Quilter Financial Advisers

Your guide to trusts

What we'll cover:

Welcome to your guide to trusts

This guide has been created to provide you with an explanation of what a trust is, how a trust works, and its key features.

Through this guide we will explain:

- what a trust is
- why you might use a trust
- the duties of a trustee
- key things to consider
- life assurance and trusts.

Trusts Inheritance Tax and Estate Planning are not regulated by the Financial Conduct Authority.

What is a trust?

A trust is a legal arrangement where certain individuals, known as trustees, hold property or assets for the benefit of others.

A trust helps to make sure that the right money goes to the right people at the right time.

Trusts – an explanation

Simply put, a trust allows you (the settlor) to entrust your assets to a group of people (the trustees). All appointed trustees become the legal owners of the assets. They are responsible for administering the trust and manage its assets for the benefit of the trust's beneficiaries.

You can put all manner of assets into a trust, including cash and life assurance policies. The value of the assets you place into trust will be a gift and the value of the gift will usually be considered outside of your estate for inheritance tax if you survive for a period of seven years. If you die within seven years, there may still be tax to pay.

Here is an overview of how key participants work with a trust:

The settlor

The settlor makes a gift and establishes the trust

Trust

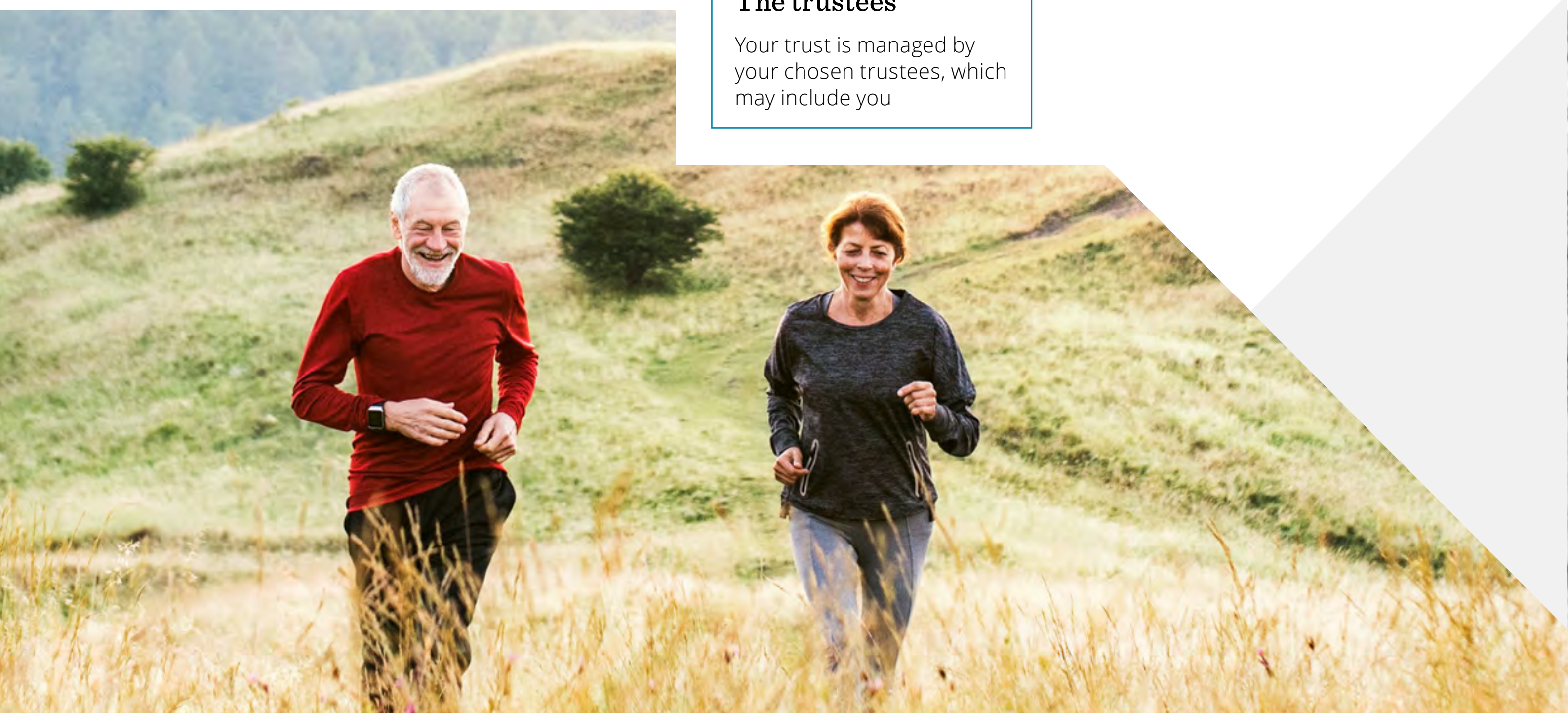
The rules for how the trust will operate are defined in a 'trust deed'

