DISCOUNTED GIFT TRUST

HOW DOES IT WORK?

RL360's Discounted Gift Trust (DGT) allows individuals to gift a plan into a trust[1], receive an income for life (or until funds have been exhausted), and, subject to successful medical underwriting, immediately reduce the value of their estate for UK Inheritance Tax (IHT) purposes.

THE DGT PROCESS

Client completes a Health Questionnaire and is underwritten

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Client (the settlor) assigns an RL360 plan to a DGT. Plan is now the Trust Fund

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Value of withdrawals (The Discount) under DGT calculated based on the underwriting decision

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The 'Discount' is deducted from transfer value into DGT to give a 'Discounted Value'

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Only the 'Discounted Value' and NOT the actual value of transfer when plan assigned into DGT are included in the estate for IHT should death occur in first 7 years

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After 7 years the 'Discounted Value' is outside of estate for IHT

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Any growth on the Trust Fund is immediately outside of the estate for IHT

1 Depending on trust provisions, transfer of the plan will either be a potentially exempt transfer (PET) if a Bare Trust (Absolute Beneficiaries) or a chargeable lifetime transfer (CLT) if a Discretionary Trust (Flexible Beneficiaries).

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EXAMPLE

The Situation

Mr Smith is 62 years old and owns money and assets worth £1,000,000.

In the UK, when someone dies, their estate (everything they own) may have to pay Inheritance Tax (IHT). There is a tax-free allowance of £325,000.

If Mr Smith died today:

- Estate value = £1,000,000
- Tax-free allowance = £325,000
- Amount that could be taxed = £675,000
- Inheritance Tax rate = 40%

Tax bill:

- £675,000 × 40% = £270,000

So his family could have to pay £270,000 in Inheritance Tax.

What he does

Mr Smith puts £450,000 into a Discounted Gift Trust (DGT).

At the same time, he chooses to receive an income of £22,500 each year (which is 5% of £450,000).

Because he is still entitled to receive this income for the rest of his life, that future income has a value. In this example, that value is calculated as **£320,850**.

This means that although he has placed £450,000 into the trust, only **£129,150** is treated as a gift for Inheritance Tax purposes:

- £450,000 - £320,850 = £129,150

This is called the discounted value.

Why this helps

The value of Mr Smith's estate for Inheritance Tax is immediately reduced by £320,850.

His new estate value becomes:

- £1,000,000 - £320,850 = £679,150

Then the tax-free allowance is taken off:

- £679,150 - £325,000 = £354,150

Inheritance Tax at 40%:

- £354,150 × 40% = £141,660

The result

Without the trust:

- Inheritance Tax = £270,000

With the trust:

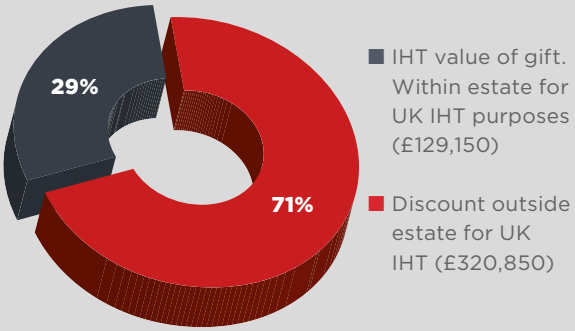
- Inheritance Tax = £141,660

Potential tax saving:

- £270,000 - £141,660 = **£128,340** (approximately)

So, if Mr Smith dies within the next 7 years, his family could pay much less Inheritance Tax.

Gift of £450,000 into DGT



After 7 years

If Mr Smith survives for more than 7 years:

- The remaining £129,150 discounted gift is normally outside his estate for Inheritance Tax purposes.

Any growth in the trust investment is also generally outside his estate.

This means even more of his money can pass to his beneficiaries instead of being taxed.)

IMPORTANT NOTES

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