

SCOTTISH WIDOWS PLATFORM DISCRETIONARY TRUST

Customer Notes

These notes give you general information about the Scottish Widows Platform Discretionary Trust and signpost you to where you can get further information. Before making any decisions you must take advice from a professional adviser. You should not rely on these notes alone as they cannot take account of your personal situation.

The Scottish Widows Platform Discretionary Trust

The Scottish Widows Platform Discretionary Trust enables you to make a gift to others. The investments and income of the trust (called the trust fund) are held for the benefit of the beneficiaries. You, as the person setting up the trust, cannot benefit from the trust fund in any way.

You and the other trustees decide how the trust fund is invested. You also decide the beneficiaries who receive the trust fund and when they receive it. This gives you considerable control and flexibility throughout the duration of the trust which can last for many years.

Once the trust has been set up you cannot change your mind and you must therefore take professional advice before deciding whether to set up the trust. Your adviser will explain to you:

- how the trust works and how it fits with your financial plans
- the inheritance tax implications of the trust and who will calculate any tax due
- how the trust fund will be taxed, both income tax and capital gains tax
- the annual tax returns that may be needed and who will do this
- the records the trustees will need to keep, especially when paying out money to the beneficiaries of the trust.

Your adviser will also ensure the trust is properly set up. It's important that the trust deed is correctly completed, witnessed and signed by the right people. If this is not done properly the trust itself may fail or there could be problems at a later date.

You must inform HMRC of the trust's creation by registering it with HMRC using the online Trust Registration Service (TRS). If the gift exceeds a certain limit additional reporting is necessary.

The trustees

As the person setting up the trust you will be one of the trustees.

You can appoint others to be a trustee with you. You can do this from the outset or later. In certain circumstances you can also remove a trustee.

You should appoint at least one other trustee because after your death the trust will continue. The trustees will in time decide who receives the trust fund and so an understanding of your objectives could be a help to them.

The trustees have control of the trust fund and must jointly make many of the key decisions including how the trust fund is invested.

Your professional adviser will explain in more detail the role of the trustees and will help you decide how many trustees to have and who might be suitable given your circumstances.

The beneficiaries

The beneficiaries have no fixed right to the trust fund. Instead they will receive the trust fund, or a part of it, when you or the trustees decide. Some beneficiaries may receive nothing.

During your lifetime you decide who receives the trust fund. After your death the trustees decide. Whenever benefits are paid to a beneficiary the trustees need to keep full records.

If you include your spouse (or civil partner) as a possible beneficiary, this will result in all income of the trust fund being taxed as your income (even though the actual income still belongs to the trust). Any payment to your spouse or civil partner must be agreed by all the trustees, even during your lifetime.

You must name the default beneficiaries. These are the people who will benefit should the trustees fail to make a decision. Whilst this is unlikely, it is necessary to properly set up the trust. As the trust could last a very long time the estate of the default beneficiaries will take their place if the default beneficiaries die before the trust ends.

You can add other beneficiaries at a later date.

Inheritance tax (IHT)

There are several reliefs and exemptions, as well as an amount you can gift free of IHT (called the nil rate band, currently £325,000).

There may be IHT to pay when you set up the trust. This depends on the initial value of the trust fund and whether you have made certain types of gifts in the previous seven years. If the amount you are gifting, plus the value of any chargeable lifetime transfers you have made in the previous seven years, is less than the nil rate band there will be no IHT to pay.

Every ten years there may be IHT to pay. This depends primarily on the value of the trust fund and the nil rate band at the time.

When the capital of the trust fund is paid to a beneficiary there may be some IHT to pay. This is based on whether there was tax to pay at the outset or at the last ten year anniversary (when the trust is more than ten years old).

If you die within seven years of setting up the trust, there may be further IHT to pay on the value of your initial gift to the trust. It will also be included in the calculation of any IHT on your estate.

The trustees are responsible for ensuring the necessary IHT calculations are done and reported to HMRC. Normally any IHT is paid by the trustees out of the trust fund. You need to tell HMRC about the trust when it is set up.

Your professional adviser will explain if and how IHT will affect you and what you need to do to make sure all the right calculations and returns to HMRC are made.

Capital gains tax (CGT)

If you are putting an existing investment into a trust, that will be a disposal by you for CGT purposes. It may be possible to hold-over any gain so that it is deferred until the trustees later dispose of the investment. Your adviser will be able to tell you if this is possible.

The trustees pay CGT at a special trust rate of 20% on any subsequent investment gains made by the trust that are above the trust's annual exemption. The annual exemption is normally equal to half the individual annual exemption unless you have set up more than one trust.

Income tax

The trustees need to pay tax on the income of the trust fund and report it to HMRC.

The first £1,000 of gross income is taxed on the trustees at the standard rate of tax, which is 8.75% for dividends and 20% for other income. The £1,000 standard rate band is scaled back if you set up other trusts. The trustees do not qualify for a personal savings allowance or dividend allowance.

Trust income above the standard rate band is taxed at 39.35% on dividends and 45% on other income.

When the trustees distribute income to a beneficiary they must first have paid 45% tax on that income regardless of its source.

The beneficiary will get a tax credit for the tax paid by the trustees, and may, if they are not an additional rate taxpayer, reclaim some of the tax from HMRC. Special rules apply if the beneficiary is your minor child.

The tax treatment is different if your spouse is included as one of the beneficiaries of the trust, whether they receive any income or not. Generally, the trustees will pay tax as normal but if you pay tax at a lower rate the difference can be reclaimed from HMRC provided it is then paid back into the trust fund.

Your professional adviser will explain how income tax will affect the trust and what you need to do to make sure all the right payments and returns to HMRC are made.

HMRC Trust Register

We will require proof of registration with the HMRC Trust Register before we can complete set up of your account. A PDF downloaded from the Register is sufficient.

These notes are part of a series provided by Scottish Widows Platform and give general information only. They are based on our understanding of law and practice in February 2024, which can change over time. No investment or tax decision should be made on the basis of these notes alone. Customers should always take their own professional advice regarding the suitability of the Scottish Widows Platform Discretionary Trust for their needs.



0330 024 2345



service@scottishwidowsplatform.co.uk



scottishwidows.co.uk/platform