

Loan Plan

Using a Standard Life International Bond or Onshore Bond - Questions and answers

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 UK Settlor(s), Trustees and Beneficiaries. We will normally call the Settlor 'you' in this guide and we assume that you are resident in the UK.



Important

This document should be read alongside the relevant Bond - Key Features document

You are strongly recommended to consult your own financial, legal or tax adviser. Please note there is likely to be a charge for this.

Standard Life has prepared this document with due care and attention. Any reference to legislation and tax is based on our understanding of law and tax practice in Ireland and the UK at September 2021. 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.

Please note that before buying a product, factors such as commitment and investment risk need to be considered. As with any investment the value of your fund can go down as well as up and may be worth less than you invested.

Why use the Standard Life Loan Plan?

- The Loan Plan allows you to take steps to reduce Inheritance Tax (IHT). Any growth in the investments will be outside your estate for IHT purposes.
- Since you have made a loan to the Plan and not a gift of capital, you retain the right to receive repayment of the Loan on demand.
- Repayment of the Loan can be by regular payments from the Plan.
- Payments can be made to the Trustees in the event of your death without any need to wait for probate/confirmation.

The Trust

Are there different types of Trust available under the Loan 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 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 Deed.

A Flexible Trust allows the Trustees to choose who benefits from a wide class of Beneficiaries as defined in the Trust. At outset you will specify 'Main Beneficiary or Beneficiaries' who are entitled to any income arising unless the Trustees make a change as to who can benefit.

With an Absolute Trust, you specify the Beneficiary(ies) when the Plan is set up. The specified Beneficiary(ies) cannot be changed later.

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 Loan Plan?

No, once the Loan Plan is in place, the Trust cannot be cancelled. But the outstanding loan can be repaid to the Settlor and any surplus funds distributed to the Beneficiaries, at which point the Trust comes to an end.

The Loan

How is the Loan repaid?

The Loan is typically repaid by withdrawals from the bond at a rate of 5% each year over 20 years, although the Settlor can demand repayment of the outstanding Loan at any time.

Can the Settlor give up the right to future repayments?

If the Settlor does not require the loan repayments, the Settlor can gift them to someone else.

If the Settlor does not require repayment of the outstanding Loan, the Loan can be cancelled. This may have IHT consequences and may have to be reported to HM Revenue & Customs (HMRC). This should be discussed with your adviser. There is likely to be a charge for this.

Standard Life has a deed that is appropriate for the UK Settlor to use if they no longer wish to have the right to receive the loan repayments.

Does the Settlor have to receive loan repayments immediately?

No. If the Settlor does not need to receive repayments immediately, the 'Loan Amount' part of the Trust should be left blank. This confirms that the amount to be repaid each year will be nil. The Trustees can set up regular loan repayments at any time.

Can the Settlor demand early repayment?

Yes. However, an investment bond is a medium to long term investment and if surrendered early the value could be less than the outstanding Loan.

Why is the Loan interest free?

By not charging interest on the Loan, the Settlor maximises the available funds for investment by the Trustees.

Can additional loans be made?

Yes, but they should not be added to this Loan Plan as this would complicate the loan repayments. You can simply set up a new Loan Plan.

The Settlor

Who is the Settlor?

The Settlor is the person who sets up the Plan and makes the Loan to the Trustees. The Settlor must be a UK resident.

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

Yes. A Joint Settlor version of the Plan is available.

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

A spouse or Civil Partner will only be able to benefit from repayment of the amount of the loan they individually contributed to the Plan.

The amount loaned by each spouse or Civil Partner will need to be entered on the Trust and on the 'Record of Loan Repayments' (LPRR) form, available from your adviser.

After the Loan is repaid to the Settlor, can the Settlor receive any further funds from the Loan Plan?

No. It is important that the Settlor receives no further funds or the Loan Plan may not be effective for IHT purposes. The Trustees should carefully note the loan repayments.

The Trustees would be in breach of Trust if they paid you more than the outstanding Loan.

What happens when I die?

The balance (if any) of the outstanding Loan is included in the Settlor(s) estate on death and will be liable to IHT in the normal way.

The outstanding Loan should be repaid to the Settlor's estate. Alternatively, the Settlor could state in their will that any of the outstanding loan is left to a specific Beneficiary. That Beneficiary may choose to continue to receive loan repayments or recall the loan on demand.

In a Joint Settlor Plan, the amount of the outstanding loan of each Settlor may be repayable to the deceased Settlor's estate, or it may be due to someone named in the Settlor's will. The position varies. This means on first death, the amount of regular withdrawal payments being taken may have to be reduced.

If you set up a Joint Loan Plan please ensure your will is updated so that the right to repayments goes to the person you intend.

The Trustees

Who 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 and a UK resident. You could also choose a Professional or a Corporate Trustee, who may charge for their services.

You should note that the Trustees, if a Discretionary or Flexible Trust is used, have control over who benefits from the plan, 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 Deed. 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.

What are the duties of the Trustees?

The Trustees are responsible for administering the Plan and taking investment decisions in accordance with the Trust Deed. 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.

They are also responsible for keeping records of the loan repayments. The 'Record of Loan Repayments' (LPRR) form will assist with this.

Can the Trustees be changed?

Yes. During your lifetime you 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 surviving Settlor.

Standard Life has a deed that is appropriate for this.

Trustees can choose to retire.

