



# Revert to Settlor Trust (creating discretionary trusts)

The Revert to Settlor Trust has been designed specifically for use with the Regular Savings Plan. It is important that you read the following notes carefully before you complete the Revert to Settlor Trust form to satisfy yourself that the trust will meet your objectives.



# How the trust works

The Revert to Settlor Trust has been designed specifically for use with the Regular Savings Plan to ensure that while any benefits payable in the event of your death are held outside your estate for your chosen beneficiaries, the maturity benefit (and any critical illness benefit payable under the plan) is held for you.

In the event of your death prior to the maturity date of the plan, the death benefit will be payable to the trustees of your Revert to Settlor Trust, free of inheritance tax. The trustees, while the legal owners of the plan, will hold the death benefits on discretionary trusts for any one or more of the persons included in Box D of the trust declaration. The class of beneficiaries is pre-drawn very widely and includes your spouse or civil partner (if not also a settlor), your children and grandchildren and their spouses and civil partners. Beneficiaries benefit purely at the discretion of the trustees, allowing the trustees to take account of changes to your circumstances, or to those of the beneficiaries, occurring between creation of the trust and your death. Should you wish to do so, you may supplement the Revert to Settlor Trust form with a 'letter of wishes' to make your intentions known to the trustees. Although the letter is not legally binding, it may give you additional peace of mind. A sample letter can be provided on request.

On your survival to the maturity date of the plan, the plan will revert to you for your absolute benefit.

## Joint settlors

Where you have applied for the Regular Savings Plan and established the trust on a joint settlor basis, the death benefit will only become payable should you both die before the plan maturity date. Should you both survive until the plan maturity date, the benefit of the plan will revert to you in equal shares. If only one of you survives until the maturity date, the maturity proceeds will be held absolutely for the survivor.

# Inheritance tax

The Revert to Settlor Trust is a discretionary trust. This means that gifts or payments made to the trust, such as premium payments, will be chargeable transfers to the extent that they are not exempt.

Where premium payments are made out of surplus income or are within an annual exempt allowance of £3,000 per year, they will usually be exempt from inheritance tax and will fall out of account immediately.

A premium payment made out of capital in excess of the annual exempt allowance, will be a chargeable lifetime transfer. This means that it will be subject to inheritance tax at the lifetime rate of 20% to the extent that it exceeds your available nil rate band.

Your available nil rate band is broadly the nil rate band in force at the date the gift is made, less the total of other chargeable lifetime transfers made by you in the preceding seven years. Non-exempt gifts made out of capital over a seven year period (such as regular premiums) will therefore have a cumulative effect for these purposes.

Note that where an existing plan is transferred to the trust, the value of your initial gift will be broadly equivalent to the greater of the market value of the plan at the time the gift is made and the premiums paid up until that point. Subsequent premiums paid to the plan will be treated as described above.

## Inheritance tax on death of settlor

Any death benefit payable under the plan in the event of your death before the plan maturity date, will not be subject to inheritance tax.

## Inheritance tax on death of a surviving spouse, civil partner or other beneficiary

The death of a beneficiary will not cause an inheritance tax liability in relation to the trust fund as none of the beneficiaries are treated as owning the trust capital for inheritance tax purposes.

## At other times

Provided you survive until the original maturity date of the plan and the plan reverts to you at that time, it is unlikely that any additional charges to inheritance tax will arise.

If, however, you decide to extend the term of your plan beyond the original maturity date, or your death occurs prior to the maturity date and the trustees do not distribute the plan proceeds before the trust's tenth anniversary, inheritance tax charges may apply:

- To the trust property on the tenth anniversary of trust and periodically thereafter at ten yearly intervals, at a maximum rate of 6%; and
- To property transferred out of the trust to a beneficiary following the trust's tenth anniversary, at a rate proportionate to that which applied at the anniversary.

Where an inheritance tax liability arises, it must be met out of the trust fund or, if the liability has arisen by virtue of a distribution to a beneficiary, out of the distributed amount.

Assuming you made no other chargeable gifts in the seven year period before the date that the trust was created, inheritance tax charges will usually apply only where the value of the trust fund, taken together with the value of previous distributions from the trust, is above the inheritance tax nil rate band.

Please speak to your financial adviser if you need further information on these charges.

## Reporting requirements and the Revert to Settlor Trust

Chargeable lifetime transfers may need to be reported to HM Revenue & Customs (HMRC) on form IHT100 even if no inheritance tax is actually payable. Whether or not a transfer is reportable will depend on the value of the gift and the reporting limits applicable in the tax year that the gift is made.

Where a tenth anniversary is reached or capital is distributed to a discretionary beneficiary, the event may similarly need to be reported to HM Revenue & Customs on form IHT100 regardless of whether any inheritance tax is due.

Speak to your financial adviser for further information on completing and filing the IHT100 (and associated forms) and paying any tax that is due. Note that exempt transfers do not need to be reported.

## Extending the plan maturity date

Should you decide to extend the maturity date of your plan in accordance with the plan provisions, the plan will not revert to you until the revised maturity date.

Extending the maturity date therefore decreases your likelihood of benefit under the plan and correspondingly increases the likelihood of the death benefit becoming payable. Consequently, should you take this option, you will be treated as making a further gift at the date the option is exercised. The value of your gift for inheritance tax purposes will depend on a number of factors, including your state of health, and will need to be calculated actuarially. Extending the maturity date will also have the effect of increasing the value of the trust fund for the purposes of the ten-year anniversary.

## Critical illness cover

If you have selected critical illness cover and are diagnosed as having any one of the range of specified illnesses before the end of the plan, any critical illness benefit that is paid out will be held for your own absolute benefit. Note that where critical illness benefit is paid out, no further benefits will become payable under the plan and both the plan and trust will terminate (please see key features document for more details).

## Surrendering the plan early

When you place your Regular Savings Plan in a Revert to Settlor Trust, the ultimate beneficiary of the plan is determined by your survival or otherwise to the plan maturity date. Surrendering the plan early will not bring the trust to an end and if the plan is surrendered, the surrender proceeds will therefore need to be held or invested until the original maturity date is reached and the beneficiary can be determined. Early surrender is therefore not recommended.

**Important.  
Please read carefully.**

**If there is anything you do not understand or if you would like more information about any aspect, please contact us.**

This brochure gives an overview of the Revert to Settlor Trust and its inheritance tax and other effects. Scottish Widows recommends that before proceeding you should consult your legal and financial advisers. Special consideration may be needed where you are either resident or domiciled outside the UK.

The information given in this brochure is based on our understanding of UK law and HM Revenue & Customs practice at the time of printing. We accept no liability for the accuracy of the information provided. Legislation regarding taxation and Revenue practice may be subject to change, which cannot be foreseen.

References to civil partners are references to individuals who have registered their 'civil partnership' under the Civil Partnership Act 2004.





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