

Discretionary loan trust

TRUST COMPLETION NOTES

Overview

The aim of the Sanlam discretionary loan trust is to enable an individual (the settlor) to make an interest-free loan to the trustees of a discretionary trust which will be invested in a single premium life assurance bond. The loan is repayable on demand or on the earlier death of the settlor.

Any growth on the bond will be held for the benefit of the beneficiaries and the loan will be repaid to the settlor by way of ad hoc withdrawals made by the trustees from the life assurance bond.

The documentation

Loan trusts are unique among life policy trusts in that they do not involve a gift. Instead, a loan is made by the settlor to the trustees who then invest in a life assurance bond. As a result of this, there is some additional paperwork that requires completion.

Completing the paperwork is a three-stage process and follows the order in which events take place.

Stage 1: Setting up the trust

Documentation: Trust deed

The trust deed must be completed first. The settlor and the additional trustee(s) complete and sign the trust deed. This establishes the trust and appoints the additional trustee(s).

Date: The trust deed should be dated first and at least one day before the loan agreement (see below).

Stage 2: Making a loan

Documentation: Loan agreement and cheque

Once the trust has been established, the settlor can make a loan to the trustees. He/she does this by completing the loan agreement form. This must be completed by the settlor and any additional trustees. The cheque representing the loan amount should be drawn by the settlor in favour of 'Sanlam Financial Services UK Limited'. Please note that where the cheque drawn includes an amount to cover initial adviser fees, which are paid prior to investment in the bond, the loan amount will be the net amount that is invested in the bond. The cheque should be attached to the loan agreement form.

Date: The loan agreement and the cheque should both be dated the day after the trust deed

Stage 3: Application by the trustees for a Sanlam life assurance bond

Documentation: Application form for a life assurance bond

The settlor and any additional trustees must apply for the policy jointly by completing the relevant application form. It is recommended that the regular withdrawals section is left blank.

Date: The application form should be dated one day after the loan agreement form.