

# Protective Gifting Trust



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"The Great Wealth Transfer" in the UK is underway and is gathering pace. Several reports, including one from Brooks Macdonald in 2021, suggests that over £300 billion of UK wealth will be transferred in the next decade, much of it unprotected. Most of the wealth is in property and pensions and will pass to children, grandchildren, and Beneficiaries on death. Such inter-generational death transfers are rarely protected by common Wills and there is a lack of awareness of protective solutions such as the Beneficiary Protection Plan from Solidus and the Asset Preservation Trust for pensions. Lifetime transfers account for another significant proportion of the redistribution of wealth but a lack of advice is sought regarding the majority of transactions. A recent report from November 2020 suggested only 10% of people take professional advice and there is a general lack of awareness of potential issues. Transfers are driven by three common objectives:

- "The bank of mum and dad" assisting children with property purchases
- The reduction of estate values to legally mitigate inheritance tax (IHT)
- The transfer of excess income from parents in the form of gifts

The lack of professional advice (integrated estate and financial planning) can lead to a trail of failures and issues.

- The wealth transfer is unprotected from children's partners
- Transfers can ultimately lead to inter-generational IHT issues to the detriment of the grandchildren
- Transfers can be sub-optimised because of a natural tendency to over-compensate for a rainy day
- Failed tax efficiency because of flawed asset transfers, particularly with respect to property, leading to CGT and IHT complications

The simple use of Trust planning such as a bespoke Protective Gifting Trust can deliver lifetime wealth transfer protection.

# Protective Gifting Trust

## Case study 1 – Helping children onto the property ladder

Sam Smart has worked hard all her life and invested her money wisely. She has a two children; one is unmarried, and the other, James, is married but the relationship has had its ups and downs.

James is looking to buy his first house and Sam would like to use some of her savings to help him get onto the property market. She wants to transfer a gift of £100,000 then in seven years this will be out of her estate for inheritance tax (IHT), but she is concerned that if James' relationship fails, some of the gift may be exposed to a claim from his spouse.

An appropriate solution would be for Sam to establish a Solidus Protective Gifting Trust (PGT). She could actually transfer the money to James as a loan. The loan can then be assigned to the Trustees. A loan agreement can be prepared between the Trustees and James. There is no need for any interest to be charged. James can purchase the property in his own name. If a mortgage is also involved, there are providers that accept Trust loans as a source of funds.

James will be able to benefit immediately and will have a recorded debt back to the Trust, which is exercisable by the Trustees should James' relationship run into difficulty in the future. Advice needs to be taken if this becomes a potential concern. This Trust can then also be used when Sam's other child wishes to purchase their own property in the future.

This planning will save Sam's estate IHT should she survive seven years. It will also offer potential bloodline protection and inter-generational IHT benefits.



Set up your family Protective Gifting Trust



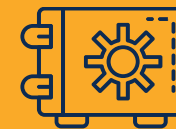
Make your loan to your chosen Beneficiary



Solidus will assign the loan to your PGT



Solidus prepare a Loan Agreement



Property is purchased by the Beneficiary

# Protective Gifting Trust

## Case study 2 – Gifting Property

Mr and Mrs Malik have an estate of £1.3 million, including a buy-to-let (BTL) property valued at £300,000. They have healthy pensions with the death benefits written into Asset Preservation Trusts. Their residual estate planning will be protected within an advanced Beneficiary Protection Trust structure. They have excess income which is adding to their inheritance tax (IHT) bill and do not really require payments from their rental property. They do not wish their estate to pay IHT.

Their only daughter is taking a career break to raise their grandchildren. She is fully financially supported by Mr and Mrs Malik.

An appropriate solution would be for Mr and Mrs Malik to establish a Solidus Protective Gifting Trust (PGT) and transfer the property into the Trust. The Trust will receive the income generated from the BTL, which can then be directed to their daughter.

Their daughter will be able to benefit immediately, and the income will not be treated as coming from her parents' estate for tax purposes. Mr and Mrs Malik will save £120,000 in potential IHT if they survive seven years. Their family PGT will also provide potential bloodline protection should their daughter's relationship face difficulties in the future. Overall, the income tax paid by the family group may also be optimised.

Advice should always be taken regarding the affordability of gifting as well as potential tax benefits such as deferment of Capital Gains Tax and IHT.



