

AXA Isle of Man Limited

Loan Trust

Discretionary Trust Deed and Loan Agreement

Please note AXA Isle of Man Limited markets its products under the AXA Wealth International (AWI) brand. Please ensure that all sections are fully completed. Please note that in this form words in the singular shall include the plural and vice versa.

Important Information and Guidance for the Settlor/Lender

This Trust Deed and Loan Agreement may be used by a single Settlor who wishes to establish a Discretionary Trust funded by a loan rather than an outright gift. The Settlor provides an interest-free loan to the Trustees, repayable on demand, anticipating that the Trustees will invest the money into a single premium bond from AXA Isle of Man Limited.

The Trustees then complete the Trustee and Corporate Trustee Application form for the investment into an Evolution bond (the bond) available from your financial adviser. This is completed by all the Trustees and must be dated after the date of the Loan Agreement in part 2 of this form.

To ensure the UK Inheritance Tax (IHT) benefits of the Discretionary Trust are met, apart from loan repayments, the Settlor cannot benefit from the Trust Fund and must not be added as a Potential Beneficiary of the trust.

The amount of any loan outstanding on the Settlor's death is repayable to the Settlor's personal representatives on demand, subject to the terms of the loan agreement which limits the outstanding loan to the value of the trust fund plus any prior distributions to the Beneficiaries. Any outstanding loan amount will be included in the Settlor's estate for probate and UK IHT purposes. Any investment growth in excess of the outstanding loan is outside the Settlor's estate for UK IHT purposes and will be held by the Trustees for the Potential Beneficiaries.

As the Trust Fund is invested in a bond, lump sum repayments of the loan may trigger a charge to Income Tax if a chargeable event occurs.

There are some additional notes on taxation at the back of this form which we recommend you discuss with your financial adviser.

AXA Isle of Man has taken every care in preparing this Trust Deed and Loan Agreement, but cannot take any responsibility for the legal/taxation consequences of using it. AXA Isle of Man strongly recommends that you consult your own professional advisers and seek taxation advice in your country of residence and/or domicile. Please note that the Trust is governed by the laws of England and Wales.

Please remember to:

- Read the Loan Trust Guide, the Evolution Product Guide and all supporting documents with the benefit of professional advice.
- Read the **'Important Warning'** on pages 3 and 9.
- Complete the form in **black ink** and **BLOCK CAPITALS**
- Complete the Loan Agreement in part 2 after the Trust Deed.
- Ensure all sections are complete and that any amendments are signed and dated by all parties.
- Ensure all signatures are witnessed where indicated by an independent witness.
- Attach any additional instructions and all supporting documents securely to the back of this form.
- Return the completed form and supporting documents to **AXA Isle of Man Limited, Royalty House, Walpole Avenue, Douglas, Isle of Man, IM1 2SL, British Isles.**

Politically Exposed Persons

Under Anti-Money Laundering regulations we are required to identify the Settlor and all the Trustees. We are also required to identify any Politically Exposed Persons and apply enhanced customer due diligence. Please answer the following questions:

- 1 Is the Settlor, proposed Trustee or any known Beneficiary now, or previously been, a Head of State, or a holder of a political or government post, including the diplomatic service; a member of the Judiciary or the Military; or an employee of a State Owned Corporation or a member of a Central Bank? yes no
- 2 Is the Settlor or any party linked to the trust now, or previously been, connected with any international organisations? yes no
- 3 Does any close relative or business associate of the Settlor, Trustee or any known Beneficiary fall into any of the categories mentioned in question 1 and 2 above? yes no

If the answer is 'yes' to any of the above questions, please give details of any organisation involved, and the relevant person, including country, the position held, when held and a brief description of the role undertaken. Based on the information provided, we reserve the right to request further information or documentation.

Please see our separate document entitled 'Information on Politically Exposed Persons' which is available from your financial adviser through our website, www.axa-iom.com. This includes a list of those parties considered to be close relatives.

Who's who under this Trust Deed and the Loan Agreement

The Settlor/The Lender – The person who creates the Trust, nominates all other parties to the Trust and who provides an interest free loan to the Trustees.

