A guide to the Excluded Property Trust

PRUDENTIAL
INTERNATIONAL

Contents

Who is the trust designed for?

The Excluded Property Trust is designed for people who are currently non-UK domiciled. Domicile is a legal concept and is initially decided at birth, normally as the permanent home of your father.

However, as an adult your domicile may change, for example if you settle permanently or indefinitely in another country. Also, for all tax purposes, you will be treated as UK domiciled once you have been a tax resident in the UK for 15 out of the last 20 tax years.

So, if you think that, in the future, you may become UK domiciled or this 15-year trigger point could apply, the Excluded Property Trust could be suitable for you.

The trust could also be useful even if your domicile does not change, if your beneficiaries are UK domiciled. In this case it may help to reduce the inheritance tax liability arising at their deaths.

What advantages does the trust offer?

The Excluded Property Trust can provide all the following features.

- No UK inheritance tax to pay on investments within the trust.*
- Trustee access to the trust investments at any time, for you and your beneficiaries.
- The opportunity to take tax-efficient regular withdrawals† from the trust.
- The trustees have full control over the investments in the trust.
- The opportunity to invest in one of the bonds from Prudential International.
- Diverse investments within these bonds, helping to spread your risk.

The value of an investment is not guaranteed and can go down as well as up. You may not get back the full amount of your investment.

* Assumes the only investments within the trust are Prudential International bonds.

† Any withdrawals taken will reduce the value of the bond. If the withdrawals are more than any overall growth achieved, the value of the bond will reduce below the level of the original capital invested.

What is the Excluded Property Trust?

If you are non-UK domiciled, UK inheritance tax will not be charged on assets you have that are situated outside the UK. But should you become, or be treated as, UK domiciled, inheritance tax will arise on all your worldwide assets, wherever they are held.

The Excluded Property Trust provides a way of protecting investments held outside the UK while you are non-UK domiciled so that, even if your status changes in the future, they will not be liable to UK inheritance tax at your death.

The trustees have full control over the investments and are able to make payments to any beneficiary, including you as the settlor, at any time.

The trust can also provide inheritance tax protection for your beneficiaries, even if they are UK domiciled. The investments will not form part of their estates until actually distributed to them, so any that remain in the trust will not be liable for UK inheritance tax.

What determines where assets are situated?

These are some of the most common rules.

- Property and assets held within the property are situated where they are located. For example, if you are non-UK domiciled and have a furnished house in Spain, this house and its contents would not be liable to UK inheritance tax on your death.
- Cash is situated wherever it is held.
- Bank accounts are situated at the bank branch where the account is held.
- Shares are situated where they are registered.

How the Excluded Property Trust works in practice

This example illustrates the use of the trust in relation to UK inheritance tax. It does not take account of any local tax that might arise in other countries.

This is just an example. It is designed to represent a potential situation and does not relate to any particular individual. You should not look upon this as financial advice or a recommendation of a particular course of action. You should consider your own circumstances fully and may wish to consult a financial adviser to help you make a decision.

Maria is single and is currently non-UK domiciled, but has lived in the UK for several years. Even if she remains non-UK domiciled, once she has been a UK tax resident for at least 15 of the 20 tax years immediately before the relevant tax year, she will be treated as UK domiciled for all tax purposes, meaning her worldwide assets will be liable to UK inheritance tax. She has an estate worth £1 million, which she wants to leave to her children. She is not married or in a civil partnership.

Taking no action

- When Maria died, she was treated as UK domiciled for tax purposes.
- Of her estate of £1 million, the first £325,000 was free of tax, using her "nil rate band" allowance (tax year 2021/2022). The remaining £675,000 was taxable at 40%. Assume no Residence Nil Rate Band.
- This meant a UK inheritance tax bill on Maria's estate of £270,000, which her children had to pay before getting their inheritance.

Using the Excluded Property Trust

- While she was non-UK domiciled, Maria invested £675,000 in a Prudential International Bond, which she put into the Excluded Property Trust.
- At the time of her death, she was treated as UK domiciled for for tax purposes.
- Her total estate was worth £1 million: £675,000 in her Prudential International Bond and £325,000 outside it.
- Her Prudential International Bond was not liable for inheritance tax because it was in the trust. The remaining £325,000 was covered by her nil rate band allowance (tax year 2021/2022).
- As a result, her children had no UK inheritance tax to pay – a saving of £270,000.
- The children, who are UK domiciled, can receive money from the trust as they need it, but any that remains in the trust when they die will also be free of UK inheritance tax.

How the trust is set up

There are three main rules to follow to ensure that trust investments will be outside the UK inheritance tax provisions.

- You must not be, or be treated as, UK domiciled when you set up the trust.
- The trust must not include any UK-based assets.
- If you later become UK domiciled, or treated as UK domiciled for inheritance tax purposes, you must not put any further money or assets into the trust.

The trust is set up to run for 125 years. After your death, it can be continued, with the assets remaining within it, or it can be wound up by the trustees and the assets distributed to the beneficiaries.

If, but only if, there is trust property remaining at the end of the trust period the remaining trust fund will be split in equal shares between your children, grandchildren and great grandchildren, who are alive at that time. However, remember that the trustees are free to distribute the trust fund to any beneficiary at any time during the trust period.

If you and your spouse or civil partner are both non-UK domiciled, you may set up the trust together as joint settlors. Alternatively, you may each set up a trust individually.

The trustees

The trustees are the people who will manage the trust and who will have control over the trust fund investments.

You will automatically be one of the trustees. If two of you are setting up the trust jointly you will both be trustees. There should be at least two individual trustees (or a corporate trustee). You can appoint additional trustees in the Trust Declaration form.

