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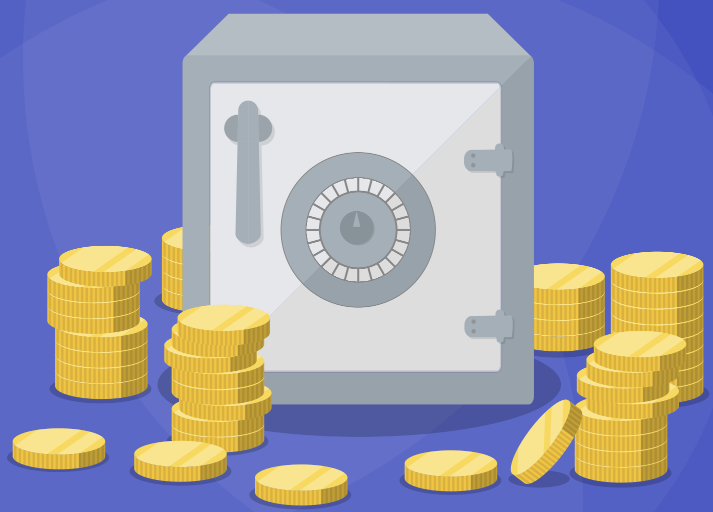
Advice to complement your Lifestyle



Setting up a trust

Managing your assets for the benefit of others.

Estate planning is a complicated process, and can seem a morbid task, so it's tempting to put it off or avoid it altogether.

But with probate fees set to rise for many estates, it's ever more important to think carefully about how your beneficiaries could be affected, and the ways you can minimise the costs for them.

Trusts are one of the options you could consider. When used correctly, these can be a tax-efficient way to pass on your assets and provide financial security for your loved ones.

At the same time, they offer you some control over how those assets are used, and allow you to set more specific conditions than you might be able to with a will.

You'll need to obtain legal advice to set up a trust in the right way, but we can talk you through your options first.

The basics

A trust is a way of managing assets, whether that's cash, property, land or investments, for the benefit of others.

There are several different kinds of trust, but they all have three things in common – the settlor, the trustee and the beneficiary.

The **settlor** is the person who puts assets into a trust, the **trustee** is appointed by the settlor to manage the trust, and the **beneficiary** is the person who will eventually benefit from the trust.

As the settlor, you're able to decide how the assets in the trust should be used. This is usually set out in a trust deed, which should be drawn up by a legal professional.

Once you've placed your money or assets into a trust, they belong to that trust and will be used for the beneficiary. In almost all cases, this means you can no longer benefit from them yourself.

Choosing your trustees

One of the first things you should consider is who you'll appoint as the trustees.

This is usually a small group of family members, close friends or professionals.

If you choose to go with professionals, keep in mind they will need to be paid – this would usually be from the trust's assets if not provided from elsewhere.

They should be people you know you can depend on to carry out your wishes, and who are happy to take on that responsibility.

Types of trust

Your next step is to decide which kind of trust to use. Each one works in a different way, and the one that's right for you could depend on what you're using the trust for.

Bare

Bare trusts are usually set up for children, with assets held in the name of a trustee.

Once the beneficiary reaches adult age (18 in England and Wales, or 16 in Scotland) they'll have the right to all the capital or income in the trust.

Interest in possession

In this type of trust, a beneficiary is entitled to all income from the trust assets as it is produced, minus any expenses.

That beneficiary doesn't have a right to the capital value of the trust – instead, this goes on to any other named beneficiaries.

Discretionary

Trustees decide how to use the income and sometimes the capital in discretionary trusts.

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The decisions they can make depend on what's set out in the trust deed, but can include:

- what gets paid out (income or capital)
- how often payments are made
- any conditions to impose on the beneficiaries
- which beneficiaries to make payments to.

The beneficiary's only legal right in this type of trust is to be considered for distributions.

Discretionary trusts can help beneficiaries who are not able or capable enough to deal with finance themselves.

Accumulation

In an accumulation trust, trustees can accumulate income to add towards the trust's overall capital. They may also be able to pay income out.

The beneficiaries gain from any income and any capital after the death of the settlor.

This sort of trust could be used to pay towards a beneficiary's education, giving trustees control over using the money to make the payments.

Mixed

These are a combination of trusts, so different parts of the trust are subjected to different tax rules.

They accumulate income after beneficiaries reach adult age, at which point the assets can be used as set out in the trust deed.

Mixed trusts are often set up for more than one beneficiary, such as siblings.

Settlor-interested

With this type of trust, either the settlor, or their spouse or civil partner, benefits.

It could be one of three types of trust: interest in possession, accumulation or discretionary.

This could be used in cases where the settlor knows they will need money in the future – if they are unable to work, for example.

They can use a trust to set aside that money, so they or their partner can use it later on.

Settlor-interested trusts can have very complex and sometimes punitive tax consequences, so be sure to seek professional advice if you're considering this option.

Non-resident

Non-resident trusts are usually where the trustees are not resident in the UK for tax purposes.

Tax rules for non-residents of the UK are complicated – talk to us if you need advice in this area.

Tax on trusts

Each type of trust is taxed differently, so you'll need to take the potential tax planning advantages or disadvantages into account when you're setting one up.

Inheritance tax

One of the main tax benefits of trusts is that they may be considered exempt from your estate. This could make a significant difference to your inheritance tax liability.

However, for most types of trust, inheritance tax is due when you make transfers that total more than the threshold of £325,000.

If the transfer is made during your lifetime, it could be liable for an immediate 20% tax charge, but this depends on the type of trust and the specific tax rules that apply to it.

For example, gifts you make into discretionary trusts are chargeable lifetime transfers, meaning the 20% charge will apply to them.

On the other hand, transfers into a bare trust may be exempt from inheritance tax, as long as they are made at least seven years before you die.

Family home allowance

The residence nil-rate band, also known as the family home allowance, is an additional tax threshold that allows parents to pass on a family home, subject to certain conditions.

This is only granted where the family home is inherited by any children, grandchildren, stepchildren, foster children, adopted children or other lineal descendants.

Discretionary trusts are excluded from this allowance because the assets are owned by the trust, and managed by trustees, not the beneficiaries.

You may not qualify for this tax break if you have placed property into a discretionary trust, but we're happy to talk through your options.

Capital gains tax

Trustees only have to pay capital gains tax (CGT) if the total taxable gain is more than the trust's annual tax-free allowance.

Assets, such as property, transferred into trusts may be liable for CGT if their value has increased at the time the asset is taken out of the trust.

The tax-free allowance for trusts is currently £5,850. This rises to £11,700 where vulnerable beneficiaries, such as disabled people or a child whose parent has died, are involved.

Talk to us about your finances.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future.

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