Countrywide
TAX AND TRUST CORPORATION LTD

The Parliamentary Review
BEST PRACTICE REPRESENTATIVE

KEY FEATURES AND BENEFITS 23C

Gift and Loan with Non-Principal Private Residences

'Gift & Loan' is fundamentally an Inheritance Tax planning strategy intended to assist reducing or mitigating a client's Inheritance Tax liability.

With a 'Gift and Loan', the client expresses the wish to maintain access to some/ all of the capital, (the 'loan' element) but not the potential growth of the capital (the 'gift' element). So with the secondary property clients don't wish to benefit from the capital and income currently but on disposal would like some 'cash back'.

So the original 'loan element' would be maintained as accountable to the client's estate for their IHT but on the client's survival of 7 years, the 'gift' element would be out of the estate for IHT.

EXAMPLE

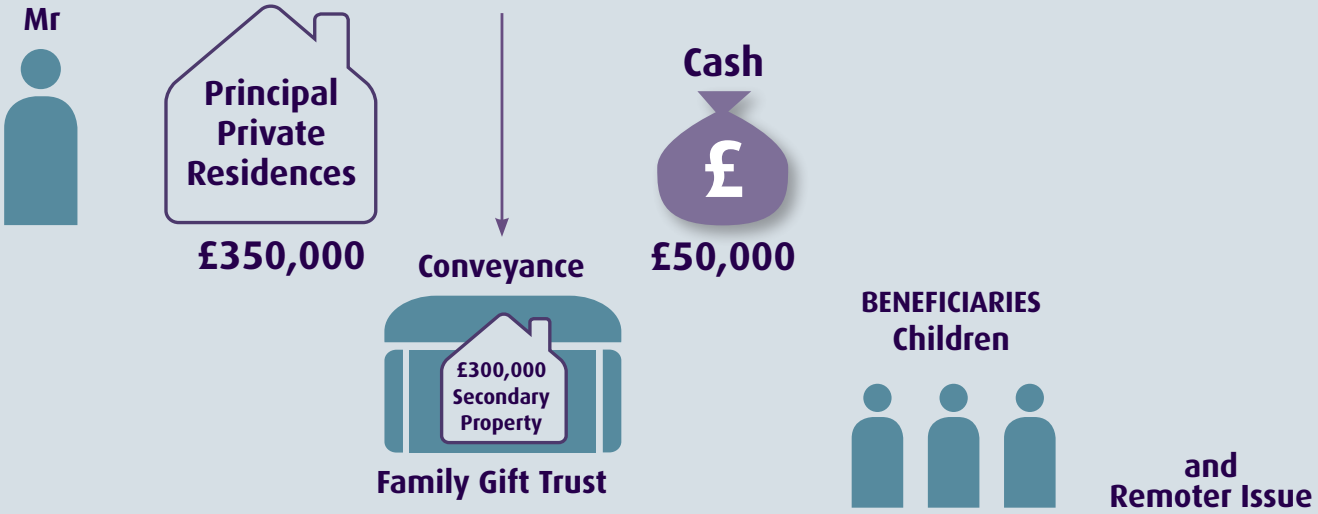
PROBLEM:

Client wishes to reduce the IHT without completely giving away the 2nd property.