What happens when a Trustee dies?

When a Trustee dies, ownership remains with the surviving Trustees.

Can 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.

The Beneficiaries

Who are the Beneficiaries?

A Beneficiary is someone who may be able to benefit from the Trust Fund.

If you use a Discretionary Trust, the class of potential Beneficiaries are defined 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' form which is suitable for your use.

Under a Flexible Trust, the Trustees can appoint Beneficiaries from a wide class of Beneficiaries as defined in the Trust Deed. At outset you 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, 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 the Additional Beneficiaries section 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 who is classed as a potential Beneficiary. The Trustees can choose to make payments to any of these.

Sometimes, you may want to add someone else who not included in these 'Definitions'. For example, a family friend or even a charity.

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

If you use a Discretionary or a Flexible Trust (on or 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 Trust Fund, this benefit will become part of their own estate for IHT purposes.

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 will the Loan Plan be treated for IHT purposes?

The following points give a basic overview of how the Loan Plan is treated for IHT purposes. **IHT is a complex topic and you should speak to your adviser for a more detailed explanation. There is likely to be a charge for this.**

The right to the repayment of any outstanding loan will be treated as an asset of your (the Settlor's) estate for IHT purposes.

There is no gift for IHT purposes when a Loan Plan is set up. But a settlement is still created if you use a Discretionary, or Flexible Trust (after 22 March 2006), so the Trust Fund itself may be subject to IHT charges.

IHT could be due if the Loan has not been fully repaid to the Settlor by the date of death. This is because the balance of the outstanding Loan remains an asset of the Settlor's estate.

Applies to Discretionary and Flexible Trusts only

The Trustees may have an 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, less any outstanding loan amount, at the 10 yearly anniversary date. 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'. The exit charge is usually based on the last 10 yearly anniversary charge or the tax charge at the start of the Trust and can be nil in some cases.

Applies to Absolute Trusts only

If you decide to use an Absolute Trust, there will be no 10 yearly or exit charges as this type of Trust is not a settlement.

How is a Joint Settlor Loan Plan treated for IHT purposes?

Usually you are each treated as if you had each made a separate loan into Trust. You are treated as having made equal value loans unless you indicate otherwise on the Trust Deed.

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 (which includes withdrawals to pay for Trustees' advice fees) from the bond which exceed a yearly allowance. This is 5% of the initial payment and can be taken each year. Any unused allowance can be carried forward indefinitely. The allowance runs out when 100% of the original payment has been withdrawn.

Withdrawals will reduce the value of the bond. If the withdrawals are greater than any capital growth on the bond, the capital value of the bond will fall.

A chargeable gain may also arise if the Trustees encash the bond or if it is terminated by the death of 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.

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.

*Please note that International Bonds which are set up on a Capital Redemption basis do not have any lives assured attached to the Bond.

Who is liable to tax on a chargeable gain?

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 UK resident in the year of assessment.

International Bond – While invested in an offshore bond, you won't normally pay tax on any growth. Therefore, you will be subject to an income tax on the entire chargeable gain at the savings rate of 0%, 20%, 40% or 45%. You can also offset any unused personal allowance or personal savings allowance on your chargeable gain.

Onshore Bond – Standard Life pays corporation tax on the income and gains of the funds' investments on the onshore bond. A non-reclaimable basic rate tax credit of 20% is given. This tax credit satisfies the liability for non and basic rate taxpayers. Further tax is only payable if the gain when added to all other income in the tax year falls in the higher rate or additional rates tax bands. If you are a higher rate taxpayer you will pay 20% income tax on gains from onshore bonds and if you pay additional rate tax you will pay 25% income tax.

Any chargeable gain on your offshore bond or onshore bond will be taxed as income in the tax year it arises. However 'top slicing' relief may reduce the tax payable on the gain. This relief is based on the tax that would have been paid on the average gain. Your financial adviser can explain how this works in more detail.

The full gain will be added to your income and this may reduce your income tax personal allowance, entitlement to the personal savings allowance, tax credits and child benefit. Similarly, a chargeable gain may affect your entitlement to working tax credit, child tax credit and child benefit.

Where you (the Settlor) are assessed on the chargeable gain, 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 in your estate for IHT. If you do not wish to reclaim the tax from your Trustees you should notify them of your intentions which may result in a transfer of value for IHT purposes unless covered by an annual exemption.

Chargeable gains made by Trustees after the tax year of your death will generally be taxed upon the Trustees at the trust rate with no top slicing available.

The Trust rate for offshore bonds is 45%. However Trustees have a standard rate band of £1,000. Income, including offshore bonds gains that fall within this rate is only taxed at 20%. As onshore bonds are given a basic rate tax credit of 20%, Trustees pay tax on the gain at 25%. Onshore Bond gains within the standard rate band of £1,000 may have no further tax as this is covered by the tax credit.

Where part or all of the bond has been assigned to a beneficiary, any income tax due relating to chargeable events in those assigned segments is usually calculated with reference to the income tax status of the Beneficiary.

Applies to Absolute Trusts only

Any chargeable gain is normally assessed on the Beneficiary.

Standard Life International dac is authorised and regulated by the Central Bank of Ireland. Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

Standard Life International dac is a designated activity company limited by shares and registered in Dublin, Ireland (408507) at 90 St Stephen's Green, Dublin 2. www.standardlife.co.uk/international-bond