

Important information for the Settlor, Trustees and their adviser(s)

Estate planning needn't be taxing

These questions and answers are designed to be given to the Settlor(s). We will normally call the Settlor 'you' in this guide and we assume that you are resident in the UK.

Why use the Standard Life Gift Plan?

- The Gift Plan allows you to take steps to reduce inheritance tax (IHT). Any growth in the Trust will be outside your estate immediately for IHT purposes.
- It allows you to select the Beneficiaries today that you wish to benefit from your Plan after your death without including this in your will. For maximum flexibility, you can add Beneficiaries if a Discretionary or Flexible Trust is chosen. If you use an Absolute Trust, the Beneficiaries cannot be changed by you.
- Payments can be made to Beneficiaries in the event of your death without any need to wait for probate/confirmation.

Standard Life has prepared this document with due care and attention. Any reference to legislation and tax is based on our current understanding of law and tax practice in Ireland and the UK at September 2010. The future tax position of the bond, or your own tax position, may alter. Standard Life cannot accept any responsibility for loss, damage or other claim which may arise from using this document or perform the function of a legal or tax adviser. You are strongly recommended to consult your own legal or tax adviser. Please note there may be a charge for this.

Please note that before buying a product, factors such as commitment and investment risk need to be considered. Full details are available in the relevant Key Features Document.

The Trust

Are there different types of Trust available under the Gift Plan?

- Yes. You can choose to use either a Discretionary Trust, a Flexible Trust or an Absolute Trust.

What are the differences?

- A Discretionary Trust allows you (the Settlor) to indicate whom you would like to benefit from the Plan, but the Trustees have the final choice on who benefits from those outlined in the Trust.
- A Flexible Trust allows the Trustees to choose who benefits from a wide class of Beneficiaries as defined in the Trust. At outset you (the Settlor) will specify a 'Main Beneficiary or Beneficiaries' who are entitled to any income arising and who will benefit if the Trustees do not make any appointment.
- With an Absolute Trust, you (the Settlor) specify the Beneficiary(ies) when the Plan is set up. The specified Beneficiary(ies) cannot later be changed by the Trustees.
- Under each Trust, there must be at least one Beneficiary alive at the time of creating the Trust.

What is the governing law of the Trust?

- English law will apply unless you initial one of the boxes in the 'Choice of Law' section of the Trust.
- The Trust can be written under English law, Scots law or Northern Irish law.

Which governing law should I choose?

- For practical reasons, it may be sensible to choose the jurisdiction where you live. For example, if you live in Edinburgh, Scots law may be an appropriate choice.

Can I cancel the Gift Plan?

- Once the Gift Plan has started the Trust cannot be cancelled.

The Gift

Can I (the Settlor) receive any benefit under the Gift Plan?

- No. In order to make the Gift Plan effective for IHT purposes, you are excluded from benefiting from the Plan in any circumstances.

Can additional gifts be made?

- Yes. For example, additional gifts can be made to the Trust to increment the Standard Life bond. The additional investment should be noted on the Trustees' Record. The Trustees have wide investment powers when considering their options.

Can the Gift Plan be used with an existing bond?

- Yes. Instead of writing a cash amount in the relevant part of the Trust, simply insert the bond number(s).

The Investment

What investment powers do the Trustees have?

- The Trustees have wide powers of investment. For example, the Trustees can select a non-income producing investment such as a bond. This means that no taxable income arises in the Trust until the bond is cashed in. This would simplify the tax compliance and accounts for the Trustees.

Who makes the application for the investment where the Trust is set up with a gift of cash?

- The Trustees, using the relevant Gift Plan Application Pack.
- The Trustees can also make an additional investment to an existing Gift Plan by completing the Trustee Bond Application Form (IBTB30).

Gift Plan

Who are the lives assured on a bond?

