

## Why Make a Trust?

Trusts originated in England several centuries ago and have been used by families ever since. They can be created in England or offshore. They can be created for the benefit of families or for charities. The Finance Act 2006 fundamentally changed the inheritance tax rules for trusts but tax effective strategies remain.

A Trust is the formal transfer of assets to a small group of people or to a Trust Company known as the trustees. Those trustees hold the assets for the benefit of others. If you set up a trust in your lifetime this is done by a trust deed and is often referred to as a **Settlement**. If you create a trust in your Will to take effect after your death then this is usually known as a **Will Trust**. The unique character of a trust is that the **trustees are the legal owners** but **the beneficiaries are the beneficial owners**.

### The benefits of making a Trust

- To regulate ownership of the assets, for example providing for children or other family members.
- Tax planning.
- Protecting assets from government interference or the possible bankruptcy of a beneficiary.
- Flexibility in distributing assets or income in a way that can be determined in later years.
- To provide for charities.

### Taxation

If you create a trust in your lifetime this can reduce your own wealth and thus reduce the potential Inheritance Tax bill on your death. A charitable trust will be free from all forms of taxation. However the Finance Act 2006 curtailed the tax free status of some lifetime trusts created after 22 March 2006.

### Family Reasons

You might want to create a trust to hold assets for your children or grandchildren until they are older and wiser. You may wish to be sure that your children will inherit but still provide income for your spouse. You might want to provide capital for the continuing care of an elderly relative but in such a way that the capital is preserved.

### Types of Trust

Most trusts fall into one of two main categories:-

1. **Interest in Possession** - where the income must be given to a specific beneficiary by right.
2. **Discretionary** - there are several varieties of these and the benefits are distributed at the trustees' discretion.

Humphries Kirk LLP can advise you on whether a trust is appropriate for your circumstances, of the likely costs of creating one and the tax consequences. Trusts are a specialist subject and require specialist expertise.

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