

Understanding trusts

A guide to the basics

Trusts can help you manage and pass on wealth to your loved ones in a controlled way. This short guide gives a high-level overview of how they work, the main types of trusts, and key things to consider.

Trusts can be complex, there's no getting around that, and they're not right for everyone.

We recommend speaking to your financial adviser to find out whether a trust is suitable for your circumstances, which type may meet your needs, as well as the risks, tax implications and costs involved. You may wish to get legal advice as well.

The following information is based on our current understanding of taxation law and practice in the UK, which may change. Tax rules can change and the impact of taxation, and any tax relief, depends on your personal circumstances and where you live.

The value of investments can go down as well as up, so you and/or the beneficiaries of the trust might not get back the amount you put in.



Why use a **trust**

Trusts are used as a way to help manage, protect and pass on assets. They're set up for a number of reasons such as:

-  helping to control and protect family assets, such as investments or property
-  supporting beneficiaries who may be too young, or unable to manage assets themselves
-  passing wealth to loved ones, known as beneficiaries
-  deciding how and when beneficiaries may receive assets
-  helping manage a potential inheritance tax (IHT) liability.

You
(settlor)
put assets into
a trust



Trustees
manage the
assets in the
trust



Beneficiaries
(loved ones)
may benefit
from the trust



Common types of trust

	When it may be suitable	How it works	Access	At a glance
Loan trust	You want to carry out IHT planning but aren't ready to give up access to your capital	You lend money to trustees, who invest it for the beneficiaries	Access to your original capital sum (the loan) at any time. You can claim back the balance of your outstanding loan as a lump sum, an occasional payment or regular repayments	Any growth on your investment won't be included in your estate for IHT purposes and will be held in trust by the trustees, for your intended beneficiaries, such as children and grandchildren
Gift trust	You want to gift a lump sum to loved ones without needing future access to it	Allows you to gift a lump sum into trust	No access once gifted	- Any potential growth on the investment will be outside of your estate from the start - If you survive seven years, the amount gifted will also be outside of your estate for IHT purposes
Discounted gift trust	You want to make a gift to loved ones and potentially reduce your IHT liability, while retaining regular payments	Allows you to gift a lump sum into trust for your beneficiaries while retaining the right to regular payments	Regular payments during your lifetime	- Money left for loved ones after your death - Potential to immediately reduce IHT liability on your estate if you are in reasonable health
Probate trust	You want to retain access to your investment but also want beneficiaries to be able to easily access the funds after your death	Allows you to gift a lump sum into trust	Access at the trustee's discretion	- May help speed up access to funds after death - Could reduce administrative delays for beneficiaries - Provides no IHT advantages

Important things to consider

Trusts won't be suitable for everyone due to their often complex nature. There are a number of considerations to be aware of, including:

- You may not be able to access money once placed in trust.
- Your health may need to be assessed to invest in a discounted gift trust.
- Creating a trust will have taxation as well as legal implications.
- The value of investments held in a trust can go down as well as up, so you and/or the beneficiaries of the trust might not get back the amount you put in.
- Tax rules can change and the impact of taxation, and any tax relief, depends on your personal circumstances and where you live.
- Tax charges can arise when assets enter, leave or remain in trust depending on the type of trust you choose.
- When choosing trustees, it's important they understand the responsibilities involved. Trustees have a legal duty to act in the interests of the beneficiaries and not for their own benefit. Trustees are often family members or friends, but a professional, such as a solicitor, can also be appointed.
- Trusts are legal arrangements and should not be set up without professional advice.
- Some trusts may have reporting requirements, such as registering with the Trust Registration Service (TRS), and gifts above the relevant threshold will need to be reported to HMRC.

Talk through your options



A financial adviser can help you understand whether a trust could suit your needs, which type may be appropriate, and what the risks, tax implications, reporting requirements and costs could mean for you. We suggest you seek legal advice before making any decisions.