- You can choose to give the bond a potentially longer lifespan by selecting one or more Beneficiaries to be the lives assured.
- It is possible for there to be six lives assured on a Standard Life bond; you should speak to your adviser about this. Lives assured should be UK resident.
- Once the Plan is set up, lives assured cannot later be changed, added to or removed.
- If you are transferring an existing bond into the Gift Plan, the lives assured cannot be changed.

Is there a minimum or maximum investment?

- The minimum investment is £20,000. There is no maximum but if the Trustees wish to invest more than £1,000,000 we reserve the right to review the application.
- The minimum additional gift to an existing Gift Plan is £2,500. Again there is no maximum but if the Trustees wish to invest more than £1,000,000 we reserve the right to review the application.

The Settlor

Who is the Settlor?

- You are the Settlor if you set up the Plan by making the gift to the Trustees. The gift can be of cash, or an existing bond. If the gift is of cash, this is used to buy a Standard Life bond. The Trust also gives you the flexibility to place some of the gift with another provider.

Can spouses or Civil Partners take out a Joint Gift Plan?

- Yes. A spouse or Civil Partner who is also a Joint Settlor cannot be a Beneficiary of the Trust.

Can spouses or Civil Partners each take out a Gift Plan?

- Yes. Your (the Settlor's) spouse or Civil Partner cannot benefit from your Plan during your lifetime, but your widow, widower or surviving Civil Partner can benefit after your death.

- Please speak to your adviser about the most suitable action for your personal circumstances. There may be a charge for this.

Can I take out more than one Gift Plan?

- Yes, but you can also make additional gifts to a Gift Plan you have already taken out.
- If you decide to take out another Gift Plan, it is important that each Plan has a different start date. Whenever you set up more than one Trust, you should always make sure that these are on different dates or any IHT payable could be increased as a result. Please speak to your adviser for more detail.

Are there any age restrictions?

- This is only relevant if you (the Settlor) are to be one of the lives assured on a bond. For extra flexibility you may want one or more of the Beneficiaries as lives assured. Please refer to the Bond Key Features Document for further information.

What happens when I (the Settlor) die?

- If you die within seven years of setting up your Gift Plan, there may be additional inheritance tax payable on the gift you have made. Please see the Inheritance Tax section for more detail.

What happens when a Beneficiary dies?

- If an Absolute Trust is used and a Beneficiary dies either while the Settlor is still alive or after they die, their share of the value of the trust assets will form part of the deceased Beneficiary's estate.
- If a Discretionary or Flexible Trust (after 22 March 2006) is used and an 'Additional Beneficiary' (Part D of the Discretionary Trust) or 'Main Beneficiary' (Part D of the Flexible Trust) dies, their share of the value of the trust assets will not form part of their estate for IHT purposes.

The Trustees

Whom should I appoint as a Trustee?

- You should select one or more people who know you, for example relatives or friends, who are at least 18 years of age. You could also choose a Professional or a Corporate Trustee, who may charge for their services.
- You should note that the Trustees, if using a Discretionary or Flexible Trust, have control over who benefits from the Plan, so you should choose your Trustees carefully.
- So that it is easier to administer the Trust, it is sensible to restrict the number of Trustees to a small number, for example, three.

Is the Settlor a Trustee?

- Yes, you are automatically a Trustee from the outset, unless you elect to opt out on the Trust. You can choose to retire from being a Trustee at any time. Sometimes a new Trustee may have to be appointed before you can retire.
- In the case of a Joint Settlor Plan, you are both automatically Trustees from the outset, unless you elect to opt out on the Trust.

Why might the Settlor wish to retire from acting as a Trustee?

- If you are in declining health you may not want the involvement and duties of a Trustee. Remember that if you use a Discretionary or Flexible Trust, the Trustees have ultimate control over who receives any benefit from the Plan.

What are the duties of the Trustees?

- The Trustees are responsible for administering the Plan and taking investment decisions. They should monitor and review the investments and they should normally take professional advice in relation to their investment decisions. The Trustees may be asked to produce evidence of these decisions.
- Trustees are given considerable protection from liability.

