DISCOUNTED GIFT TRUST (DGT) THE ACCESS FUND

HOW DOES IT WORK?

The Access Fund is an additional feature of the DGT that allows plan segments to be held separately from the Gifted Fund of the trust. These plan segments can be accessed by the settlor at any time.

The addition of an Access Fund allows flexibility as segments can be surrendered if additional income is required, or even gifted to a new owner by assignment.

THE DGT ACCESS FUND PROCESS

Client (settlor) assigns an RL360 plan to a DGT. The plan is now owned by the Trust

When the Trust Fund is set up, the settlor selects a number of plan segments that they would like to retain in an Access Fund

Segments within the Access Fund can be accessed by the settlor at any time

The value of the plan segments within the Access Fund remain inside of the settlor's estate for UK Inheritance Tax (IHT), until they have been assigned or surrendered

Any growth in the value of the plan segments within the Access Fund also remains inside of the estate for IHT

A DGT with an Access Fund follows the same principles as a DGT without an Access Fund:

- The value of withdrawals (The Discount) under DGT is based on the underwriting decision
- The Discount is deducted from the transfer value into the DGT to give a Discounted Value
- Only the Discounted Value and NOT the actual value of transfer when the plan is assigned into DGT are included in the estate for IHT should death occur within first 7 years
- After 7 years the Discounted Value is outside of estate for IHT
- Any growth – excluding the Access Fund - is immediately outside of the estate for IHT

RL360

EXAMPLE

The problem

Mr Smith (aged 62) is aware of the benefits of using the DGT to reduce his IHT liability. However, he is unsure of his future spending requirements and would like to retain access to some of the capital.

The RL360 DGT solution

He makes an investment of £450,000 into an RL360 plan issued with 100 segments. The plan is gifted to the DGT. Each plan segment is valued at £4,500 (£450,000/100).

85 plan segments (£382,500 (£450,000/100 x 85)) are allocated to the Gifted Fund, and 15 plan segments (£67,500 (£450,000/100 x 15)) are retained in the Access Fund.

He decides to carve out an immediate yearly income of 5% of the 'initial value' of the trust fund: £22,500[1] (£450,000 x 5%)* payable on a monthly basis.

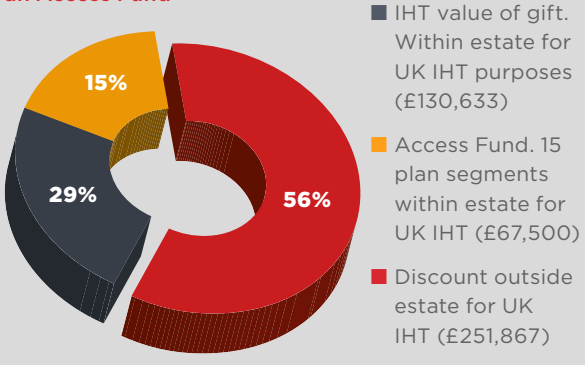
* 5% is selected to ensure withdrawals are kept within the cumulative 5% allowance rule for UK chargeable event purposes.

For a plan with an Access Fund the discount is only calculated on the amount that was placed into the Gifted Fund: £382,500 (£450,000 - £67,500)

In accordance with HMRC guidance, the withdrawals to be paid to the settlor in his lifetime are valued at £251,867[2] and therefore the value of the gift is discounted to £130,633 (£382,500 - £251,867).

The discounted value of £130,633 (plus the value of the Access Fund) will be the amount that is used to determine whether or not Mr Smith has a UK IHT liability should he die within 7 years of making the gift.

Gift of £450,000 into DGT with 15 plan segments in an Access Fund



After 7 years, the **£130,633** will then be outside of Mr Smith's estate for IHT purposes.

The value of the plan segments retained in the Access Fund remain inside of the estate even after 7 years.

The growth of the Gifted Fund is immediately outside of their estate for IHT purposes. (This excludes the Access Fund).

Using the Access Fund

Mr Smith has decided that he would like to help his adult grandchild with their house purchase by making a gift of £21,000. Mr Smith is allowed to do this even if the grandchild is not included as one of the trust beneficiaries.

The Trust Fund is currently £525,000; each of the 100 plan segments is now valued at £5,250 (£525,000/100). 15 plan segments were retained in the Access Fund. The current value of the Access Fund is £78,750 (£5,250 x 15).

To achieve the gift of £21,000 he has the following options:

- Surrender 4 plan segments (£5,250 x 4) and make a gift to the grandchild. Any tax liability for any chargeable gains would fall on Mr Smith, or
- Assign 4 plan segments (£5,250 x 4) to the grandchild who could then surrender the segments in their own name. The tax liability for any chargeable gain would fall on the grandchild.

It is not possible to take a withdrawal solely from the Access Fund.

Once plan segments within the Access Fund have been gifted or surrendered, the settlor's regular withdrawal payments will also decrease.

Example:
If the total annual income when trust is first setup = **£22,500**, made up of **£19,125** (retained rights) from the Gifted Fund and **£3,375** from the Access Fund, as Access Fund segments are gifted or surrendered, the value of withdrawals from the Access Fund will decrease from **£3,375** down to **£0**.

The settlor's income from the Gifted Fund income remains unchanged throughout their lifetime (or until such time as the trust fund is exhausted).

IMPORTANT NOTES

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our current understanding of the law and HM Revenue and Customs (HMRC) practice. RL360 does not provide tax or legal advice. Anyone using this document or relying on the information contained within it, should ensure that they are appropriately advised before they decide to use it or not. RL360 cannot be held responsible for any unintended consequences as a result of using this document or the information contained within it.

1 £19,125 (retained rights) comes from the Gifted Fund and £3,375 from the Access Fund.
2 The discount is immediately outside of the estate for IHT

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