Standard Life
There's a lot to look forward to

Podcast series
Bare Trust

Podcast transcript

It may not be something your client has given much thought to, but when making a financial plan, it's important to think about how clients can help out their families financially too.

Giving money to family and how to manage it are significant decisions.

Many clients want to make gifts to their loved ones, but often want to retain control over how the money is invested, especially when they are gifting to a child.

I'm Stephanie Garrigan from Standard Life's Business Services Team, and today I'm joined by Sinead McEvoy, manager of the Technical Solutions Team, to talk about Bare Trusts.

This podcast is intended for financial adviser use only and does not constitute advice.

Standard Life has a bare trust to use with our savings and investment policies which can help your clients save for their family, and benefit from the small gift exemption and tax thresholds that exist today.

Stephanie: So tell me Sinead, what is a Bare trust?

Sinead: A bare trust is often used for children under the age of 18. A bare trust arises when money is placed in a trust fund in the name of the trustees but is treated as legally belonging to the child at all times.

Stephanie: Who might use a bare trust?

Sinead: It is used by clients who want to make a gift of money to children and benefit from today's Capital Acquisitions Tax thresholds and small gift exemption, and who also want to maintain control over how the money is invested and want to use a life investment policy to do this.

Stephanie: Why use a bare trust Sinead?

Sinead: Well Your clients avail of the thresholds and the tax rates that apply today. They can select who they want to benefit from the policy today and the value of the policy can be paid to the chosen beneficiary, without any need to wait for probate in the event of a payment on death. This is because the gift is made once the trust is complete. And it's flexible– your clients choose when and how much to give.

Stephanie: And are there occasions where a bare trust wouldn't be suitable?

Sinead: Yes, a bare trust should not be used if your client wishes to retain personal ownership of the money or if your client might need access to the money in the future for their own personal use.

The money invested belongs to the beneficiary as soon as it's invested under trust. From then on, the money can only be used for the benefit of the named beneficiary.

Standard Life's Bare Trust has been designed for a beneficiary who is under 18 years of age, if they are over 18, it is not suitable.

Stephanie: Who can be appointed as the trustees of a Bare trust?

Sinead: Your client can be included as a trustee if they wish. This can give them control over the decisions that are made about the investment. It's also best practice to have a second trustee (such as the child's parent), in case anything happens to the first trustee.

Stephanie: What happens when the beneficiary would reach age 18?

Sinead: Our trust form is designed for a beneficiary under age 18. Once the child reaches 18 the bond held under the Bare Trust can be transferred in to the child's name via a Deed of Appointment. This deed will transfer ownership of the bond that was held in the bare trust to the beneficiary, who has now reached age 18.

If your client's proposed beneficiary is over 18 then the Bare trust is not suitable and a standalone policy can be set up in their own name.

Stephanie: Can the person giving the gift change their mind and access the funds for their own use if needs be?

Sinead: Once a bare trust is set up, the person they're giving the money to becomes the legal owner.

It's no longer your client's money. They should be certain they won't need access to it before setting up a bare trust.

Stephanie: Who can be appointed as the trustees?

Sinead: Your client can be included as a trustee if they wish. This can give them control over the decisions that are made about the investment. It's also best practice to have a second trustee (such as the child's parent), in case anything happens to the first trustee.

Stephanie: Who's the gift for?

Sinead: It's a gift, given to the beneficiary. Is your client confident that they won't change their mind about gifting money to this particular beneficiary? If there are any doubts, then using a bare trust is not appropriate.

Stephanie: You mentioned earlier that clients can benefit from today's Capital Acquisitions Tax thresholds and the Small Gift Exemption, tell me a little more about that

Sinead: Sure, if you receive a gift you may have to pay gift tax on it. If you receive an inheritance you may have to pay inheritance tax. Both of these are types of Capital Acquisitions Tax or CAT.

Gifts and inheritances can be received free from Capital Acquisitions Tax up to a certain amount. The tax free amount varies depending on your relationship to the person giving the gift. There are three different groups. Each group has a threshold that applies to the total amounts of gifts and inheritances you've received since 5 December 1991, from people in that group.

- Group A applies where the beneficiary, the person receiving the benefit is a child of the person giving it and has a tax free threshold of €320,000.
- Group B applies where the beneficiary is a brother, sister, niece or nephew and has a tax free threshold of €32,500.
- Group C applies in all other cases and has a tax free threshold of €16,250.

CAT only applies to amounts over the relevant group threshold and is charged at 33%.

Gifting money to a child by setting up a bare trust can be tax efficient, if the gift (when combined with any other gifts or inheritances from people within the same group) is under the group threshold. That way you don't create a tax bill . By using the bare trust, the gift is made today and so today's thresholds and exemptions apply.

Stephanie: So tell me about the Small gift exemption?

Sinead: You can also receive a gift of up to €3,000 free from CAT from any one person in a calendar year. This gift will not count towards your relevant tax free threshold and is referred to as the small gift exemption.

For example, grandparents can each give their grandchild €3,000 each year without the child incurring CAT. The child can potentially receive up to €6,000 annually from both grandparents tax free. That is, €3,000 each and these gifts will not count towards the child's CAT threshold. Parents, aunts, uncles and godparents can make similar gifts, without the child incurring CAT.

Where the child is under 18, the grandparent can choose to set up a bare trust so the trustees can manage and invest the money for the child until they are old enough to do so themselves.

The majority of our Bare Trust cases are set up to avail of the Small Gift Tax exemptions.

Stephanie: So once the money is invested, what are the tax implications?

Sinead: The growth on a life policy or savings policy is subject to exit tax at 41%. Standard Life will deduct any tax due directly from the policy and pay it to Revenue.

Stephanie: And when will Exit Tax be deducted?

Sinead: Exit Tax is calculated and deducted (if applicable) whenever any money is paid from the savings plan or on every 8th anniversary of your plan. If there has been no growth on the savings plan then no exit tax is payable.

Stephanie: Thanks Sinead, where can people go for more information on this?

Sinead: For advisers, we have customer and advise guides available on brokerzone.ie. And of course, we have the Technical Solutions Team. We're available to guide and assist and the best way to get started is to drop us an email at **technicalsolutions@standardlife.ie**

Stephanie: Thanks Sinead. There's a lot in that, and I think it's clear that proper financial and tax advice is needed as always.

Hopefully it's given you some more insight on our Bare trust proposition, If you need the fine detail, visit the Technical Solutions section on Brokerzone where you'll find all the facts you can rely on to help deliver better outcomes for customers.

All that's left to say is thank you for listening; this podcast was recorded on the 30th of May 2019. All information is correct at time of recording. Standard Life International dac is regulated by the Central Bank of Ireland.

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