be immediate inheritance tax implications – you must discuss these with your financial adviser.
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 (January 2015). Although every care has been taken in the preparation of this guide and the draft Trust Deed (including the securing of an opinion from leading tax counsel), 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.

Zurich Life Assurance plc is authorised and regulated by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority for the conduct of insurance business in the UK.

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