Can the Trustees be changed?

- Yes. During your lifetime you (the Settlor) usually have the power to appoint and or remove Trustees. After your death this power rests with the surviving Trustees, or in the case of a Joint Settlor Plan, the survivor of you.
- Standard Life has a deed that could be appropriate for this.

What if the Trustees reside overseas?

- Only UK resident Trustees should be chosen at outset.
- If any of the Trustees later reside abroad, this may affect the status of the Trust and its tax liabilities and you should speak to your adviser. Please note there may be a charge for this.

What if any of the Beneficiaries reside overseas?

- If any of the Beneficiaries live overseas, they may not be able to be lives assured under a Standard Life bond. You should speak to your adviser about this. Please note there may be a charge for this.

The Beneficiaries

Who are the Beneficiaries?

- If you (the Settlor) use a Discretionary Trust, the class of Beneficiaries is defined by you at outset. The Trustees have final say on who benefits from your Plan, but you can make an 'expression of wish' indicating to the Trustees how you would like them to consider exercising their discretion.
- Standard Life has an 'expression of wish' which might be suitable for your use.
- Under a Flexible Trust, the Trustees can choose who benefits from a wide class of Beneficiaries as defined in the Trust. At outset you (the Settlor) will specify a 'Main Beneficiary or Beneficiaries' who will benefit if the Trustees do not make any appointment.
- With an Absolute Trust, the Beneficiaries are named when the Plan is set up, and cannot later be changed by the Trustees.
- There may be IHT consequences where payments are made to Beneficiaries.

Do I need to complete Part D Additional Beneficiaries if I use a Discretionary Trust?

- No, but there may be some instances when you might want to. The 'Definitions' (in Section 1) of the Discretionary Trust set out the classes of Beneficiaries. The Trustees can choose to make payments to any of these Beneficiaries. Sometimes, you may want to include additional Beneficiaries that are not included in these 'Definitions'. For example, you may want to include a family friend or even a charity. You can insert their details in Part D Additional Beneficiaries. This means that the Trustees also have the option to make payments to any Beneficiary named in Part D.

What happens when a Beneficiary dies before the benefits are paid?

- If you use a Discretionary or a Flexible Trust (after 22 March 2006), the value of the trust fund is not treated as part of any Beneficiary's estate for IHT purposes, unless they are given an absolute interest.
- Under an Absolute Trust, as the named Beneficiaries have a right to their appointed share of the Plan, this benefit will become part of their own estate for IHT purposes.

Do the Beneficiaries selected need to be adults?

- There is no need for a Beneficiary to be adult.

Can I add a 'whom failing' clause?

- No. Our Trusts are not designed to include this clause. You could make an 'expression of wish' indicating how you would like the Trustees to exercise their discretion if using a Discretionary or Flexible trust

Inheritance tax (IHT)

How is the Gift Plan treated for IHT purposes?

The following points give a basic overview of how the Gift Plan is treated for IHT purposes. IHT is a complex topic and you should speak to your adviser for a more detailed explanation. Please note there may be a charge for this.

Applies to Discretionary and Flexible Trusts only

- By setting up the Plan you (the Settlor) have made a gift into the Trust. The amount of this gift, less any amount which is exempt, is treated as a chargeable transfer. If this amount, when added to any other chargeable transfers you have made in the previous seven years, exceeds the current nil-rate band (£325,000 in the tax year 2010/11), there will be an immediate liability to IHT on the excess over the nil-rate band which is charged at the rate of 20%.
- The Trustees may have a further IHT liability on each 10 yearly anniversary of the Trust being set up. The maximum charge is 6% of the value of the fund at this time and in many cases is a lot less than this.
- The charge is based on the value of the trust fund at the 10 yearly anniversary. If this value is less than the available nil-rate band there will be no charge.
- There may also be a charge to IHT when payments are made to the Beneficiaries. These are known as 'exit charges'.