Beneficiaries

The settlor nominates their beneficiaries in the trust deed. They might be named individually or as 'classes' – such as 'grandchildren'

The trustees

Your trust is managed by your chosen trustees, which may include you



Why you might use a trust

The main reason for creating a trust is to protect your assets.

A trust can serve many purposes, including:

- **Greater control compared to giving money away.**
- **Choose who benefits and when.**
- **Estate planning – to speed up probate.**
- **Tax planning – to reduce inheritance tax.**
- **Charitable giving.**

Life assurance and trusts

While a trust will often be used to make gifts of shares, cash, land, and property, it can also be used to hold a life assurance policy for the benefit of beneficiaries nominated by the policyholder.

Why put a life assurance policy in a trust?

The key feature of a trust is that the policyholder no longer owns the asset held in the trust – in this case, their life assurance policy. This means that when the policyholder dies, the proceeds of the policy do not form part of their estate.

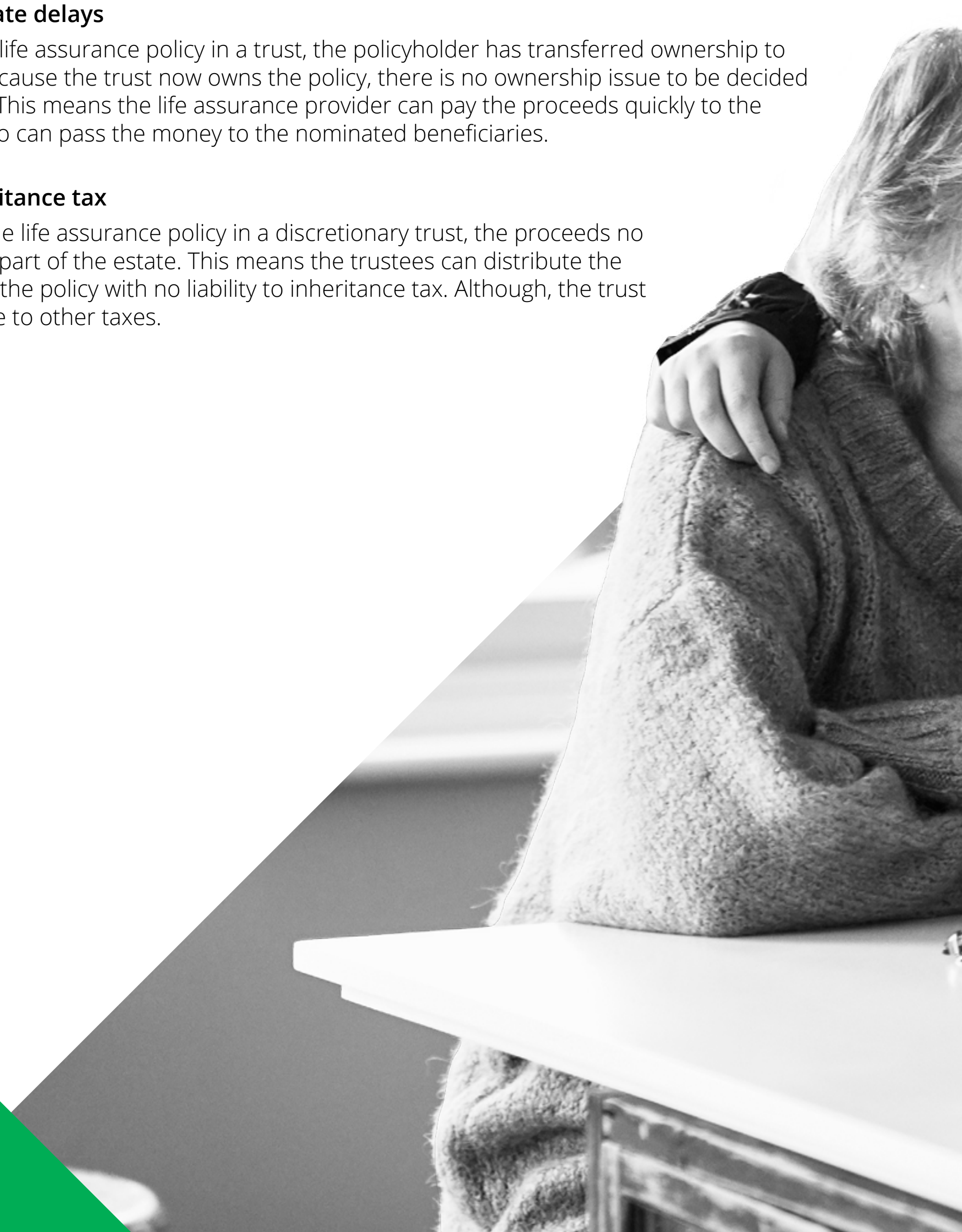
There are several benefits of putting a life assurance policy in trust:

