

# Discretionary Loan Trust and Gift Trust from Aviva

Trust taxation summary for tax year 2010/11

On creation of the trust	
<b>Inheritance tax (IHT)</b>	<p><b>Discretionary Gift Trust (Investment)</b> Chargeable lifetime transfer, excess over available nil rate band taxed at lifetime rate (20%).</p> <p><b>Discretionary Loan Trust</b> The Loan Trust is created by making an interest free loan. This is not a transfer of value for IHT purposes and therefore has no IHT implications.</p>
<b>Capital gains tax (CGT)</b>	<p><b>Discretionary Gift Trust (Investment)</b> Trust is created by a gift of cash. There are no CGT implications on a cash gift to the trust.</p> <p><b>Discretionary Loan Trust</b> The trust is created by making a loan of cash to the trustees. There are no CGT implications on making a loan of cash to the trust.</p>
During the trust period	
<b>Income tax</b> The position described assumes that neither the settlor nor his/her spouse/civil partner can benefit under the trust. If they can, any income will be assessed on the settlor as it arises. It should be noted that for the single settlor cases, the standard Loan Trust and Gift Trust documentation will (if unamended) automatically include the settlor's spouse/civil partner as a potential beneficiary.	<p>The first £1,000 of grossed-up income falls in the 'standard' rate band to be taxed at 10% or 20% as appropriate. Income in excess of £1,000 is taxed at 50% on savings income (tax credit 20% plus 30% of gross income due from trustees) and rental income. 42.5% on UK dividends if accumulated (tax credit 10% plus additional 32.5% of gross dividend due from trustees). Trustees to make up to 50% if dividend income is distributed. There is no account of the 10% tax credit in determining tax payable by trustees on distribution.</p> <p>In both the above cases, the tax paid by the trustees is a credit for the beneficiary; however take care where the trust is caught by the parental settlement provisions and the income arising is assessed on the parent.</p>
<b>Inheritance tax (IHT)</b>	10-year periodic charge, effectively 6% on the excess over the available nil rate band.
<b>Capital gains tax (CGT)</b>	CGT is payable at 18% on realised gains over £5,050 (the trust rate is 50% of individual exemption). Annual exemption is reduced if settlor has made multiple settlements. Note that the Government has indicated that it intends to increase the rate of CGT to be more in line with income tax rates.
Transfers out of the trust	
<b>Inheritance tax (IHT)</b>	Distribution to a beneficiary may result in an IHT exit charge depending on the circumstances.
<b>Capital gains tax (CGT)</b>	Tax charge on beneficiary becoming absolutely entitled. Subject to usual conditions and hold-over relief may apply.

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