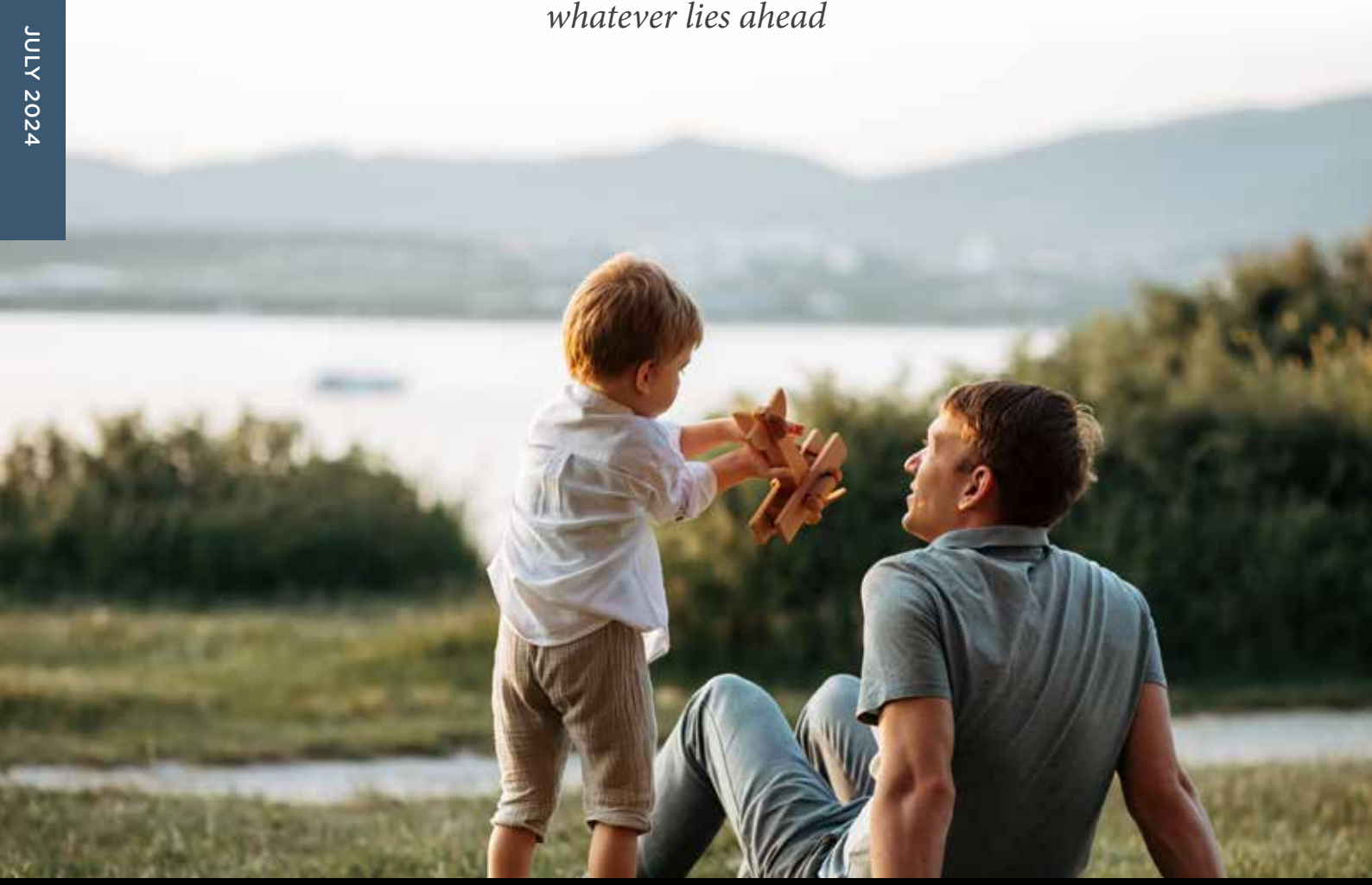
DENTAL & MEDICAL
FINANCIAL SERVICES

GUIDE TO

TRUSTS

Being prepared for whatever lies ahead

JULY 2024



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GUIDE TO

TRUSTS

Being prepared for whatever lies ahead

Welcome to our *Guide to Trusts*.

Building wealth often takes years of hard work, but without proper planning, it can quickly diminish within your lifetime and may not endure for future generations. We aim to collaborate with you to create a well-thought-out plan, ensuring you are prepared for whatever lies ahead.

Importance of Trust and wealth planning

Preserving wealth can be challenging. Threats include unprepared beneficiaries, asset mismanagement, family dynamics, taxation, and legal disputes. However, with sound wealth planning, these challenges can be mitigated and sometimes eliminated altogether.

