A Guide to Trusts

SUCCESSION WEALTH

Welcome to Succession Wealth

Our Wealth Planners are here to help you take control of your finances and provide you with the confidence you need to go after the things that matter to you.

Succession Wealth Management Limited is a large national UK financial advice firm. Our teams of Wealth Planners deliver high quality independent advice to thousands of clients across the UK, and we're committed to helping people achieve more with their money.

Our clients are at the heart of everything we do and looking after their wealth journey is a privilege to us. The relationships we build last longer than a lifetime, and we are proud to provide advice across generations. When you choose to work with us, we promise to provide an exceptional personal service tailored to your unique financial aspirations.

This guide has been created to provide a high-level overview of trusts and may be useful in helping you understand the basics of how they work and deciding if a trust may be beneficial to you.

What is a Trust?

A trust is a legal arrangement which is used to help people manage, control and pass on assets such as money, investments, land or buildings.

There are three parties to a trust:

- The 'settlor' - the person who puts the assets into a trust.
- The 'trustee' - the person who manages the trust.
- The 'beneficiary' - the person who benefits from the trust.

Why set up a Trust?

There are many reasons for setting up a trust, including:

- to provide more control over your assets – a trust allows you to decide how and when your assets will be distributed and to who.
- to protect your loved ones, for example if someone is too young or incapacitated to manage their own affairs.
- to ensure the beneficiary does not receive their inheritance until certain life milestones are reached such as on graduation or marriage.
- to pass on assets while you're still alive.
- to pass on assets when you die (via a 'will trust').
- to reduce the size of your estate to help minimise or mitigate an Inheritance Tax (IHT) burden. When someone puts an asset into trust, such as property, they no longer own that property personally. Therefore, the value of the asset may not be counted towards their IHT bill when they die.
- Trusts can offer other benefits as part of an integrated and coordinated approach to managing wealth.

What does the settlor do?

The settlor decides how the assets in a trust should be used - usually as set out in the 'trust deed'.

What does a trustee do?

Trustees are the legal owners of the assets held in trust and they manage them on a day-to-day basis according to the settlor's wishes. They are responsible for paying any tax due and deciding how to invest or use the trust's assets.

They will be required by law to operate in the best interests of the beneficiaries, ensuring that the trust's assets are appropriately managed and protected from harm.

Beneficiaries

Beneficiaries receive their benefit as per the terms of the trust deed – for example they may receive income, capital or both from the trust.

Types of Trust

There are many different types of trust, depending on how the settler wants to control their assets, including:

- **bare trusts** – these are the simplest form of trust and are often used to pass assets on to young people. Trustees look after the assets until the beneficiary is old enough to do so, however, the beneficiary has the right to all of the capital and income of the trust at any time if they're 18 or over in England and Wales, or 16 or over in Scotland.
- **interest in possession trusts** – where the trustee must pass on all trust income to the beneficiary as it arises (less any expenses).
- **discretionary trusts** – where the trustees can make certain decisions about how to use the trust income, and sometimes the capital – often used for beneficiaries who are not capable or responsible enough to deal with money themselves.
- **split trusts** – these are often used for family protection policies which have both critical/terminal illness benefits in addition to life cover and give the settlor/life assured the right to receive any critical illness or terminal illness benefit should it be paid out while the life cover element remains in trust.
- **accumulation trusts** – where the trustees can accumulate income within the trust and add it to the trust's capital. They may also be able to pay income out, as with discretionary trusts.
- **mixed trusts** – a combination of more than one type of trust. The different parts of the trust are treated according to the tax rules that apply to each part.
- **settlor-interested trusts** – where the settlor or their spouse or civil partner benefits from the trust.

Taxation of Trusts

Each type of trust is taxed differently but may be liable for Income Tax, Inheritance Tax (IHT) and Capital Gains Tax (CGT) at various points during the trust's lifecycle.

The rules surrounding taxation of trusts and trusts in general are extremely complex. Before you take any action with regards to setting up a trust it would be prudent to seek advice from a certified professional to ensure that it's the right action to take, it is set up correctly and is adhered to.

Disadvantages of Trusts

One of the major disadvantages of trusts is that they can be irreversible and the settlor may lose control over assets that are put into trust.

They can be costly to set up, depending on their scope and complexity.

Trustees are legally responsible for managing the trust and the responsibilities placed on them can be complex and onerous. They need to pay tax on any income earned by the assets held in the trust and as such are obliged to understand tax laws and to file tax returns correctly.

Registering a Trust

Legislation has been introduced that extends the scope of trust registration. Registration was previously only required for certain trusts that became liable to UK tax, now most UK trusts must be registered whether liable for tax for not. There are some trusts that are excluded from registering and you can check the full list of excluded trusts on the gov.uk website.

Contact us

If you would like to discuss the use of trusts as part of your financial planning, or any aspect of financial advice, with one of our Wealth Planners, feel free to email us at hello@successionwealth.co.uk or call us on 0800 051 4659 and we will arrange for someone to contact you.

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