Reversionary interest trusts and the NRB: IHT planning's flexible friends

A Paraplanners' Assembly Case Study Investigation with Utmost International

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Learning outcomes

- Understand the mechanics and key features of a Reversionary Interest Trust (RIT)
- To consider planning opportunities using RITs especially in conjunction with other options
- Be able to discuss and explain this subject with a client in a clear and concise way
- Apply this knowledge to appropriate, individual, client scenarios

Case study
Elaine

- 63 years old and approaching retirement
- Married with one adult child
- Main asset is house £850,000
- Jointly owned with husband
- Savings of £450,000
  - happy to invest £300,000
- Both have SIPPs
- No liabilities

Case study
Elaine

Objectives

- Reduce IHT liability
- Make provision for their child
- May require access to invested capital

Nil rate band
Lifetime gifts

Possible choices

1. **Outright gifts or gifts into trust during lifetime:** can be made within the donor's (settlor's)nil rate band. After seven years the gift can be ignored for IHT purposes and the nil rate band "used" in making the gift will be restored.
2. **Loan Trusts:** do not usually involve any gift
3. **Discounted Gift Trusts** (Family Legacy Bond): provide access to a regular flow of payments for the donor
4. **Reversionary interest trusts** (Lifestyle Trust)

Nil rate band
Gift every seven years

Age	Tax year	Nil rate band (£)	Value at age 88 (£)	IHT savings (£)
60	2024-25	325,000	1,274,000	509,000
67	2031-32	349,000	972,000	389,000
74	2038/39	416,000	823,000	329,000
81	2045/46	494,000	695,000	278,000
			3,764,000	1,505,000

£325,000 gifted from this policy – make gifts in future year from other policies seven years apart?

As the trusts are seven years apart, they do not interact with each other.

It is assumed that:

- The nil rate band increases by 2.5% CPI from April 2028
- 5% p.a. growth is achieved with results rounded to nearest £1,000
- Figures are rounded to 3sf

Initial thoughts and observations

- IHT position?
- Gifting history?
- Investment time period?
- Attitude to risk?
- Invest in sole or joint names?
- Access & IHT efficient
- Potential options?

Reversionary Interest Trust Solution

- Elaine invests £300,000 into offshore bond
- 600 separate segments
- Vest at 60 segments pa for 10 years
- Each segment worth £500 at outset
- 60 segments in each policy fund
- Each policy fund is £30,000 at outset

Reversionary Interest Trust **Structure**

The second schedule

Plan number (if known) ABC?123456
or
Application date 1 2 / 0 1 / 2 2

Policy number(s)	Total number of policies	Year of entitlement	Policy fund
1-60	60	2023	A
61-120	60	2024	B
121-180	60	2025	C
181-240	60	2026	D
241-300	60	2027	E
301-360	60	2028	F
361-420	60	2029	G
421-480	60	2030	H
481-540	60	2031	I
541-600	60	2032	J
			K
			L
			M

Inside the estate

Settlor

- Reversions to the settlor (bare trust)
- Can be deferred by the settlor i.e. to a later year
- Are not treated as exits for the purposes of the 'relevant property' IHT regime
- Income tax only on 'growth'
- Benefits from top-slicing relief

Deferred reversions

- No immediate income tax charge
- No IHT implications

Outside the estate (after seven years) Trust

Example £300,000 split 10 x £30,000
60 segments (one policy fund) vesting each year

Year 1	Year 2
Year 3	Year 4
Year 5	Year 6
Year 7	Year 8
Year 9	Year 10

Policy Fund A
Year 11?

Beneficiaries

Assignments out of trust:

- During settlor's lifetime
- Deemed 'exits'

Reversionary Interest Trust
Result

- After 7 years the initial transfer falls outside the estate
- The trustees can still allow the full value of 60 segments, including growth, to revert to the settlor every year
- Segments may vest to meet expected or unexpected expenditure
- Vesting date can be deferred by the settlor if monies not needed – no chargeable transfer as value was nil (trustees can defeat rights)
- The trustees can assign policies out of the trust to beneficiaries during the settlor's lifetime

Case study
Edward

- 63 years old and recently retired
- Divorced
- £70,000 pa secure income
- Sufficient for basic expenses
- Main home
- 4 rental properties
- Cash of £350,000
- Happy to invest

Case study
Edward

Objectives

- Reduce IHT liability
- Doesn't want to gift properties
- Doesn't want to make substantial gifts
- Enjoy holidays while healthy

Initial thoughts and observations

- IHT position?
- Total income & tax rate?
- Beneficiaries?
- Gifting history?
- Investment time period?
- Attitude to risk?
- Access needed for holidays
- IHT efficient
- Potential options?