Benefits of proper wealth planning

Tax-efficient wealth structuring: Optimise your wealth to minimise tax liabilities.
Risk reduction: Protect your wealth from potential risks.
Liquidity provision: Ensure access to funds when needed.
Confidentiality maintenance: Keep your financial matters private.
Minimised family conflict: Mitigate disputes among family members.
Business succession planning: Facilitate smooth business transitions.
Philanthropic enablement: Support your charitable interests effectively.

Save taxes and manage your financial affairs

When planning how you'd like to pass on the assets and capital in your estate, you can use some important financial tools. Trusts are very effective when undertaking planning, helping you save taxes and manage your financial affairs well.

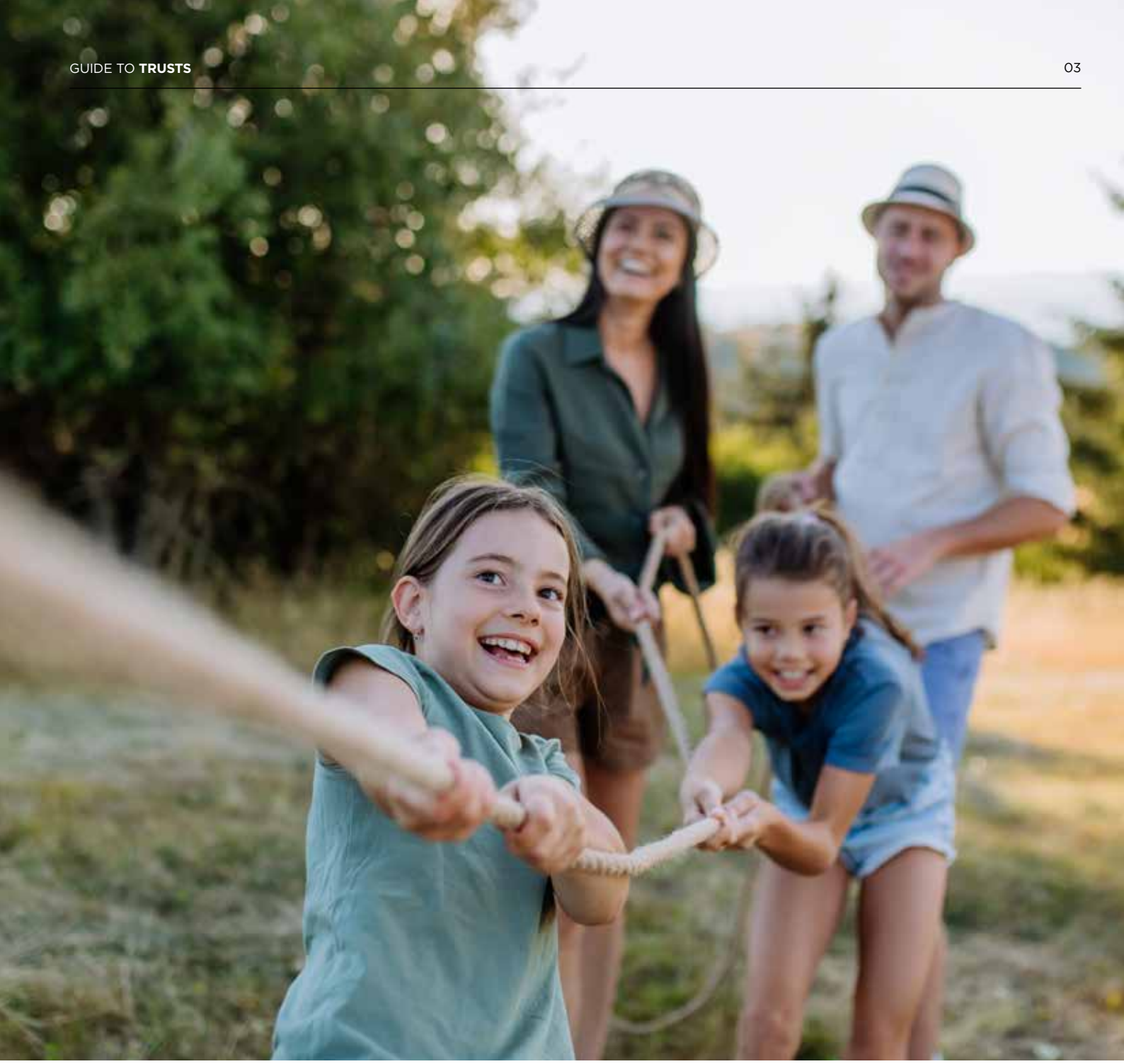
A Trust is a legal arrangement designed to secure your assets for your beneficiaries. Think of it as a figurative security deposit box or treasure chest, where you can place your assets for protection and potentially shield them from certain taxes.

Trusts separate assets' legal ownership from their beneficial ownership. The legal owner holds the title and is empowered to deal with and administer Trust assets, while the beneficial owner—as the name suggests—derives the benefit from them. This could be in terms of usage, income from those assets, or sale proceeds.

However, tax savings are not the sole reason for establishing Trusts. For many, the primary goal is to safeguard funds for vulnerable beneficiaries, such as young children, individuals with disabilities, or those who struggle with managing money.

