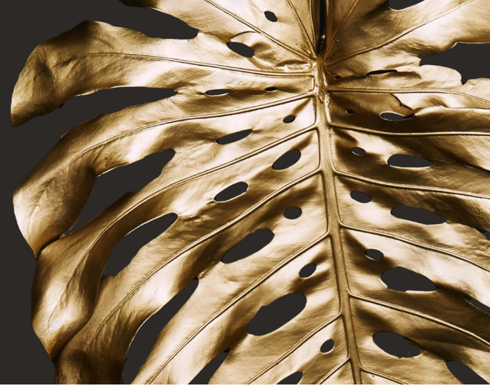

INVESTMENT QUORUM
UNIQUE, BOUTIQUE WEALTH MANAGEMENT

Use of Trusts

Protecting your assets and giving you control over how they are managed

Trusts are not a one-size-fits-all solution, but they are incredibly useful for protecting and giving you control over your assets. Appropriate trusts can be used for minimising or mitigating inheritance tax estate taxes, and they can offer other benefits as part of an integrated and coordinated approach to managing wealth.

A trust is a fiduciary arrangement that allows a third-party or trustee to hold assets on behalf of a beneficiary or beneficiaries. Once the trust has been created, a person can use it to 'ring-fence assets.

TYPES OF TRUST

You can write some trusts into your will, while others can set up. Some trusts are subject to their own inheritance tax regimes and, once assets have successfully been transferred into trust, they are no longer subject to inheritance tax on your death. Others pay income tax and capital gains tax at higher rates, so it is important to know what type of trust you have. The kind of trust you choose depends on what you want it to do. There are a number of different trust options available:

BARE TRUSTS

Assets in a bare trust are held in the name of a trustee. However, the beneficiary is entitled 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). This means the assets set aside by the settlor will always go directly to the intended beneficiary. Bare trusts are often used to pass assets to young people - the trustees look after them until the beneficiary is old enough.

INTEREST IN POSSESSION TRUSTS

These are trusts where the trustee must pass on all trust income to the beneficiary as it arises (less any expenses). The beneficiary can receive income from the trust straight away, but doesn't have a right to the cash, property or investments that generate that income. The beneficiary will need to pay income tax on the income received. You could set up this kind of trust for your partner, with the understanding that when they die, the investments in the trust will pass to your children. This Trust structure is used in wills for people who remarry, but have children from their first marriage.

DISCRETIONARY TRUSTS

These are where the trustees can make certain decisions about how to use the trust income, and sometimes the capital. The trustees have absolute power to decide how the assets in the trust are distributed. You could set up this kind of trust for your grandchildren and leave it to the trustees (who could be the grandchildren's parents) to decide how to divide the income and capital between the grandchildren. The trustees will have the power to make investment decisions on behalf of the trust.

MIXED TRUSTS

These combine elements from different kinds of trust. The different parts of the trust are treated according to the tax rules that apply to each part. For example, a beneficiary might have an interest in possession in (i.e. a right to the income of) half of the trust fund, and the remaining half of the trust fund could be held on discretionary trust.

NON-RESIDENT TRUSTS

This is a trust where the trustees aren't resident in the UK for tax purposes. The tax rules for non-resident trusts are very complicated. Non-resident trusts are usually ones where none of the trustees are resident in the UK for tax purposes, or only some of the trustees are resident in the UK and the settlor of the trust wasn't resident, ordinarily resident or domiciled in the UK when the trust was set up or funds added. Domicile usually refers to the country or legal jurisdiction (a state, for example) where someone intends to make their permanent home - you can only have one place of domicile at any given time.

APPROPRIATE TRUSTS FOR LIFE ASSURANCE

Taking out a life assurance policy to pay some or all of an inheritance tax bill can make things easier on your family when the time comes to sort out your estate. It can help protect your home from having to be sold to pay the inheritance tax. It can also help ensure your gifts to family and friends in the last seven years of your life are protected from this tax, so it can give you peace of mind that you're not burdening your family and friends with an inheritance tax bill when you pass away. However, the money could be subject to inheritance tax as it will form part of your estate when you die.

For this reason, you could place any life assurance policies into an appropriate trust. This will enable your loved ones to legally sidestep inheritance tax, and they would not have to give any of the proceeds of the policy to HM Revenue & Customs on your death. This also means they could receive the life insurance proceeds without a lengthy legal process and avoid probate.

REDUCE OR MITIGATE THE TAX YOU'LL PAY ON YOUR INHERITANCE

A trust can be a very effective way of reducing or mitigating the tax you'll pay on your inheritance. Everyone has different requirements and motivations - the right solutions for you are the ones that suit your personal circumstances. At Investment Quorum IQ, we'll advise you on the best options for your unique situation.

Our specialist estate planning advice will help you maximise your wealth and minimise inheritance tax. To find out more, please contact us.

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