

Flexible Reversionary Trusts (Lecture P1323 – 7.56 minutes)

Flexible reversionary trusts (FRTs) are a relatively new development that most tax advisors probably won't have encountered yet. They are very similar to discounted gift trusts (DGTs), which are a long-standing form of IHT planning vehicle. Both involve the settlor transferring an investment bond into trust and retaining the right to certain benefits from it, which may be in the form of (inter alia) a percentage amount, a cash sum or an entitlement to one or more individual policies.

These benefits only become payable to the settlor provided they are alive at the date the payment falls due. The other benefits under the bonds are held for the chosen beneficiaries.

Under a DGT, the rights retained by the settlor are indefeasible. Thus, the transfer of value made by the settlor when entering a discounted gift scheme is reduced by the value, if any, of those retained rights.

In contrast, under an FRT, the settlor's retained rights can be defeated or deferred by the trustees. The settlor can therefore ask the trustees to defer their entitlements from vesting, which is therefore why the trusts are referred to as 'flexible'. This lack of certainty over whether the payments will actually be made to the settlor means that the settlor's retained rights have no open market value. The settlor therefore makes a transfer of value equal to the full sum invested when a FRT is set up; no discount is applied for IHT purposes.

Most importantly for investment managers, the option not to take withdrawals may affect investment policy compared to a DGT, as if no withdrawals are expected, the whole fund can be invested for the long term.

Contributed by Kevin Read