The Trustees – The persons who are the legal owners of the Trust Fund and who must manage it in accordance with the terms of the Trust. The Trustees are also the persons who accept the loan and who are responsible for repaying the loan to the Settlor/Lender or to their estate. Subject to their obligation to repay the loan, the Trustees will exercise their discretion in appointing benefit from the Trust Fund (if any) to the Potential Beneficiaries. It is therefore important that the Trustees are familiar with the provisions of the Trust and of the Loan Agreement and understand their obligations and liabilities as Trustees. The Settlor may be appointed as a Trustee but cannot act alone so at least one additional Trustee **must** be appointed at the same time.

The Potential Beneficiaries – The persons who may receive benefits from the Trust Fund if the Trustees so decide. A Potential Beneficiary is anyone within the categories of Potential Beneficiaries described in the Trust Deed, or who has been nominated in writing to the Trustees by the Settlor during the Settlor's lifetime. The Settlor cannot be a Potential Beneficiary.

Notes for completing the Trust Deed

Section A – Settlor's Declaration

This is where the Settlor declares his intention to make an interest free loan to the Trustees thereby creating the Trust from the effective date.

Section B – Definitions

Effective Date – The Trust Deed should be completed and dated prior to completing the Loan Agreement in Part 2.

Trust Fund – All money derived from an interest free loan or loans from the Settlor and all property representing it and all other property received or held by the Trustees from time to time subject to the provisions of this Trust.

The Settlor – The details of the creator of the Trust should be included here.

The Trustees – The details of the persons who will act as Trustees should be set out here. If the Settlor is to be a Trustee they should be named again here. Where individuals are to act as Trustees at least two **must** be appointed. If a Corporate Trustee is appointed, one is sufficient.

Potential Beneficiaries – This section sets out the categories of persons, excluding the Settlor, any one or more of whom could receive benefit from the Trust if the Trustees so decide. The Settlor may delete any category which is not required before signing the Trust Deed. During their lifetime, the Settlor can also nominate additional Potential Beneficiaries to the Trustees in writing.

Section C – Trust Provisions

This section describes the terms of the Trust and the powers given to the Trustees. It is important that the Settlor and the Trustees are familiar with the Trust Provisions and the extent of the Trustees' discretionary powers. **Your attention is drawn to the effect of clauses C3 and C9 of the Trust Provisions. Clause C3 limits the Trustees' duty of care, whilst clause C9 limits the Trustees' liability for breaches of trust and loss to the Trust Fund.** This means that the Trustees are not liable for any loss to the Trust Fund except that arising from their own fraud or dishonesty.

Your attention is also drawn to clause (d) of the Loan Agreement in part 2 which has the effect of limiting the Trustees personal liability in respect of loan repayments to the value of the Trust Fund when payment falls due. If you have any questions in respect of these or any other provisions of the Trust or Loan Agreement please discuss them with your legal adviser.

Section D – Signatures

The Settlor and all the Trustees must sign in this section and each signature should be witnessed by an independent person who is aged 18 or over, and who is not a party to this Trust Deed or a Potential Beneficiary.

◀ This symbol shows where the Settlor, Trustees and witnesses must sign.

Alterations/Corrections

No alterations should be made to this Trust Deed, other than where the Settlor wishes to amend the categories of Potential Beneficiaries. If any mistakes are made whilst completing this Trust Deed, corrections must be clear and made in indelible ink. Correction fluid must not be used. You and your witness should initial any corrections before signing this Deed.

Correspondence

Please name the Trustee who is to receive all future correspondence in the box below.

Part 1 - Trust Deed

Important Warning

This Trust Deed has been prepared in accordance with AXA Isle of Man's interpretation of the law of England & Wales and HM Revenue & Customs practice as at 1 May 2014. AXA Isle of Man accepts no responsibility for any loss incurred by the Settlor or any other person, arising out of the use of this Trust Deed. Legislation and practice regarding taxation are subject to changes which cannot be foreseen and tax treatment may depend on individual circumstances. Before completing this Trust Deed, the Settlor should take appropriate professional advice as to its suitability.

A Settlor's Declaration

The Settlor named in part B3 intends to make an interest free loan or loans to the Trustees with the intent that the monies loaned shall be held by the Trustees (subject only to the right of the Settlor to be repaid the principal amount of the loan on demand) subject to the Trust Provisions set out below. The Trust shall be irrevocable.

