



Capital Taxes

Use of Trusts

Income paid to life interest beneficiaries has an appropriate tax credit available with the effect that the beneficiaries are treated as if they receive the income as the owners of the assets.

If income is released at the trustees' discretion from discretionary trusts, the beneficiaries will receive the income net of 40% tax. They are able to obtain refunds of any overpaid tax and if they pay tax at 40%, they will get credit for the tax paid.

Inheritance tax may have to be considered during the trust period and each main type of trust is dealt with differently.

- Life interest trusts will have to be valued when the income beneficiary dies. The value of the trust assets is added to the value of the beneficiary's personal assets to determine the rate of tax payable, with the trustees being liable to pay the trust's share of the inheritance tax due from the assets held.
- Discretionary trusts are charged every ten years and by careful planning the value can often be maintained under the taxable limit. Where this is not possible or perhaps desirable, then it should be noted that the maximum tax rate is 6% of the value of the assets in the trust every ten years. There may alternatively be a charge if assets are appointed out of the trust before a ten year charge is due.
- Accumulation and maintenance trusts do not pay inheritance tax if the funds are released to the nominated beneficiaries.

Which Trust is Right for Me

The problem

To provide for your family's financial needs in a way that permits maximum flexibility during a period of years with a minimum tax burden.

Possible solution

Discretionary trust or possibly an accumulation and maintenance trust.

The problem

To make gifts now but you are undecided how much to give each donee.

Possible solution

Discretionary trust or possibly an accumulation and maintenance trust.

The problem

Making a gift to start your seven year inheritance tax gift clock running, but extra thinking time is needed before deciding who should receive what.

Possible solution

Discretionary trust.

The problem

To make gifts to children or grandchildren in a tax efficient way.

Possible solution

Accumulation and maintenance trust.

The problem

To make a gift of income to a particular individual, but retaining control over what happens to the capital after the death of that individual.

Possible solution

Life interest trust.

How We Can Help

This factsheet briefly covers some aspects of trusts. If you are interested in providing for your family through the use of trusts we recommend that you talk to us.

We will be more than happy to provide you with additional information and assistance.