

Business Relief and Loan Trusts

A large number of investors have historically used Loan Trusts to “freeze” the value of assets for inheritance tax (IHT) purposes. This allowed IHT planning to be undertaken whilst giving the settlor access to capital/income.

How do they work?

The settlor lends money to the trust and has access to capital, monthly, annually or ad hoc as loan repayments.

The settlor does not have access to the growth on the asset as this belongs to the Trustees. As such it is outside the settlor’s estate as it does not belong to them.

What is the Issue/Opportunity?

Many investors settle into Loan Trusts and have taken no withdrawals.

This means all the original capital is still inside their estate. In fact, even if investors take 5% loan repayments over the year, unless they spend this “income”, it is still inside their estate. Usually Loan Trusts have been set up with Investment Bonds to allow 5% withdrawals. Taking Loan repayments at 5% means it takes 20 years to get the capital fully outside the estate.

Potential solution

The settlor recalls the original loan from the Trustees*. This capital is then invested into a Business Relief (BR) solution, either for growth or capital preservation.

The client has access to the capital or income (subject to liquidity) and IHT planning takes 2 years from the date of investment instead of 20 years.

*Note - there may be income tax implications as this will be a chargeable event if the underlying Trust asset is an Investment Bond.

ON DEATH

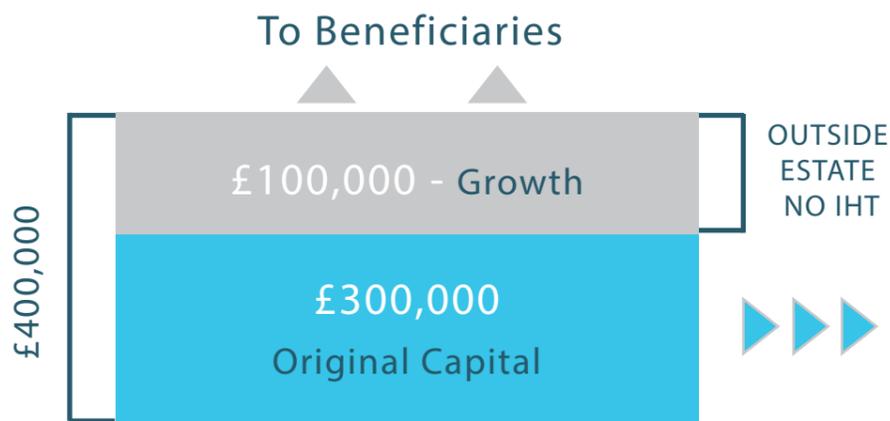
No BR Planning



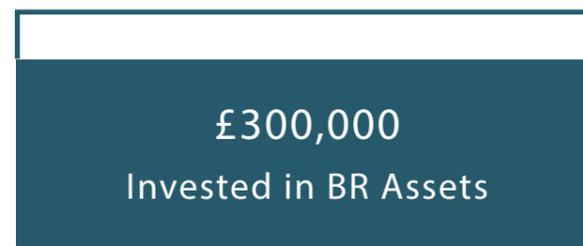
IHT on death
@40% = £120,000
FINAL ESTATE VALUE = £180,000

ON DEATH
AFTER 2
YEARS

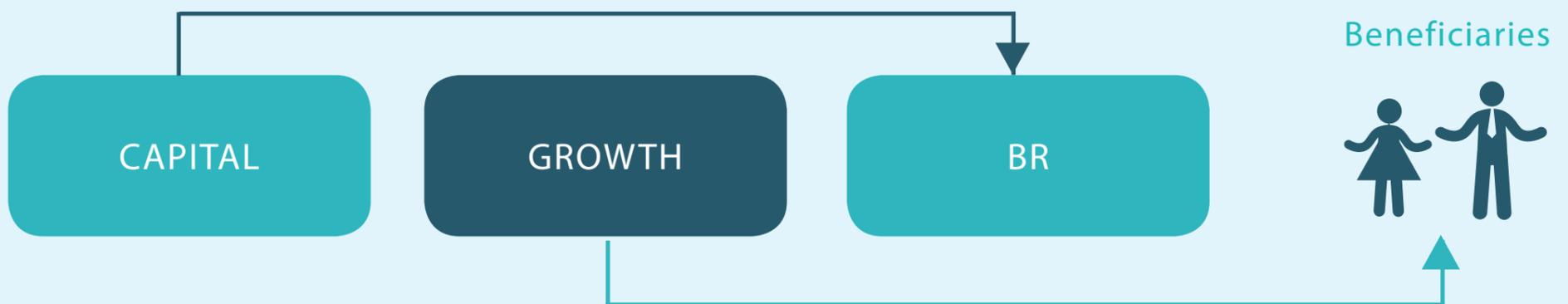
BR Planning



After 2 years
No IHT
FINAL ESTATE VALUE = £300,000



Summary



For more information about how our tax products can help with this scenario, please contact our tax team using the details below.

Important Information

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