Take tax advice



Set up the PGT



Transfer property to the PGT. IHT free after 7 years



Give income to the children and grandchildren

# Protective Gifting Trust

## Case study 3 – Excess Income

Mrs Payne has a large estate of over £1m. She has a healthy pension; the death benefits are protected by using an Asset Preservation Trust. When she dies her residual estate will be protected within an advanced Beneficiary Protection Trust structure. She receives substantial dividend income from her shares in a business and has significant excess income which is accumulating in her estate. She would like to set funds aside for her grandchildren in years to come.

She has adult children who are all independently wealthy but would still like her grandchildren to benefit from the estate in the future. She is also acutely aware of her growing IHT bill.

An easy solution would be for Mrs Payne to establish a Solidus Protective Gifting Trust (PGT). She can transfer excess income, as well as her annual allowance into the PGT and transfers can be invested for the long term in a suitable investment such as a bond for her grandchildren.

Mrs Payne will be securing a tax efficient inheritance for all of her grandchildren, which will be secure in a flexible Trust arrangement. Ultimately the fund may be used for important assistance such as the payment of education fees and property purchases in the future.

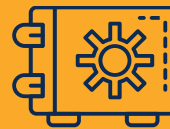
Advice should always be taken regarding the affordability of gifting and accurately accounted for in order to use available IHT rules.



Establish gifting value with the advice of an estate planner



Set up a PGT



Open bank account or Trustee bond investment



Start regular transfers



Keep records of transfers and income

# Protective Gifting Trust

## Frequently Asked Questions

**Is a PGT expensive to set up?** No, as a proportion of the value you protect it is typically much less than one percent of the gifted benefit.

**Is a PGT expensive to run?** No, there are minor fees to keep the Trust updated with HMRC but most of the cost is in delivering the upfront protection.

**Who should my Trustees be?** We encourage you to consider adult family members or trusted friends. Speak to your adviser for guidance.

**Can I get the gift back from the Trustees?** No, your gift is irrevocable.

**How long does the family PGT last for?** 125 years in England and Wales, 80 years in Northern Ireland and no limit in Scotland. Most families use them for at least one further generation.

**Are Trusts taxed?** There is usually no tax on funds going into your PGT. A Trust is like a person and has its own tax allowances for Income Tax, Capital Gains Tax and Inheritance Tax. Your Trustees can take advice in the future if a taxable event occurs.

**Can a PGT be contested?** Trusts can face claims from third parties but without a PGT there is no protection of a gift. We simply advise you to take advice should a Beneficiary's situation change e.g. begin to have financial or relationship difficulties.

**Can I make further gifts to my PGT ?** Absolutely, you need to keep within taxable limits over any seven-year period (£325,000 for an individual and £650,000 for a couple) but repeated transfers are commonplace.

# Protective Gifting Trust

## Protection of Your Wealth – The Protective Gifting Trust from Solidus

- Instead of directly transferring your generous gift to your Beneficiary absolutely, you can make your gift in a protective and tax efficient manner into a suitable protective Trust arrangement to achieve your desired objectives.
- You will have control of assets transferred during your lifetime, but the benefit is with the nominated person.
- If you are assisting an adult child with a property purchase, your gift can be protected by wrapping a PGT around the gift and if the Beneficiary's situation changes e.g. gets engaged, married, or divorced advice can be taken to provide potential protection.
- If you have regular excess income the Protective Gifting Trust can provide an immediate IHT benefit rather than accumulating excess wealth within your estate. Additionally, if you are on the fringe of impacting your full available Residence Nil Rate Band allowance the same Trust can be used to receive investment transfers e.g. bonds.
- If you have a rental property without a mortgage and do not need some or all of the income, take advice on transferring it into a Protective Gifting Trust which may improve your own Inheritance Tax position and may provide efficient and flexible income distribution.
- The Trustees can take advice from your estate planner, or from Solidus before and after the gift is made.
- The Trust assets are outside the Beneficiary's estate for IHT purposes and will not be subject to inter-generational taxation.
- The framework can be set up and controlled by the family and can be maintained in a low-cost efficient manner.

# Contact your estate planner in order to progress your Protective Gifting Trust application

Disclaimer – The contents of this e-brochure should not construe as advice, and you should consult your estate planner. The provision of Trusts is a regulated activity administered by the Solicitors Regulation Authority and not the Financial Conduct Authority.

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