

# FIRST FINANCIAL

## Trusts

Creating Wealth

Protecting Assets ...



A gift that does not fall within the gifts with reservation rules may give rise to a special annual income tax charge where the donor continues to enjoy a benefit from a previously owned asset. This tax was introduced mainly to counter schemes to avoid IHT on the family home but can sometimes catch other arrangements. Trusts are helpful devices that are widely used in estate planning. They allow you to transfer money, property or other assets outside your estate into the legal ownership and control of other people you appoint (called trustees). These trustees are responsible for looking after the trust property for the beneficiaries.

The beneficiaries could be children who are too young to hold property directly, or they might be disabled and incapable of looking after their own affairs, or they might be a group of people with different interests under the trust – for example, some receiving the income and some the eventual capital. In many cases, trusts are set up to provide a degree of flexibility about how they will benefit. Life assurance policies are very often placed in trust so that the death benefits are paid directly to the beneficiaries and do not fall back into the insured person's taxable estate.

Gifts into absolute trusts, trusts for disabled people and certain trusts for children where they become absolutely entitled to the trust property at age 18 will still qualify for treatment as potentially exempt transfers. But gifts into most other types of trust, particularly where there is an element of flexibility about who will benefit and when, will be subject to the IHT regime that applies to discretionary trusts. To the extent that they exceed the value of the nil rate band (£312,000 in 2008/09), the charges are:

- 20% on the initial transfer into the trust.
- A periodic charge of 6% every ten years.
- An exit charge which is a proportion of the 10 yearly charge, depending on when the assets leave the trust.

For example, if there have been no other transfers to take into account, the initial charge on a gift into trust of £400,000 would be 20% of £88,000 (i.e. £400,000 less £312,000). The periodic charge after 10 years would be 6% of say £200,000 if that were the difference in the value of the assets in the trust and the nil rate band at the time (i.e. £12,000), and on the same basis, on a transfer out after two more years at the same amount, the exit charge would be £2,400.

The FSA does not regulate taxation and trust advice. Tax rules are subject to change.