After your death, the remaining trustees will have considerable freedom to decide who is to benefit from the trust fund. So it is important to give careful thought to your choice of trustees, so that they will be sufficiently familiar with your wishes to enable them to take them into account when exercising their discretion. The trustees can be based either in or outside the UK. An expression of wish form, although not legally binding, may be helpful in guiding the trustees.

The beneficiaries

The beneficiaries are the people who will benefit from the trust. The Trust Provisions include a standard list of these:

- yourself,
- your present, or any future, spouse, widow(er) or civil partner,
- your children and other descendants,
- your present spouse's/civil partner's children and other descendants, and
- any spouse, widow(er) or civil partner of your and your present spouse's/civil partner's children and other descendants.

All the above will be automatically included as people who may benefit from the trust. You may include anyone else you would like to benefit as an additional beneficiary.

The trustees, at their discretion, may make payments from the trust fund to any of the beneficiaries, including you, at any time. There is no restriction on when or how payments can be made during the trust period, either before or after your death.

Investment options

The investments in the Excluded Property Trust will normally be one of the following bonds:

- International Portfolio Bond

For further information please see our brochure, Your guide to The International Portfolio Bond: **www.pruadviser.co.uk/pdf/NIPB521707.pdf**

- Prudential International Investment Bond

For further information please see our brochure, A guide to the Prudential International Investment Bond: **www.pruadviser.co.uk/pdf/PIIBB10008.pdf**

- Prudential International Investment Portfolio

For further information please see our brochure, A guide to the Prudential International Investment Portfolio: **www.pruadviser.co.uk/pdf/PIIPB10009.pdf**

The funds for the initial investment should come from a non-UK source (e.g. a non-UK bank account).

Generally, a bond ends when the "life assured" dies, at which time it would pay out a lump sum benefit. To ensure that the bond will not finish on your death (which could give rise to an income tax charge), you may write it on a "life of another" basis. Both bonds can be written with up to 10 lives assured subject to insurable interest requirements.

Alternatively, you may select the Capital Redemption Option, in which case there is no life assured. Your Financial Adviser can give you more information on what would be suitable for you.

The bond is set up as a number of identical policies (normally 20). Each of these can be separately cashed in or assigned (a legal transfer of ownership) by the trustees. This can provide a more tax-efficient way to take money from the bond, for example to make payments to a beneficiary or to distribute assets when the trust is brought to an end.

Tax

Income tax

The profit made on your bond, known as the "chargeable event gain", is potentially liable for UK income tax. This will arise when there is a "chargeable event", for example:

- the bond as a whole is cashed in,
- individual policies within the bond are cashed in,
- regular and one-off withdrawals, taken from the bond including any adviser charges you have asked us to take from your bond, exceed the 5% tax-deferred allowance, or
- a benefit becomes payable on the maturity date or death of the life assured.

There is a hierarchy of people who may be liable for any tax charge that arises, starting with yourself as the settlor. If the settlor is alive and resident in the UK when a chargeable event occurs, or it occurs in the same tax year in which the settlor dies, the "chargeable gain" will be taxed on the settlor as if it were part of their income.

If the settlor is not resident in the UK or has died in a previous tax year, the tax charge will be transferred to the trustees (to be paid from the trust, not personally). Finally, if the trustees are not resident in the UK for income tax purposes, the charge will fall on any beneficiaries who are resident in the UK, when they receive money from the trust.

The information in this brochure is based on our current understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice.

The impact of taxation (and any tax reliefs) depends on individual circumstances. It does not take into account the tax situation of countries other than the UK, which should also be considered.

Tax benefit on your bond

Prudential International is based in Dublin, Ireland and is not liable for any form of tax on the gains on its customers' funds. It also has the advantage of being able to receive some investment income without the deduction of tax. Overall, its funds suffer less tax than equivalent UK life funds.

This tax advantage is a direct result of Prudential International choosing to be based in Dublin. It can provide an added boost to the gain on your investment compared with the life funds of UK based companies.

As you are investing with Prudential International, the fund your investment goes into is largely tax-free (apart from any irrecoverable withholding tax).

Further information

To set up your trust, simply complete the Prudential International Excluded Property Trust Declaration Form, including details of your chosen bond.

Your Financial Adviser will give you a personal illustration for each bond within your Excluded Property Trust, together with a Key Features Document describing in more detail how the chosen bond works.

Important notes

Prudential International is not providing any investment advice, if you're thinking of using the Excluded Property Trust, or doing anything under the provisions of the trust, must seek and rely on the advice of a suitable tax and trust planning practitioner. You should seek this appropriate professional advice before proceeding. The Trust Declaration form accompanying this brochure is provided for your use and consideration on this understanding. This is very important for a number of reasons.

- This trust will not be suitable in all cases and other forms of tax and trust planning may be more suitable in individual circumstances.
- Creating a trust can have taxation as well as legal consequences.
- Once a trust has been created it cannot be revoked.
- The trustees have special duties to the settlor and beneficiaries and the misuse of a trust power by a trustee can make her/him personally liable for resulting losses.
- Situations that may involve international or cross-border legal and taxation issues can be extremely complex.
- Tax and trust law can be open to differing interpretations.

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Every care has been taken as to the accuracy of the information given, but it must be appreciated that neither

Prudential International nor its representatives can accept responsibility for loss, however caused, suffered by any person who has acted or refrained from acting as a result of material published in or in conjunction with this brochure or the accompanying Trust Declaration form.

Investors must consult their own professional advisers for advice relevant to their own circumstances.

Full terms and conditions are available on request from Prudential International or contact your Financial Adviser for more details.

www.pru.co.uk/international

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