B Definitions

In this Trust the following words will have the meanings set out below and unless the context does not permit the masculine will include the feminine and the singular will include the plural and vice versa.

1 'Effective Date'

This Trust is made on day of 201

between the Settlor and the Trustees.

Please date the Trust Deed when all signatories have completed it. It must be dated before the date of the Loan Agreement in Part 2.

2 The 'Trust Fund' means

All money derived from an interest free loan or loans from the Settlor, and all property representing it and all other property received or held by the Trustees from time subject to the provisions of this Trust.

3 The 'Settlor'

The 'Settlor' means the person referred to below.

	Settlor
1 Name	
2 Address	
	Postcode
3 Telephone number	
4 Email address	
5 Date of birth (dd/mm/yyyy)	
6 Place of birth	
7 Nationality	

B Definitions (continued)

4 The ‘Trustees’

The ‘Trustees’ means the persons named below for the time being acting under the Trusts declared in this Deed.

I/we hereby appoint AXA Isle of Man Administration Limited as sole Trustee yes no

If you have ticked ‘yes’, please leave the boxes blank and proceed to section 5.

If you have ticked ‘no’, please complete with the details of the Trustees to be appointed.

If the Settlor is to be a Trustee, they should be included here as well.

Where individual Trustees are appointed at least two trustees must be appointed.

If you wish to appoint AXA Isle of Man Administration Limited as your trustee, you will also need to complete AXA Isle of Man Administration Limited’s Appointment of Trustee form which is available on request from us.

	Trustee 1	Trustee 2
1 Name		
2 Maiden name or any previous names (if applicable)		
3 Address		
	Postcode	Postcode
4 Telephone number		
5 Email address		
6 Date of birth (dd/mm/yyyy)		
7 Nationality		

	Trustee 3	Trustee 4
1 Name		
2 Maiden name or any previous names (if applicable)		
3 Address		
	Postcode	Postcode
4 Telephone number		
5 Email address		
6 Date of birth (dd/mm/yyyy)		
7 Nationality		

AXA Isle of Man Administration Limited is an Isle of Man registered company (No 106739C). Registered Office: Royalty House, Walpole Avenue, Douglas, Isle of Man, IM1 2SL, British Isles. Registered with and licensed by the Isle of Man Financial Services Authority.

B Definitions (continued)**5 The 'Potential Beneficiaries'**

The categories of Potential Beneficiaries are defined below. These are the persons who may receive benefit from the Trust Fund if the Trustees decide to appoint benefit to them. The Settlor must not be included here.

- a) Any child or descendant of the Settlor whenever born.
- b) Any spouse/civil partner or former spouse/former civil partner or widow/widower/surviving civil partner of the Settlor.
- c) Any spouse/civil partner or former spouse/former civil partner or widow/widower/surviving civil partner of any child or descendant of the Settlor whenever born.
- d) Any children of any spouse of the Settlor whenever born.
- e) Any brother or sister of the Settlor and their children.
- f) Any one or more of the persons entitled under the Will of the Settlor.
- g) Any one or more of the persons entitled under the rules relating to intestacy to any interest in the estate of the Settlor.
- h) Any person or a charity, not already included in the categories above, and other than the Settlor, whose name has been notified to the Trustees in writing by the Settlor during the Settlor's lifetime as being a person the Settlor wishes the Trustees to consider as a Potential Beneficiary.

The Settlor may delete any category of beneficiary which is not required, but may not delete them all. Any amendments must be clear, and must be initialled and dated by the Settlor and the Trustees before completing this Deed.

6 'Civil Partner' and 'Civil Partnership' have the same meaning as in Section 1 of the Civil Partnership Act 2004.

7 'Person' means a person anywhere in the world and includes a Trustee.

8 'Trust Period' means One Hundred and Twenty Five years from the Effective Date stated in B1.