Avoid probate delays

By placing a life assurance policy in a trust, the policyholder has transferred ownership to the trust. Because the trust now owns the policy, there is no ownership issue to be decided by probate. This means the life assurance provider can pay the proceeds quickly to the trustees, who can pass the money to the nominated beneficiaries.

Avoid inheritance tax

By placing the life assurance policy in a discretionary trust, the proceeds no longer form part of the estate. This means the trustees can distribute the proceeds of the policy with no liability to inheritance tax. Although, the trust may be liable to other taxes.



Nominating trustees

The person who sets up the trust (the settlor) is normally a trustee, but it is sensible to appoint additional trustees.

- It is usual to appoint at least two trustees.
- You can retire as a trustee if you no longer wish to continue.
- If, at any time, only one trustee remains, a further trustee should be appointed.
- You don't need any special qualifications to be a trustee other than being over the age of 18.

Nominating beneficiaries

You can nominate any person or charity as a potential beneficiary. Your nominated beneficiaries have no legal interest in the trust, only what's known as an equitable interest.

This means that any life assurance providers involved would only ever take instructions from the trustees. Nominated beneficiaries can be changed and any latest written nomination of beneficiaries overrides any earlier nominations. With a discretionary trust, the trustees have the power to distribute the assets at their discretion and don't have to follow your instructions.

The duties of a trustee

Trustees have certain duties to follow. These are outlined below:

When a life assurance policy is the only asset of the trust

Funds will only ever exist if the policyholder dies. If this happens, a trustee would usually pass on the policy proceeds to the trust's nominated beneficiaries. The life assurance provider will require written instructions from all the trustees before paying the proceeds.

If any of the beneficiaries are young children

The proceeds stay in the trust until they are 18. In this event, the trustees become responsible for investing the trust assets until the trust can distribute the assets to the beneficiaries.

