



WILLS JACOBSEN

L E G A L

LIFETIME TRUSTS

Lifetime trusts are often known as asset protection trusts. They are an effective way of setting aside some or all of your assets for a child, grandchild, or a disabled or vulnerable person's future care. If you wish, you can play a direct role in the trust, as a trustee.

Deciding on the right kind of trust for your particular situation, understanding the tax implications, and reporting obligations make for a detailed and demanding task. It is therefore best to take legal advice if you are considering creating a lifetime trust.

Unlike will trusts, which come into being on death, lifetime trusts are established straight away.

You decide who the beneficiaries of your lifetime trust will be, and anything can be put into such a trust. For instance, this can be cash, or property.

Lifetime trusts are far more expensive than basic wills or will trusts and generally cost around £2,000 plus VAT to set up, although it will depend on the type of trust you want to create.

Generally, lifetime trusts are either fixed interest, where the beneficiary has an absolute right to capital and income from the trust investments, or discretionary, where the trustees have a pool of potential beneficiaries and have a discretion how to benefit any of the potential beneficiaries. Usually a discretionary trust will have a letter of wishes for the trustees to consider, which may favour one beneficiary over the others.

The tax treatment of lifetime trusts is worth considering carefully. Assets put into a lifetime trust can attract an immediate charge to Inheritance tax at 20%, if they are worth more than the nil-rate band (currently £325,000). The trustees would also need to submit a tax account to HMRC, and there may be further Inheritance payable every 10 years, as well as when assets leave the trust. There is also the issue of income tax on any payments from the trust.

However, the tax treatment of fixed interest trusts is different from discretionary trusts.

Lifetime trusts are attractive to those who do not want to wait until they die to pass on their assets to a loved one.

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