C Trust provisions**1 Trustees' Discretion**

- a) The Trustees shall hold the Trust Fund for the benefit of any one or more of the Potential Beneficiaries and in such shares (or wholly to one) and for such interests (including creating further Trusts) as they shall appoint.
- b) Subject to any appointment the Trustees shall accumulate the whole or part of the income (if any) of the Trust Fund. That income shall be added to the Trust Fund.
- c) The Trustees have power to apply any sum of income or capital towards the maintenance, education or benefit of any Beneficiary.
- d) The Trustees may pay any such sum of income or capital to a minor's parent or guardian for the minor's behalf and the receipt of the parent or guardian shall be a complete discharge to the Trustees.
- e) Subject to and in default of any appointment, and so far as any such appointment shall not extend or shall fail for any reason, then the Trustees shall hold the Trust Fund on trust for such of the Potential Beneficiaries that are still living at the end of the Trust Period, and if more than one in equal shares absolutely.
- f) Subject to that, if there are no Potential Beneficiaries alive at the end of the Trust Period or the Trust Fund is not wholly disposed of, then the Trustees shall hold the Trust Fund and the income thereof for such charities as the Trustees shall determine.

2 Settlor Exclusion Clause

No power conferred by this settlement shall be exercisable, and no provision shall operate so as to allow any part of the Trust Fund to become payable to or applicable for the benefit of the Settlor.

3 Trustees' power to borrow, deal with the Trust Fund and invest as if they are the absolute beneficial owners

The Trustees shall have all the administrative powers of an absolute beneficial owner over the Trust Fund. In particular:

- a) The Trustees may borrow with or without the security of the Trust Fund.
- b) The Trustees may surrender or assign any policy held in the Trust Fund.
- c) The Trustees may retain any policy held in the Trust Fund without being obliged to consider whether it should be surrendered or assigned.

C Trust provisions (continued)

- d) The Trustees may invest the Trust Fund in any way they think fit, including in property in any part of the world and in unsecured loans.
- e) In discharging their investment function the Trustees do not have any of the duties described in the Trustee Act 2000 ("the Act") or any similar duties however they arise and in particular:
 - (i) the duty of care in section 1 of the Act
 - (ii) the duty to take advice in section 5 of the Act
 - (iii) the duty to have regard to the standard investment criteria in section 4 of the Act
 - (iv) the duties in the Act concerning the appointment of an investment manager
 - (v) any duty to diversify the Trust Fund or to consider diversifying the Trust Fund
 - (vi) any duty to balance the interests of beneficiaries with different interests
- f) The Trustees may delegate investment management responsibility or any aspect of it on any terms to any person or persons including the Settlor or the Settlor's adviser and they have no responsibility to supervise or monitor the way in which the delegate discharges that responsibility or to monitor the suitability of the delegation or of the delegate.
- g) The Trustees may consider advice or representations from any person they think fit in relation to investment or any other dealing with the Trust Fund but they do not have any obligation to act upon any such advice or representations.

4 Trustees' power to lend moneys to Beneficiaries

The Trustees can lend money to any of the Potential Beneficiaries on any terms they think fit.

5 Receipt of benefits of the Trust Fund

Where a company pays the proceeds of any policy or units in accordance with the Trustees' instructions this will be a full discharge for the company. The Trustees are responsible for passing the benefits to the Beneficiaries.

6 Appointment and replacement of Trustees

- a) The power to appoint new or replacement Trustees shall rest with the Trustees.
- b) A person may be appointed to be a Trustee notwithstanding that such person is not resident in the United Kingdom. Remaining out of the United Kingdom for more than 12 months shall not be a ground for the removal of a Trustee.
- c) The Trustees may remove and/or replace a Trustee who cannot be found provided reasonable efforts have been made to find the Trustee being removed and all the remaining Trustees execute the deed of removal/replacement.

7 Payments to Trustees

- a) Trustees may be in a profession or business, for example as a solicitor or an accountant. If they or their firm does work in relation to the Trust in a professional capacity, they will be entitled to be paid all reasonable professional fees and charges for their work. This entitlement applies to all Trustees other than the Settlor.
- b) Any Trustee is entitled to be reimbursed out of the Trust Fund for any reasonable expense incurred by that Trustee in respect of taking professional advice, including advice in respect of investments, in relation to this Trust and to recover all legal costs reasonably incurred in respect of the Trust. The timing of any repayment permitted under this clause will be subject to any legal or contractual restrictions placed on the assets of the Trust Fund. Any reimbursement permitted will be limited to the realisable assets of the Trust Fund.

8 Power to vary administrative provisions

When in the management or administration of the Trust Fund, the Trustees wish to carry out any transaction or dealing with the Trust Fund but they are advised that they do not have the necessary power to do so or where the Trustees wish to release or restrict any existing power they have, they may execute a deed giving themselves the necessary power or releasing or restricting their existing powers.