Reversionary Interest Trust
Solution

- Edward invests £300,000 into offshore bond
- 600 separate segments
- Vest segments over 10 years
- Schedule multiple Policy Funds each year
- Each year the trustees can defer the maturing policy or advance/appoint capital to any of the beneficiaries
- Edward initially wishes to defer the vesting of some policies prior to their vesting as he does not require any income

Reversionary Interest Trust **Structure**

No policy funds selected to vest at the first anniversary

Scheduled policies Outside estate unless they revert

Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
20	20	20	20	40	20	40	40	40
20	20	20	20	20	20	20	20	20
	20	20	20	20	20	20	20	20

Reversionary Interest Trust
Defer vesting

Scheduled policies Outside estate unless they revert

Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
20	20	20	20	40	20	40	40	40
20	20	20	20	20	20	20	20	20
	20	20	20	20	20	20	20	20

Edward asks trustees to defer vesting dates from Year 2 until Year 3

Reversionary Interest Trust
Defer vesting

Year 3 now contains five policy funds that will revert to Edward on the anniversary unless deferred again or defeated by trustees

Scheduled policies Outside estate unless they revert

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		20	20	20	40	20	40	40	40
		20	20	20	20	20	20	20	20
		20	20	20	20	20	20	20	20
		20							
		20							

Assignments out of trust:

> during settlor's lifetime

> deemed 'exits'

Reversionary Interest Trust **Assignment**

In Year 3 (before the end of the year) trustees assign 60 segments to Edward's daughter (as beneficiary) to help fund a new property.

1. No immediate chargeable event
2. CEG when surrendered by daughter
3. CEG assessed on the daughter
4. TSR may be available

Scheduled policies Outside estate unless they revert

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		20	20	20	40	20	40	40	40
		20	20	20	20	20	20	20	20
		20	20	20	20	20	20	20	20
		20							
		20							

Assignments out of trust:

> during settlor's lifetime

> deemed 'exits'

Reversionary Interest Trust
Remaining policies

40 segments now remain and will revert to Edward at end of the policy year unless deferred (again) or surrendered by trustees

Scheduled policies Outside estate unless they revert

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		20	20	20	40	20	40	40	40
		20	20	20	20	20	20	20	20
			20	20	20	20	20	20	20

Reversionary Interest Trust
Defer vesting

Edward defers vesting dates until Year 11 on 20 segments.

No CLT and no chargeable event.

Scheduled policies Outside estate unless they revert

Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
20	20	20	40	20	40	40	40	20
	20	20	20	20	20	20	20	
	20	20	20	20	20	20	20	

Reversionary Interest Trust
Vest for a holiday

Leaves one policy fund (20 segments) vest to fund a holiday for Edward. CEG assessed on the settlor as beneficiary of the bare trust:

(A+B) – (C+D)

Scheduled policies Outside estate unless they revert

Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
20	20	20	40	20	40	40	40	20
	20	20	20	20	20	20	20	
	20	20	20	20	20	20	20	

Gain calculation
Full segment surrender

$(A+B) - (C+D)$

A = Surrender value

B = Withdrawals

C = Premium paid

D = Previous excess events

Gain calculation
Full segment surrender

(A+B) – (C+D)

A = Surrender value

B = Withdrawals

C = Premium paid

D = Previous excess events

A = £11,580 (5% growth over 3 years)

B = £0

C = £10,000 (20 segments of £500 each)

D = Previous excess events

Gain = £1,580

Future planning
Edward

- Loan Trust to freeze value
- Absolute DGT
- Discretionary DGT (for unused NRB)
- PETs (care with order of gifts)
- After 7 years
  - > NRB available
  - > DGT
  - > Further RITs
  - > PETS

Reversionary Interest Trust
Summary

- A RIT allows for vesting across a period of time and for different amounts to meet expenditure
- Each policy includes all growth which allows for inflationary protection but will be a chargeable event at that time
- A RIT offers potential for IHT savings, and the flexibility of a standard discretionary trust, but the potential for the settlor to retain access to both the gifted capital and growth
- It enables lifetime planning while providing a flexible structure to transfer wealth to family members both during and after the settlor's life

Reversionary Interest Trust Summary

- The initial gift for a CLT is limited to the nil rate band and there is a potential risk that the trustees will defeat the reversions against the settlor's will
- Growth outside estate

Reversionary Interest Trust Questions

- Can the settlor's spouse be a beneficiary?
- Can the settlor select all the benefits policies to revert in the following year? What are the limits?
- What about Reciprocal Arrangements?
- If Mr and Mrs settle a RIT should their spouse be removed as a beneficiary?
- Can the settlor be a trustee?
- Does the TRS apply?
- What contracts are available CRB, L/A – IoM, Ireland?
- Can additional settlements/premiums be made?