Applies to Absolute Trusts only

- By setting up the Plan using an Absolute Trust, you (the Settlor) have made a gift into the Trust. The amount of this gift is treated as a potentially exempt transfer, which means no periodic or exit charges apply. However, if a Beneficiary dies, their share of the value of the trust assets will form part of the Beneficiary's estate, on which IHT may arise.

Applies to Discretionary, Flexible and Absolute Trusts

- If you (the Settlor) die within seven years of setting up the Plan, further IHT may be due on the initial gift you have made into the Trust.
- If you have set up a Joint Gift Plan, your IHT liabilities will be calculated according to your individual circumstances. Please speak to your adviser for details. There may be a charge for this.

Who is responsible for paying any IHT (e.g. as a result of setting up the Plan)?

- Either the Trustees or you, as the Settlor, may pay any IHT due. If you, as the Settlor, pay any of this tax, this could affect the IHT position. Please speak to your adviser for a more detailed explanation. There may be a charge for this.

Will the IHT Gifts With Reservation rules apply to the Gift Plan?

- The Beneficiaries' rights are held in a Trust to which you have no access so the (inheritance tax) gift with reservation rules do not apply.

Capital Gains Tax

Will the Plan be subject to capital gains tax?

- Trustees will not usually be subject to capital gains tax on bonds.

Income tax

When might an income tax liability arise?

- There will be no charge to income tax unless a chargeable gain arises.
- A chargeable gain may arise if the Trustees make withdrawals from the bond which exceed a yearly allowance. This is 5% of the total payment made into the bond and can be taken each year. Any unused allowance can be carried forward indefinitely. The allowance runs out when 100% of the total payment made into the bond has been withdrawn.
- A chargeable gain may also arise if the Trustees encash the bond or if it is terminated by the death of the life assured (or the last surviving life assured). On final termination any previous withdrawals will be taken into account, as will any previous chargeable gains.
- If the bond is taken out jointly, you will each be assessed independently on your share of any gain.
- You have the right to recover the tax you pay from the Trustees. If you do not do so, the amount you are entitled to reclaim from the Trustees may still be included in your estate for IHT purposes. Please speak to your adviser for more detail. There may be a charge for this.
- If the bond is surrendered after the tax year of your death, or after you move abroad, an income tax charge could arise for the Trustees.

Who is liable to tax on a chargeable gain?

- Only when the trustees incur a chargeable event, such as a surrender, or part surrender in excess of the cumulative 5% allowance, may a chargeable gain arise.
- The liability for chargeable gains made by the trustees will depend upon whether you (the settlor) are still alive and the type of trust chosen. Chargeable gains arising during your lifetime, or within the tax year of your death, will be assessed upon you if you are a UK resident in the year of assessment.
- You will be subject to income tax on the entire chargeable gain at the savings rate of 0% (if you have unused personal allowance), 10%, 20% or 40%. When the gain takes you into higher rate tax, top slicing can be used to reduce (or eliminate) the higher rate liability. Time apportionment relief cannot be utilised to reduce any chargeable gains made on a Standard Life International Bond held within a discretionary trust. On 6 April 2010, a new additional rate of tax of 50% for individuals with income in excess of £150,000 was introduced. Additional rate taxpayers will have a liability of 50% on offshore bond gains. When you are assessed, you have the right to reclaim from the trustees any tax payable. Failure to reclaim the tax from the trustees will result in the amount remaining within your estate for IHT. If you do not wish to reclaim the tax from your trustees you should notify the trustees of your intentions which could result in a chargeable lifetime transfer.
- Chargeable gains made by trustees after the tax year of your death will generally be taxed upon the trustees at the special trust rate with no top slicing available.
- From 6 April 2010, the special trust rate increased from 40% to 50%. However, trusts have a standard rate bond of up to £1,000. Income, including offshore bond gains, that falls within this band is only taxed at 20%.

Applies to Absolute Trusts only

- Any chargeable gain is normally assessed on the Beneficiary.

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