You should read this guide in conjunction with the Discretionary Gift Trust Deed (Settlor excluded) and consult with your professional adviser in order to determine its potential suitability for you.
A. General principles

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

• make a gift in a way that will remove the Plan from your estate for inheritance tax;
• avoid inheritance tax on the gift (provided you do not give too much); and
• retain flexibility over who will ultimately benefit from your gift.

How does the DGT work?
If you want to set up a DGT, you can:

• use the Trust at the time you apply for the Plan; or
• transfer an existing Plan into the Trust.

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.

To ensure the gift is effective for inheritance tax, you cannot benefit from the Trust in any way.

You can set up a DGT as an individual or jointly with your spouse or civil partner, in which case ‘You’ throughout this guide means both of you.

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, we recommend that you appoint at least one other person (preferably two) to act with you as Trustees 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 DGT) 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.

Additional amounts can be invested into the Plan and the additional investment would be treated as a further CLT. This is likely to complicate subsequent tax calculations so preferably such additions should be avoided. You can always invest in a new Plan subject to a new Trust.
B. Details

Investing in the Zurich International Portfolio Bond (the Plan)
If you choose the life insurance version for your Plan, it is recommended that you set up the Plan on the lives of some or all of your intended Beneficiaries. This will help to minimise the risk of an unplanned and inconvenient or detrimental encashment. Up to ten lives can be included. However, if your Plan is already in force and is on your own life, it can still be transferred to the DGT. You can also use the DGT 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 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. The Trust can be created with either a new or an existing 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 DGT 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 we recommend that you 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.

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
By creating the Trust you will be making a chargeable lifetime transfer (CLT) equal to the value of the gift. For a new Plan this will be your initial investment. For an existing Plan, it will usually be the surrender value.

If the value of the 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 the nil rate band (currently £325,000), there will be no IHT to pay. If the gift 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, 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 DGT was established and the date of your death.

Other charges
As the DGT 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 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%.

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.

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.

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. 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 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 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.

Key points to remember when setting up a DGT

- You are the Settlor of the Trust and you gift your Plan to the Trust. If you are effecting a new Plan, the cheque should be made payable to Zurich.
- 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.
- As the gift to the DGT is a chargeable lifetime transfer, there may be immediate inheritance tax implications – you must discuss these with your financial adviser.
Important notes

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.

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. Registered office: Zurich House, Frascati Road, Blackrock, Co Dublin, Ireland. Registered in Ireland under company number 58098.

We may record or monitor calls to improve our service.