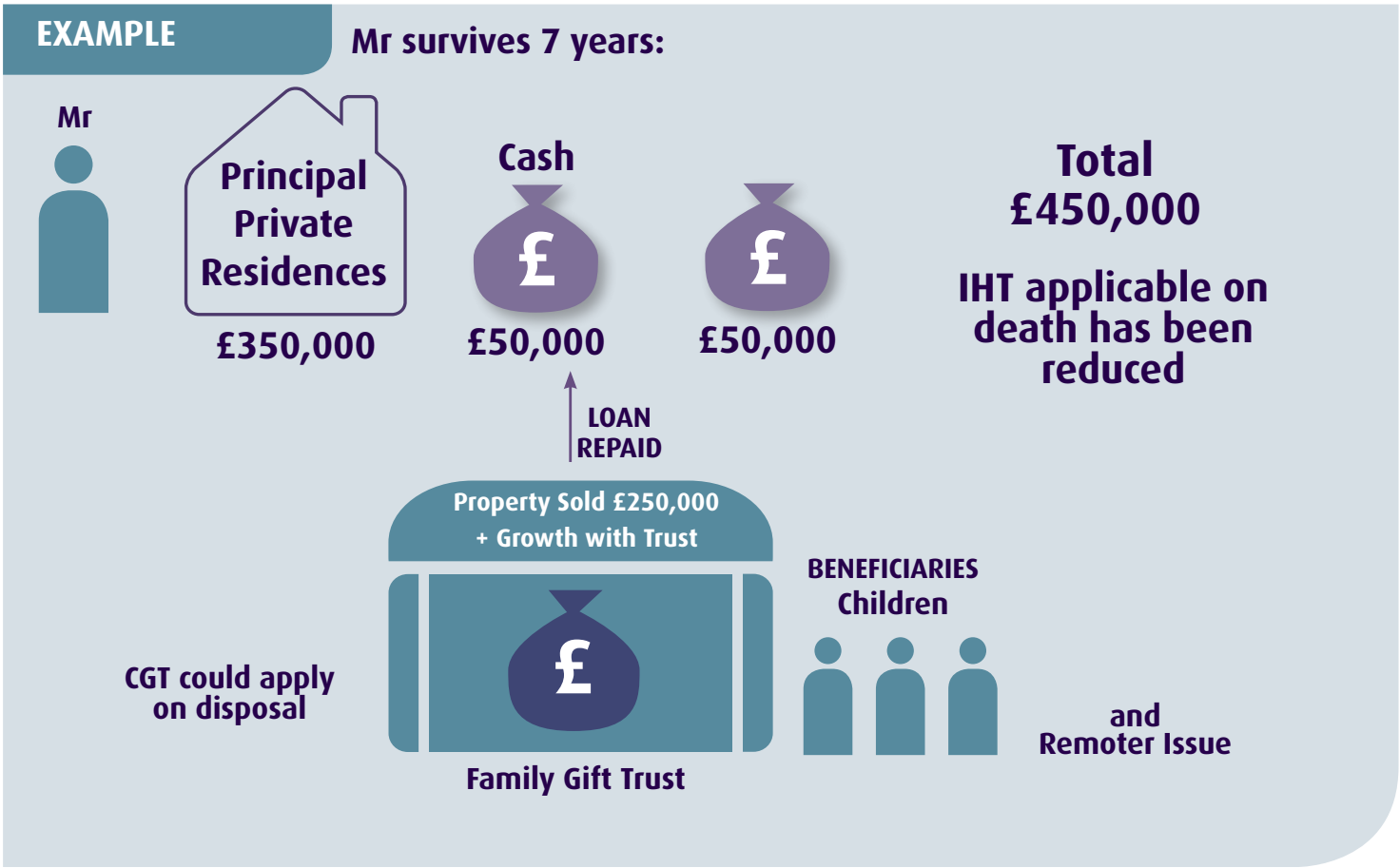
Question: How can that be done? **Answer:** Gift & Loan.

SOLUTION:

- Mr sets up a 'Family Gift Trust' during his lifetime. He is 'specifically excluded' from benefitting. His children, remoter issue are the Potential Beneficiaries.
- The second property (£300,000) is conveyed into the Family Gift Trust as follows:
  1. £250,000 as a 'Gift' from Mr.
  2. £50,000 as a 'Loan' from Mr.



Mr is 'specifically excluded' from benefitting from the Family Gift Trust



On the sale of the second property (within the Family Gift Trust), the loan of £50,000 is repayable to Mr.

Mr is not a beneficiary of the Family Gift Trust – the loan is being repaid as a contractual agreement between Mr and the Trustees of the Family Gift Trust.

BENEFITS OF GIFT AND LOAN:

- ✓ Settlor can maintain control (as Trustee).
- ✓ Settlor can loan a proportion of the capital to the Trustees to retain an interest in some of the capital.
- ✓ Chargeable Lifetime Transfer (CLT) on the capital transferred to trust– 7 year clock. So assuming the settlement values do not exceed the prevailing Nil Rate Band no Inheritance tax liability applies on establishing the trust.
- ! However the loan element is not a settlement and therefore not a CLT.
- ! The loan element remains in the estate of the Settlor for their IHT.
- ✓ Technically the Settlor has access at any time to all or part of the balance of the loan. However Capital Gains Tax (CGT) may apply on the disposal unless a beneficiary or beneficiaries of the Family Gift Trust resided in the property as their Principal Private Residence.
- ✓ Trust assets gain maximum protection from beneficiary's divorces, creditor claims, care fees and their Inheritance Tax on their deaths.
- ✓ The growth in the property value from the Settlement date is outside the client's estate for the calculation of IHT.

This sheet contains only general planning and is not to be construed as advice for any personal planning. Each strategy recommended is based on individual circumstances.

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