Why use Trusts?

Protection of vulnerable beneficiaries: Ensure financial security for those needing extra support.



Continued control over assets: Maintain influence over how and when your assets are distributed. For instance, through your Will, you can use a Trust to provide a home for a remarried spouse while ensuring that the property eventually passes to children from a previous marriage.

Efficient probate process: In England and Wales, probate can take approximately nine months to a year, causing delays in transferring your estate. Assets held in a Trust typically sit outside your estate, allowing executors to access them without delay. Trusts are versatile tools that help control your gifted assets while ensuring timely and secure transfers to your beneficiaries.

Gaining control through Trusts

A person known as the 'settlor' places assets into a Trust, which may include money, property, or other types of assets like life insurance policies and investment portfolios. This may be done during their lifetime (a lifetime trust) or can be triggered by death through a valid will (a Will trust). By placing the assets into this structure, the original owner may relinquish some of their rights and delegate responsibility to a trustee during their lifetime.

However, they can gain a lot more control in other ways. A settlor can project their wishes years into the future. Provided a Trust is set up correctly, you can determine who gets what and when with a good deal of precision. Trustees can be professionals (who work for a trust company) or any other competent person prepared to take on these responsibilities.

Very wide-ranging powers and tasks

Trustees can have wide-ranging powers and tasks, including settling tax bills and hiring investment management and legal professionals. If the trust is discretionary, meaning they have discretion regarding the distribution of assets, they might also have to make certain decisions about how to use the trust income and/or capital.

For these reasons, many prefer to have their trust administered by professionals, paying them annual fees from the Trust's assets.

> Trusts are frequently created in Wills, particularly where the beneficiaries are minor children who need someone to look after them financially. Any asset left to a minor under a Will is effectively held in trust for the minor by the executors until the minor reaches majority unless the will allows payment to be made to a parent.

However, others looking to structure family wealth may appoint a mixture of professional and family friend trustees to create a balance of objectivity and personal knowledge of the beneficiaries' situations and needs.

Emotional aspects of trust management

Combining professional expertise with personal familiarity can ensure that both the technical and emotional aspects of trust management are adequately addressed. Professional trustees bring technical know-how and impartiality, while family friends may offer deeper insight into the beneficiaries' circumstances.

By thoughtfully selecting Trustees, you can achieve effective and empathetic management of your trust, ensuring that your wishes are fulfilled as intended. A blend of professional and personal trustees can provide a balanced approach, safeguarding the beneficiaries' financial and personal interests.

Types of Trusts

Various types of Trust are available, and the Settlor needs to decide which type is best suited for the circumstances.

A quick summary of the principal types of trust is as follows:

Bare/Absolute Trusts – Where the settlor transfers the legal ownership of assets to the trustee for the benefit of the beneficiary absolutely.
Discretionary Trusts – The beneficiary has no entitlement to income or capital from the assets held under trust. All distributions are entirely at the trustees' absolute discretion.
Interest in Possession Trusts – The beneficiary holds a right to the trust fund's income or the right to use trust assets.
Flexible Trusts – The beneficial interests of these trusts can be altered.

Note that these are just a few examples; many other types of trust can be used under different circumstances.

Tax planning and Trusts

It'll be of no surprise that one of the main reasons for using Trusts is for tax planning and mitigation. For example, when an individual dies, their estate (i.e., net assets) is subject to Inheritance Tax (IHT), meaning the beneficiaries may lose up to 40% of their net inheritance.

If assets are put into trust during a settlor's lifetime and they survive seven years, they are not part of the estate on death and may escape IHT at that time, subject to the 14-year rule. Trusts are used in certain IHT planning arrangements for the settlor's benefit, such as Gift and Loan Plans, Discounted Gift Trusts, and Flexible Reversionary Trusts.

Trusts in Wills

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Trusts can be explicitly created in Wills to ensure that a beneficiary does not benefit until some other age is attained or a condition is fulfilled. There are many other reasons for setting up trusts, notable examples being to provide a pension, provide for families, assist a charity, give property to those who legally cannot hold it, and gain protection from creditors and business protection. ■

TIME TO CREATE A PERSONALISED PLAN THAT PROTECTS YOUR WEALTH AND LEGACY FOR FUTURE GENERATIONS?

We understand that the wealth you wish to protect encompasses more than traditional assets. Please contact us to discuss your requirements and create a personalised plan that protects your wealth and legacy for future generations.

THIS GUIDE DOES NOT CONSTITUTE TAX OR LEGAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

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THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

LOOKING TO PROTECT AND MANAGE YOUR ASSETS WITH A TRUST?

If you want to learn more about how Trusts could give you more control over your assets and how they're distributed.

To find out more, please contact us – we look forward to hearing from you.

This guide is for your general information and use only, and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change, and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. All figures relate to the 2024/25 tax year, unless otherwise stated.

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