9 Protection of the Trustees generally

- a) No Trustee shall be liable for any breach of trust or any loss to the Trust Fund (whether committed or caused by the Trustee or by any other person) unless it is the result of the fraud or dishonesty of that Trustee.
- b) No Trustee shall be bound to take any proceedings against a co-Trustee or former Trustee or their personal representatives for any breach or alleged breach of trust committed by such co-Trustee or former Trustee.
- c) No Trustee shall be bound to take any proceedings against any third party in respect of any actual or potential legal claims it may have whether in favour of the Trustee or the Trust Fund.

10 This settlement will be governed by the laws of England and Wales.

D Signatures

IN WITNESS the parties have executed this Deed on the day and year first above written.

	Settlor	
1 Signed and delivered as a Deed by the said (full name of Settlor)		
2 Settlor's signature		
3 In the presence of (full name of witness)		
4 Witness signature		
5 Witness address		
	Postcode	

If the Settlor is also to be a Trustee they need to sign both in this section as a Settlor and as a Trustee in the section below.

◀ Sign here

All signatures must be witnessed by someone who is aged 18 or over; who is not related to you and is not a party to this Trust or a beneficiary.

◀ Sign here

	Trustee 1	Trustee 2
1 Signed and delivered as a Deed by the said (full name of Trustee)		
2 Trustee's signature		
3 In the presence of (full name of witness)		
4 Witness signature		
5 Witness address		
	Postcode	Postcode

Each Trustee must sign the form.

Please leave blank if appointing AXA Isle of Man Administration Limited as Trustee.

◀ Sign here

◀ Sign here

D Signatures (continued)

	Trustee 3	Trustee 4
1 Signed and delivered as a Deed by the said (full name of Trustee)		
2 Trustee's signature		
3 In the presence of (full name of witness)		
4 Witness signature		
5 Witness address		
	Postcode	Postcode

◀ Sign here

◀ Sign here

Notes

Part 2 - Loan Agreement

Notes for completing the Loan Agreement

This Loan Agreement must be completed and dated after the Trust Deed.

The Loan Agreement when completed should be retained by the Lender, with a copy provided to the Trustees.

The Trustees should keep careful records of all loan repayments so that they can account for the outstanding balance at any time.

E Loan Agreement

Important Warning

This Loan Agreement has been prepared in accordance with AXA Isle of Man’s interpretation of the law of England and Wales as at 1 May 2014. Before completing the Loan Agreement, the parties should take the advice of their own professional adviser as to its suitability. AXA Isle of Man accepts no responsibility for any loss incurred by the user or any other person arising out of the use of this Loan Agreement. Legislation and practice regarding taxation are subject to changes which cannot be foreseen and tax treatment may depend on individual circumstances.

This Agreement is made on the **day of** 201

between the Lender and the Trustees.

Please date at least one day after the date of the Trust Deed.

Lender	
1 Name	
2 Address	
	Postcode
3 Telephone number	
4 Email address	
5 Date of birth (dd/mm/yyyy)	
6 Place of birth	
7 Nationality	

	Trustee 1	Trustee 2
1 Name		
2 Maiden name or any previous names (if applicable)		
3 Address		
4 Telephone number	Postcode	Postcode
5 Email address		
6 Date of birth (dd/mm/yyyy)		
7 Nationality		

Please insert the details of the individual Trustees or corporate Trustee from Part 1 the Trust Deed (or a subsequent appointment of Trustees, if applicable).

E Loan Agreement (continued)

	Trustee 3	Trustee 4
1 Name		
2 Maiden name or any previous names (if applicable)		
3 Address		
	Postcode	Postcode
4 Telephone number		
5 Email address		
6 Date of birth (dd/mm/yyyy)		
7 Nationality		

Whereas	
1 The Lender executed a Trust Deed dated (Effective Date as per Part 1 B (1))	<input type="text"/> (dd/mm/yyyy)
2 The Lender now desires to lend the Specified Amount to the Trustees to be held by them upon the terms of the said Trust and on condition that the loan will be free of interest and repayable on demand.	£* <input type="text"/> <input type="text"/> <input type="text"/>

Now this Deed witnesses that the Lender lends the Specified Amount* to the Trustees upon the following terms and conditions:

- a) The loan shall be free of interest.
- b) The loan shall be repayable by the Trustees upon demand made in writing by the Lender at any time.
- c) The Trustees acknowledge receipt of the Specified Amount as a loan from the Lender by a cheque payable to the Trustees or a cheque payable to AXA Isle of Man Limited or in some other form 'for the purchase of an Investment Bond to be issued to the Trustees' which places the Specified Amount in the control of the Trustees.
- d) The Trustees are personally liable for any sum payable under this loan agreement only to the extent of the value of the Trust Fund when the payment falls due. When computing the value of the Trust Fund for these purposes, the Fund shall be treated as still including any property which has been distributed to Beneficiaries since this deed was entered into.
- e) The Lender agrees that, on retirement, a Trustee may be released from his or her liability to pay the loan by the continuing Trustees provided that the continuing Trustees undertake to be jointly liable to the Lender for all sums due under the Loan Agreement as if they were the original parties to the Loan Agreement.

* The Specified Amount stated must exclude any initial adviser charge or trustee appointment fee being facilitated by the bond provider prior to investment and which do not form part of the loan.

E Loan Agreement (continued)

IN WITNESS the parties have executed this Deed on the first date set out above.

	Lender	
1 Signed and delivered as a Deed by the said (full name of Lender)		
2 Lender's signature		
3 In the presence of (full name of witness)		
4 Witness signature		
5 Witness address		
		Postcode

If the Lender is also a Trustee they need to sign in both signature sections.

◀ Sign here

Each signature must be witnessed by an independent witness who is 18 or over and not a party to this Trust or a Beneficiary. The same person can witness all signatures.

◀ Sign here

	Trustee 1	Trustee 2
1 Signed and delivered as a Deed by the said (full name of Trustee)		
2 Trustee's signature		
3 In the presence of (full name of witness)		
4 Witness signature		
5 Witness address		
	Postcode	Postcode

Each Trustee must sign the form.

Please leave blank if appointing AXA Isle of Man Administration Limited as Trustee.

◀ Sign here

◀ Sign here

E Loan Agreement (continued)

	Trustee 3	Trustee 4
1 Signed and delivered as a Deed by the said (full name of Trustee)		
2 Trustee's signature		
3 In the presence of (full name of witness)		
4 Witness signature		
5 Witness address		
	Postcode	Postcode

◀ Sign here

◀ Sign here

Notes

Notes on Taxation

These notes have been prepared for your information in accordance with AXA Isle of Man's understanding and interpretation of the current laws of England and Wales and HM Revenue & Customs (HMRC) practice as at 1 May 2014 and is subject to change. These notes do not constitute tax advice. AXA Isle of Man strongly advises you to consult your own appropriate professional advisers and seek tax advice in your country of domicile and residence.

UK Inheritance Tax (IHT) implications

Establishing the Discretionary Trust with a Loan

The Settlor is providing an interest free loan to the Trustees which is repayable on demand. As this loan is not a gift, the creation of the Discretionary Trust is not a transfer of value for IHT purposes and therefore there are no IHT implications at that time.

To be effective for IHT purposes, the Settlor cannot be a Potential Beneficiary of the Trust and is not entitled to any benefit from the Trust under any circumstances, except from repayment of the loan. It is important that no attempt is made to insert the Settlor as a Potential Beneficiary. If this is done, the Trust would be subject to a 'reservation of benefit' and would not achieve any IHT saving in respect of any investment growth within the Trust.

Loan Repayment

As per section (b) of the loan agreement, the loan is repayable by the Trustees on demand from the Lender. However, as per section (d), the Trustee's personal liability in respect of loan repayments is limited to the value of the trust fund when payment falls due. When calculating the value of the trust fund for the purpose of loan repayment, any previous distributions made to Beneficiaries must be included.

A retiring Trustee may be released from their liability to repay the outstanding loan provided it is appropriately transferred to the continuing Trustees.

Death of the Settlor

On the Settlor's death, whenever that may occur, the amount of any outstanding loan will form part of the Settlor's estate for IHT purposes. The amount of any outstanding loan that will fall into charge will be limited to the value of the bond, including any previous distributions made to Beneficiaries.

