Trusts

Writing your policy under trust

Using a trust provides a number of benefits, specifically:

- You can identify who the beneficiaries should be (and with some trusts you have the ability to change this).
- Your chosen beneficiaries will receive the benefit quickly without the need for probate or prior payment of inheritance tax. For this to be effective, it is essential that you appoint at least one additional trustee to act with you and, of course, to deal with the policy in the event of your death.
- The amounts payable to your beneficiaries are, generally, free from inheritance tax.

There are two main types of trust available to you – flexible trusts and absolute trusts (also known as bare trusts). These trusts have different features and different inheritance tax treatment.

Flexible trust

A flexible trust, as implied by the name, is one which offers more flexibility than an absolute trust. This would allow you to change the proportions in which each beneficiary benefits from the sum assured, remove beneficiaries or appoint new beneficiaries.

Premium payments will normally be exempt gifts courtesy of the annual £3,000 gift exemption or the normal expenditure from income exemption.

Every ten years, however, there may be a tax charge on the trust itself. This would apply only if the trust was then valued at more than the nil-rate band. The nil-rate band is, for your information, currently £325,000 and has generally increased each year, however the chancellor has announced that the nil-rate band will be frozen at its current level until 2017/18.

The tax charge is, currently, a maximum of 6% of any value in excess of the nil-rate band.

The value of the trust will be the greater of the cash value of the policy and the premiums paid under the policy.

Your policy is designed to provide life assurance cover and does not offer a cash-in value so it is likely that the value would be taken as the premiums paid. If, however, you were in serious ill-health at the time of a periodic charge a higher value might be assumed for this purpose.

If a periodic charge should ever apply, then a tax charge may also apply when the sum assured is paid, again, at a maximum of 6% of the amount over the nil-rate band.

Absolute trust

With an absolute trust, there is no facility to alter the shares of any beneficiary. In the event of the death of a beneficiary before payment of the sum assured, for example, their share would pass under their will.

Premium payments would be treated in the same way as if you were to use a flexible trust but there would, under current legislation, be no periodic charge and no risk of an inheritance tax charge on payment of the sum assured.

Split Trust / Disability Benefits Reserved

The split trust should only be used (in conjunction with the trusts named above) where the policy contains both a death benefit (including terminal illness) and disability benefits, (critical illness and/or permanent and total disability) and the disability benefits are payable on an 'accelerated' basis, i.e. instead of the death benefits.

As the name implies, this type of trust has two parts to it. It enables the settlor to:

- Reserve their rights to payment of critical illness, permanent and total disability benefits (the retained portion) payable under the policy.
- Place the death and terminal illness benefits (the trust property) in trust for the beneficiaries.