Preserve the trust assets

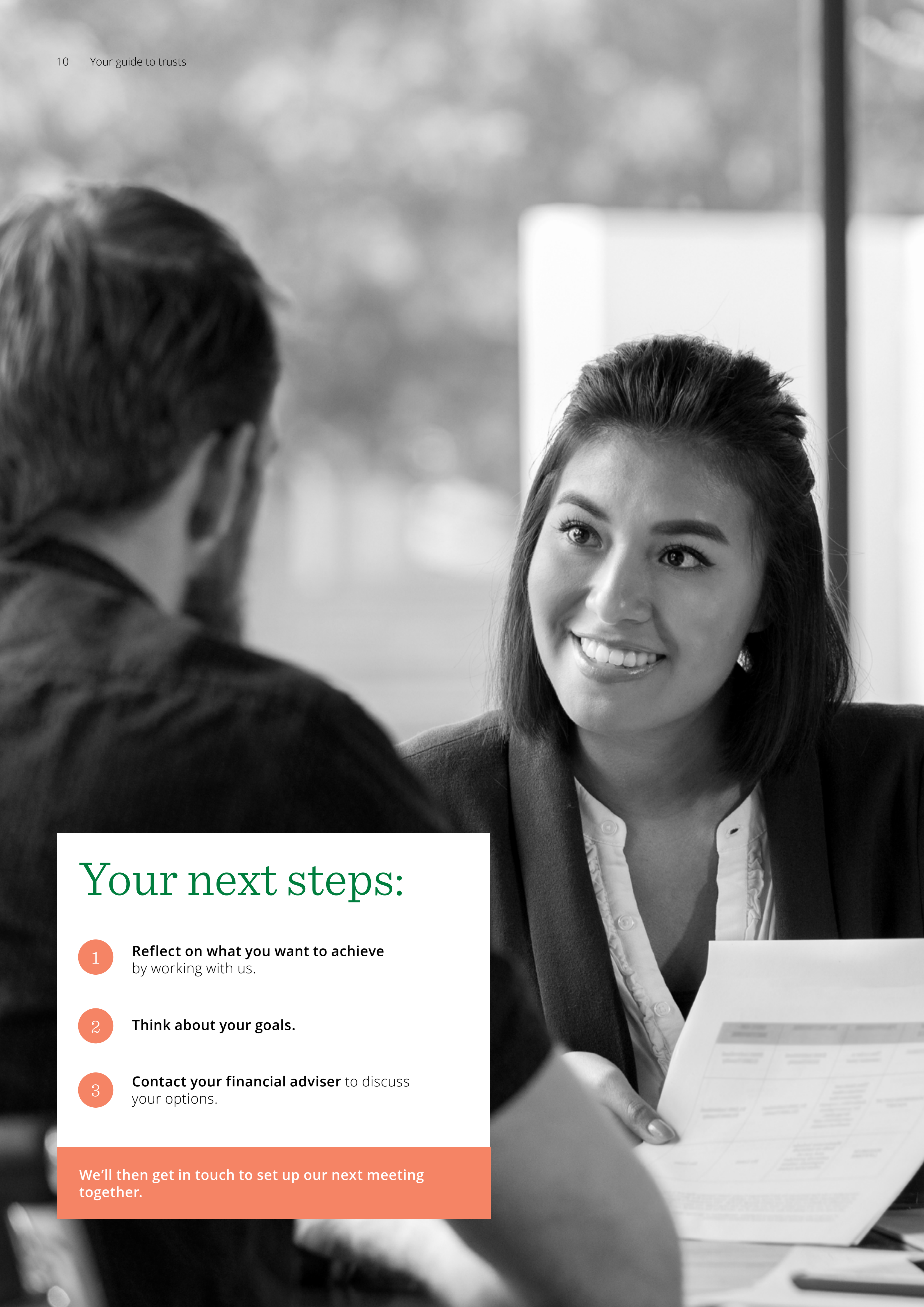
Although trustees don't need any special skills or knowledge, the trustees must ensure, when required, that they invest the trust assets appropriately. This will ideally involve seeking professional financial advice.

Treat all beneficiaries fairly

The trustees must administer the trust assets for the benefit of all beneficiaries. They must not favour one beneficiary over another unless the trust expressly instructs to do so.

The trusteeship is a not-for-profit role

The law prevents trustees from profiting personally from acting as a trustee. This means they cannot receive any form of payment for their activities as a trustee. The settlor may also appoint a professional trustee.



Your next steps:

1. **Reflect on what you want to achieve** by working with us.
2. **Think about your goals.**
3. **Contact your financial adviser** to discuss your options.

We'll then get in touch to set up our next meeting together.

Need additional help reading documents?

More and more of our clients are using screen-reading software as a quick and easy way to read their documentation if they are blind, partially sighted, or dyslexic. Alternatively, we can write to you in several alternative formats, such as large print, braille, audio, and OpenDyslexic font.

If you'd like to switch to any of these methods, please let your adviser know and we will be happy to help.

Quilter Foundation

The Quilter Foundation is Quilter's charity. The Quilter Foundation provides vital funding to carefully selected charitable organisations, focusing on education, employment, and health & wellbeing.

To find out more visit:
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