The Settlor may have made arrangements to transfer the rights to the loan repayments to a surviving UK resident and domicile spouse or civil partner. This may have been arranged during their lifetime or via a Will. In these circumstances, there would be no IHT on the outstanding amount of the loan on first death, but it will form part of the estate of the surviving spouse or civil partner on the second death.

Reciprocal Discretionary Trusts created by spouses or civil partners

You should be aware that if spouses/civil partners each effect reciprocal Discretionary Loan Trusts, HMRC could view the arrangements as ineffective for IHT purposes if deemed an 'associated operation' creating 'gifts with reservation of benefit'. This is because both spouses/civil partners are included as Beneficiary of the other's Loan Trust and the effect is similar to them being a Beneficiary of their own trust. A similar outcome may arise if the widow/widower/surviving civil partner are both included under reciprocal Loan Trust arrangements.

Waiving a Settlor's right to loan repayments

If during their lifetime a Settlor decides to forgo the outstanding loan and release the Trustees from an obligation to repay the loan, the amount of outstanding loan waived will be regarded as a chargeable lifetime transfer by the Settlor. Depending on the amounts involved, there may be an immediate charge to IHT if the Settlor's cumulative transfers (including this transfer) over the previous 7 years exceed the IHT nil rate band.

Further IHT charges

Under current rules, at each ten year anniversary of the Discretionary Loan Trust there will be a charge to IHT based on the value of the Trust Fund (less any outstanding loan) to the extent that the value exceeds the nil rate band for IHT at the time. The calculation of this periodic charge is quite complex, but in general the charge (the 'effective rate') will not exceed 6% of the value of the Trust Fund.

If a Discretionary Loan Trust is subject to a periodic charge, there may be a further charge (an 'exit' charge) when any payment is made to Beneficiaries. This charge will be based on an appropriate fraction of the effective rate of the previous periodic charge. This is also a complex calculation, but in general, the charge will not exceed 6%.

Notes on Taxation (continued)**Income Tax implications****Loan repayments during the Settlor's lifetime**

Under current UK legislation, the Trustees can withdraw up to 5% of the original premium each year, across the policies within the bond, without an immediate charge to tax until 100% of the original premium has been withdrawn. These withdrawals are treated as a return of capital and tax on any investment gains is deferred until a chargeable event occurs. Any amount of the annual 5% entitlement not withdrawn in one policy year can be carried forward to the next year. Trustees can utilise the entitlement if circumstances permit to access funds tax efficiently to make loan repayments subject to requirements/demands of the Settlor.

Any withdrawals exceeding the cumulative 5% annual tax deferred entitlement will create a chargeable event which will be assessed on the Settlor during the Settlor's lifetime providing they are UK resident.

Chargeable events

When a chargeable event occurs (e.g. excess withdrawals or an encashment of one or more policies) any chargeable gain is subject to Income Tax. As the bond is held subject to a discretionary trust, the tax liability will be assessed on the UK resident Settlor during their lifetime and in the tax year of their death. If the Settlor is not UK resident, or died in an earlier tax year, any chargeable gain will be assessed on the Trustees if they are UK resident.

Payments to Beneficiaries

Under this Discretionary Loan Trust, subject to their obligation to repay the outstanding loan on demand, the Trustees have power to distribute benefit to Beneficiaries. However, the value of any such distribution before the loan is fully repaid will be included in the outstanding loan liability. If the Trustees therefore distribute monies to Beneficiaries, prior to the loan being repaid, this may create a shortfall which could create a personal liability for the Trustees. Again, if any payment to a UK resident Beneficiary creates a chargeable event the income tax will be assessed on the Settlor or Trustees as described above. Failing that any gain will be assessed on the Beneficiary.

Capital Gains Tax (CGT) implications

There are no CGT implications arising when the Trust is established, although a CGT charge may arise if the Settlor disposes of investments to make the loan to the Trustees.

Bonds are generally exempt from CGT in the hands of the Trustees.

'AXA Wealth International' is the brand under which the products of a number of AXA companies are marketed.

This item has been issued by AXA Isle of Man Limited, an Isle of Man registered company (No 056473C).

Registered Office: Royalty House, Walpole Avenue, Douglas, Isle of Man, IM1 2SL, British Isles.

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Web: www.axawealthinternational.com

Authorised by the Isle of Man Financial Services Authority. Telephone calls may be recorded.